KYOEI STEEL

ANNUAL REPORT 2011

Year Ended March 31, 2011

CONTENTS

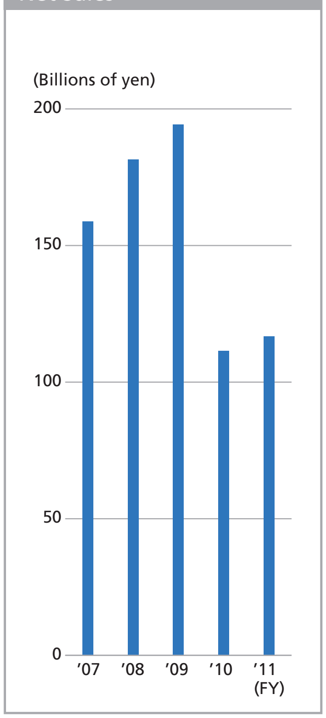
Fiscal 2011 Consolidated Financial Highlights

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

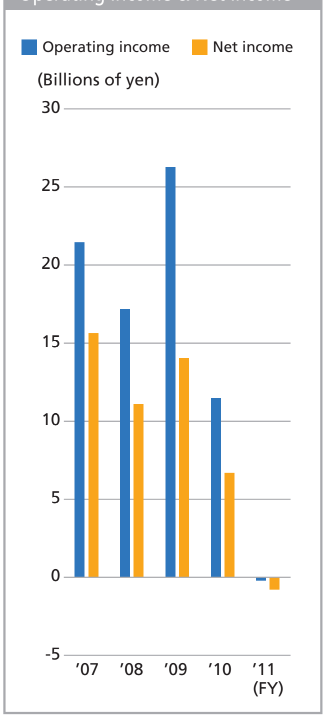
	Millions of yen					Thousands of U.S. dollars
	2007	2008	2009	2010	2011	2011
For the Year:						
Net sales	¥ 158,873	¥ 181,576	¥ 194,345	¥ 111,485	¥ 116,828	$1,405,027
Operating income	21,463	17,189	26,270	11,454	(206)	(2,477)
Net income	15,630	11,070	14,009	6,691	(794)	(9,549)
Depreciation and amortization	4,647	4,738	4,869	4,992	4,806	57,799
Capital expenditures	6,699	5,550	5,173	4,815	2,706	32,544
At Year-End:						
Total assets	¥ 168,897	¥ 166,572	¥ 153,711	¥ 151,125	¥ 146,453	$1,761,311
Interest-bearing debt	10,148	1,952	1,540	1,729	1,665	20,024
Net assets	98,899	107,846	119,154	124,905	119,973	1,442,850
			Yen			U.S. dollars
Amounts per Share :						
Net income, basic	¥ 414.23	¥ 253.66	¥ 318.72	¥ 152.23	¥ (18.22)	$ (0.22)
Net income, diluted	—	—	—	—	—	—
Cash dividends applicable to the year	30.00	30.00	40.00	40.00	20.00	0.24
Equity* to total assets (%)	58.2	64.3	77.0	82.1	81.3	—
D/E ratio (times)	0.10	0.02	0.01	0.01	0.01	—

Note: U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥83.15 to US$1 prevailing on March 31, 2011.
*Equity = Net assets - Minority interest

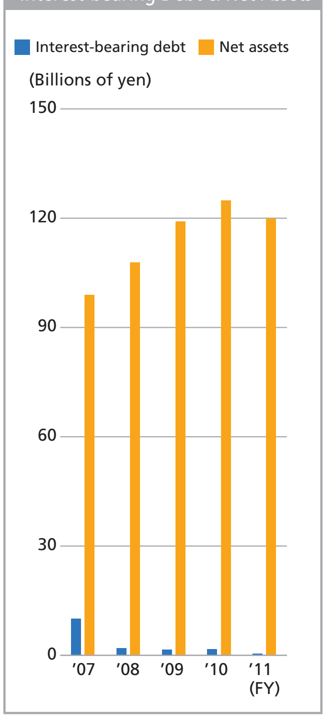
Net Sales



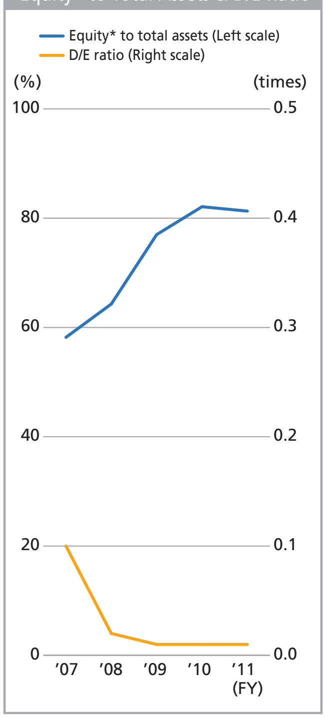
Operating Income & Net Income



Interest-bearing Debt & Net Assets



Equity* to Total Assets & D/E Ratio



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, it is advised that you should not 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 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.

Letter to Shareholders

Regrettably, Kyoei Steel recorded a net loss. In accordance with the medium- to long-term business plan, we are committed to establishing a stable earnings structure resilient to changes in the business environment.

Business results

In the steel industry, the improved performance of the Japanese economy led to a recovery of crude steel production to a level exceeding 100 million tons following a two-year hiatus. Crude steel production increased 14.32 million tons or 14.8% from the previous year to 110.77 million tons in fiscal 2011. In the construction field in Japan, the major demand sector for the Company's Steel Business, demand, which had been sluggish, did not fully recover despite an upturn. Prices of steel scrap, the principal raw material, remained high, reflecting strong demand overseas.

In these circumstances, Kyoei Steel Group strove to secure an appropriate metal spread, i.e., the price difference per ton between the product sales price and the steel scrap price that is the source of profits, by working to achieve reasonable product pricing through fine-tuning of production and sales to meet demand for products. The Group also made efforts to reduce costs. However, because of imbalance between supply and demand, it was not possible to raise product prices as intended. On a consolidated basis, net sales were ¥116,828 million and an operating loss of ¥206 million, an ordinary loss of ¥85 million, and a net loss of ¥794 million were recorded. Regrettably, the Company recorded losses for the first time since the public listing in 2006.

As a consequence of the Great East Japan Earthquake of March 11, Kanto Steel Ltd., a subsidiary in Tsuchiura, Ibaraki Prefecture, suspended operation owing to disruption of supply of industrial water but resumed operation on March 15. The disaster had little effect on the Group's employees and facilities.

The power supply constraints in certain regions of Japan may have an impact on operation of the Company's mills. In the event that a mill in one region is affected, leveraging the Group's advantage of having multiple mills, we will supply products and semi-products from mills in other regions to fulfill our responsibility for stable supply to customers.

Dividend policy

Our basic policy is to maintain stable dividend payment to shareholders while securing internal reserves necessary for business growth and reinforcement of the fundamentals of the business for the future.

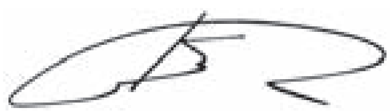
Despite the recording of a net loss for fiscal 2011, the Company paid a year-end dividend of ¥15 per share (¥20 for the full year) based on the judgment that the downturn of the Company's business results for fiscal 2011 was temporary and the Company is sufficiently capable of paying dividends in view of its sound financial condition.

Future prospects

We aim to return to profitability in fiscal 2012 by securing an appropriate metal spread and reducing costs. In addition, under the Group's medium- to long-term business plan, we are committed to establishing a stable earnings structure resilient to changes in the business environment.

I would greatly appreciate your continued support and understanding.

July 2011



Koji Morita Representative Director

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 maintain a high level of ethics, fairness and integrity.

We create a corporate culture with a spirit of enterprise and innovation, a challenging spirit, and enthusiasm toward achievement.

We regard the sense of reality vital, apart from subjective viewpoint.

We create a company in which people and technologies are respected, and working for which is a source of pride and joy.

Koji Morita
Representative Director
Kyoei Steel, Ltd.

Medium- to Long-term Business Plan:

Expand Overseas Steel Businesses

Production capacity of the plant in Vietnam has been increased to 450,000 tons a year. With the addition of a new line, the plant aims to have production capacity of almost 1 million tons a year.

In the medium- to long-term business plan formulated in April 2010, Kyoei Steel positioned "expand overseas steel businesses" as a key element of Kyoei Steel Group's growth strategy. The aim is to increase the Group's earnings through vigorous overseas business development centering on Southeast Asia, a dynamic region where rapid economic growth is expected to continue.

Kyoei Steel has a long history of conducting business overseas. Ever since our first overseas project in 1963, which involved supervising construction of a factory in Taiwan, we have conducted business and provided technical guidance in over 50 countries. Our concentration of resources on operations in Japan means, however, that Vina Kyoei Steel Ltd. (VKS) in Vietnam is presently the Group's sole overseas site. This situation is expected to change as we focus on expanding overseas business from now on, leveraging our accumulated business experience overseas and VKS's brand power in Southeast Asia.

Increased production capacity and plan to construct a new production line

• Annual production capacity raised to 450,000 tons by improving the existing production line

Since its establishment in 1994, VKS has increased production capacity in step with Vietnam's economic growth by enhancing the existing production line and revising the operational system. In the final phase of the plan, VKS raised annual production capacity to 450,000 tons at the end of 2010 by improving facilities. VKS's production capacity has almost doubled compared with initial capacity.

• Construction of new integrated melting and rolling facilities

Annual production of 450,000 tons is the limit in terms of improving the existing line. Recognizing that this production capacity would not allow VKS to respond to the expected rise in demand for steel in Vietnam, Kyoei Steel and local partner Vietnam Steel Corporation formulated a plan to construct a new production line with annual production capacity of 500,000 tons.

The planned new line with integrated melting (electric arc furnace) and rolling facilities will be built adjacent to the existing line. The combination of the new line and the existing line will give VKS annual production capacity of almost 1,000,000 tons.

