ANNUAL REPORT 2009

Year Ended March 31, 2009

KYOEI STEEL

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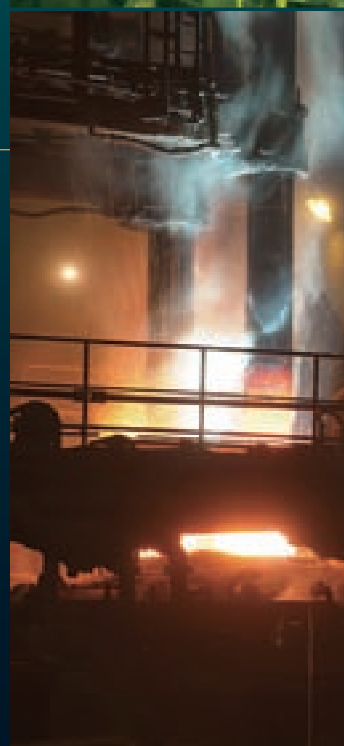


Management Principle

Spirit of Challenge

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

CONTENTS

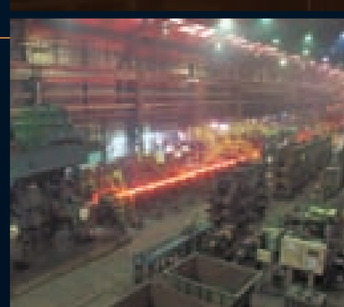
Action Guidelines

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.



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 construction market, (ii) fluctuations in demand for Kyoei Steel's products and services, (iii) fluctuations in price of steel scraps, raw materials of Kyoei Steel Group's steel products, (iv) regulatory change and uncertainty an potential legal liability relating to Kyoei Steel Group's business and operations, (v) effects of disasters, power blackouts and other incidents, (vi) fluctuations in Japanese stock markets and other risk factors.

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 one of the leading steel minimill companies in Japan and is only steel minimill company in Japan which covers four major urban markets of Kanto, Chubu, Kansai and the Kyushu/Chugoku areas. This production configuration leads us to be called "Four Steel Mills Plus One Billet Center" organization.

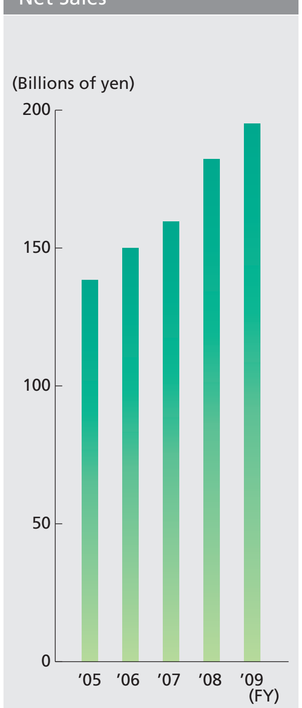
Network

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

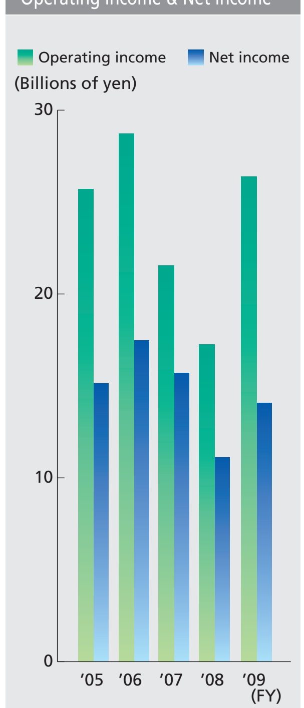
	Millions of yen					Thousands of U.S. dollars
	2005	2006	2007	2008	**2009**	**2009**
For the Year:						
Net sales	¥ 137,811	¥ 149,309	¥ 158,873	¥ 181,576	¥ 194,345	$ 1,978,670
Operating income	25,600	28,613	21,463	17,189	26,270	267,461
Net income	15,063	17,412	15,630	11,070	14,009	142,629
Depreciation and amortization	4,620	4,544	4,647	4,738	4,869	49,572
Capital expenditures	2,931	4,247	6,699	5,550	5,173	52,667
At Year-End:						
Total assets	¥ 137,663	¥ 148,617	¥ 168,897	¥ 166,572	¥ 153,711	$ 1,564,966
Interest-bearing debt	49,657	31,236	10,148	1,952	1,540	15,679
Net assets	46,484	66,703	98,899	107,846	119,154	1,213,134
	Yen					U.S. dollars
Amounts per Share :						
Net income, basic	¥ 414.50	¥478.98	¥ 414.23	¥ 253.66	¥ 318.72	$ 3.24
Net income, diluted	—	—	—	—	—	—
Cash dividends applicable to the year	6.00	12.00	30.00	30.00	40.00	0.41
Equity* to total assets (%)	33.8	44.9	58.2	64.3	77.0	—
D/E ratio (times)	1.06	0.47	0.10	0.02	0.01	—

Note: U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥98.22 to US$1 prevailing on March 31, 2009.
*Equity = Net assets - Minority interest

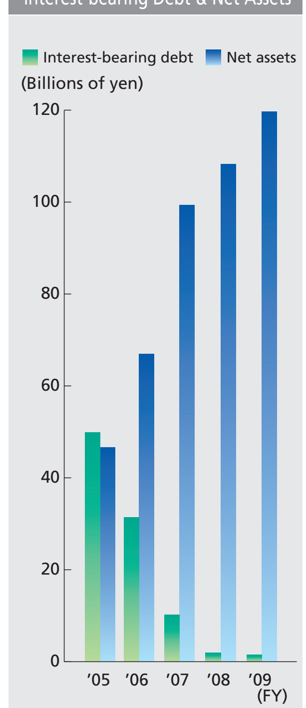
Net Sales



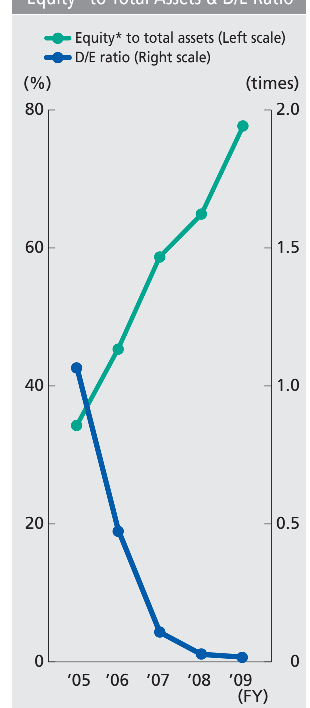
Operating Income & Net Income



Interest-bearing Debt & Net Assets



Equity* to Total Assets & D/E Ratio



01

Sales rose 7.0% from the previous year to a record high of 194.3 billion yen. Operating income increased 52.8% to 26.3 billion yen, the second highest in record.

02

We reached an agreement to consolidate with Tokyo Tekko, one of the leading minimill in Japan. In May 2008 the Company agreed to enter into a comprehensive technological alliance with Tokyo Tekko, and started a technology exchange. This was followed by the basic agreement in March 2009 between the two companies to establish a joint holding company, Kyoei Tokyotekko Holdings Co., Ltd. and to merge the two companies via stock transfer.

