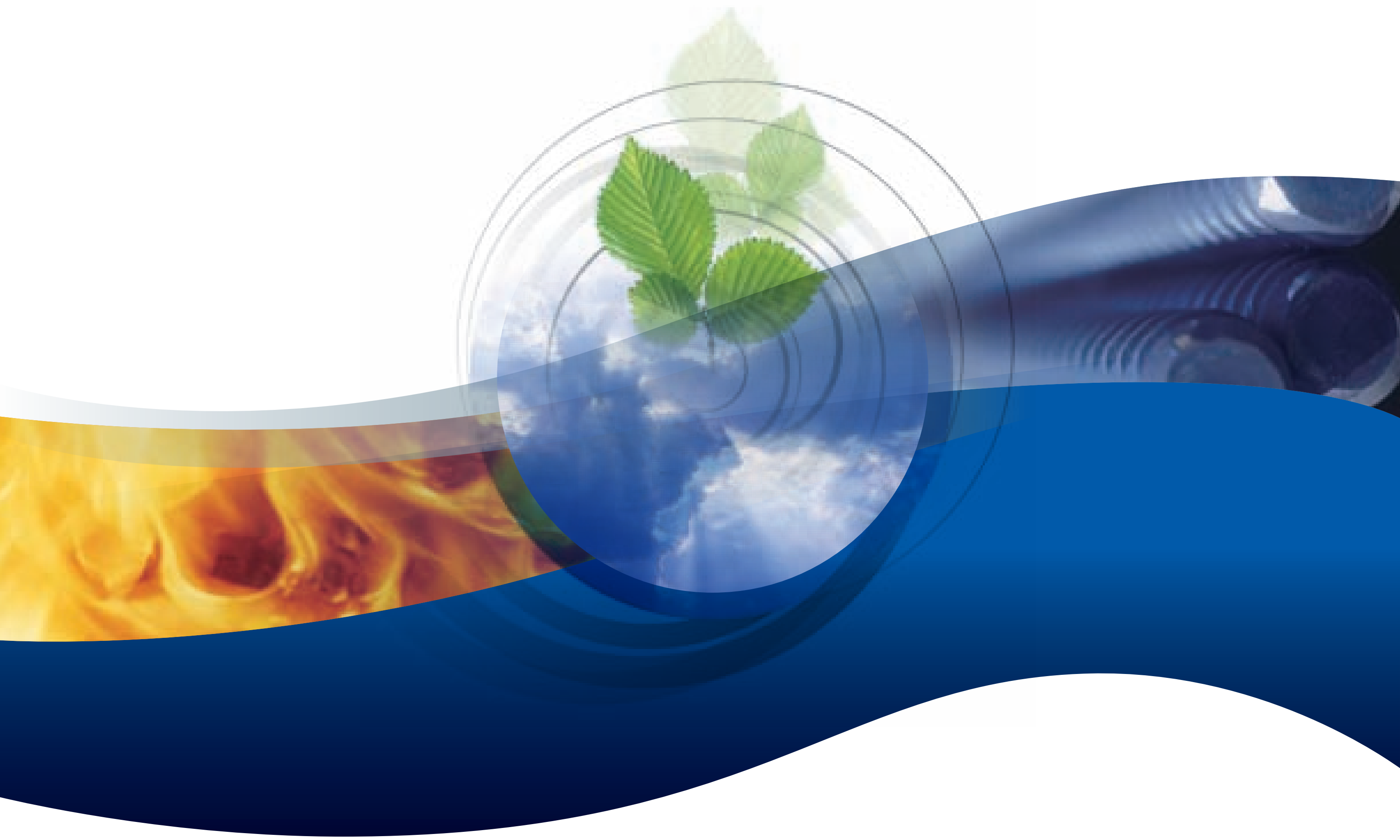
ANNUAL REPORT 2010

Year Ended March 31, 2010



KYOEI STEEL

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

CONTENTS

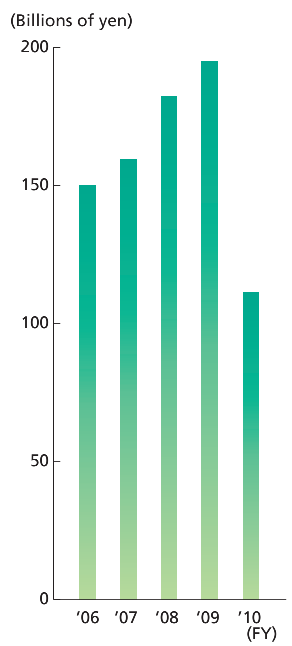
Network

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

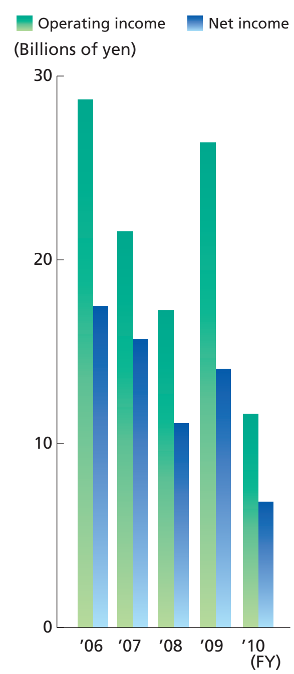
	Millions of yen					Thousands of U.S. dollars
	2006	2007	2008	2009	**2010**	**2010**
For the Year:						
Net sales	¥ 149,309	¥ 158,873	¥ 181,576	¥ 194,345	¥ 111,485	$ 1,198,248
Operating income	28,613	21,463	17,189	26,270	11,454	123,108
Net income	17,412	15,630	11,070	14,009	6,691	71,915
Depreciation and amortization	4,544	4,647	4,738	4,869	4,992	53,654
Capital expenditures	4,247	6,699	5,550	5,173	4,815	51,752
At Year-End:						
Total assets	¥ 148,617	¥ 168,897	¥ 166,572	¥ 153,711	¥ 151,125	$ 1,624,301
Interest-bearing debt	31,236	10,148	1,952	1,540	1,706	18,336
Net assets	66,703	98,899	107,846	119,154	124,905	1,342,487
	Yen					U.S. dollars
Amounts per Share :						
Net income, basic	¥478.98	¥ 414.23	¥ 253.66	¥ 318.72	¥ 152.23	$ 1.64
Net income, diluted	—	—	—	—	—	—
Cash dividends applicable to the year	12.00	30.00	30.00	40.00	40.00	0.43
Equity* to total assets (%)	44.9	58.2	64.3	77.0	82.1	—
D/E ratio (times)	0.47	0.10	0.02	0.01	0.01	—

Note: U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥93.04 to US$1 prevailing on March 31, 2010.
*Equity = Net assets - Minority interest

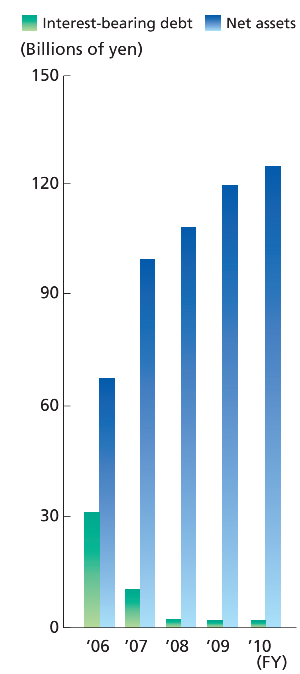
Net Sales



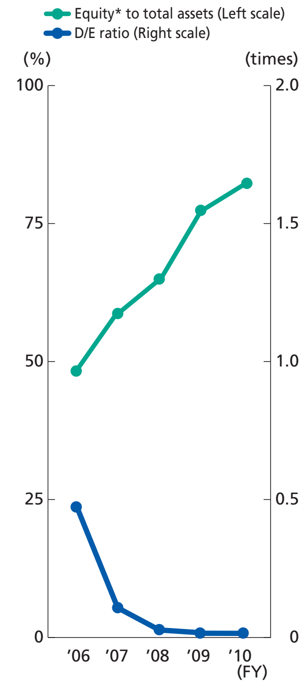
Operating Income & Net Income



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 the price of steel scrap, raw material of Kyoei Steel Group's steel products, (iv) regulatory change and uncertainty and potential legal liability relating to Kyoei Steel Group's business and operations, (v) effects of disasters, power outages and other incidents, (vi) fluctuations in stock markets in Japan and other risk factors.

01

Net sales decreased 42.6% year on year to ¥111.5 billion and operating income fell 56.4% to ¥11.5 billion owing to sluggish steel demand reflecting the global economic crisis since the autumn of 2008.