The increased production volume will make it possible for VKS to ensure stable supply in response to rising demand. In addition, fabrication with VKS's in-house electric arc furnace (upstream process) will enable design of steel products offering greater versatility in terms of grade and strength, realizing manufacturing and sales in accordance with customer needs, which is expected to enhance the competitiveness of VKS products.

As of August 2011, plant configuration, conceptual engineering for facilities, and environmental assessment have been almost completed. Upon receipt of the investment license from the Vietnamese government, construction will be started and is expected to be completed within two years.

Future overseas business development

At present, VKS is the Group's only overseas site. We will consider construction or acquisition of new production sites overseas centering on Southeast Asia, a dynamic region where rapid economic growth is expected to continue.

Vina Kyoei Steel Ltd.

Vina Kyoei Steel Ltd. (VKS), located in southern Vietnam, was established in 1994 as a joint venture between Kyoei Steel and Vietnam Steel Corporation when Kyoei Steel decided to enter the Vietnamese steel market ahead of competitors in Japan. Owing to the supply of high-quality products benefiting from Japanese management and technology, VKS has the third-largest market share in southern Vietnam and has earned recognition as a highly reliable manufacturer.

Company overview

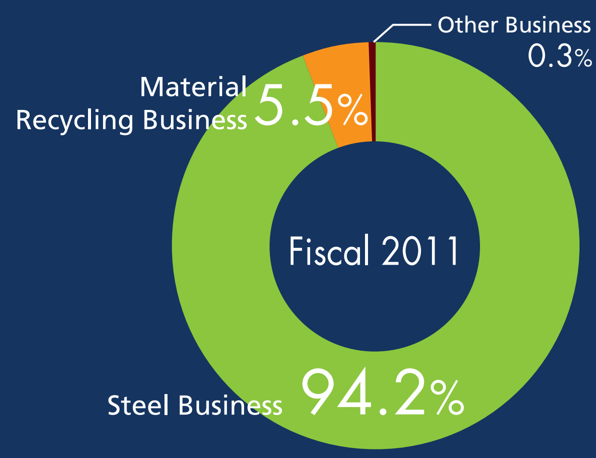
Company name:	Vina Kyoei Steel Ltd.	
Established:	January 1994	
Paid-in capital:	U.S.$20 million	
Net sales:	U.S.$285 million (2010)	
No. of employees:	237 (as of December 31, 2010)	
Shareholders:	Kyoei Steel	45%
	Vietnam Steel Corporation	40%
	Mitsui & Co., Ltd.	9%
	Marubeni-Itochu Steel Inc.	6%
Products:	Rebars, wire rods	

Kyoei at a Glance

Kyoei Steel's main business segments consist of 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 total, remains a highly profitable business, as it operates on the infrastructure of the steel business.

The Company in fiscal 2011 recorded net sales of 110,102 million yen in the steel business and 6,379 million yen in the material recycling business, while operating loss for the same year of the steel business was 1,138 million yen and operating income of the material recycling business was 1,599 million yen.

Composition Ratio of Net Sales



Steel Business

Line of Business

The steel business, which melts scrap steel 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 that have been 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. It should be noted that the Company has the No.1 market share for rebars, which are indispensable for construction and civil engineering for high-rise buildings and condominiums, roads and other infrastructure. The Company is equipped with advanced technological capabilities that enable it to address the diverse needs of construction sites, including the recently growing demand for improved strength and durability of steel and the development of value-added products.

Material Recycling Business

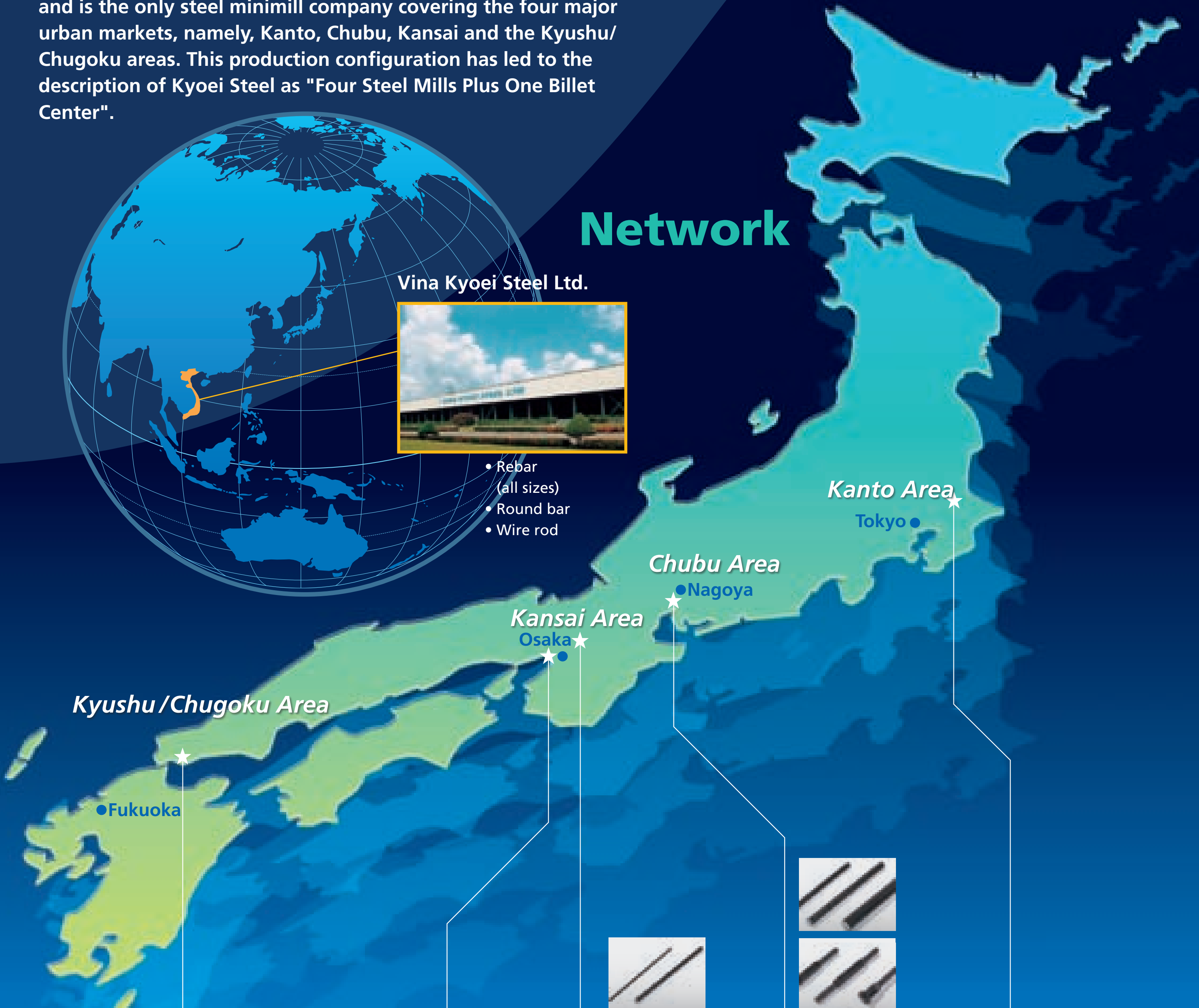
Line of Business

The Company's material recycling business, which utilizes the heat from the electric arc furnaces reaching thousands of degrees 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 minimill company and has been operating for over 20 years. The MESSCUD system, which distributes specially designed containers for medical waste to contracting medical institutions, collects them and melts the waste in an electric arc furnace together with the containers, has been patented. 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.

Company Profile

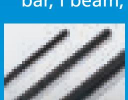
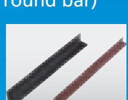
Kyoei Steel Group comprises Kyoei Steel, Ltd., eight subsidiaries and two affiliates in Japan and one affiliate in Vietnam.

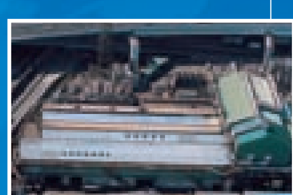
Kyoei Steel, Ltd. is a leading steel minimill company in Japan and is the only steel minimill company covering the four major urban markets, namely, Kanto, Chubu, Kansai and the Kyushu/Chugoku areas. This production configuration has led to the description of Kyoei Steel as "Four Steel Mills Plus One Billet Center".



Yamaguchi Division

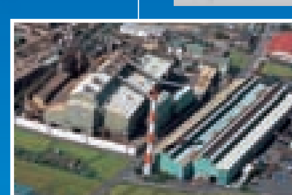
- Rebar (all sizes)
- Merchant bars (flat bar, angle bar, I beam, round bar)



Hirakata Division (Osaka Mill)

- Billet (semi-finished product)

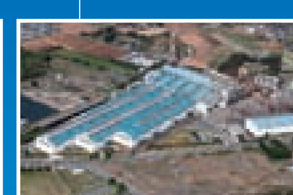


Hirakata Division (Hirakata Mill)

- Rebar (D10, D13, D16)

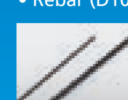
Nagoya Division

- Rebar (all sizes)
- Threaded rebar



Kanto Steel Ltd.

- Rebar (D10, D13, D16)



Review of Operations

Steel Business

Although sales of the Steel Business for fiscal 2011 increased from the previous year, profits greatly decreased. This was attributable to the following three factors.

- **Sales volume: Remained low owing to shrinking construction demand**

Although the downward trend of domestic demand for deformed bars, which are the Company's mainstay products, halted in line with the modest recovery of the Japanese economy, demand still lacked vigor and the sales volume remained low.