03

Due to the world economic crisis since the fall of 2008, product demand declined sharply in the second half, and the company's product shipments declined by about 360,000 tons (-17.4%) to 1.71 million tons.

04

Price swings of steel scrap, the main raw material, were very big. Steel scrap prices increased sharply from the beginning of 2008 till the summer, reaching more than ¥70,000/ton in July. After peaking in July, the prices collapsed to ¥10,000/ton by November of 2008. Prices recovered to ¥20,000/ton in March of 2009; and the average price for the fiscal 2009 was ¥44,000/ton.

05

We paid utmost efforts to maintain and even strengthen market equilibrium so that any price increase of raw materials can be absorbed. We have been successful in realizing better product prices resulting in improved profit of 26.3 billion yen operating income, which is 52.8% better than the previous year.

06

Demand for our material recycling business utilizing high-temperature melting technology by electric arc furnaces remains steady; however, due to a sharp decline of industrial activities, largely affected by the global financial crisis, incoming volume of industrial wastes decreased accordingly resulting a slight decline of revenue and profits.

07

We have decided not to utilize scrap usance facility provided by general trading companies so that we are able to cut financial costs to the least extent possible. The interest bearing debt balance was reduced by 412 million yen to 1.540 billion yen for the March 2009 fiscal year end. The shareholders' equity ratio improved from 64.3% (previous year) to 77.0% at the current fiscal year end.

08

We increased our annual dividend by 10 yen to 40 yen for fiscal 2009. Our consolidated dividend payout ratio was 12.6%.

We report to you the performance of our company for fiscal 2009 (for the period from April 1, 2008 to March 31, 2009).

Business Performance

The economic environment in Japan for the period rapidly deteriorated as the unprecedented global financial crisis intensified from the fall of 2008. The steel minimill industry, to which Kyoei Steel belongs, experienced a sharp decline in demand for rebars and other steel products for the construction area. Orders from public sector and private construction companies, the core customers for the industry, remarkably decreased. On the other hand, prices of steel scrap, our main raw material, were very volatile as the prices moved up sharply in the first half and plummeted after the summer.

We, at the Kyoei Steel Group, assessing the trends in demand for steel products and scrap steel prices carefully, cut production early to adjust our output to the falling demand. This strategy helped us maintain good metal margins (steel price — scrap price) which contributed to our earnings. The material recycling business, our another core business, was largely steady despite having some impact from the economic slowdown.

As a result of the above, we were able to achieve higher sales and profits for the March 2009 fiscal year. The company had sales revenues of ¥194,345 million (up 7.0% from the previous year), operating income of ¥26,270 million (up 52.8%), and net income of ¥14,009 million (up 26.5%).

Growth Strategy

In March 2009, our company and Tokyo Tekko Co., Ltd. agreed to merge and establish a joint holding company. Through the comprehensive technological alliance agreed between the two companies in May 2008, we had strongly felt that to make the alliance truly fruitful, the best action was to integrate the two companies. With the merger, we hope to raise our corporate value by maximizing the strengths of our two companies and meet our shareholders' expectation.

We endeavor to realize the following three major business strategies in our medium term business plan as announced on April 2008.

- To be a leading company of minimill industry in Japan through completing merger and consolidation with other companies to reorganize with shrinking steel demand.
- To expand material recycling business.
- To enhance overseas investment, especially steel business in emerging countries, including Vietnam.

For ensuring these business strategies, we aim to achieve the following key business ratio.

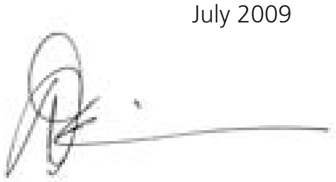
ROA 15% (Results of fiscal 2009 16.4%)
ROE 12% (Results of fiscal 2009 12.2%)

Dividend

Raising corporate value is our fundamental principle of rewarding to our shareholders. Therefore, we aim to maintain stable dividend payment after ensuring the necessary cash reserve for such important business activities as growth-driven investment to merger and capital expenditures. We are targeting at 20% dividend ratio. For fiscal 2009, we paid an annual dividend of 40 yen per share, an increase of 10 yen from the previous year, which was about 13% dividend ratio.

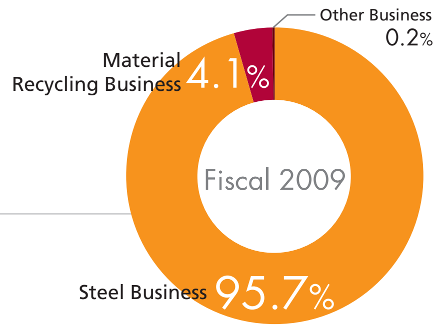
Thank you for your interest in our company and your support in our endeavors.

July 2009

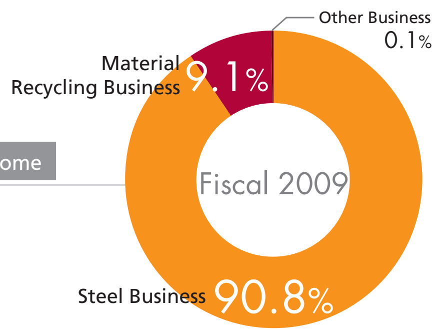


Ryutaro Yoshioka
Representative Director
Kyoei Steel, Ltd.

Composition Ratio of Net Sales



Composition Ratio of Operating Income



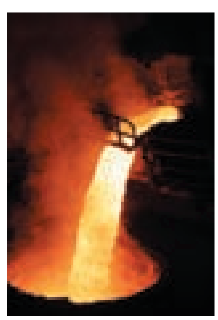
Kyoei Steel's main business segments consist of a steel business and a material recycling business, with the steel business using electric arc furnaces comprising Kyoei Steel's core business.

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 making up 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 2009 recorded net sales of 185,930 million yen in the steel business and 7,992 million yen in the material recycling business, while operating income for the same year were 24,411 million yen for the steel business and 2,451 million yen for the material recycling business.

Introduction of Our Businesses

Steel Business



The steel business, which melts scrap steel in the 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 a half of century since its founding. Main products include rebars, threaded-type 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 building 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

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 operation of that kind by a Japanese minimill maker and has been operating for over 20 years. The MESSCUD system, which distributes specially designed containers of medical waste to contracting medical institutions, collects them and melts them in an electric arc furnace together with the containers, has been patented.

Furthermore in 2005, a gasification furnace (fuel gas-making facility) was built at the Yamaguchi Division, that recycles the automobile shredder residue (ASR) and organic non-metal waste. The fuel gas generated by this system is being used in the reheating furnace of the rolling process at the same plant.

Performance by Business Segment

Steel Business

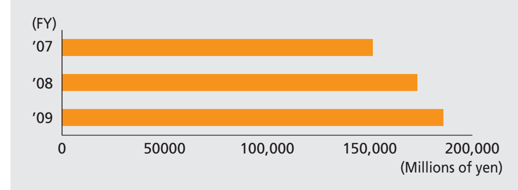
The group's product sales volume dropped by approximately 360,000 tons due to a large drop in demand for construction-purpose steel as the economy worsened starting in the fall of 2008.

Steel scrap prices fluctuated wildly over the past year. The price continued to climb from the beginning of the year until summer, to over ¥70,000/ton in July, and then spiraled downward to below ¥10,000/ton in November. It ended up with as the average price for the fiscal year of approximately ¥44,000/ton, about ¥4,000 higher than the previous year.