02

The Group's product shipments decreased by 290,000 tons or 16.7% to 1,431,000 tons. The average shipment price declined by ¥28,000 per ton from the previous year.

03

Although the average price of steel scrap, the main raw material, declined by ¥17,000 per ton from the previous year's peak, the decrease was smaller than that of the product shipment price because of robust demand for steel scrap in China and South Korea.

04

Due to lower sales volumes, a decline in shipment prices, and resulting reduction of the metal spread (price difference per ton between the product shipment price and the steel scrap price), both sales and profits of the Steel Business decreased.

05

Regarding the Material Recycling Business, the thermal recycling by electric arc furnaces and operation of the gasification furnace have been efficient. However, sluggish industrial activity resulted in decrease in the volume of generated industrial waste and the same applied to the demand for controlled landfill. As a result, both sales and profits of the Material Recycling Business decreased.

06

The Group's interest-bearing debt, which amounted to ¥50 billion before the Company went public (fiscal year to March 2005), was ¥1,706 million as of March 31, 2010, and Kyoei Steel, Ltd. alone has no interest-bearing debt. The shareholders' equity ratio increased from 77.0% for the previous year to 82.1% for fiscal 2010.

07

Although the Company and Tokyo Tekko Co., Ltd. signed the definitive agreement in May 2009 for merger, they decided not to proceed with the merger due to an unfavorable interim conclusion of the pre-merger examination by the relevant authority.

08

An annual dividend of ¥40 per share for fiscal 2010 was determined, which is unchanged from fiscal 2009. The payout ratio on a consolidated basis for fiscal 2010 is 26.3%.

Koji Morita
Representative Director
Kyoei Steel, Ltd.

I am delighted to take this opportunity to address our shareholders as the new president and representative director of Kyoei Steel, Ltd. I am resolved to do my utmost to meet your expectations and would appreciate it if you would extend your support to me as you did to my predecessor, Mr. Ryutaro Yoshioka.

The business results of Kyoei Steel for fiscal 2010 (the period from April 1, 2009, to March 31, 2010) are presented below.

Business results

In the Steel Business, shipments decreased from the previous year's level and shipment prices per ton also declined owing to sluggish demand for steel products for construction work, reflecting lackluster public and private-sector capital investment in the construction field, the major demand sector.

On the other hand, prices of steel scrap, the principal raw material of the Company's products, were on an upward trend from the beginning of the fiscal year, reflecting steel demand trends overseas. Although they decreased somewhat after peaking in the summer, steel scrap prices resumed an upward trend in the second half of the year owing to an increase in steel demand in Asian countries such as China and South Korea.

In these circumstances, Kyoei Steel Group strove to secure the metal spread (price difference per ton between the product shipment price and the steel scrap price), which is the source of profits, by fine-tuning production and sales to meet demand for products. However, the metal spread was about ¥11,000 per ton lower than that in the previous year.

In the Material Recycling Business, sluggish industrial activity resulted in lower volume of industrial waste treated by the Group and decreases in both sales and operating income from the previous year.

Consequently, the Group's business results for fiscal 2010 were as follows. On a consolidated basis, net sales decreased ¥82,860 million or 42.6% year on year to ¥111,485 million, operating income fell ¥14,816 million or 56.4% to ¥11,454 million, and net income was down ¥7,318 million or 52.2% to ¥6,691 million.

Dividend policy

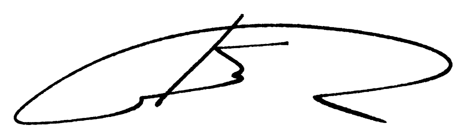
We are convinced that enhancing corporate value leads to maximization of shareholder value. Therefore, we intend to maintain reasonable dividend payment while securing internal reserves necessary for business growth and reinforcement of the fundamentals from a long-term perspective. We also intend to buy back shares to enable a flexible capital policy, in addition to improvement of capital efficiency and diversification of measures to return profits to shareholders.

The Company paid a year-end dividend of ¥25 per share for fiscal 2010. Combined with the interim dividend of ¥15, an annual dividend of ¥40 per share is the same level as for the previous year.

I request your continued support.

July 2010

Koji Morita



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

Medium- to Long-term Business Plan

In order to respond to sweeping changes in the business environment, Kyoei Steel stopped implementation of its fourth medium-term business plan (a three-year plan launched in April 2008) one year earlier and has formulated a new medium- to long-term business plan.

This medium- to long-term business plan has two axes: fulfillment of the growth strategy and establishment of vibrant human resources deployment systems and organizational structures. We have determined key points and formulated measures for realization of the plan.

1. Fulfillment of the growth strategy

(1) Prevail in the Japanese steel market, which is expected to shrink from now on

1) Promote a partnership strategy as a linchpin company for industry reorganization and consolidation
2) Reduce costs and improve productivity to strengthen competitiveness
3) Implement integrated sales & marketing policies unconstrained by the divisional framework
4) Promote development of new high-value-added products responding to customer needs
5) Strengthen the network with suppliers of raw materials to achieve stable procurement of raw materials

(2) Expand overseas steel businesses

1) Promote greenfield projects or construction of partnerships with companies in rapidly emerging economies
2) Expand the production capacity of the existing rolling process line of Vina Kyoei Steel Ltd. in Vietnam, an affiliate, and then implement a plan to build a new integrated line for the steel melting and rolling processes so that Vina Kyoei Steel can achieve a major advance in the promising Vietnamese steel market

(3) Achieve steady growth of the material recycling business

1) Vigorously promote the material recycling business even at divisions and affiliated companies, whose current commitment to the material recycling business is still small in scale, in order to expand the material recycling business throughout the Group

2. Establishment of vibrant human resources deployment systems and organizational structures

(1) Encourage veterans who possess expertise and promote young people

(2) Implement systematic human resources development programs

By achieving the above-mentioned medium- to long-term business plan, the Group aims to achieve consolidated ordinary income* of at least ¥20 billion per year. This target is comparable to our existing targets—ROA of 15% and ROE of 12%, which are indicators of efficient utilization of assets and equity.

*Ordinary income consists of operating income and nonoperating income/expenses in accordance with Japanese GAAP. Nonoperating income/expenses include interest income, dividend income, interest expense, equity in net income (losses) of unconsolidated subsidiaries and affiliates, commitment fee, and so on.

Steel Business

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 and profits from the steel business account for more than 90% of total sales and 85% of total operating income, 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 2010 recorded net sales of 104,717 million yen in the steel business and 6,378 million yen in the material recycling business, while operating income for the same year was 10,203 million yen for the steel business and 1,760 million yen for the material recycling 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 century since its founding. Main products include rebars, threaded rebars, round bars, flat bars, angle bars, I beams, billets (semi-finished products), fabricated steel products, etc. 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.

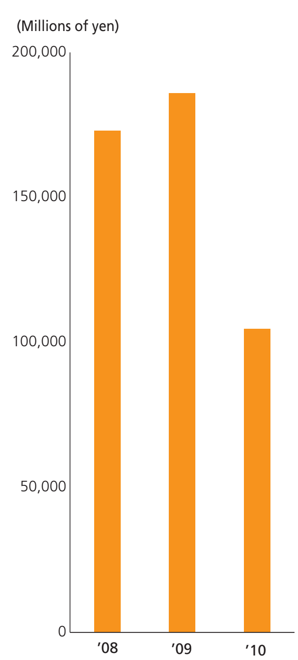
Business Results

The Group's product shipment volume decreased by 290,000 tons or 16.7% from the previous year and the average shipment price dropped by about ¥28,000 per ton because demand for steel products for construction work continued to decrease, reflecting the deterioration of the economic environment since autumn 2008.

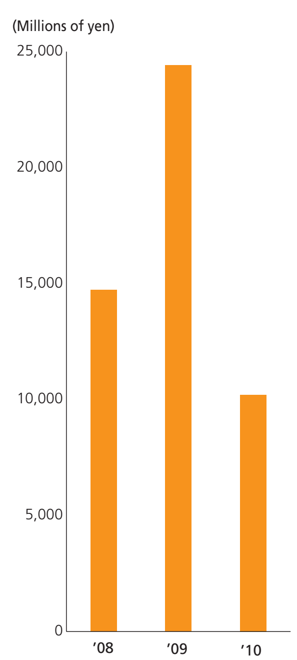
Meanwhile, the average price of steel scrap, which is the main raw material, declined by about ¥17,000 per ton compared with the previous year. As a result, the metal spread, which is the source of profits, was about ¥11,000 per ton lower than that in the previous year.