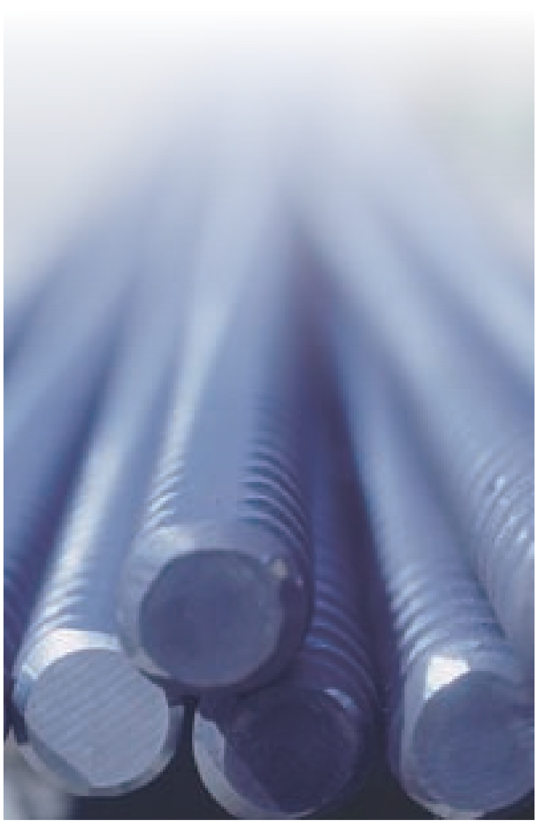
- **Raw materials prices: Remained at a high level because steel scrap has become an internationally traded commodity**

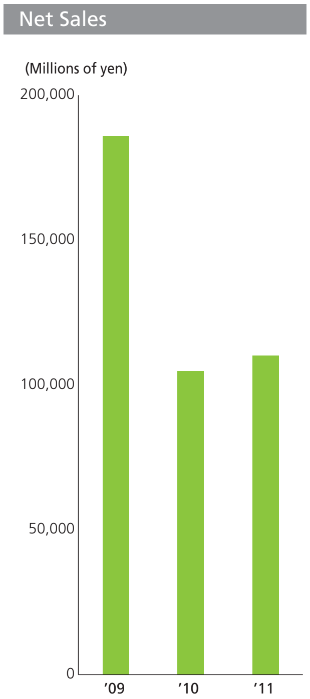
Steel scrap has become an internationally traded commodity. Supported by the strong demand for steel in Asian countries, steel scrap prices remained at a high level.

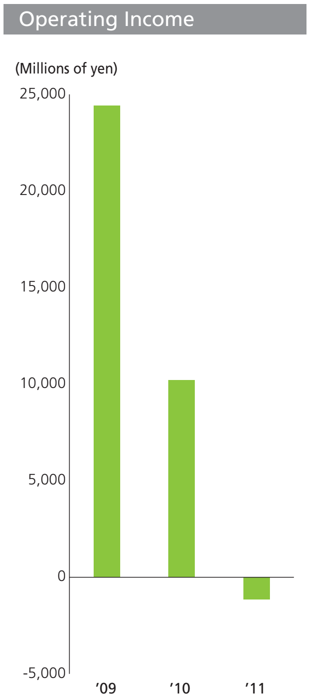
- **Sales prices: Difficult to raise sales prices in light of supply-demand imbalance**

Despite efforts to reflect the increase in raw materials prices in sales prices, the Company was unable to raise sales prices as envisaged because product demand in Japan lacked vigor.

Whereas the average price of raw materials increased about ¥9,000 per ton compared with the previous year, the increase in sales prices was slight. Therefore, the metal spread, which is the source of profits, was about ¥8,000 per ton lower than that in the previous year. As a result, although segment sales increased ¥5,384 million from the previous year to ¥110,102 million, an operating loss of ¥1,138 million was recorded, a decrease of ¥11,341 million from the operating income recorded for the previous year.





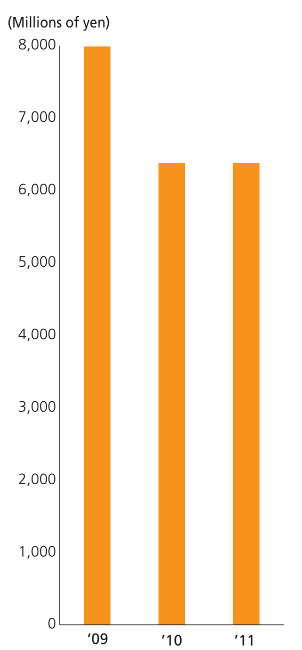


Material Recycling Business

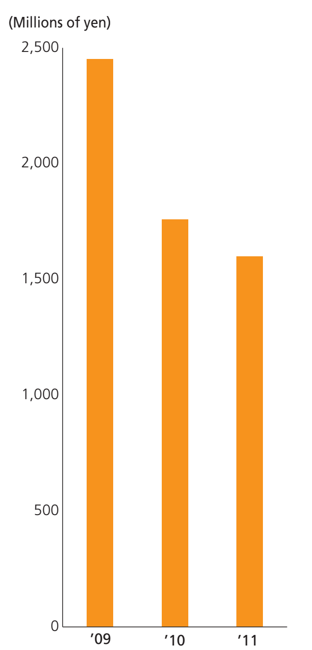
- **A certain level of profits secured through sophisticated waste treatment**

Although the unit price for waste treatment trended downward in line with intensifying competition, the Material Recycling Business secured a certain level of profits through sophisticated waste treatment, such as melting by electric arc furnace for complete detoxification. As a result, segment sales were ¥6,379 million, virtually unchanged from the previous year, and operating income was ¥1,599 million, a decrease of 9.2%.

Net Sales



Operating Income



To Return to Profitability in Fiscal 2012

We aim to return to profitability by securing an appropriate metal spread and reducing costs so as to meet our shareholders' expectations.

• Achieve reasonable product pricing: We strive to maintain reasonable prices through fine-tuning of production and sales in response to the demand trend. We believe the Company's mission is to ensure a stable supply of high-quality products at reasonable prices in order to support construction of infrastructure in Japan, including the recovery from the Great East Japan Earthquake.

• Stable procurement of raw materials: Prices of steel scrap, the main raw material, have fluctuated greatly in recent years, reflecting the trend of demand overseas. We will strengthen our network of relationships with suppliers to achieve stable procurement of raw materials. We will also strive to reduce materials costs by utilizing our quality control technology to manufacture high-quality products using cheap low-grade scrap.

• Further cost reduction: We will cut fuel consumption and reduce costs by utilizing advanced technology in mill operations, including promotion of hot direct rolling*.

• Development of high-value-added products: We will strengthen development of products meeting customer needs, such as development of high-strength reinforcing bars required for high-rise buildings and earthquake-resistant buildings.

• Production increase at an overseas affiliate: Vina Kyoei Steel Ltd., an affiliate in Vietnam, completed expansion of its annual production capacity to 450,000 tons by the end of 2010. Vina Kyoei Steel supplies high-quality products for the Vietnamese steel market, which is expanding in line with the country's economic growth.

• Stable growth of the Material Recycling Business: The Material Recycling Business is characterized by stable revenues. Taking advantage of melting treatment by electric arc furnace for complete detoxification, we are expanding the range of treatment items to meet the needs of a recycling-based society.

*Hot direct rolling: Manufacturing technology for feeding semi-products produced at a melting process directly into a rolling process. Reheating of semi-products, which was previously necessary, is eliminated, leading to reduced fuel consumption. Improvement of product quality can also be expected.

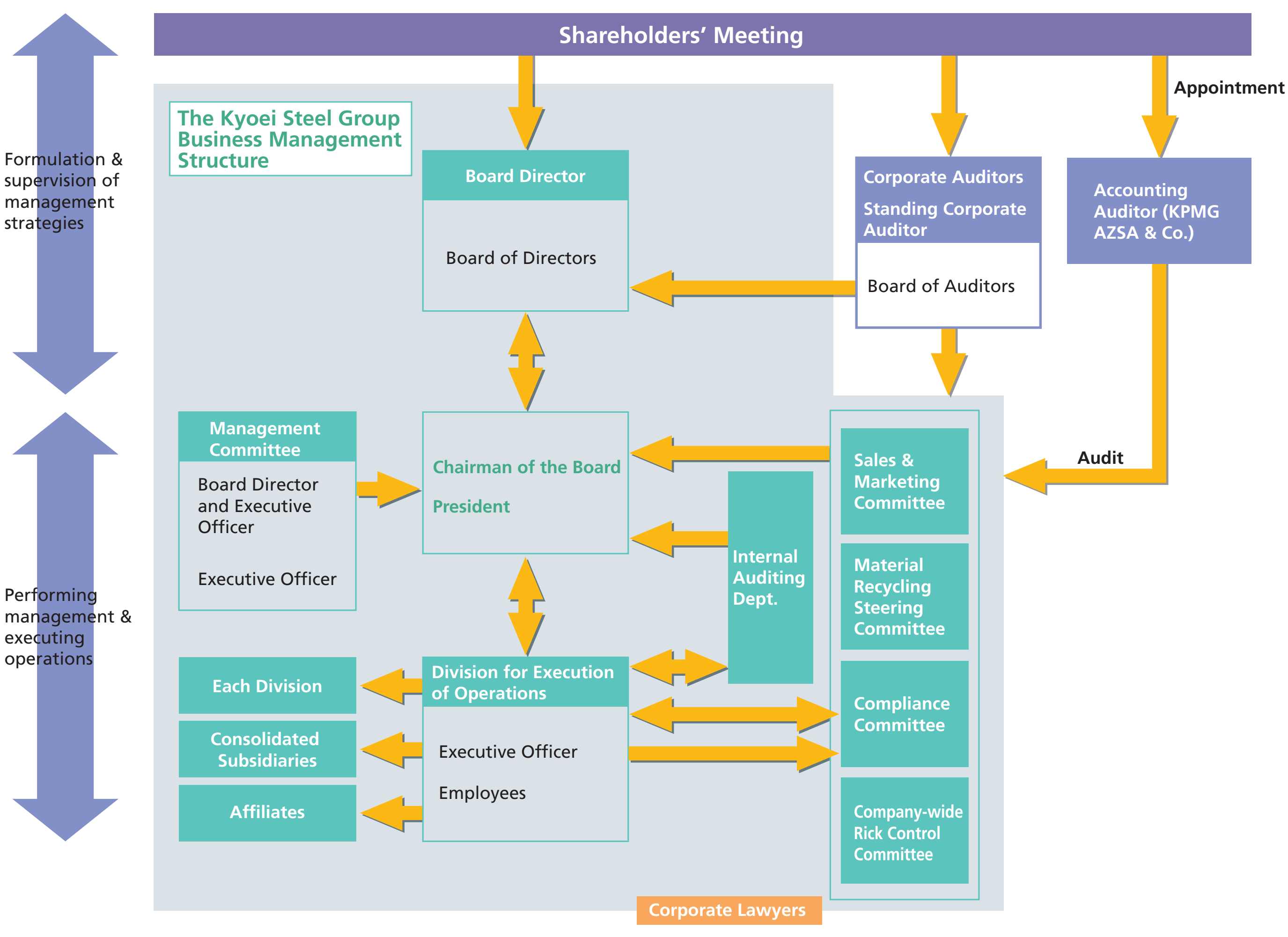
Corporate Governance

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 set the organization into action, the Company, considering the enhancement of corporate governance as its most important task at hand, is establishing an appropriate organizational structure and implementing necessary measures.