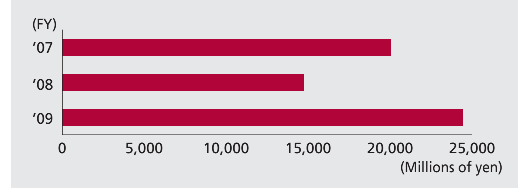
By raising the product prices to counter the rapid climb in steel scrap prices and by thoroughly committing production and sales commensurate with demand, the group managed to avoid a slump in product prices. The result was an average fiscal year shipment price of ¥89,000/ton, up 30% over the previous year, and a metal price spread (product price-scrap price spread) of ¥17,000/ton. This spread was up from the previous fiscal year and contributed to our profitability.

As a result of these trends and efforts, net sales increased by 7.4% compared to the previous year to ¥185,930 million, and operating income increased by 65.8% to ¥24,411 million.

Net Sales



Operating Income

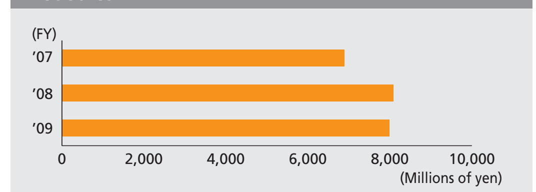


Material Recycling Business

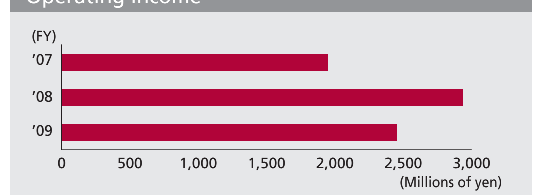
Demand for high-temperature thermal recycling using electric arc furnaces were generally solid, and the gasification furnace owned by Kyoei Recycling Co., Ltd., one of our consolidated subsidiaries, ran smoothly. However, there was a slight drop in the volume of industrial waste we treated due to a slowdown of industrial activities.

As a result of these trends in this sector, net sales decreased by 1.1% compared to the previous year to ¥7,992 million, and operating income decreased by 16.6% to ¥2,451 million.

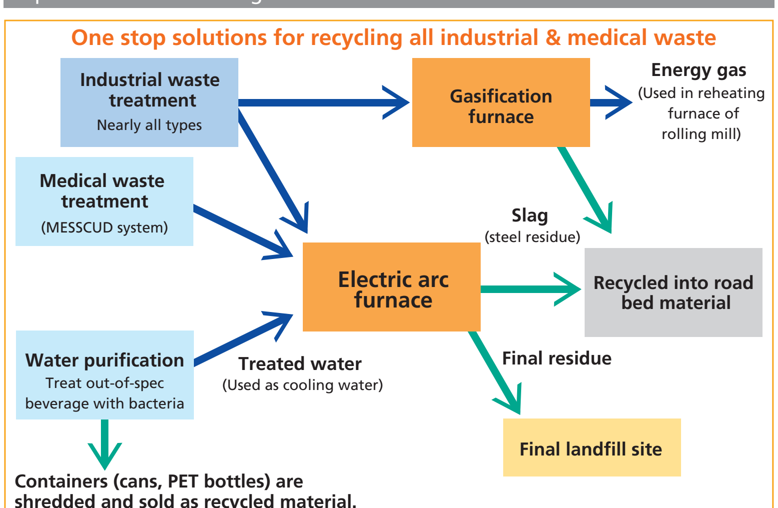
Net Sales



Operating Income



Operations at our Yamaguchi Division

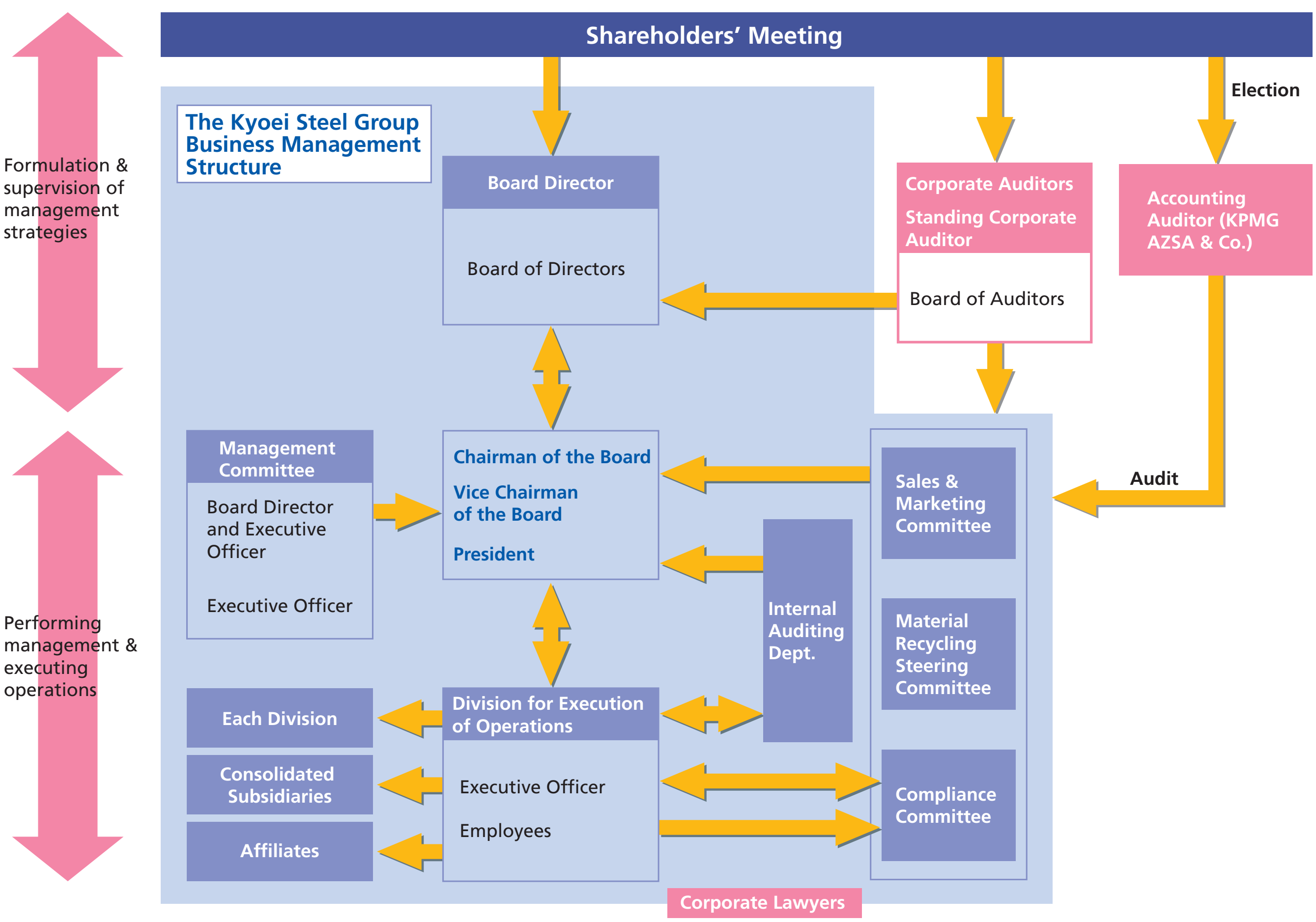


Our Yamaguchi Division is an ideal business model for the material recycling business.