As a result, segment sales were ¥104,717 million, having decreased by ¥81,213 million or 43.7% from the previous year, and operating income plummeted by ¥14,208 million or 58.2% to ¥10,203 million.

Net Sales

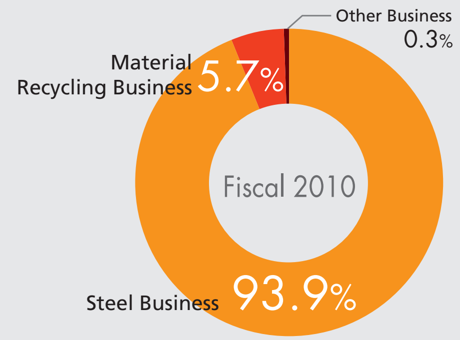


Operating Income

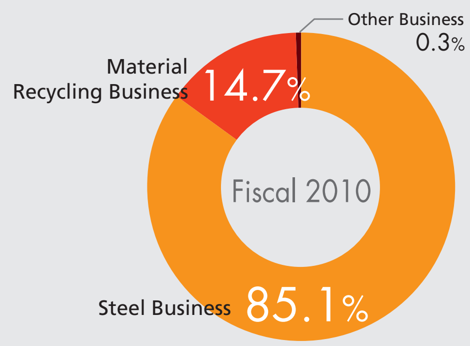


Material Recycling Business

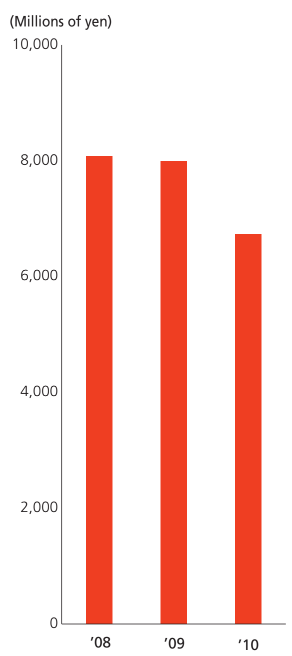
Composition Ratio of Net Sales



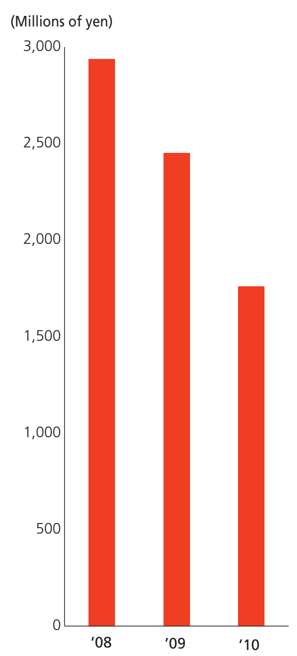
Composition Ratio of Operating Income



Net Sales



Operating Income



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 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.

Business Results

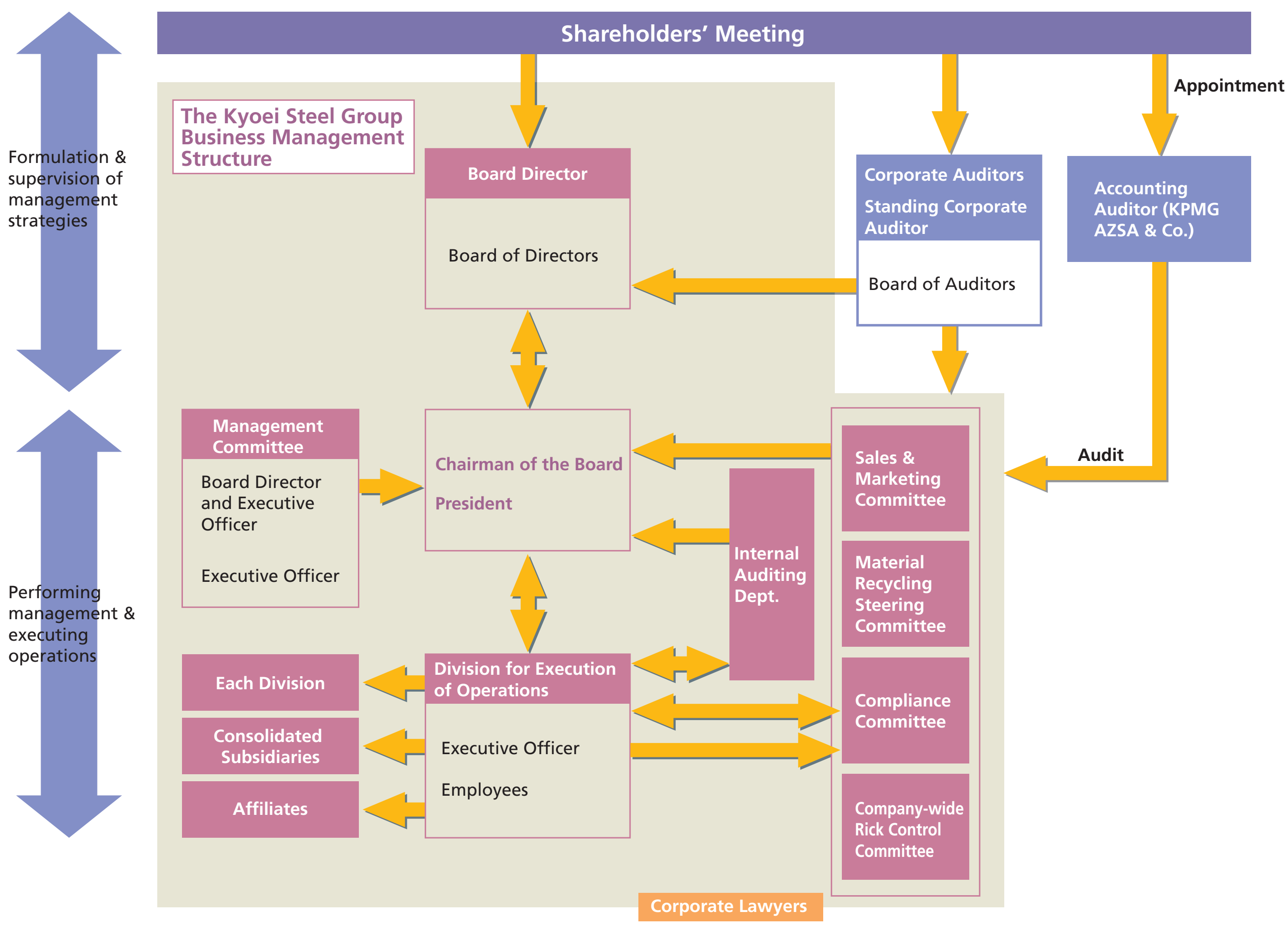
The thermal recycling by electric arc furnaces and operation of the gasification furnace have been efficient. However, sluggish industrial activity resulted in decrease in the volume of generated industrial waste and the same applied to the demand for controlled landfill.

As a result, segment sales were ¥6,378 million, a decrease of ¥1,614 million or 20.2% from the previous year, and operating income was ¥1,760 million, having decreased by ¥691 million or 28.2%.

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 established 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 socially-accepted common sense, as its management goals. 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 promoting the establishment of an appropriate organizational structure and the implementation of management measures.

Corporate Governance Structure



FINANCIAL SECTION

DATA SECTION

Consolidated Four-Year Summary

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

	2007	2008	2009	**2010**
	Thousands of tons			
Product shipments				
Finished products	2,153	2,078	1,717	**1,431**
Billet (semi-finished products)	261	284	259	**205**
	Millions of yen			
For the Year:				
Net sales	¥158,873	¥181,576	¥194,345	**¥111,485**
Gross profits	31,688	27,456	36,672	**19,999**
Operating income	21,463	17,189	26,270	**11,454**
Income before income taxes	23,611	17,195	23,388	**11,121**
Net income	15,630	11,070	14,009	**6,691**
Research and development expenses	79	26	152	**44**
Depreciation and amortization	4,647	4,738	4,869	**4,992**
Capital expenditures	6,699	5,550	5,173	**4,815**
Per share amounts (yen):				
Net income, basic	414.23	253.66	318.72	**152.23**
Net income, diluted	—	—	—	**—**
Cash dividends applicable to the year	30.00	30.00	40.00	**40.00**
At Year-End:				
Total assets	¥168,897	¥166,572	¥153,711	**¥151,125**
Working capital	28,285	28,316	43,120	**50,334**
Interest bearing debt	10,148	1,952	1,540	**1,729**
Net assets	98,899	107,846	119,154	**124,905**
Shareholders' equity*	98,321	107,129	118,387	**124,076**
Ratios:				
Return on equity (%)	18.9	10.8	12.4	**5.5**
Return on total assets (%)	13.7	10.4	15.9	**8.3**
Debt to equity ratio (%)	0.10	0.02	0.01	**0.01**
Equity* to total assets (%)	58.2	64.3	77.0	**82.1**
Other statistics:				
Number of shares outstanding (thousands)	44,899	44,899	44,899	**44,899**
Number of employees	1,047	1,049	1,045	**1,061**
Stock prices (yen):				
High	¥3,410	¥3,750	¥2,590	**¥2,805**
Low	¥2,605	¥1,532	¥911	**¥1,544**

*Equity = Net assets - Minority interest

Financial Review (Consolidated)

1. Consolidated Operating Results

Analysis of Operating Results

During this consolidated fiscal year, the Japanese economy stagnated, lacking vigor as a whole. While certain industries showed signs of recovering from the disarray that ensued from the Lehman Shock of two years ago, a sense of uncertainty about the future continued to pervade the economic environment.