Corporate Governance Structure



DATA SECTION

Consolidated Five-Year Summary

For the years ended March 31, 2007, 2008, 2009, 2010 and 2011

	2007	2008	2009	2010	**2011**
			Thousands of tons		
Product shipments					
Finished products	2,153	2,078	1,717	1,431	**1,462**
Billet (semi-finished products)	261	284	259	205	**243**
			Millions of yen		
For the year:					
Net sales	¥158,873	¥181,576	¥194,345	¥111,485	**¥116,828**
Gross profit	31,688	27,456	36,672	19,999	**8,124**
Operating income (loss)	21,463	17,189	26,270	11,454	**(206)**
Income (loss) before income taxes	23,611	17,195	23,388	11,121	**(386)**
Net income (loss)	15,630	11,070	14,009	6,691	**(794)**
Research and development expenses	79	26	152	44	**43**
Depreciation and amortization	4,647	4,738	4,869	4,992	**4,806**
Capital expenditures	6,699	5,550	5,173	4,815	**2,706**
Per share amounts (yen):					
Net income (loss), basic	414.23	253.66	318.72	152.23	**(18.22)**
Net income (loss), diluted	—	—	—	—	**—**
Cash dividends applicable to the year	30.00	30.00	40.00	40.00	**20.00**
At year-end:					
Total assets	¥168,897	¥166,572	¥153,711	¥151,125	**¥146,453**
Working capital	28,285	28,316	43,120	50,334	**51,265**
Interest bearing debt	10,148	1,952	1,540	1,729	**1,665**
Net assets	98,899	107,846	119,154	124,905	**119,973**
Shareholders' equity*	98,321	107,129	118,387	124,076	**119,064**
Ratios:					
Return on equity (%)	18.9	10.8	12.4	5.5	**(0.7)**
Return on total assets (%)	13.7	10.4	16.6	7.7	**(0.0)**
Debt to equity ratio (times)	0.10	0.02	0.01	0.01	**0.01**
Equity* to total assets (%)	58.2	64.3	77.0	82.1	**81.3**
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	**44,899**
Number of employees	1,047	1,049	1,045	1,061	**1,077**
Stock prices (yen):					
High	¥3,410	¥3,750	¥2,590	¥2,805	**¥2,082**
Low	¥2,605	¥1,532	¥911	¥1,544	**¥876**

*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 gradually showed signs of an upturn, and on this trend domestic crude steel production in the steel industry increased at both integrated mills and mini-mills, recovering to the 110 million-ton level in fiscal 2011. Steel demand in the construction sector, the main source of demand for the Company, was low for the first half of the fiscal year, but it gradually increased after bottoming out in the third quarter. However, the Great East Japan Earthquake that occurred on March 11 of this year caused major changes in Japan, leading domestic crude steel production in March to decline compared to that of the previous term.

The price of steel scrap, the primary raw material used in the Company's products, dropped after increasing rapidly at the start of the fiscal year from the impact of steel demand trends overseas and remained at a low level during the summer. In the second half of the fiscal year, however, the price began to rise again due to increasing steel demand overseas and remains at a high level.

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. However, the Group was unable to offset fluctuations in steel scrap prices with produce prices.

Regarding the impact of the Great East Japan Earthquake on the Group, KANTO STEEL LTD., which is located in Tsuchiura City, Ibaraki prefecture, was forced to suspend operations for several days due to its water being cut off and other issues. Fortunately there was hardly any injury to life human or damage to the facilities. Overall the impact was negligible.

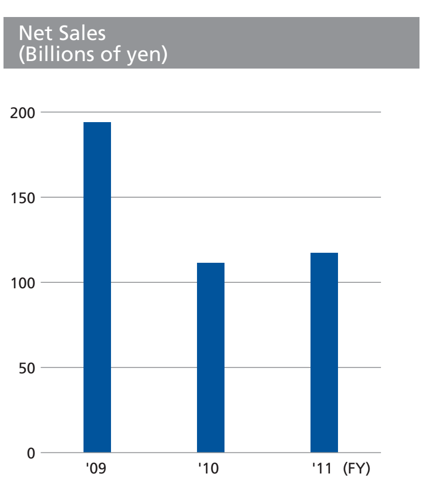
As a result of these developments, the consolidated sales of the Group totaled ¥116,828 million, a year-on-year increase of ¥5,342 million (4.8%). In terms of income, consolidated operating income decreased by ¥11,660 million year on year for an operating loss of ¥206 million. Consolidated net income declined by ¥7,485 million for a net loss of ¥794 million. Regrettably, this represents the Group's first bottom-line loss since listing as a public company in 2006.

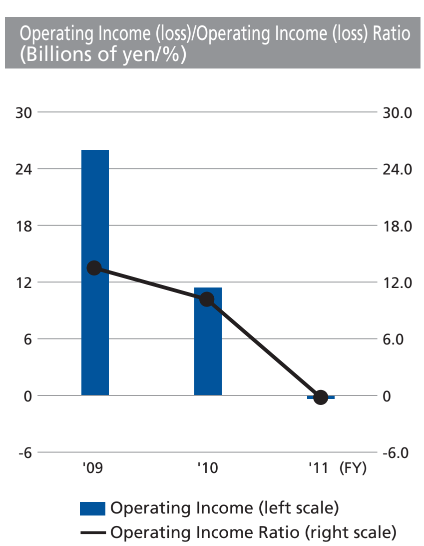
Performance results by business segment.

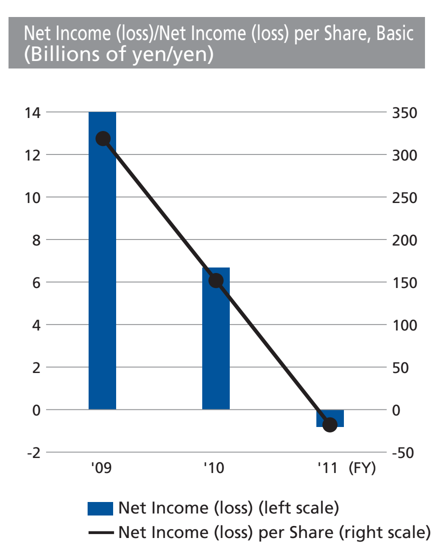
(1) Steel Business

The steel business registered an increase in product shipments of approximately 30,000 tons (2.2%) from the previous year due in part to signs of economic recovery in the second half of the fiscal year, but shipments remained at a low level.

The price of steel scrap, the raw material used by the segment, dropped after skyrocketing at the start of the fiscal year, but began rising again in the last December and, during the fourth quarter, trended at a level in excess of the peak at







the start of the fiscal year. The average consumption unit price, therefore, rose approximately ¥9,000 per ton compared to the previous fiscal year. The Company continued efforts to absorb increases in scrap steel prices in both manufacturing and selling. However, it was unable to sufficiently increase product prices due to supply-and-demand imbalances, and the sales margin, the source of the Company's profits, contracted approximately ¥8,000 per ton compared to the previous year.

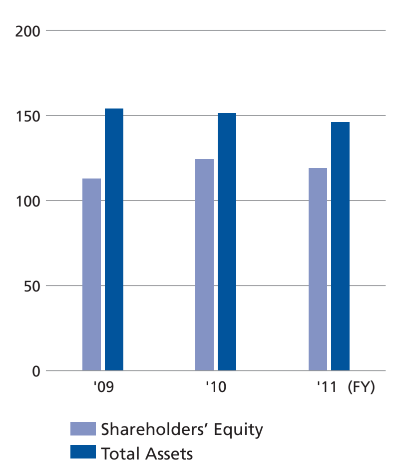
The results for the segment were net sales of ¥110,102 million, up ¥5,384 million (5.1%) from the previous year, and an operating loss of ¥1,138 million, down ¥11,341 million.

(2) Material Recycling Business
In the material recycling business segment, we enjoyed a generally strong demand for high-temperature thermal recycling using electric arc furnaces, and our consolidated subsidiary Kyoei Recycling Co., Ltd's gasification furnace maintained smooth operations. Income declined in this segment due to lower processing unit prices associated with greater competition between waste processors, but a certain level of profit was secured as a result of conducting waste processing with high added value. Accordingly, results for the segment included net sales of ¥6,379 million, approximately equivalent to the previous year and operating income of ¥1,599 million, down ¥161 million (9.2%).

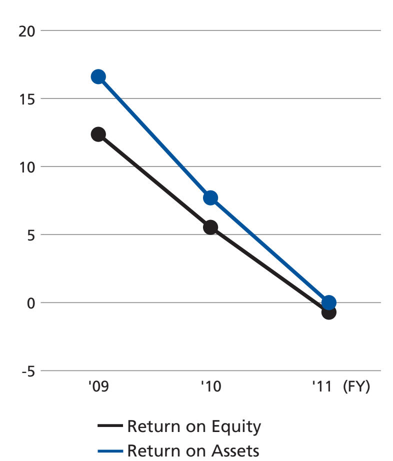
(3) Other Business
The other business segment consists of sales of civil engineering materials through a subsidiary and the operation of insurance dealers. Net sales were ¥347 million, down ¥42 million (10.9%) from the previous year, and operating income was ¥32 million, equivalent to the previous year.