Basic Concept

Kyoei Steel believes that in order to coexist with society and to be a good corporate citizen that makes meaningful contributions to society, it must practice a highly transparent form of management. To this end, the Company has set 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 reinforcement/improvement 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.

Diagram of the Corporate Governance Structure



FINANCIAL SECTION

DATA SECTION

Consolidated Four-Year Summary

For the years ended March 31, 2006, 2007, 2008 and 2009

	2006	2007	2008	**2009**
	Thousands of tons			
Product shipments				
Finished products	2,083	2,153	2,078	**1,717**
Billet (semi-finished products)	275	261	284	**259**
	Millions of yen			
For the Year:				
Net sales	¥149,309	¥158,873	¥181,576	**¥194,345**
Gross profits	37,941	31,688	27,456	**36,672**
Operating income	28,613	21,463	17,189	**26,270**
Income before income taxes	28,344	23,611	17,195	**23,388**
Net income	17,412	15,630	11,070	**14,009**
Research and development expenses	42	79	26	**152**
Depreciation and amortization	4,544	4,647	4,738	**4,869**
Capital expenditures	4,247	6,699	5,550	**5,173**
Per share amounts (yen):				
Net income, basic	478.98	414.23	253.66	**318.72**
Net income, diluted	—	—	—	**—**
Cash dividends applicable to the year	12.00	30.00	30.00	**40.00**
At Year-End:				
Total assets	¥148,617	¥168,897	¥166,572	**¥153,711**
Working capital	19,991	28,285	28,316	**43,120**
Interest bearing debt	31,236	10,148	1,952	**1,540**
Net assets	66,703	98,899	107,846	**119,154**
Ratios:				
Return on equity (%)	30.8	18.9	10.8	**12.4**
Return on total assets (%)	20.2	13.7	10.4	**15.9**
Debt to equity ratio (%)	0.47	0.10	0.02	**0.01**
Equity* to total assets (%)	44.9	58.2	64.3	**77.0**
Other statistics:				
Number of shares outstanding (thousands)	37,599	44,899	44,899	**44,899**
Number of employees	1,046	1,047	1,049	**1,045**
Stock prices (yen):				
High	—	¥3,410	¥3,750	**¥2,590**
Low	—	¥2,605	¥1,532	**¥911**

*Equity = Net assets - Minority interest

Financial Review (Consolidated)

1. Consolidated Operating Results

Analysis of Operating Results

The consolidated fiscal year in Japan was marked by a rapid onslaught of woes for the economy in the latter half as the country quickly fell into a recession following a worsening of the worldwide financial crisis triggered by the fall of Lehman Brothers in September 2008.

In Japan's steel industry, the once growing worldwide demand for steel reached its peak and then quickly shrank in the second half of the year. Crude steel production was 105.5 million tons, a full 13.2% down from the previous year.

In our industry, the steel minimill industry, business was hurting in our main industry of construction because demand dropped off rapidly for construction-purpose steel due to shrinking investment in both public and private construction. The price of the main raw material, steel scrap, underwent severe fluctuations, rising rapidly throughout the first half of the year then dropping suddenly after the summer.

Against this background, the Company Group kept a close watch on steel demand and the price of steel scrap, quickly 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.

On the financial side, we renegotiated the payment terms for steel scrap, which although increasing our cash outlays during the term also decreased the remaining loans of our group at the consolidated fiscal year-end to ¥1,537 million, down ¥390 million from the previous year and contributed to a reduction in interest-bearing debt.

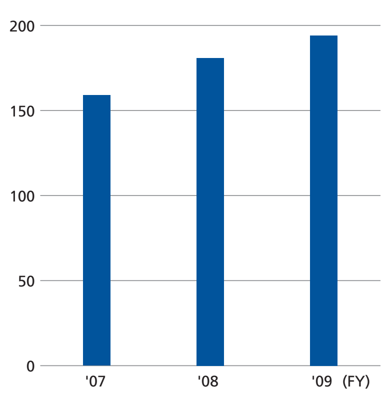
Looking at the consolidated results for the fiscal year ending March 31, 2009, net sales were ¥194,345 million, up ¥12,769 million (7.0%) over the previous year, operating income was ¥26,270 million, up ¥9,081 million (52.8%), and net income was ¥14,009 million, up ¥2,939 million (26.5%) from the previous year.

Performance results by business segment.

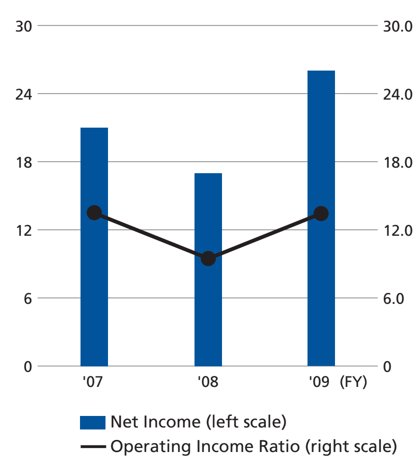
(1) Steel Business

The steel business segment saw product sales volume drop by approximately 360,000 tons (17.4%) over the previous year. This was due to a large drop in demand for construction-purpose steel as the economy worsened starting in the fall of 2008. The price of our main raw material, steel scrap, fluctuated wildly over the past year. The price continued to climb from the beginning of the year until summer, with benchmark H2 steel high-end scrap exceeding ¥70,000 per ton in the middle of July. It then spiraled downward to below ¥10,000 per ton at the beginning of November, followed by a recovery to almost ¥20,000 per ton at the consolidated fiscal year-end. The average price for the fiscal year was approximately ¥44,000, about ¥4,000 per ton higher than the previous year.

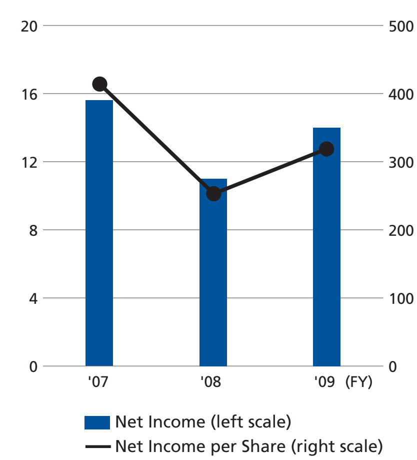
Net Sales
(Billions of yen)



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



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



On the sales side, we strove to raise our prices to counter the rapid climb in the price of steel scrap, achieving a price of over ¥110,000 per ton for our major product, rebar, in August 2008. When demand dropped suddenly with the worldwide financial crisis, we cut back production to bring supply and demand into balance in efforts to avoid a slump in product prices. The result was an average fiscal year shipment price of ¥89,000 per ton, up 30% over the previous year, and a ¥17,000 per ton spread between the steel scrap we buy and the steel products we sell. This spread was up from the previous fiscal year and contributed to our profitability.

The results for the segment were net sales of ¥185,930 million, up ¥12,882 million (7.4%) over the previous year, and operating income of ¥24,411 million, up ¥9,690 million (65.8%).