In Japan's steel industry, crude steel production fell below 100 million tons, to 96.45 million tons, for the first time since fiscal 2000 (98 million tons). This drop in production was due to a sharp decline in demand caused by the worldwide recession. In the part of the industry to which our Company belongs, the minimill industry, both public and private investment in construction were slack. Because this construction is our main source of demand, demand for construction-purpose steel slumped and, as of this writing, the prospects for a rapid recovery must be said to be poor.

On the other hand, prices for steel scrap, the main raw material of our Company's products, tended upwards from the start of the year, affected by the overseas demand for steel scrap. Although prices did fall in the summer, they then turned upwards again due to growing demand for steel scrap in China, South Korea and other Asian countries and have since remained at high levels.

Against this background, the Company Group kept a close watch on the demand and the price of steel scrap, reducing production and selling volume to bring them commensurate with demand and working to maintain a reasonable spread between the steel scrap we buy and the steel products we sell.

Looking at the consolidated results for the fiscal year ended March 31, 2010, net sales were ¥111,485 million, down ¥82,860 million (42.6%) from the previous year, operating income was ¥11,454 million, down ¥14,816 million (56.4%), and net income was ¥6,691 million, down ¥7,318 million (52.2%) from the previous year.

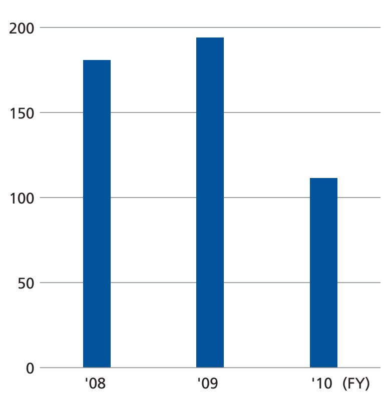
With regard to our Company and Tokyo Tekko Co., Ltd. establishing and operating a joint holding company, we signed a firm contract to that effect on May 20, 2009, but the contract was then cancelled based on decisions made by our respective Boards of Directors on October 16, 2009.

Performance results by business segment.

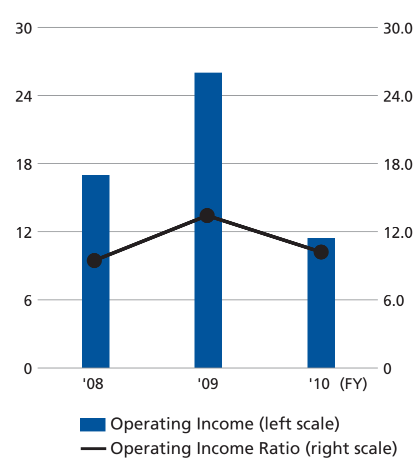
(1) Steel Business

The steel business segment saw product sales continue to drop by approximately 290,000 tons (16.7%), and average shipment price per ton decrease by approximately 28,000 yen from the previous year, due to ongoing decline of the demand of construction steel in worsening economic environment after the autumn two years ago. The average price per ton of our main raw material, steel scrap, was

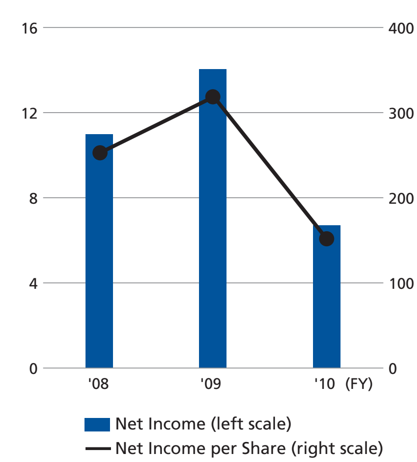
Net Sales
(Billions of yen)



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



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



down by approximately ¥17,000. However a metal spread generating main profit declined by approximately ¥11,000 from the previous year.

The results for the segment were net sales of ¥104,717million, down by ¥81,213 million (43.7%) from the previous year, and operating income of ¥10,203 million, down by ¥14,208 million (58.2%).

(2) Material Recycling Business

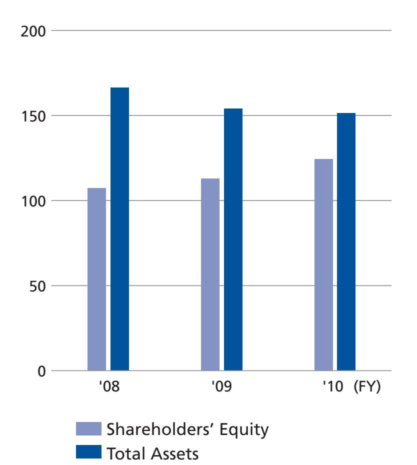
In the material recycling business segment, we enjoyed a generally strong demand for high-temperature thermal recycling using electric arc furnaces, and our consolidated subsidiary Kyoei Recycling Co., Ltd's gasification furnace maintained smooth operations. However, there was a decline in the volume of industrial waste we treated due to a slowdown of industry activities. In addition, the amount of industrial waste accepted for controlled landfill site also declined over the previous year. Accordingly, results for the segment included net sales of ¥6,378 million, down by ¥1,614 million (20.2 %) from the previous year and operating income of ¥1,760 million, down by ¥691 million (28.2 %).

(3) Other Business

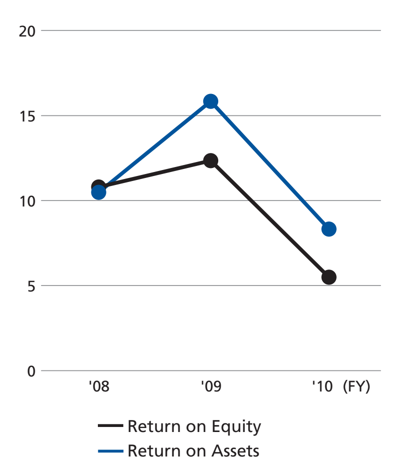
The other business segment consists of sales of civil engineering materials through a subsidiary and the operation of insurance dealers. Net sales were ¥390 million, down by ¥34 million (8.0%) from the previous year, and operating income was ¥32 million, down slightly ¥1 million (2.8%) from the previous year.

Regarding the outlook for the coming year, signs of a recovery in the construction industry are yet to be seen, and we believe that the possibility exists for demand for construction-purpose steel to continue at or fall below last year's low level. On the other hand, prices for the raw material, steel scrap, are expected to continue at a high level, due to growing demand in China and other Asian countries. Given this business environment, our corporate group will devote itself to achieving production and sales commensurate with demand. At the same time, we will endeavor to strengthen our business capabilities and reduce our costs to realize more competitive prices for reproducible products.

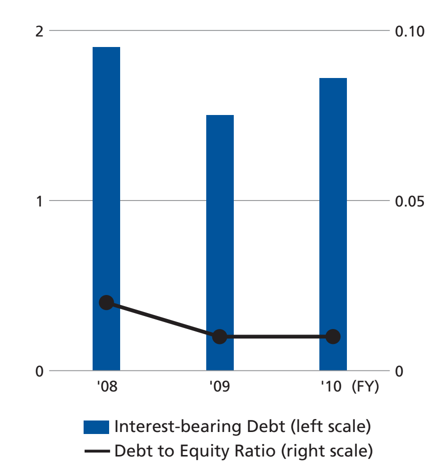
Shareholders' Equity/Total Assets (Billions of yen)



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 decreased by 2.3% from the previous fiscal year to ¥68,683 million, and fixed assets decreased by 1.2% to ¥82,442 million. As a result, total assets decreased by 1.7% from the previous fiscal year to ¥151,125 million.