Regarding the outlook for the next term, the impact of the Great East Japan Earthquake on the overall economy remains unknown. So, it is currently exceedingly difficult at the present time to predict trends in future. Steel demand associated with the recovery in areas affected by the disaster is likely to occur over the course of several years, but other factors are cause for concern, including the potential for production to be hindered by power shortages, the problems at the Fukushima Nuclear Power Plant or breaks in the supply chain and for demand to contract due to poor consumer confidence. Steel scrap, the Company's raw material, is likely to continue to see extremely strong demand from Asian countries, so the Company believes the price will continue to trend at a high level.

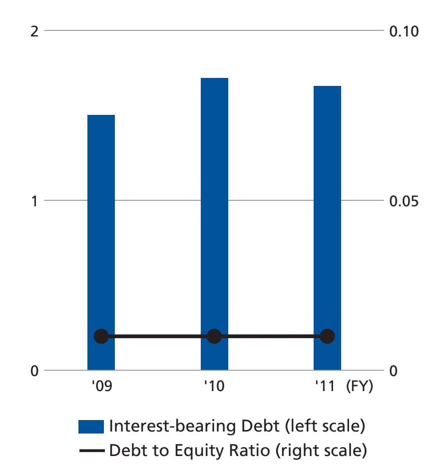
Shareholders' Equity/Total Assets
(Billions of yen)



Return on Equity/Return on Assets
(%)



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



2. Analysis of Financial Situation

Consolidated Assets, Liabilities and Net Assets

(1) Assets

Current assets increased by 2.7% from the previous fiscal year to ¥70,564 million, and fixed assets decreased by 7.9% to ¥75,889 million. As a result, total assets decreased by 3.1% from the previous fiscal year to ¥146,453 million.

(2) Liabilities

Current liabilities increased by 5.2% from the previous fiscal year to ¥19,770 million. This increase can be attributed in part to an increase in notes and accounts payable of ¥1,360 million due to the rising price of raw materials. Long-term liabilities decreased by 9.7% from the previous fiscal year to ¥6,710 million, the result of factors including a decrease in long-term debt of ¥86 million and a decrease in deferred tax liabilities of ¥541 million. As a result, total liabilities increased by 1.0% from the previous fiscal year to ¥26,480 million.

(3) Net Assets

Total net assets decreased by 3.9% from the previous fiscal year to ¥119,973 million due to going in the red, the payment of dividends and holding the previous level of net income. Shareholders' equity per share decreased by ¥ 85.98 from the previous fiscal year to ¥ 2,736.83. The shareholders' equity ratio also fell to 81.3% from 82.1% at the previous fiscal year-end.

3. Cash Flow Conditions

The ending balance for cash and cash equivalents (collectively "Cash") as of March 31, 2011 increased by ¥1,722 million from the previous fiscal year to ¥16,014 million. Below are the cash flow summaries for the consolidated fiscal year.

(1) Cash Flows from Operations

Net cash from operating activities decreased by ¥9,925 million from the previous year to ¥71 million. This decrease was the result of a net loss before income taxes of ¥386 million, depreciation of ¥4,806 million, an increase of ¥3,334 million in notes and trade notes and accounts receivable, an increase of ¥2,058 million in inventories and income tax paid of ¥2,067 million.

(2) Cash Flows from Investments

Net cash used in investing activities increased by ¥18,656 million from the previous year to ¥3,729 million. Factors contributing to this increase included payments into time deposits of ¥1,890 million, proceeds from the withdrawal of time deposits of ¥4,012 million, the purchase of investment securities of ¥2,875 million, proceeds from sales and redemption of securities of ¥8,206 million and payment for purchases of property, plant and equipment of ¥3,126 million.

(3) Cash Flows from Financing Activities

Net cash used in financing activities increased by ¥444 million to ¥2,069 million. The major components of net cash flows from financing activities were ¥1,317 million for cash dividends paid and ¥ 662 million for the purchase of treasury stock.

(4) 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 2011, 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, Our Company put together a team to work to improve the company valuation and developed a Medium- and Long-Term Business Vision in April 2010 in which the following items are designated as business priorities.

(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 mills.
- We will maximize our entire company's business capabilities by means of a business policy unconstrained by the 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 with raw material suppliers.

Ⅱ. Growth in the overseas steel business

Vina Kyoei Steel Ltd., the Group's Vietnam affiliate, improved its facilities as of the end of 2010 to create a system capable of producing 450,000 tons a year, nearly doubling the Company's production capacity since its initial establishment. Construction plans for adding a 500,000 ton integrated melting/rolling process line are scheduled to be executed as soon as an investment license is acquired from the authorities. Preparations are currently making progress. In addition, considerations are also underway for building or acquiring a new production site in Vietnam or elsewhere in Southeast Asia.

Ⅲ. Achieve steady growth in our materials recycling business.

In response to the social demand to build a recycling oriented society, we have expanded our materials recycling business and realized a stable profit in it. 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 the 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.

With the effective implementation of these business strategies, we aim to achieve a key ROA (Return on Assets) of 15% and ROE (Return on Equity) of 12%.

Consolidated Balance Sheets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Assets			
Current assets:			
Cash and time deposits	¥ 11,459	¥ 15,889	$ 137,811
Notes and accounts receivable	27,272	23,938	327,986
Allowance for doubtful accounts	(52)	(33)	(625)
Marketable securities (Note 16)	8,500	9,030	102,225
Inventories (Note 4)	19,438	17,381	233,770
Deferred tax assets (Note 9)	422	333	5,075
Other current assets	3,525	2,145	42,393
Total current assets	70,564	68,683	848,635
Property, plant and equipment:			
Buildings and structures (Note 6)	35,479	35,428	426,687
Machinery and equipment (Note 6)	81,988	81,757	986,025
Land (Note 6)	27,053	27,475	325,352
Construction in progress	294	132	3,536
Other	2,007	2,016	24,137
Total	146,821	146,808	1,765,737
Accumulated depreciation	(85,293)	(82,559)	(1,025,773)
Net property, plant and equipment	61,528	64,249	739,964
Investments and other assets:			
Investments in securities (Note 16)	6,246	7,932	75,117
Unconsolidated subsidiaries and affiliated companies	4,008	5,650	48,202
Investments in long-term loans receivable	326	389	3,921
Allowance for doubtful accounts	(91)	(104)	(1,094)
Intangible assets, net	1,332	1,284	16,019
Deferred tax assets (Note 9)	59	67	710
Other noncurrent assets	2,481	2,975	29,837
Total investments and other assets	14,361	18,193	172,712
Total assets (Note 19)	¥146,453	¥151,125	$1,761,311

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)
	2011	2010	2011
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	¥ 13,629	¥ 12,268	$ 163,909
Long-term debt due within one year (Note 6)	471	444	5,664
Income taxes payable	158	228	1,900
Accrued employees' bonuses	621	624	7,468
Accrued directors' bonuses	10	72	120
Other current liabilities	4,881	5,157	58,702
Total current liabilities	19,770	18,793	237,763
Long-term liabilities:			
Long-term debt (Note 6)	1,176	1,262	14,143
Deferred tax liabilities (Note 9)	604	1,145	7,264
Deferred tax liabilities for revaluation (Note 9)	3,987	3,988	47,949
Accrued employees' severance and retirement benefits (Note 12)	279	323	3,355
Accrued directors' severance and retirement benefits	15	13	180
Other long-term liabilities	649	696	7,807
Total long-term liabilities	6,710	7,427	80,698
Total liabilities:	26,480	26,220	318,461
Contingent liabilities (Note 5)	300	330	3,608
Net assets (Note 8)			
Shareholders' equity			
Common stock	18,516	18,516	222,682
Authorized – 150,300,000 shares in 2010			
150,300,000 shares in 2011			
Issued – 44,898,730 shares in 2010			
44,898,730 shares in 2011			
Capital surplus	21,493	21,493	258,485
Retained earnings	75,322	78,685	905,857
Treasury stock	(1,635)	(973)	(19,664)
Total shareholders' equity	113,696	117,721	1,367,360
Valuation and translation adjustments			
Net unrealized holding gains on securities	982	1,854	11,810
Revaluation difference on land	4,762	4,765	57,270
Foreign currency translation adjustments	(376)	(264)	(4,522)
Total valuation and translation adjustments	5,368	6,355	64,558
Minority interests	909	829	10,932
Total net assets	119,973	124,905	1,442,850
Total liabilities and net assets	¥146,453	¥151,125	$1,761,311

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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net sales (Note 19)	¥116,828	¥111,485	$1,405,027
Cost of sales	108,704	91,486	1,307,324
Gross profit	8,124	19,999	97,703
Selling, general and administrative expenses (Note 7)	8,330	8,545	100,180
Operating income (loss) (Note 19)	(206)	11,454	(2,477)
Other income (expenses):			
Interest income	44	82	529
Dividend income	135	184	1,624
Interest expense	(76)	(101)	(914)
Equity in net income (losses) of unconsolidated subsidiaries and affiliates	(140)	1,034	(1,684)
Gain on sale and disposal of property, plant and equipment	28	8	337
Gain on sale and disposal of scrap	47	—	565
Reversal of allowance for doubtful accounts	1	34	12
Gain on insurance claim	129	—	1,551
Loss on sale and disposal of property, plant and equipment	(255)	(363)	(3,067)
Loss on sale of investments in securities	(15)	(512)	(180)
Loss on devaluation of investments in securities	(180)	—	(2,165)
Impairment loss on fixed assets (Note 17)	—	(166)	—
Cash sales discount	(47)	(49)	(565)
Commitment fees	(17)	(57)	(204)
Loss on cancellation of management integration	—	(217)	—
Loss on plant closure	—	(296)	—
Other, net	166	86	1,996
Other income (expenses), net	(180)	(333)	(2,165)
Income (loss) before income taxes	(386)	11,121	(4,642)
Income taxes (Note 9)			
Current	289	3,851	3,476
Deferred	(2)	476	(24)
Total income taxes	287	4,327	3,452
Loss before minority interests	(673)	—	(8,094)
Minority interests in net income of consolidated subsidiaries	121	103	1,455
Net income (loss) (Note 13)	¥ (794)	¥ 6,691	$ (9,549)