(2) Material Recycling Business

In the material recycling business segment, we enjoyed generally solid demand for high-temperature thermal recycling using electric arc furnaces, and our consolidated subsidiary Kyoei Recycling Co., Ltd's gasification furnace achieved smooth operation. However, there was a slight drop in the volume of industrial waste we treated due to a slowdown of industrial activities. Results for the segment included net sales of ¥7,992 million, down ¥86 million (1.1%) from the previous year and operating income of ¥2,451 million, down ¥487 million (16.6%).

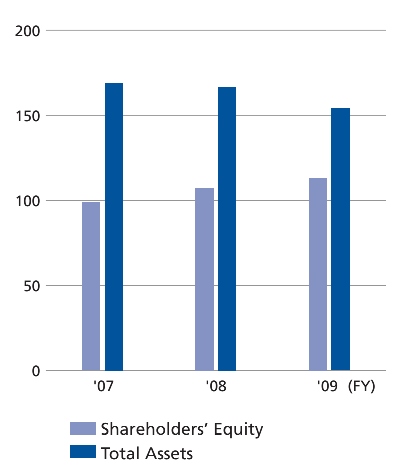
(3) Other Business

The other business segment consists of sales of civil engineering materials through a subsidiary and the operation of insurance dealers. Net sales were ¥424 million, down ¥27 million (6.1%) from the previous year, and operating income was ¥33 million, up slightly.

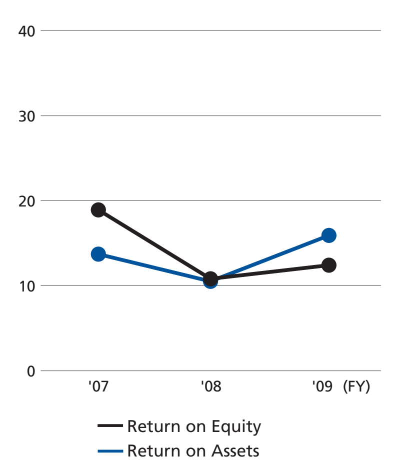
Looking ahead to Group performance in fiscal year ending March 31, 2010, Japan's economy is in the middle of a credit crunch and an overall slowdown in demand, factors that point to a continued slump in demand for construction-purpose steel. Meanwhile, although the price of the raw material steel scrap is not likely to increase, given the sluggish worldwide demand, we must still keep an eye on demand in China and other emerging economies.

Given such predictions for the business climate, the Company Group will keep a close watch on steel scrap prices and steel demand trends as it works to maintain a sufficient spread by bringing production and selling volume commensurate with demand. We will also continue to reduce costs.

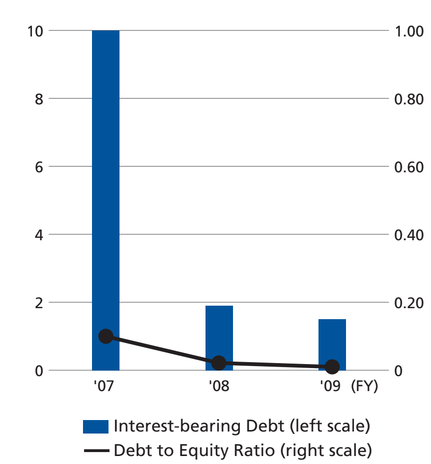
Shareholders' Equity/Total Assets
(Billions of yen)



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 10.4% from the previous fiscal year to ¥70,288 million, and fixed assets decreased by 5.3% to ¥83,423 million. This was due to a decrease in investment securities of ¥3,138 million resulting from a drop in the market value of equity shares.

As a result, total assets decreased by 7.7% from the previous fiscal year to ¥153,711 million.

(2) Liabilities

Current liabilities decreased by 45.0% from the previous fiscal year to ¥28,051 million. This decrease can be attributed to the plummeting price of the main raw material, steel, scrap and a favorable change in payment terms for steel scrap, both of which helped reduce bills payable and accounts payable by ¥28,045 million and helped offset an income tax payable increase of ¥4,260 million. Long-term liabilities decreased by 15.6% from the previous fiscal year to ¥6,506 million, the result of factors including a decrease in long-term debt of ¥406 million and a decrease in deferred tax liabilities of ¥923 million. As a result, total liabilities decreased by 41.2% from the previous fiscal year to ¥34,557 million.

(3) Net Assets

Total net assets increased by 10.5% from the previous fiscal year to ¥119,154 million, due to factors including an increase in retained earnings of ¥12,685 million resulting from the holding of net income. Shareholders' equity per share increased by ¥256.13 from the previous fiscal year to ¥2,693.38. Shareholders' equity ratio also rose to 77.0% from 64.3% at the previous fiscal year-end.

3. Cash Flow Conditions

The ending balance for "Cash and cash equivalents" (collectively "Cash") as of March 31, 2009 increased by ¥6,694 million from the previous fiscal year to ¥20,850 million. The following are the cash flow figures from the consolidated fiscal year.

(1) Cash Flows from Operations

Net cash from operating activities decreased by ¥4,986 million from the previous year to ¥12,615 million. This decrease was the result of net income before income taxes of ¥23,388 million, depreciation of ¥4,869 million, an increase in capital resulting from a decrease of ¥12,429 million in notes and trade notes and accounts receivable, a decrease in accounts payable of ¥28,045 million, and income tax paid of ¥5,643 million.

(2) Cash Flows from Investments

Net cash used in investing activities decreased by ¥5,933 million from the previous year to ¥4,126 million. Factors contributing to this decrease included outlays of ¥4,231 million to acquire tangible fixed assets.

(3) Cash Flows from Financing Activities

Net cash used in financing activities decreased by ¥5,296 million to ¥1,794 million. The major components of net cash flow from financing activities were outlays of ¥866 million for the repayment of long-term debt and payments of cash dividends of ¥1,318 million.

4. The Challenges Ahead

Let's look at what we must do in the major business segments of steel and material recycling.

(1) Steel Business

Profitability in the steel business mainly depends on a fluctuating steel market that is swayed by the supply-demand balance. In our industry, the steel minimill industry, the main raw material, steel scrap, has tended in recent years to be more impacted by large fluctuations in overseas markets than by the supply-demand balance in Japan. Although this impact also goes for the product market, fortunately for us, we have some protection against imports thanks to our major product, rebars, a high quality product that we offer with on-time delivery that promptly and precisely meets user needs. This means that at the present time we do not face a major threat from overseas competitors. The market for rebars tends to be affected mainly by the supply-demand situation in Japan. In recent years, it has become common practice for manufacturers in the electric arc furnace industry to bring production and selling volume in line with demand, and the Company has been coping by reducing production and sales volume when demand goes down. This approach has enabled us to achieve record profits in fiscal 2006 and turn in a profitable performance for this past fiscal year.

However, there are still 37 companies in Japan in the electric arc furnace sector, and with demand already down in public works and with the construction industry predicted to taper off, the supply-demand balance will be difficult to maintain under the current supply structure. The Company has been increasing the ratio of products other than rebars (round bars, flat bars, I beams, angle bars, etc.) as a total percentage of its product sales. And last year, we focused on increasing sales of high-value-added products to meet customers' growing needs for strong rebars, threaded-type rebars, and mechanical joint products in efforts to achieve stable profits in our steel business. In addition, as a key player in the structural improvement of our industry, we are actively involved in restructuring and integration to boost business efficiency. The key to this strategy is the agreement we struck with Tokyo Tekko Co., Ltd. in March 2009 to establish a joint holding company that will integrate the management of the two companies. We are proceeding smoothly with this integration and will work to boost corporate value by realizing the efficiency of this integration at the earliest possible date.