(2) Liabilities

Current liabilities decreased by 33.0% from the previous fiscal year to ¥18,793 million. This decrease can be attributed in part to an income tax payable decrease of ¥6,567 million. Long-term liabilities increased by 14.2% from the previous fiscal year to ¥7,427 million, the result of factors including a increase in long-term debt of ¥607 million and a increase in deferred tax liabilities of ¥305 million. As a result, total liabilities decreased by 24.1% from the previous fiscal year to ¥26,220 million.

(3) Net Assets

Total net assets increased by 4.8% from the previous fiscal year to ¥124,905 million due to factors including an increase in retained earnings of ¥4,933 million resulting from holding the previous level of net income. Shareholders' equity per a share increased by ¥129.43 from the previous fiscal year to ¥2,822.81. Shareholders' equity ratio also rose to 82.1% from 77.0% at the previous fiscal year-end.

3. Cash Flow Conditions

The ending balance for cash and cash equivalents (collectively "Cash") as of March 31, 2010 decreased by ¥6,558 million from the previous fiscal year to ¥14,292 million. Below are the cash flow summaries for the consolidated fiscal year.

(1) Cash Flows from Operations

Net cash from operating activities decreased by ¥2,619 million from the previous year to ¥9,996 million. This decrease was the result of net income before income taxes of ¥11,121 million, depreciation of ¥4,992 million, an increase in capital resulting from a decrease of ¥5,851 million in notes and trade notes and accounts receivable, and income tax paid of ¥10,378 million.

(2) Cash Flows from Investments

Net cash used in investing activities increased by ¥10,800 million from the previous year to ¥14,927 million. Factors contributing to this decrease included outlays of ¥8,160 million to acquire securities and ¥5,139 million to acquire tangible fixed assets.

(3) Cash Flows from Financing Activities

Net cash used in financing activities decreased by ¥168 million to ¥1,626 million. The major components of net cash flows from financing activities were a net decrease of ¥300 million for the repayment of short term debt, income of ¥1,300 million for the repayment of long-term debt and ¥1,758 million for payments of cash dividends.

(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 2010, we paid an annual dividend of 40 yen per share.

Consolidated Financial Statements

Consolidated Balance Sheets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Assets			
Current assets:			
Cash and time deposits	¥15,889	¥20,120	$ 170,776
Notes and accounts receivable	23,938	29,789	257,287
Allowance for doubtful accounts	(33)	(37)	(355)
Marketable securities (Note 18)	9,030	500	97,055
Inventories (Note 4)	17,381	16,483	186,812
Deferred tax assets (Note 11)	333	908	3,579
Other current assets	2,145	2,525	23,055
Total current assets	68,683	70,288	738,209
Property, plant and equipment:			
Buildings and structures (Note 8)	35,428	34,510	380,782
Machinery and equipment (Note 8)	83,773	82,443	900,398
Land (Note 8)	27,475	27,184	295,303
Construction in progress	132	333	1,419
Total	146,808	144,470	1,577,902
Accumulated depreciation (Note 7)	(82,559)	(79,065)	(887,350)
Net property, plant and equipment	64,249	65,405	690,552
Investments and other assets:			
Investments in securities (Note18)	7,932	7,199	85,254
Unconsolidated subsidiaries and affiliated companies	5,650	5,532	60,727
Investments in long-term loans receivable	389	424	4,181
Allowance for doubtful accounts	(104)	(343)	(1,118)
Intangibles, net	1,284	1,240	13,801
Deferred tax assets (Note 11)	67	204	720
Other noncurrent assets (Note 6)	2,975	3,762	31,975
Total investments and other assets	18,193	18,018	195,540
Total assets (Note 20)	¥151,125	¥153,711	$1,624,301

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

Consolidated Balance Sheets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	¥ 12,268	¥ 11,707	$ 131,857
Bank loans (Note 8)	—	300	—
Long-term debt due within one year (Note 8)	444	582	4,772
Income taxes payable	228	6,795	2,451
Accrued employees' bonuses	624	644	6,707
Accrued directors' bonuses	72	215	774
Other current liabilities	5,157	7,808	55,427
Total current liabilities	18,793	28,051	201,988
Long-term liabilities:			
Long-term debt (Note 8)	1,262	654	13,564
Deferred tax liabilities (Note 11)	1,145	840	12,307
Deferred tax liabilities for revaluation (Note 11)	3,988	3,989	42,863
Accrued employees' severance and retirement benefits (Note 14)	323	436	3,472
Accrued directors' severance and retirement benefits	13	469	140
Other long-term liabilities	696	118	7,480
Total long-term liabilities	7,427	6,506	79,826
Total liabilities:	26,220	34,557	281,814
Contingent liabilities (Note 5)	330	400	3,547
Net Assets (Note 10)			
Shareholders' equity			
Common stock	18,516	18,516	199,011
Authorized – 150,300,000 shares in 2009			
150,300,000 shares in 2010			
Issued – 44,898,730 shares in 2009			
44,898,730 shares in 2010			
Capital surplus	21,493	21,493	231,008
Retained earnings	78,685	73,751	845,712
Treasury stock	(973)	(972)	(10,458)
Total shareholders' equity	117,721	112,788	1,265,273
Valuation and translation adjustments			
Net unrealized holding gains on securities	1,854	1,095	19,927
Revaluation difference on land	4,765	4,764	51,215
Foreign currency translation adjustments	(264)	(260)	(2,838)
Total valuation and translation adjustments	6,355	5,599	68,304
Minority interests	829	767	8,910
Total net assets	124,905	119,154	1,342,487
Total liabilities and net assets	¥151,125	¥153,711	$1,624,301

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

Consolidated Statements of Income

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net sales (Note 20)	¥111,485	¥194,345	$1,198,248
Cost of sales	91,486	157,673	983,297
Gross profit	19,999	36,672	214,951
Selling, general and administrative expenses (Note 9)	8,545	10,402	91,843
Operating income (Note 20)	11,454	26,270	123,108
Other income (expenses):			
Interest income	82	56	881
Dividend income	184	221	1,978
Interest expense	(101)	(458)	(1,086)
Equity in net income (losses) of unconsolidated subsidiaries and affiliates	1,034	(799)	11,113
Gains on sale and disposal of property, plant and equipment	8	15	86
Reversal of allowance for doubtful accounts	34	12	365
Gain from the prior-term adjustment	—	104	—
Loss on sale and disposal of property, plant and equipment	(363)	(513)	(3,902)
Loss on sale of investments in securities	(512)	(312)	(5,503)
Loss on devaluation of investments in securities	—	(1,207)	—
Impairment losses on fixed assets (Note 19)	(166)	(66)	(1,784)
Loss on cancellation management integration	(217)	—	(2,332)
Loss on plant closure	(296)	—	(3,181)
Other, net	(20)	65	(214)
Other income (expenses), net	(333)	(2,882)	(3,579)
Income before income taxes	11,121	23,388	119,529
Income taxes (Note 11)			
Current	3,851	9,853	41,391
Deferred	476	(576)	5,116
Total income taxes	4,327	9,277	46,507
Minority interests in net income of consolidated subsidiaries	103	102	1,107
Net income (Note 15)	¥ 6,691	¥ 14,009	$ 71,915

	Yen		U.S. dollars (Note 1)
Amounts per share	2010	2009	2010
Net income			
Basic	¥152.23	¥318.72	$1.64
Diluted	—	—	—
Cash dividends applicable to the year	¥40.00	¥40.00	$0.43

The accompanying footnotes 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, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Shareholders' equity			
Common stock			
Balance at end of previous fiscal year	¥ 18,516	¥ 18,516	$ 199,011
Balance at end of current fiscal year	18,516	18,516	199,011
Additional paid-in capital			
Balance at end of previous fiscal year	21,493	21,493	231,008
Balance at end of current fiscal year	21,493	21,493	231,008
Retained earnings			
Balance at end of previous fiscal year	73,751	61,066	792,681
Changes during the period			
Cash dividends	(1,757)	(1,319)	(18,895)
Net income	6,691	14,009	71,915
Reverse for revaluation of land	—	(5)	—
Total changes during the period	4,934	12,685	53,031
Balance at end of current fiscal year	78,685	73,751	845,712
Treasury stock			
Balance at end of previous fiscal year	(972)	(972)	(10,447)
Changes during the period			
Repurchase of treasury stock	(1)	—	(1)
Total changes during the period	(1)	—	(1)
Balance at end of current fiscal year	(973)	(972)	(10,448)
Total shareholders' equity			
Balance at end of previous fiscal year	112,788	100,103	1,212,253
Changes during the period			
Cash dividends	(1,757)	(1,319)	(18,884)
Net income	6,691	14,009	71,915
Reverse for revaluation of land	—	(5)	—
Repurchase of treasury stock	(1)	—	(11)
Total changes during the period	4,934	12,685	53,020
Balance at end of current fiscal year	¥117,721	¥112,788	$1,265,273