	Yen		U.S. dollars (Note 1)
Amounts per share	2011	2010	2011
Net income (loss)			
Basic	¥(18.22)	¥152.23	$(0.22)
Diluted	—	—	—
Cash dividends applicable to the year	¥20.00	¥40.00	$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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Loss before Minority interest	¥ (673)	¥—	$ (8,094)
Other comprehensive income (loss)			
Valuation difference on available-for-sale securities	(872)	—	(10,487)
Share of other comprehensive income of affiliates accounted for using equity method	(113)	—	(1,359)
Other comprehensive income (loss), net	(985)	—	(11,846)
Comprehensive income (loss)	¥(1,658)	—	$(19,940)
Breakdown of comprehensive income:			
Comprehensive income attributable to owners of the parent	¥(1,779)	—	$(21,395)
Comprehensive income attributable to minority interests	¥ 121	—	$ 1,455

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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Shareholders' equity			
Common stock			
Balance at end of previous fiscal year	¥ 18,516	¥ 18,516	$ 222,682
Balance at end of current fiscal year	18,516	18,516	222,682
Additional paid-in capital			
Balance at end of previous fiscal year	21,493	21,493	258,485
Balance at end of current fiscal year	21,493	21,493	258,485
Retained earnings			
Balance at end of previous fiscal year	78,685	73,751	946,302
Changes during the period			
Cash dividends	(1,317)	(1,757)	(15,839)
Net income (loss)	(794)	6,691	(9,549)
Change in scope of equity method	(1,254)	—	(15,081)
Reversal of land revaluation	2	—	24
Total changes during the period	(3,363)	4,934	(40,445)
Balance at end of current fiscal year	75,322	78,685	905,857
Treasury stock			
Balance at end of previous fiscal year	(973)	(972)	(11,702)
Changes during the period			
Repurchase of treasury stock	(662)	(1)	(7,962)
Total changes during the period	(662)	(1)	(7,962)
Balance at end of current fiscal year	(1,635)	(973)	(19,664)
Total shareholders' equity			
Balance at end of previous fiscal year	117,721	112,788	1,415,767
Changes during the period			
Cash dividends	(1,317)	(1,757)	(15,839)
Net income (loss)	(794)	6,691	(9,549)
Change in scope of equity method	(1,254)	—	(15,081)
Reversal of land revaluation	2	—	24
Repurchase of treasury stock	(662)	(1)	(7,962)
Total changes during the period	(4,025)	4,934	(48,407)
Balance at end of current fiscal year	¥113,696	¥117,721	$1,367,360

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
	2011	2010	2011
Valuation and translation adjustments			
Unrealized gain on investment securities			
Balance at end of previous fiscal year	¥ 1,854	¥ 1,095	$22,297
Changes during the period			
Net changes in items other than shareholders' equity	(872)	759	(10,487)
Total changes during the period	(872)	759	(10,487)
Balance at end of current fiscal year	982	1,854	11,810
Reserve for revaluation of land			
Balance at end of previous fiscal year	4,765	4,764	57,306
Changes during the period			
Net changes in items other than shareholders' equity	(3)	1	(36)
Total changes during the period	(3)	1	(36)
Balance at end of current fiscal year	4,762	4,765	57,270
Translation adjustment			
Balance at end of previous fiscal year	(264)	(260)	(3,175)
Changes during the period			
Net changes in items other than shareholders' equity	(112)	(4)	(1,347)
Total changes during the period	(112)	(4)	(1,347)
Balance at end of current fiscal year	(376)	(264)	(4,522)
Total valuation and translation adjustments			
Balance at end of previous fiscal year	6,355	5,599	76,428
Changes during the period			
Net changes in items other than shareholders' equity	(987)	756	(11,870)
Total changes during the period	(987)	756	(11,870)
Balance at end of current fiscal year	5,368	6,355	64,558
Minority			
Balance at end of previous fiscal year	829	767	9,970
Changes during the period			
Net changes in items other than shareholders' equity	80	62	962
Total changes during the period	80	62	962
Balance at end of current fiscal year	909	829	10,932
Total net assets			
Balance at end of previous fiscal year	124,905	119,154	1,502,165
Changes during the period			
Cash dividends	(1,317)	(1,757)	(15,839)
Net income (loss)	(794)	6,691	(9,549)
Reversal of land revaluation	(1,254)	—	(15,081)
Change of scope of equity method	2	—	24
Repurchase of treasury stock	(662)	(1)	(7,962)
Net changes in items other than shareholders' equity	(907)	818	(10,908)
Total changes during the period	(4,932)	5,751	(59,315)
Balance at end of current fiscal year	¥119,973	¥124,905	$1,442,850

Consolidated Statements of Cash Flows

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash flows from operating activities:			
Net income (loss) before income taxes	¥ (386)	¥11,121	$ (4,642)
Adjustments to reconcile net income before income taxes to net cash provided by operating activities			
Depreciation and amortization	4,806	4,992	57,799
Impairment loss on fixed assets	—	166	—
Decrease (increase) in reserves	(100)	(976)	(1,203)
Equity in net (income) loss of unconsolidated subsidiaries and affiliates	140	(1,034)	1,684
Loss on sale of investments in securities	15	512	180
Loss on devaluation of investments in securities	180	—	2,165
Loss on sale and disposal of property, plant and equipment	227	355	2,730
Interest and dividend income	(179)	(266)	(2,153)
Interest expense	76	101	914
Loss on plant closure	—	296	—
Gain on insurance claim	(129)	—	(1,551)
Decrease (increase) in notes and accounts receivable	(3,334)	5,851	(40,096)
Decrease (increase) in inventories	(2,058)	(898)	(24,750)
Increase (decrease) in trade notes and accounts payable	1,360	561	16,356
Other	1,288	(878)	15,489
Subtotal	1,906	19,903	22,922
Interest and dividends received	181	566	2,177
Interest paid	(77)	(95)	(926)
Insurance claim received	129	—	1,551
Income taxes paid	(2,068)	(10,378)	(24,870)
Net cash provided by operating activities	71	9,996	854
Cash flows from investing activities:			
Increase in time deposits	(1,890)	(4,027)	(22,730)
Decrease in time deposits	4,012	2,256	48,250
Payment for acquisition of investments in securities	(2,875)	(8,160)	(34,576)
Proceeds from sale and redemption of securities	8,206	631	98,689
Payment for purchase of securities	(65)	(1,114)	(782)
Proceeds from sale of marketable securities and investments	64	1,167	770
Increase in money deposited	(1,300)	—	(15,634)
Decrease in money deposited	800	—	9,621
Investments in loans	(12)	(42)	(144)
Collection of loans	56	35	673
Payment for purchase of property, plant and equipment	(3,126)	(5,139)	(37,595)
Proceeds from sale of property, plant and equipment	436	12	5,244
Payment for purchase of intangibles	(224)	(192)	(2,694)
Other	(353)	(354)	(4,245)
Net cash used in investing activities	3,729	(14,927)	44,847
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	—	(300)	—
Proceeds from long-term debt	400	1,300	4,811
Repayment of long-term debt	(443)	(821)	(5,328)
Repayment of installment payables	(6)	(6)	(72)
Payment for pay back of treasury stock	(662)	—	(7,962)
Cash dividends paid	(1,317)	(1,758)	(15,839)
Dividends paid to minority shareholders	(41)	(41)	(493)
Other	—	(0)	—
Net cash used in financing activities	(2,069)	(1,626)	(24,883)
Effect of exchange rate changes on cash and cash equivalents	(9)	(1)	(108)
Net increase (decrease) in cash and cash equivalents	1,722	(6,558)	20,710
Cash and cash equivalents at the beginning of the period	14,292	20,850	171,882
Cash and cash equivalents at the end of the period (Note 11)	¥16,014	¥14,292	$192,592

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, 2011 and 2010

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, 2011, which was ¥83.15 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, 2011 and 2010. 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.

(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) at rates based on the useful life of the asset determined in accordance with the Corporation Tax Code of Japan.

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 the landfills were completed. As a result, such land was stated on the consolidated balance sheets at its acquisition price. Starting in the fiscal year under review, however after landfill completion, land used for managed final disposal sites will be depreciated based on waste landfill ratios as a result of changes in the purpose for which the land is to be used.

(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. Finance lease transactions that started on or before March 31, 2008, are accounted for in the same manner as ordinary lease 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 the uncollectible amount 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-liability method. Under the asset-liability method, deferred tax assets and liabilities are determined based on the differences between the financial reporting basis and the tax basis 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) Reclassifications
Certain reclassifications of previously reported amounts have been made to conform with current classifications.
In the previous fiscal year, "Gain on sales of scrap" (amounting ¥31 million) was included in "Other" under non-operating income. This item is listed separately since it accounts for more than 10% of total nonoperating income in the fiscal year ended March 31, 2011.

(p) 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.

(q) Income before minority interests
Effective from the fiscal year ended March 31, 2011, the Company and its consolidated domestic subsidiaries have adopted the "Cabinet Office Ordinance of Partial Amendments to the Rules for Financial Statements (Cabinet Office Ordinance No.5, issued on March 24, 2009)" based on the "Accounting standard for consolidated financial statements" ASBJ Statement No.22, issued on December 26, 2008. Results are shown in the "Net income before minority interests" account.

(r) Comprehensive income
Effective from the fiscal year ended March 31, 2011, the Company and its consolidated domestic subsidiaries have adopted the "Accounting standard for presentation of comprehensive income" ASBJ Statement No.25, issued on June 30, 2010. However, amounts listed in the previous consolidated fiscal year as accumulated other comprehensive income and total accumulated other comprehensive income are stated as amounts in the valuation and translation adjustments abstract and the total valuation and translation adjustments abstract.