(2) Material Recycling Business

With the advent of a recycling-oriented society, there is a demand for the proper treatment of industrial waste. Our advanced, environmentally friendly thermal treatment using electric arc furnaces is known and trusted by customers, and there has never been a greater need for the waste treatment services of the Company Group. However, there is a limit to the treatment capacity of electric arc furnaces, and we are approaching the point where we can no longer respond to increasing customer demand. Moreover, since the Automobile Recycling Law for the proper treatment of used cars went into effect in January 2005, there has been an increasing need for the thorough disposal of the automobile shredder residue (ASR) generated in the process of recycling automobiles. In light of this increasing need, we built a gasification furnace and shredding equipment in our Yamaguchi Division to expand our capacity for handling industrial waste and ASR. The gasification furnace uses new technology, and although some early trial and error was required, the operation is now running smoothly thanks in part to the assistance of the gasification furnace manufacturer, Sumitomo Metal Industries. Through an ideal combination of electric arc thermal recycling and gasification furnaces, we are working to advance our material recycling business and contribute to society.

Consolidated Financial Statements

Consolidated Balance Sheets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Assets			
Current assets:			
Cash and time deposits	¥20,120	¥14,395	$ 204,846
Notes and accounts receivable	29,789	42,218	303,289
Allowance for doubtful accounts	(37)	(47)	(377)
Marketable securities (Note 17)	500	615	5,091
Inventories (Note 4)	16,483	18,505	167,817
Deferred tax assets (Note 11)	908	597	9,245
Other current assets	2,525	2,185	25,707
Total current assets	70,288	78,468	715,618
Property, plant and equipment:			
Buildings and structures (Note 8)	34,510	33,964	351,354
Machinery and equipment (Note 8)	82,443	81,181	839,372
Land (Note 8)	27,184	27,198	276,766
Construction in progress	333	256	3,390
Total	144,470	142,599	1,470,882
Accumulated depreciation (Note 7)	(79,065)	(76,779)	(804,979)
Net property, plant and equipment	65,405	65,821	665,903
Investments and other assets:			
Investments in securities (Note17)	7,199	10,536	73,295
Unconsolidated subsidiaries and affiliated companies	5,532	5,333	56,323
Long-term loans receivable	424	266	4,317
Allowance for doubtful accounts	(343)	(110)	(3,492)
Intangibles	1,240	1,178	12,625
Deferred tax assets (Note 11)	204	114	2,077
Other noncurrent assets (Note 6)	3,762	4,967	38,300
Total investments and other assets	18,018	22,284	183,445
Total assets (Note 19)	¥153,711	¥166,572	$1,564,966

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, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	¥ 11,707	¥ 39,752	$ 119,192
Bank loans (Note 8)	300	—	3,054
Long-term debt due within one year (Note 8)	582	866	5,925
Income taxes payable	6,795	2,536	69,181
Accrued employees' bonuses	644	627	6,557
Accrued directors' bonuses	215	181	2,189
Other current liabilities	7,808	7,056	79,495
Total current liabilities	28,051	51,018	285,593
Long-term liabilities:			
Long-term debt (Note 8)	654	1,060	6,659
Deferred tax liabilities (Note 11)	840	1,763	8,552
Deferred tax liabilities for revaluation (Note 11)	3,989	3,995	40,613
Accrued employees' severance and retirement benefits (Note 14)	436	358	4,439
Accrued directors' severance and retirement benefits	469	413	4,775
Other long-term liabilities	118	119	1,201
Total long-term liabilities	6,506	7,708	66,239
Total liabilities:	34,557	58,727	351,832
Contingent liabilities (Note 5)	400	249	4,072
Net Assets (Note 10)			
Shareholders' equity			
Common stock	18,516	18,516	188,516
Authorized – 150,300,000 shares			
Issued 2009 and 2008 – 44,898,730 shares			
Capital surplus	21,493	21,493	218,825
Retained earnings	73,751	61,066	750,876
Treasury stock	(972)	(972)	(9,897)
Total shareholders' equity	112,788	100,103	1,148,320
Valuation and translation adjustments			
Net unrealized holding gains on securities	1,095	2,121	11,148
Revaluation difference on land	4,764	4,749	48,504
Foreign currency translation adjustments	(260)	156	(2,647)
Total valuation and translation adjustments	5,599	7,026	57,005
Minority interests	767	717	7,809
Total net assets	119,154	107,846	1,213,134
Total liabilities and net assets	¥153,711	¥166,572	$1,564,966

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, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Net sales (Note 19)	¥194,345	¥181,576	$1,978,670
Cost of sales	157,673	154,120	1,605,304
Gross profit	36,672	27,456	373,366
Selling, general and administrative expenses (Note 9)	10,402	10,267	105,905
Operating income (Note 19)	26,270	17,189	267,461
Other income (expenses):			
Interest income	56	62	570
Dividend income	221	211	2,250
Interest expense	(458)	(606)	(4,663)
Equity in net income (losses) of unconsolidated subsidiaries and affiliates	(799)	596	(8,135)
Gains on sale and disposal of property, plant and equipment	15	12	153
Reversal of allowance for doubtful accounts	12	5	122
Gain on donation of stored goods	—	52	—
Surrender value of insurance	—	25	—
Gain from the prior-term adjustment	104	—	1,059
Loss on sales and disposal of property, plant and equipment	(513)	(304)	(5,223)
Loss on sale of investments in securities	(312)	—	(3,177)
Loss on devaluation of investments in securities	(1,207)	—	(12,289)
Impairment losses	(66)	(167)	(672)
Loss on cancellation of derivatives	—	(3)	—
Other, net	65	123	663
Other income (expenses), net	(2,882)	6	(29,342)
Income before income taxes	23,388	17,195	238,119
Income taxes (Note 11)			
Current	9,853	5,946	100,316
Deferred	(576)	39	(5,865)
Total income taxes	9,277	5,985	94,451
Minority interests in net income of consolidated subsidiaries	102	140	1,039
Net income (Note 15)	¥ 14,009	¥ 11,070	$ 142,629

	Yen		U.S. dollars (Note 1)
Net income per share of common stock	2009	2008	2009
Net income			
Basic	¥318.72	¥253.66	$3.24
Diluted	—	—	—
Cash dividends applicable to the year	¥40.00	¥30.00	$0.41

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, 2009 and 2008

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2007	¥18,516	¥19,361	¥51,950	¥(1,899)	¥87,928
Changes during the period					
Cash dividends			(1,951)		(1,951)
Net income			11,070		11,070
Revaluation difference on land			(3)		(3)
Repurchase of treasury stock				(0)	(0)
Disposal of treasury stock		2,132		927	3,059
Net change in items other than shareholders' equity during the period					—
Total change during the period	—	2,132	9,116	927	12,175
Balance as of March 31, 2008	18,516	21,493	61,066	(972)	100,103
Changes during the period					
Cash dividends			(1,319)		(1,319)
Net income			14,009		14,009
Revaluation difference on land			(5)		(5)
Repurchase of treasury stock				(0)	(0)
Disposal of treasury stock					
Net change in items other than shareholders' equity during the period					—
Total change during the period	—	—	12,685	(0)	12,685
Balance as of March 31, 2009	¥18,516	¥21, 493	¥73,751	¥(972)	¥112,788