The accompanying footnotes 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
	2010	2009	2010
Valuation and translation adjustments			
Unrealized gain on investment securities			
Balance at end of previous fiscal year	¥ 1,095	¥ 2,121	$ 11,769
Changes during the period			
Net changes in items during the period other than shareholders' equity	759	(1,026)	8,158
Total changes during the period	759	(1,026)	8,158
Balance at end of current fiscal year	1,854	1,095	19,927
Reserve for revaluation of land			
Balance at end of previous fiscal year	4,764	4,749	51,204
Changes during the period			
Net changes in items during the period other than shareholders' equity	1	15	11
Total changes during the period	1	15	11
Balance at end of current fiscal year	4,765	4,764	51,215
Translation adjustment			
Balance at end of previous fiscal year	(260)	156	(2,794)
Changes during the period			
Net changes in items during the period other than shareholders' equity	(4)	(416)	(43)
Total changes during the period	(4)	(416)	(43)
Balance at end of current fiscal year	(264)	(260)	(2,837)
Total valuation and translation adjustments			
Balance at end of previous fiscal year	5,599	7,026	60,178
Changes during the period			
Net changes in items during the period other than shareholders' equity	756	(1,427)	8,126
Total changes during the period	756	(1,427)	8,126
Balance at end of current fiscal year	6,355	5,599	68,304
Minority			
Balance at end of previous fiscal year	767	717	8,244
Changes during the period			
Net changes in items during the period other than shareholders' equity	62	50	666
Total changes during the period	62	50	666
Balance at end of current fiscal year	829	767	8,910
Total net assets			
Balance at end of previous fiscal year	119,154	107,846	1,280,675
Changes during the period			
Cash dividends	(1,757)	(1,319)	(18,884)
Net income	6,691	14,009	71,915
Reverse for revaluation of land	—	(5)	—
Repurchase of treasury stock	(1)	—	(1)
Net changes in items during the period other than shareholders' equity	818	(1,377)	8,792
Total changes during the period	5,751	11,308	61,812
Balance at end of current fiscal year	¥124,905	¥119,154	$1,342,487

Consolidated Statements of Cash Flows

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Cash flows from operating activities:			
Net income before income taxes	¥11,121	¥23,388	$ 119,529
Adjustments to reconcile net income before income taxes to net cash provided by operating activities			
Depreciation and amortization	4,992	4,869	53,654
Impairment losses on fixed assets	166	66	1,784
Decrease (increase) in reserves	(976)	408	(10,490)
Equity in net (income) loss of unconsolidated subsidiaries and affiliates	(1,034)	799	(11,113)
Loss on sale of investments in securities	512	312	5,503
Loss on devaluation of investments in securities	—	1,207	—
Gains on sale and disposal of property, plant and equipment	355	497	3,816
Interest and dividend income	(266)	(277)	(2,859)
Interest expense	101	458	1,086
Loss on plant closure	296	—	3,181
Decrease (increase) in notes and accounts receivable	5,851	12,429	62,887
Decrease (increase) in inventories	(898)	2,022	(9,652)
Increase (decrease) in trade notes and accounts payable	561	(28,045)	6,030
Other	(878)	125	(9,437)
Sub total	19,903	18,258	213,919
Interest and dividend received	566	409	6,083
Interest paid	(95)	(410)	(1,021)
Income taxes paid	(10,378)	(5,642)	(111,543)
Net cash provided by operating activities	9,996	12,615	107,438
Cash flows from investing activities:			
Increase in time deposits	(4,027)	(541)	(43,282)
Decrease in time deposits	2,256	370	24,248
Payment for acquisition of investments in securities	(8,160)	(124)	(87,704)
Proceeds from sale and redemption of securities	631	624	6,782
Payment for purchases of securities	(1,114)	(1,486)	(11,973)
Proceeds from sales of marketable securities and investments	1,167	1,660	12,543
Investments in loans	(42)	(208)	(451)
Collection of loans	35	138	376
Payment for purchase of property, plant and equipment	(5,139)	(4,231)	(55,234)
Proceeds from sale of property, plant and equipment	12	53	129
Payment for purchase of intangibles	(192)	(242)	(2,064)
Other	(354)	(139)	(3,806)
Net cash used in investing activities	(14,927)	(4,126)	(160,436)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(300)	300	(3,224)
Proceeds from long-term debt	1,300	193	13,972
Repayment of long-term debt	(821)	(866)	(8,824)
Repayments of installment payables	(6)	(50)	(64)
Cash dividends paid	(1,758)	(1,318)	(18,895)
Dividends paid to minority shareholders	(41)	(53)	(441)
Other	(0)	(0)	(0)
Net cash used in financing activities	(1,626)	(1,794)	(17,476)
Effect of exchange rate changes on cash and cash equivalents	(1)	0	(12)
Net increase (decrease) in cash and cash equivalents	(6,558)	6,695	(70,486)
Cash and cash equivalents at the beginning of the period	20,850	14,155	224,097
Cash and cash equivalents at the end of the period (Note 13)	¥14,292	¥20,850	$153,611

The accompanying footnotes 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, 2010 and 2009

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, 2010, which was ¥93.04 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, 2010 and 2009. 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, 2009)
Effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries changed the useful life of machinery and equipment based on a reassessment of the useful life of these assets in light of the change in the Corporation Tax Law. This change had the effect of decreasing both operating income and income before income taxes by 160 million yen from the amounts that would have been recorded without the change. The effect of this change on specific segments is described in Note 20, Segment Information.

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

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

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

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

(j) 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

(Additional Information)
The abolition of the retirement benefits plan of the Company and its main consolidated subsidiaries for directors and corporate auditors was decided at the Ordinary General Meeting of Shareholders held on June 2009. In conjunction with the abolition of the retirement benefits plan, it was approved at the meeting to cutoff payment of retirement benefits to currently serving directors and corporate auditors for their time in office and to make payment to these directors and corporate auditors at the time of their retirement. Accordingly, the Company and its main consolidated subsidiaries have recognized directors' and corporate auditors' retirement benefits of ¥511 million as other long-term liabilities on the consolidated balance sheets from the fiscal year ended March 31, 2010

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

(l) 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

(m) Intangible fixed assets (except for lease assets)
Depreciation for intangible fixed assets is computed by the straight-line method. Development costs for internally used software are capitalized and depreciated by the straight-line method over the estimated useful life of 5years.

(n) Reclassifications
Certain reclassifications of previously reported amounts have been made to conform with current classifications.

3. CHANGES IN METHODS OF ACCOUNTING
(1) New accounting standard for inventories (year ended March 31, 2009)
Inventories were previously handled by the cost accounting method using principally periodic average cost. From the fiscal year under review, accompanying the adoption of "Accounting Standard for Measurement of Inventories," (ASBJ Statement No. 9, July 5, 2006), the Company and consolidated subsidiaries have principally changed to the cost accounting method using principally periodic average cost and reducing book value in accordance with declines in profitability on balance sheet. This change had the effect of decreasing both operating income and income before income taxes by 342 million yen from the amounts that would have been recorded with the previous method. The effect of this change on specific segments is described in the Segment Information section.

(2) 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 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.

(3) New accounting standards for lease transaction (Year ended March 31, 2009)
Finance lease transactions that do not transfer ownership were previously accounted for using the method that was used for ordinary rental transactions. From the fiscal year ended March 31, 2009, the Company adopted" Accounting Standard

for Lease Transactions," ASBJ Statement No. 13, which was originally issued by the Corporate Accounting Council on June 17, 1993 and revised by the ASBJ on March 30, 2007,and "Guidance on Accounting Standard for Lease Transactions," ASBJ Guidance No. 16, which was originally issued by the JICPA on January 18, 1994 and revised by the ASBJ on March 30, 2007.

4. INVENTORIES

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Finished goods	¥ 5,037	¥ 5,123	$ 54,138
Semi-finished goods	3,440	3,068	36,973
Merchandise	4	8	43
Work-in-process	731	758	7,857
Raw materials	2,608	1,938	28,031
Supplies	3,428	3,492	36,844
Rolls	2,133	2,096	22,926
Total	¥17,381	¥16,483	$186,812

5. CONTINGENT LIABILITIES

At March 31, 2010 and 2009, the Company and its consolidated subsidiaries were contingently liable as follows;

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Trade notes discounted and guaranteed	¥330	¥400	$3,547
Total	¥330	¥400	$3,547

6. INVESTMENTS AND OTHER ASSETS: OTHER–BREAKDOWN

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Investments in affiliates	¥1,468	¥ 642	$15,778
Long-term deposits	300	1,358	3,224
Prepaid pension expenses	673	934	7,233
Other	534	828	5,740
Total	¥2,975	¥3,762	$31,975

7. ACCUMULATED DEPRECIATION

Accumulated depreciation at March 31, 2010 and 2009 amounted to ¥82,559 million ($887,350 thousand) and ¥79,065 million, respectively.