3. 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 have 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 Guidance No.21, issued on 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.

(3) New accounting standard for accrued retirement benefit (year ended March 31, 2010)

Effective from the fiscal year ended March 31, 2010, the Company and its consolidated domestic subsidiaries have adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan (ASBJ) Statement No.19, issued on July 31, 2008). The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. This change had no material impact on the consolidated financial statements for the year ended March 31, 2010.

4. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finished goods	¥ 6,030	¥ 5,037	$ 72,520
Semi-finished goods	4,287	3,440	51,557
Merchandise	9	4	108
Work-in-process	694	731	8,346
Raw materials	2,929	2,608	35,225
Supplies	3,355	3,428	40,350
Rolls	2,134	2,133	25,664
Total	¥19,438	¥17,381	$233,770

5. CONTINGENT LIABILITIES

At March 31, 2011 and 2010, the Company and its consolidated subsidiaries were contingently liable as follows;

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Trade notes discounted and guaranteed	¥300	¥330	$3,608
Total	¥300	¥330	$3,608

6. BANK LOANS

Long-term debt from banks at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Long-term debt from banks at average rates of 1.81% and 1.75% for current and noncurrent portions, respectively	¥1,647	¥1,706	$19,807
Less current portion	(471)	(444)	(5,664)
Long-term debt from banks	¥1,176	¥1,262	$14,143

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Buildings and structures	¥11,377	¥12,086	$136,825
Machinery and equipment	17,851	19,338	214,684
Land	17,297	17,820	208,022
Other	150	176	1,804
Total	¥46,675	¥49,420	$561,335

The aggregate annual maturities of long-term debt from banks subsequent to March 31, 2011 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2012	¥ 471	$ 5,664
2013	480	5,773
2014	477	5,737
2015	124	1,491
2016 and thereafter	95	1,142
Total	¥1,647	$19,807

7. R&D EXPENSES

R&D expenses, included in selling, general and administrative expenses for the years ended March 31, 2011 and 2010, amounted to ¥43 million ($517 thousand) and ¥44 million, respectively.

8. 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, and legal capital reserve is included in capital surplus 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 28, 2011, the Board approved cash dividends amounting to ¥653 million ($7,853 thousand). The appropriation has not been accrued in the consolidated financial statements as of March 31, 2011.

9. INCOME TAXES

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 40.5% for the year ended March 31, 2010.

The major components of deferred tax assets and liabilities as of March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Impairment losses	¥ 317	¥ 331	$ 3,812
Accrued enterprise taxes	16	94	192
Allowance for doubtful accounts	551	552	6,627
Accrued bonuses	254	254	3,055
Accrued employees' retirement benefits	113	128	1,359
Accrued directors' retirement benefits	164	208	1,972
Other	650	427	7,818
Gross deferred tax assets	2,065	1,994	24,835
Valuation allowance	(1,090)	(968)	(13,109)
Total deferred tax assets	975	1,026	11,726
Net deferred tax assets	—	—	—
Deferred tax liabilities:			
Net unrealized gain/losses on other securities	(719)	(1,340)	(8,647)
Retained earnings appropriated for tax deductible reserves	(22)	(20)	(265)
Reserve for special depreciation for tax purposes	(9)	(12)	(108)
Prepaid pension expenses	(184)	(270)	(2,213)
Other	(164)	(129)	(1,972)
Total deferred tax liabilities	(1,098)	(1,771)	(13,205)
Net deferred tax liabilities	¥(123)	¥(745)	$(1,479)

Net deferred tax liabilities at March 31, 2011 and 2010 were included in the consolidated balance sheets as follows;

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets (current)	¥ 422	¥ 333	$ 5,075
Deferred tax assets (noncurrent)	59	67	710
Deferred tax liabilities (noncurrent)	(604)	(1,145)	(7,264)
Net deferred tax liabilities	¥(123)	¥ (745)	$(1,479)

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. For the year ended March 31, 2010, the reconciliation is as follows:

	2010
Statutory tax rate	40.5%
Expenses not deductible for tax purposes and other	0.5
Equity in earnings of unconsolidated subsidiaries and affiliates and non-temporary differences not deductible for tax purposes	(9.3)
Entertainment expenses and other that are not deductible	0.3
Dividend income and other that are not taxable	(1.7)
Tax deduction	0.3
Other	8.3
Effective tax rate	38.9%

10. 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, 2011:

(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)	944,069	450,127	—	1,394,196

(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 30, 2010 (Board of Directors)	Common stock	¥1,099	$13,217	¥25	$0.3	March 31, 2010	June 11, 2010

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 29, 2010 (Board of Directors)	Common stock	¥ 218	$ 2,622	¥ 5	$0.1	September 30, 2010	December 10, 2010

11. SUPPLEMENTARY CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents at March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and time deposits	¥11,459	¥15,889	$137,811
Time deposits with maturities of more than three months	(1,745)	(3,597)	(20,986)
Negotiable certificates of deposit with maturities of three months	6,300	1,000	75,767
Trust beneficiary rights due within three months or less	—	200	—
Marketable securities due within three months	—	500	—
Deposits paid	—	300	—
Cash and cash equivalents	¥16,014	¥14,292	$192,592

12. 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, 2011 and 2010 for the Company's and its consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Severance and retirement benefit obligation	¥(4,798)	¥(4,782)	$(57,703)
Plan assets at fair value	4,123	4,224	49,585
Unfunded retirement benefit obligation	(675)	(558)	(8,118)
Unrecognized actuarial gain or loss	604	613	7,264
Unrecognized past service cost	249	295	2,995
Net severance and retirement benefit obligation	178	350	2,141
Prepaid pension expenses	457	673	5,496
Accrued severance and retirement benefits	¥ (279)	¥ (323)	$ (3,355)

The components of retirement benefit expenses for the years ended March 31, 2011 and 2010 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥320	¥259	$3,848
Interest cost	79	82	950
Expected return on plan assets	(56)	(51)	(673)
Amortization of past service cost	117	169	1,407
Amortization of actuarial gain or loss	46	46	553
Additional retirement benefit expense	28	30	337
Total	¥534	¥535	$6,422

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

	2011	2010
Method adopted for periodic distribution of projected retirement benefits	Equal amounts per period	Equal amounts per period
Discount rate	2.0%	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)

13. AMOUNTS PER SHARE

	Yen		U.S. dollars
Years ended March 31	2011	2010	2011
Net income (loss)	¥ (18.22)	¥ 152.23	$ (0.22)

	Yen		U.S. dollars
As of March 31	2011	2010	2011
Net assets	¥2,736.83	¥2,822.81	$32.91

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	2011	2010	2011
Basic net income per share:			
Net income (loss)	¥(794)	¥6,691	$(9,549)
Amount not attributable to shareholders of common stock:	—	—	—
Amount attributable to shareholders of common stock	¥(794)	¥6,691	$(9,549)
Weighted average number of shares outstanding	43,572 thousand share	43,955 thousand share	—

14. 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, 2011 and 2010 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, 2011	Machinery, equipment and vehicles	Tools and equipment	Other	Total	Machinery, equipment and vehicles	Tools and equipment	Other	Total
Acquisition costs	¥46	¥16	¥8	¥70	$553	$192	$97	$842
Accumulated depreciation	42	12	7	61	505	144	85	734
Net book value	¥ 4	¥ 4	¥1	¥ 9	$ 48	$ 48	$12	$108

	Millions of yen			
As of March 31, 2010	Machinery, equipment and vehicles	Tools and equipment	Other	Total
Acquisition costs	¥116	¥16	¥35	¥167
Accumulated depreciation	99	9	31	139
Net book value	¥ 17	¥ 7	¥ 4	¥ 28

Future minimum lease payments subsequent to March 31, 2011 and 2010 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2011	2010	2011
Due within one year	¥6	¥19	$ 72
Due after one year	3	9	36
Total	¥9	¥28	$108

(b) Operating leases

Operating leases at March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2011	2010	2011
Due within one year	¥ 9	¥12	$108
Due after one year	8	16	96
Total	¥17	¥28	$204

15. 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 by 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 and monitors the financial condition of the 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. Therefore, the risk associated with market price fluctuation of the Company's financial instruments is extraordinary low.

Investments in securities expose the Companies to the risk of changes in market prices. However, the issuing companies are mainly those with whom the Companies have a business relationship. In addition, 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 the risk of interest rate fluctuation.

The hedge effectiveness of interest rate swaps that are believed to have high hedge effectiveness are not evaluated as in cases in which the hedging instruments and hedging items 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, 2011.