	Valuation and translation adjustments					
	Net unrealized holding gain on securities	Revaluation difference on land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2007	¥5,451	¥4,746	¥196	¥10,393	¥578	¥98,899
Changes during the period						
Cash dividends						(1,951)
Net income						11,070
Revaluation difference on land						(3)
Repurchase of treasury stock						(0)
Disposal of treasury stock						3,059
Net change in items other than shareholders' equity during the period	(3,330)	3	(40)	(3,367)	139	(3,228)
Total change during the period	(3,330)	3	(40)	(3,367)	139	8,947
Balance as of March 31, 2008	2,121	4,749	156	7,026	717	107,846
Changes during the period						
Cash dividends						(1,319)
Net income						14,009
Revaluation difference on land						(5)
Repurchase of treasury stock						(0)
Disposal of treasury stock						
Net change in items other than shareholders' equity during the period	(1,026)	15	(416)	(1,427)	50	(1,377)
Total change during the period	(1,026)	15	(416)	(1,427)	50	11,308
Balance as of March 31, 2009	¥1,095	¥4,764	¥(260)	¥5,599	¥767	¥119,154

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

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2008	$188,516	$218,825	$621,727	$(9,896)	$1,019,172
Changes during the period					
Cash dividends			(13,429)		(13,429)
Net income			142,629		142,629
Revaluation difference on land			(51)		(51)
Repurchase of treasury stock				(1)	(1)
Disposal of treasury stock					
Net change in items other than shareholders' equity during the period					—
Total change during the period	—	—	129,149	(1)	129,148
Balance as of March 31, 2009	$188,516	$218,825	$750,876	$ (9,897)	$1,148,320

	Valuation and translation adjustments					
	Net unrealized holding gain on securities	Revaluation difference on land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2008	$21,594	$48,351	$1,588	$71,533	$7,300	$1,098,005
Changes during the period						
Cash dividends						(13,429)
Net income						142,629
Revaluation difference on land						(51)
Repurchase of treasury stock						(1)
Disposal of treasury stock						
Net change in items other than shareholders' equity during the period	(10,446)	153	(4,235)	(14,528)	509	(14,019)
Total change during the period	(10,446)	153	(4,235)	(14,528)	509	115,129
Balance as of March 31, 2009	$11,148	$48,504	$(2,647)	$57,005	$7,809	$1,213,134

Consolidated Statements of Cash Flows

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Cash flows from operating activities:			
Net income before income taxes	¥23,388	¥17,195	$ 238,119
Adjustments to reconcile net income before income taxes to net cash provided by operating activities			
Depreciation and amortization	4,869	4,738	49,572
Impairment losses	66	167	672
Increase in reserves	408	133	4,154
Equity in net (income) losses of unconsolidated subsidiaries and affiliates	799	(596)	8,135
Loss on sale of investments in securities	312	—	3,177
Loss on devaluation of investments in securities	1,207	—	12,289
Gains on sale and disposal of property, plant and equipment	497	292	5,060
Interest and dividend income	(277)	(273)	(2,820)
Interest expense	458	606	4,663
Decrease (increase) in notes and accounts receivable	12,429	4,485	126,542
Decrease (increase) in inventories	2,022	(3,521)	20,586
Increase (decrease) in trade notes and accounts payable	(28,045)	207	(285,532)
Other	125	(300)	1,272
Sub total	18,258	23,133	185,889
Interest and dividend received	409	374	4,164
Interest paid	(410)	(630)	(4,174)
Income taxes paid	(5,642)	(5,276)	(57,443)
Net cash provided by operating activities	12,615	17,601	128,436
Cash flows from investing activities:			
Increase in time deposits	(541)	(611)	(5,508)
Decrease in time deposits	370	787	3,767
Payment for acquisition of investments in securities	(124)	(499)	(1,262)
Proceeds from sales and redemption of securities	624	600	6,353
Payment for purchases of securities	(1,486)	(2,895)	(15,129)
Proceeds from sales of marketable securities and investments	1,660	—	16,901
Investments in loans	(208)	(311)	(2,118)
Collections of loans	138	42	1,405
Payment for purchase of property, plant and equipment	(4,231)	(7,071)	(43,077)
Proceeds from sale of property, plant and equipment	53	27	540
Payment for purchase of intangibles	(242)	(79)	(2,464)
Other	(139)	(49)	(1,416)
Net cash used in investing activities	(4,126)	(10,059)	(42,008)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	300	(1,388)	3,054
Proceeds from long-term debt	193	500	1,965
Repayment of long-term debt	(866)	(7,244)	(8,817)
Payment for cancellation of derivative instruments	—	(3)	—
Repayments of installment payables	(50)	(61)	(509)
Cash dividends paid	(1,318)	(1,951)	(13,419)
Dividends paid to minority shareholders	(53)	—	(539)
Proceeds from disposal of treasury stock	—	3,058	—
Other	(0)	(0)	(0)
Net cash used in financing activities	(1,794)	(7,089)	(18,265)
Effect of exchange rate changes on cash and cash equivalent	0	(0)	0
Net increase in cash and cash equivalents	6,695	452	68,163
Cash and cash equivalents at the beginning of the period	14,155	13,703	144,116
Cash and cash equivalents at the end of the period (Note 13)	¥20,850	¥14,155	$212,279

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, 2009 and 2008

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. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98.22 to U.S. $1.00. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been or could in the future be when 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 subsidiaries over which it exerts substantial control either through majority ownership of voting stock and/or by other means. As a result, the accompanying consolidated financial statements include the accounts of the Company and 8 consolidated subsidiaries for the years ended March 31, 2009 and 2008. 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 which 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 weighted 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, such securities are written down to fair value, thus establishing a new cost basis.

(e) Inventories

Prior to April 1, 2008, inventories of the Company and consolidated domestic subsidiaries are stated at cost determined by the periodic average method. As discussed in Note 3. (1), effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted a new accounting standard for measurement of inventories and stated the inventories at the lower of periodic average cost or net realizable value at March 31, 2009.

(f) 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 lives 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

(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 assets (in general, 5 years).

Additional Information (Year ended March 31, 2009)

Effective from the year ended March 31, 2009, the Company and consolidated domestic subsidiaries changed the useful lives of machinery and equipment based on the reassessment of the useful lives in light of the change in the Corporation Tax Law. This change had the effect of decreasing operating income, and income before income taxes by 160 million yen, respectively, from the amounts that would have been recorded without the change. The effect of this change on specific segments is described in the Segment Information section.

Additional Information (Year ended March 31, 2008)

Effective April 1, 2007, due to the amendment of the Corporation Tax Law, amounts of depreciation limit (5% of acquisition costs) of tangible fixed assets acquired by the Company and consolidated domestic subsidiaries before April 1, 2007 are recognized as depreciation equally over five years commencing from the later of the year ended March 31, 2008 or the year immediately following the year in which depreciation has been recognized up to the depreciation limit. Due to the change, operating income and income before taxes decreased by ¥368 million, respectively, for the year ended March 31, 2008. The effect of this change on specific segments is described in the Segment Information section.