8. BANK LOANS

Bank loans consisted of unsecured loans payable to banks at the weighted average interest rate of 1.2% per annum at March 31, 2009. There were no bank loans at March 31, 2010.

Long-term debt from banks at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Long-term debt from banks at average rates of 1.8% and 1.9% for current and noncurrent portions, respectively	¥1,706	¥1,236	$18,336
Less current portion	(444)	(582)	(4,772)
Long-term debt from banks	¥1,262	¥ 654	$13,564

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥12,086	¥12,675	$129,901
Machinery and equipment	19,338	19,943	207,846
Land	17,820	17,805	191,531
Other	176	197	1,891
Total	¥49,420	¥50,620	$531,169

The aggregate annual maturities of long-term debt from banks subsequent to March 31, 2010 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 444	$ 4,772
2012	403	4,331
2013	403	4,331
2014	392	4,213
2015 and thereafter	64	689
Total	¥1,706	$18,336

9. R&D EXPENSES

R&D expenses, included in selling, general and administrative expenses for the years ended March 31, 2010 and 2009, amounted to ¥44 million ($473 thousand) and ¥152 million, respectively.

10. NET ASSETS

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

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

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

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the Board Directors' meeting held on April 30, 2010, the Board approved cash dividends amounting to ¥1,099 million ($11,812 thousand). Such appropriation has not been accrued in the consolidated financial statements as of March 31, 2010.

11. 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% and 40.7% for the years ended March 31, 2010 and 2009 respectively.

The major components of deferred tax assets and liabilities as of March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Impairment losses	¥ 331	¥158	$ 3,558
Accrued enterprise taxes	94	534	1,010
Allowance for doubtful accounts	552	605	5,933
Accrued bonuses	254	264	2,730
Accrued employees' retirement benefits	128	175	1,376
Accrued directors' retirement benefits	208	187	2,236
Other	427	433	4,589
Gross deferred tax assets	1,994	2,356	21,432
Valuation allowance	(968)	(748)	(10,404)
Total deferred tax assets	1,026	1,608	11,028
Net deferred tax assets	—	272	—
Deferred tax liabilities:			
Net unrealized gains/losses on other securities	(1,340)	(800)	(14,402)
Retained earnings appropriated for tax deductible reserves	(20)	(21)	(215)
Reserve for special depreciation for tax purposes	(12)	(15)	(129)
Prepaid pension expenses	(270)	(379)	(2,902)
Other	(129)	(121)	(1,387)
Total deferred tax liabilities	(1,771)	(1,336)	(19,035)
Net deferred tax liabilities	¥(745)	—	$(8,007)

Net deferred tax liabilities at March 31, 2010 and 2009 were included in the consolidated balance sheets as follows;

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets (current)	¥ 333	¥ 908	$3,579
Deferred tax assets (noncurrent)	67	204	720
Deferred tax liabilities (noncurrent)	(1,145)	(840)	(12,307)

A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2010 and 2009 is as follows:

	2010	2009
Statutory tax rate	40.5%	40.7%
Expenses not deductible for tax purposes and other	0.5	(1.5)
Equity in earnings of unconsolidated subsidiaries and affiliates and non-temporary differences not deductible for tax purposes	(9.3)	3.4
Entertainment expenses and other that are not deductible	0.3	0.1
Dividend income and other that are not taxable	(1.7)	(1.3)
Tax deduction	0.3	0.1
Other	8.3	(1.8)
Effective tax rate	38.9%	39.7%

12. INFORMATION FOR CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

The following tables present information related to the consolidated statements of changes in net assets for the year ended March 31, 2010:

(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)	943,974	95	—	944,069

(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, 2009 (Board of Directors)	Common stock	¥ 1,099	$ 11,812	¥ 25	$ 0.3	March 31, 2009	June 12, 2009

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 30, 2009 (Board of Directors)	Common stock	¥ 659	$ 7,083	¥ 15	$ 0.2	September 30, 2009	December 10, 2009

13. SUPPLEMENTARY CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents at March 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and time deposits	¥15,889	¥20,120	$170,776
Time deposits with a maturity of more than three months	(3,597)	(767)	(38,661)
Negotiable certificates of deposit within three months	1,000	—	10,748
Trust beneficiary rights due within three months	200	597	2,150
Marketable securities due within three months	500	500	5,374
Deposits paid	300	—	3,224
Short-term loans receivable	—	400	—
Cash and cash equivalents	¥14,292	¥20,850	$153,611

14. SEVERANCE AND RETIREMENT BENEFITS

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

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2010 and 2009 for the Company's and its consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Severance and retirement benefit obligation	¥(4,782)	¥(4,924)	$(51,398)
Plan assets at fair value	4,224	3,777	45,399
Unfunded retirement benefit obligation	(558)	(1,147)	(5,998)
Unrecognized actuarial gain or loss	613	1,304	6,589
Unrecognized past service cost	295	341	3,170
Net severance and retirement benefit obligation	350	498	3,761
Prepaid pension expenses	673	934	7,233
Accrued severance and retirement benefits	¥ (323)	¥ (436)	$ (3,472)

The components of retirement benefit expenses for the years ended March 31, 2010 and 2009 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥259	¥447	$2,784
Interest cost	82	85	881
Expected return on plan assets	(51)	(66)	(548)
Amortization of past service cost	169	69	1,816
Amortization of actuarial gain or loss	46	46	494
Additional retirement benefit expense	30	23	323
Total	¥535	¥604	$5,750

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

	2010	2009
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)

15. AMOUNTS PER SHARE

	Yen		U.S. dollars
Years ended March 31	2010	2009	2010
Net income	¥ 152.23	¥ 318.72	$ 1.64

	Yen		U.S. dollars
As of March 31	2010	2009	2010
Net assets	¥2,822.81	¥2,693.38	$30.34

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
Years ended March 31	2010	2009	2010
Basic net income per share:			
Net income	¥6,691	¥14,009	$71,915
Amounts not attributable to shareholders of common stock:	—	—	—
Amounts attributable to shareholders of common stock	6,691	14,009	71,915
Weighted average number of shares outstanding	43,955 thousand share	43,955 thousand shares	—

16. LEASES

(a) Accounting as lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2010 and 2009 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, 2010	Machinery, equipment and vehicles	Tools and equipment	Other	Total	Machinery, equipment and vehicles	Tools and equipment	Other	Total
Acquisition costs	¥116	¥16	¥35	¥167	$1,247	$172	$376	$1,720
Accumulated depreciation	99	9	31	139	1,064	97	333	1,435
Net book value	¥ 17	¥ 7	¥ 4	¥ 28	$ 183	$ 75	$ 43	$ 285

	Millions of yen			
As of March 31, 2009	Machinery, equipment and vehicles	Tools and equipment	Other	Total
Acquisition costs	¥186	¥111	¥39	¥336
Accumulated depreciation	151	91	30	272
Net book value	¥ 35	¥ 20	¥ 9	¥ 64

Future minimum lease payments subsequent to March 31, 2010 and 2009 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2010	2009	2010
Due within one year	¥19	¥36	$ 204
Due after one year	9	28	97
Total	¥28	¥64	$ 301

(b) Operating leases

Operating leases at March 31, 2010 and 2009 are summarized as follows

	Millions of yen		Thousands of U.S. dollars
As of March 31	2010	2009	2010
Due within one year	¥12	¥ 6	$ 129
Due after one year	16	5	172
Total	¥28	¥11	$ 301

17. FINANCIAL INSTRUMENTS

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

1. Qualitative information on financial instruments

(a) Policies for using financial instruments

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

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

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

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

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

Note and accounts payable are due within four months.

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

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

(c) Policies and processes for managing the risk
The Companies enter into derivative transactions only with counterparties of high credit rating and with respect to which the Company believes there is almost no credit risk. The derivative transactions are executed in accordance with internal management regulations. The Company and its subsidiaries have not entered into any such derivatives transactions as of March 31, 2010.

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 a reasonable method when market price is not available. To calculate such fair value, certain assumptions must be made, and the fair value may have been determined differently in other assumptions had been made.