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 methods when market prices are 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, 2011 and 2010 are as follows:

	Millions of yen			Thousands of U.S. dollars		
Year ended March 31, 2011	Carrying amount shown	Fair value	Difference	Carrying amount shown	Fair value	Difference
Cash and time deposits	¥11,459	¥11,459		$137,811	$137,811	
Notes and accounts receivable	27,272	27,272		327,986	327,986	
Securities	8,500	8,500		102,225	102,225	
Investments in securities						
Other securities	4,915	4,915		59,110	59,110	
Notes and accounts payable	(13,629)	(13,629)		(163,909)	(163,909)	
Long-term debt						
Due within 1 year	(471)	(472)	1	(5,664)	(5,676)	12
Due over 1 year	(1,176)	(1,179)	3	(14,143)	(14,179)	36

	Millions of yen			Thousands of U.S. dollars		
Year ended March 31, 2010	Carrying amount shown	Fair value	Difference	Carrying amount shown	Fair value	Difference
Cash and time deposits	15,889	15,889		170,776	170,776	
Notes and accounts receivable	23,938	23,938		257,287	257,287	
Securities	9,030	9,030		97,055	97,055	
Investments in securities						
Other securities	6,602	6,602		70,959	70,959	
Notes and accounts payable	(12,268)	(12,268)		(131,857)	(131,857)	
Long-term debt						
Due within 1 year	(444)	(446)	1	(4,772)	(4,794)	11
Due over 1 year	(1,262)	(1,265)	4	(13,564)	(13,596)	43

16. SECURITIES

(a) Other securities with determinable market value

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2011	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	¥863	¥3,015	¥2,152	$10,379	$36,260	$25,881
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Securities whose carrying value does not exceed acquisition costs:						
Stock	2,337	1,900	(437)	28,106	22,850	(5,256)
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	¥3,200	¥4,915	¥1,715	$38,485	$59,110	$20,625

	Millions of yen		
As of March 31, 2010	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥1,711	¥5,218	¥3,507
Bonds	—	—	—
Other	—	—	—
Securities whose carrying value does not exceed acquisition costs:			
Stock	1,683	1,384	(299)
Bonds	—	—	—
Other	—	—	—
Total	¥3,394	¥6,602	¥3,208

(b) Other securities sold during the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Sales of other securities	¥ 64	¥1,167	$ 770
Profit (loss) on sales	¥ (15)	¥ (512)	$ (180)

(c) Securities without determinable value

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Other securities:			
Unlisted securities	¥1,331	¥1,331	$16,007
Bonds	¥ —	¥ —	$ —
Unconsolidated subsidiary and affiliated company:			
Unlisted securities	¥4,008	¥5,650	$48,202

17. LOSS ON IMPAIRMENT OF FIXED ASSETS

In the year ended March 31, 2010, the Company reported the following loss on impairment of fixed assets:

Use	Place	Type of assets	Millions of yen	Thousands of U.S. dollars
Steel business plant	Neyagawa, Osaka	Buildings and structures	¥49	$527
		Machinery and equipment	12	129
		Land	189	2,031
Idle assets	Sanyo-Onoda, Yamaguchi	Land	166	1,784

The Companies grouped their fixed assets based on division, and idle assets were each treated as separate property. For the idle assets, the impairment loss was recognized because the recoverable amount was below the book value, and there were no prospects of future use. The recoverable amount of an asset was the net selling price and evaluations were principally based on real estate appraisal benchmarks.

The subsidiary, Kyoei Kenzai Ltd., produces its main products, columns and merchant bars, at its Shiga plant. As its business resources are concentrated at this plant, it decided to close its Neyagawa plant. Impairment loss of 250 million yen and other losses of 45 million yen related to the closing of this plant have been recorded as a "plant-closing loss" under "nonrecurring losses." Moreover, when measuring an impairment loss, the net sales value is used for the recoverable amount and calculated based on the appraised value of the real estate, etc.

The Company has written down the book value of idle assets to recoverable values. These write-offs have resulted in impairment loss of 166 million yen, which was booked as extraordinary loss. The recoverable value was determined according to the assessed value for fixed asset tax.

18. Statements of comprehensive income

Comprehensive income in last consolidated fiscal year

	Millions of yen	Thousands of U.S. dollars
Comprehensive income attributable to owners of the parent	¥7,447	$80,041
Comprehensive income attributable to minority interests	103	1,107
Total	¥7,550	$81,148

Other comprehensive income in last consolidated fiscal year

	Millions of yen	Thousands of U.S. dollars
Valuation difference on available-for-sale securities	¥758	$8,147
Revaluation reserve for land	1	11
Share of other comprehensive income of affiliates accounted for using equity method	(3)	(32)
Total	¥756	$8,126

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

19. 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 and industrial waste and gravel recycling.
The other business segment is involved in selling civil engineering materials and providing financial asset management and insurance services.

(b) Accounting used for net sales, profit and loss, assets, liabilities and amounts for other items for each reporting segment

The accounting methods used for reporting segment information follow the accounting principles and methods described in Note 2, "Significant Accounting Policies".

Reporting segment profit or loss is operating income or operating loss. Intersegment 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

Previous consolidated fiscal year (April 1, 2009 to March 31, 2010)

As segment information for consolidated financial statements based on the conventional handling of segment information, it has been omitted because equivalent information is disclosed in conformance with the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No.17, March 27, 2009), etc.

The business segments of the Company and its consolidated subsidiaries for the years ended March 31, 2011 and 2010 are outlined as follows:

Year ended March 31, 2011	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
	Millions of yen					
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	¥ (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. Intersegment eliminations of ¥10 million and corporate expenses of ¥(708) million not allocated to the reporting segments are included in the ¥(699) million adjustment for "Segment profit or loss (loss) (operating income or loss (loss)." Corporate expenses are mainly expenses 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. Segment asset adjustments of ¥27,239 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. Depreciation adjustment of ¥69 million is 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. "Increase in property, plant, equipment and intangible assets" adjustment of ¥129 million is 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" adjusted with operate income or loss consolidated financial statement.

(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	$ (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

Year ended March 31, 2010	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
	Millions of yen					
I. Sales and operating income						
Sales to external customers	¥104,717	¥6,378	¥ 390	¥111,485	¥ —	¥111,485
Intersegment sales and transfers	32	1,206	—	1,238	(1,238)	—
Total	104,749	7,584	390	112,723	(1,238)	111,485
Operating expenses	94,546	5,824	358	100,728	(697)	100,031
Operating income	¥ 10,203	¥1,760	¥ 32	¥ 11,995	¥ (541)	¥ 11,454
II. Total assets, depreciation, impairment loss and capital expenditures						
Total assets	¥108,020	¥5,715	¥5,077	¥118,812	¥32,313	¥151,125
Depreciation and amortization	4,634	271	10	4,915	77	4,992
Impairment loss	250	—	—	250	167	417
Capital expenditures	4,655	112	2	4,769	46	4,815

(Note) 1. The business division is determined by internal management.
2. The main products and services of each segment
(1) Steel segment : Rebar, round bar and merchant bar
(2) Material recycling segment : Recycling and disposal of industrial and medical waste
(3) Other segment : Engineering materials and insurance agents
3. Unallocated operating expenses in the column "Eliminations and unallocated amounts", which mainly represent expenses of the corporate division of the Company, were ¥556 million.
4. Corporate assets included in the "Eliminations and unallocated amounts" column amounted to ¥43,464 million in the fiscal year ended March 31, 2010 and consisted primarily of 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.
5. Long-term prepaid expenses and their depreciation are included in depreciation and capital expenditures.

Year ended March 31, 2010	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
	Thousands of U.S. dollars					
I. Sales and operating income						
Sales to external customers	$1,125,505	$68,551	$ 4,192	$1,198,248	$ —	$1,198,248
Intersegment sales and transfers	344	12,962	—	13,306	(13,306)	—
Total	1,125,849	81,513	4,192	1,211,554	(13,306)	1,198,248
Operating expenses	1,016,186	62,596	3,849	1,082,631	(7,491)	1,075,140
Operating income	$ 109,663	$18,917	$ 343	$ 128,923	$ (5,815)	$ 123,108
II. Total assets, depreciation, impairment loss and capital expenditures						
Total assets	$1,161,006	$61,425	$54,568	$1,276,999	$347,302	$1,624,301
Depreciation and amortization	49,807	2,913	107	52,827	827	53,654
Impairment loss	2,687	—	—	2,687	1,795	4,482
Capital expenditures	50,032	1,204	22	51,258	494	51,752

20. SUBSEQUENT EVENTS

Dividend distribution of surplus

On April 28, 2011, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥653	$7,853

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

KPMG

Independent Auditors' Report

To the Shareholders and Board of Directors of KYOEI STEEL,LTD.

We have audited the accompanying consolidated balance sheets of KYOEI STEEL,LTD. and consolidated subsidiaries as of March 31, 2011 and 2010, the related consolidated statements of income and comprehensive income for the year ended March 31, 2011, consolidated statament of income for the year ended March 2010, and consolidated statements of changes in net assets and cash flows for each of the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KYOEI STEEL,LTD and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 19 to the consolidated financial statements, in which the comprehensive income for the year ended March 31, 2010 is disclosed.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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

Osaka, Japan
June 30, 2011

Board Directors, Corporate Auditors and Executive Officers

(As of June 24, 2011)

Board Directors and Corporate Auditors

Chairman and Representative Director	Hideichiro Takashima
Representative Director	Koji Morita
Board Directors	Hirofumi Nagata Nobuyuki Fukada Takeshi Ogata Koji Kawasaki Toshimasa Zako Naoyoshi Goroku Hirotaka Kimura Yoshihiro Matsuda Akira Okada Hiroshi Aoki
Corporate Counselors	Akihiko Takashima Ryutaro Yoshioka
Standing Corporate Auditors	Shuji Ichihara Yasuo Ieki
Corporate Auditor	Hirofumi Iseki

Executive Officers

President	Koji Morita
Executive Vice President	Hirofumi Nagata
Senior Executive Managing Officers	Nobuyuki Fukada Takeshi Ogata
Executive Managing Officers	Koji Kawasaki Toshimasa Zako Naoyoshi Goroku Hirotaka Kimura
Executive Officers	Yoshihiro Matsuda Akira Okada Fumio Nakagawa Haruo Hiraiwa Yoshihiro Shima Kazuyoshi Ohta Yoshio Nozaki Kenji Ishihara Osamu Narumi Shigeru Asami

Investor Information

(As of March 31, 2011)

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	3,665
Number of Employees	1,077 (Consolidated: regular employee)
Stock Listings	Tokyo, Osaka
Transfer Agent	The Sumitomo Trust and Banking Co., Ltd. 5-33 Kitahama 4-chome, Chuo-ku, Osaka, Japan

Major Shareholders (As of March 31, 2011)

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
Air Water Inc.	3,292,400	7.33
Akihiko Takashima	2,233,000	4.97
Japan Trustee Services Bank, Ltd. (Trust Account)	1,737,800	3.87
Mitsui & Co., Ltd.	1,470,000	3.27
Kyoei Steel, Ltd. (Treasury stock)	1,394,196	3.11
Godo Steel, Ltd.	1,347,000	3.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,063,600	2.37
Trust & Custody Services Bank, Ltd. (Pension Trust Account)	973,800	2.17

KYOEI STEEL

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