2. Fair values of financial instruments
Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2010 are as follows:

	Millions of yen		
	Carrying amount shown balance sheet	Fair value	Difference
Cash and Bank deposits	15,889	15,889	
Notes and accounts receivable	23,938	23,938	
Securities	9,030	9,030	
Investments in securities			
Other securities	6,602	6,602	
Notes and accounts payable	(12,268)	(12,268)	
Long-term debt			
Due within 1 year	(444)	(446)	1
Due over 1 year	(1,262)	(1,265)	4

<Additional Information >
Effective from the fiscal year ended March 31, 2010, the Company has adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 revised on March 10, 2008).

18. SECURITIES

(a) Other securities with determinable market value

As of March 31, 2010	Millions of yen: Acquisition costs	Millions of yen: Carrying value	Millions of yen: Unrealized gain (loss)	Thousands of U.S. dollars: Acquisition costs	Thousands of U.S. dollars: Carrying value	Thousands of U.S. dollars: Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	¥1,711	¥5,218	¥3,507	$18,390	$56,083	$37,693
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Securities whose carrying value does not exceed acquisition costs:						
Stock	1,683	1,384	(299)	18,089	14,875	(3,214)
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	¥3,394	¥6,602	¥3,208	$36,479	$70,958	$34,480

As of March 31, 2009	Millions of yen: Acquisition costs	Millions of yen: Carrying value	Millions of yen: Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥1,248	¥3,753	¥2,505
Bonds	—	—	—
Other	—	—	—
Securities whose carrying value does not exceed acquisition costs:			
Stock	2,609	2,016	(593)
Bonds	102	99	(3)
Other	—	—	—
Total	¥3,959	¥5,868	¥1,909

(b) Other securities sold during the years ended March 31, 2010 and 2009

	Millions of yen: 2010	Millions of yen: 2009	Thousands of U.S. dollars: 2010
Sales of other securities	¥1,167	¥1,434	$12,543
Profit (Loss) on sales	¥ (512)	¥ 311	$ (5,503)

(c) Securities without determinable value

	Millions of yen: 2010	Millions of yen: 2009	Thousands of U.S. dollars: 2010
Other securities:			
Unlisted securities	¥1,331	¥1,331	$14,306
Bonds	¥ —	¥ 500	$ —
Unconsolidated subsidiary and allied company:			
Unlisted securities	¥5,650	¥ —	$60,726

19. 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 asset	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 future use prospects. 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 these plants have been recorded as a "plant- closing loss" under "non-recurring losses." Moreover, when measuring an impairment loss, the net sales value is used for the recoverable amount and calculated based on the appraise value of the real estate, etc.

The Company has written down the book values 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.

20. SEGMENT INFORMATION

The business and geographical segments and overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2010 and 2009 are outlined as follows:

(a) Business segments

	Millions of yen					
Year ended March 31, 2010	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
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 losses 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 losses	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, merchant bar
(2) Material recycling segment : Recycling and disposal of industrial and medical waste
(3) Other segment : Engineering materials, insurance agent
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 yen.
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

Year ended March 31, 2009	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
	Millions of yen					
I. Sales and operating income						
Sales to external customers	¥185,930	¥7,992	¥ 423	¥194,345	¥ —	¥194,345
Intersegment sales and transfers	212	1,531	—	1,743	(1,743)	—
Total	186,142	9,523	423	196,088	(1,743)	194,345
Operating expenses	161,731	7,071	391	169,193	(1,118)	168,075
Operating income	¥ 24,411	¥2,451	¥ 33	¥ 26,895	¥ (625)	¥ 26,270
II. Total assets, depreciation, impairment loss and capital expenditures						
Total assets	¥111,569	¥5,488	¥4,543	¥121,600	¥32,111	¥153,711
Depreciation and amortization	4,460	328	10	4,798	71	4,869
Inpairment loss	—	—	—	—	66	66
Capital expenditures	4,925	172	15	5,112	61	5,173

(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, merchant bar
   (2) Material recycling segment : Recycling and disposal of industrial and medical waste
   (3) Other segment : Engineering materials, insurance agent
3. Unallocated operating expenses in the column Eliminations and unallocated amounts, which mainly represent expenses of the corporate division of the Company, were 644 million yen.
4. Corporate assets included in the Eliminations and unallocated amounts column amounted to ¥39,959 million in the fiscal year ended March 31, 2009 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.
6. The Company adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued on July 2006) from the fiscal year ended March 31, 2009. This adoption decreased operating income by ¥342 million for the steel segment.
7. As stated in the consolidated financial statements, pursuant to an amendment to the Corporation Tax Law in 2008, the Company has changed the durable years of property, plant and equipment from the fiscal year ended March 31, 2009. This change decreased operating income by ¥144 million for the steel segment and ¥16 million for the material recycling segment from the amounts that would have been recorded without the change.

Year ended March 31, 2009	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
	Thousands of U.S. dollars					
I. Sales and operating income						
Sales to external customers	$1,892,995	$81,368	$ 4,307	$1,978,670	$ —	$1,978,670
Intersegment sales and transfers	2,159	15,587	—	17,746	(17,746)	—
Total	1,895,154	96,955	4,307	1,996,416	(17,746)	1,978,670
Operating expenses	1,646,620	71,991	3,981	1,722,592	(11,383)	1,711,210
Operating income	$248,534	$24,964	$ 326	$ 273,824	$ (6,363)	$ 267,461
II. Total assets, depreciation, impairment loss and capital expenditures						
Total assets	$1,135,909	$55,875	$46,253	$1,238,037	$326,929	$1,564,966
Depreciation and amortization	45,408	3,339	103	48,850	722	49,572
Impairment loss	—	—	—	—	672	672
Capital expenditures	50,143	1,751	152	52,046	621	52,667

(b) Geographical segment information

As all consolidated subsidiaries and all branch offices are located in Japan, geographical segment information has not been presented for the years ended March 31, 2010 and 2009.

(c) Overseas sales amounts

Sales outside Japan and sales to foreign customers are less than 10% of the Company's consolidated net sales for 2010. Therefore, geographical segment information and overseas sales information has not been disclosed.

As overseas sales for the year ended March 31, 2009 was over 10% in the consolidated total sales, overseas sales are indicated as follows:

Year ended March 31, 2009	Asia	North America	Other	Total
	Millions of yen			
I. Sales to customers outside Japan (millions of yen)	¥18,874	¥1,634	¥13	¥ 20,521
II. Consolidated sales (millions of yen)				¥194,345
III. Ratio of sales to customers outside Japan to consolidated sales (%)	9.8	0.8	0.0	10.6

(Note) 1. Countries or regions are listed in the order of geographical proximity.
2. Major countries or regions excluding Japan represented by categories:
(1) Asia : Korea, Vietnam, Taiwan, Bangladesh, Indonesia, India
(2) North America: U.S.A., Canada
(3) Other : Brazil
3. Overseas sales amounts represent those of the Company and its consolidated subsidiaries in countries and areas outside Japan.

21. SUBSEQUENT EVENTS

Dividend distribution of surplus

On April 30, 2010, the Company's Board of Directors resolved a dividend distribution as follows:

Thousands of yen	Thousands of U.S. dollars
¥1,099	$11,812

Cash dividends : ¥25 (U.S.$0.30) 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, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for 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 consolidated financial position of KYOEI STEEL,LTD. and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated 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 the following.
As discussed in Note 3. to the consolidated financial statements, effective April 1 ,2008 , KYOEI STEEL,LTD. and consolidated subsidiaries adopted the new accounting standard for inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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.

Osaka, Japan
June 30, 2010

KPMG AZSA & Co.

Board Directors, Corporate Auditors and Executive Officers

(As of June 25, 2010)

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 Yoshio Kitsukawa Kazuyoshi Ohta Yoshio Nozaki

Investor Information

(As of March 31, 2010)

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	3,498
Number of Employees	1,061 (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, 2010)

Name of shareholder	Number of shares owned	% of total-shares issued
Sumitomo Metal Industries, Ltd.	11,592,932	25.82%
Hideichiro Takashima	4,875,460	10.86
Air Water Inc.	3,292,400	7.33
Akihiko Takashima	2,233,000	4.97
Mitsui & Co., Ltd.	1,470,000	3.27
Godo Steel, Ltd.	1,347,000	3.00
Japan Trustee Services Bank, Ltd. (Trust Account)	1,173,400	2.61
Kyoei Steel, Ltd. (Treasury stock)	944,069	2.10
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	904,410	2.01
The Master Trust Bank of Japan, Ltd. (Trust Account)	848,100	1.89

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