(g) Accounting for leases

Lease assets related to finance lease transactions that do not transfer ownership.

The lease term is used as the useful life and the straight-line method is applied with a residual value of zero.

Among finance lease transactions that do not transfer ownership, 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 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: 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 in 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.

Accrued directors' retirement benefits: 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.

(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) 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)
Previously, inventories were handled principally by the cost accounting method using 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 periodic average cost and reducing book value in accordance with declines in profitability on balance sheet. This change had the effect of decreasing operating income, and income before income taxes by 342 million yen, respectively. The effect of this change on specific segments is described in the Segment Information section.

(2) Change in depreciation method (Year ended March 31, 2008)
Effective the year ended March 31, 2008, pursuant to an amendment to the Corporation Tax Law (Partial Revision of Income Tax Law, Law No. 6 of March 30, 2007; Partial Revision of Income Tax Law Enforcement Ordinance, Cabinet Order No. 83 of March 30, 2007), the treatment of depreciation on property, plant and equipment acquired after April1, 2007, has been changed. The effect of this change on the Company's income was minimal.

(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.

Pursuant to the new standards, under finance lease transactions that do not transfer ownership of the lease assets, the lease assets are depreciated by the straight-line method over the term of the lease (the useful life) with a remaining value of zero. However, with respect to such lease transactions that have a commencement date of March 31, 2008 or before, the leases are accounted for as ordinary operating leases.

4. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Finished goods	¥ 5,123	¥ 6,073	$ 52,158
Semi-finished goods	3,068	2,929	31,236
Merchandise	8	0	81
Work-in-process	758	1,075	7,717
Raw materials	1,938	3,146	19,731
Supplies	3,492	3,280	35,553
Rolls	2,096	2,002	21,341
Total	¥16,483	¥18,505	$167,817

5. CONTINGENT LIABILITIES

At March 31, 2009 and 2008, the Company and its consolidated subsidiaries were contingently liable as follows;

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trade notes discounted and guaranteed	¥400	¥249	$4,072
Total	¥400	¥249	$4,072

6. INVESTMENTS AND OTHER ASSETS: OTHER–BREAKDOWN

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Investments in affiliates	¥ 642	¥2,068	$ 6,536
Long-term deposits	1,358	1,261	13,826
Prepaid pension expenses	934	947	9,509
Other	828	691	8,420
Total	¥3,762	¥4,967	$38,292

7. ACCUMULATED DEPRECIATION

Accumulated depreciation at March 31, 2009 and 2008 amounted to ¥79,065 million ($804,979 thousand) and ¥76,779 million, respectively.

8. BANK LOANS AND LONG-TERM DEBT

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, 2008.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Long-term debt from banks at average rates of 1.8% and 1.9% for current and noncurrent portions, respectively	¥1,236	¥1,926	$12,584
Less current portion	(582)	(866)	(5,925)
Long-term debt	¥ 654	¥1,060	$ 6,659

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Buildings and structures	¥12,675	¥13,394	$129,047
Machinery and equipment	19,943	20,048	203,044
Land	17,805	22,444	181,277
Other	197	145	2,006
Total	¥50,620	¥56,031	$515,374

The aggregate annual maturities of long-term debt subsequent to March 31, 2009 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 582	$ 5,925
2011	185	1,884
2012	144	1,466
2013	144	1,466
2014 and thereafter	181	1,843
Total	¥1,236	$12,584

9. R&D EXPENSES

R&D expenses, included in selling, general and administrative expenses for the years ended March 31, 2009 and 2008, amounted to ¥152 million ($1,548 thousand) and ¥26 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 where 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, 2009, the Board approved cash dividends amounting to ¥1,099 million ($11,189 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2009.

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 40.7% for the years ended March 31, 2009 and 2008.

Income taxes of the overseas consolidated subsidiaries are, in general, based on the tax rates applicable in their respective countries of incorporation.

The major components of deferred tax assets and liabilities as of March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Allowance for doubtful accounts	¥ 605	¥ 562	$6,160
Accrued enterprise taxes	534	196	5,437
Impairment losses	158	175	1,609
Accrued bonuses	264	256	2,688
Accrued employees' retirement benefits	175	144	1,782
Accrued directors' retirement benefits	187	164	1,904
Other	433	309	4,407
Gross deferred tax assets	2,356	1,806	23,987
Valuation allowance	(748)	(759)	(7,616)
Total deferred tax assets	1,608	1,047	16,371
Deferred tax liabilities:			
Net unrealized gains/losses on other securities	(800)	(1,554)	(8,145)
Retained earnings appropriated for tax deductible reserves	(21)	(22)	(214)
Reserve for special depreciation for tax purposes	(15)	(18)	(153)
Prepaid pension expenses	(379)	(385)	(3,859)
Other	(121)	(120)	(1,231)
Total deferred tax liabilities	(1,336)	(2,099)	(13,602)
Net deferred tax assets	¥ 272	¥(1,052)	$2,769

Net deferred tax liabilities at March 31, 2009 and 2008 were included in the consolidated balance sheets as follows;

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets (current)	¥ 908	¥ 597	$9,245
Deferred tax assets (noncurrent)	204	114	2,077
Deferred tax liabilities (noncurrent)	(840)	(1,763)	(8,553)
Net deferred tax liabilities	¥ 272	¥(1,052)	$2,769

A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2009 and 2008 is as follows:

	2009	2008
Statutory tax rate	40.7%	40.7%
Expenses not deductible for tax purposes and other	(1.5)	(4.8)
Equity in earnings of unconsolidated subsidiaries and affiliates and nontemporary differences not deductible for tax purposes	3.4	(1.1)
Entertainment expenses and other that are not deductible permanently	0.1	0.3
Dividend income and other that are not taxable permanently	(1.3)	(0.5)
Tax deduction	0.1	0.0
Other	(1.8)	0.2
Effective tax rate	39.7%	34.8%

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, 2009:

(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)	943,904	70	—	943,974

(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
May 9, 2008 (Board of Directors)	Common stock	¥ 659	$ 6,709	¥ 15	$ 0.2	March 31, 2008	June 11, 2008

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
November 4, 2008 (Board of Directors)	Common stock	¥ 659	$ 6,709	¥ 15	$ 0.2	September 30, 2008	December 10, 2008

13. SUPPLEMENTARY CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents at March 31, 2009 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and time deposits	¥20,120	¥14,395	$204,846
Time deposits with a maturity of more than three months	(767)	(694)	(7,809)
Trust beneficiary rights due within three months	597	454	6,078
Marketable securities due within three months	500	—	5,091
Short-term loans receivable	400	—	4,073
Cash and cash equivalents	¥20,850	¥14,155	$212,279

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, 2009 and 2008 for the Company's and its consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Severance and retirement benefit obligation	¥(4,924)	¥(4,787)	$(50,132)
Plan assets at fair value	3,777	4,779	38,454
Unfunded retirement benefit obligation	(1,147)	(8)	(11,678)
Unrecognized actuarial gain or loss	1,304	375	13,276
Unrecognized past service cost	341	222	3,472
Net severance and retirement benefit obligation	498	589	5,070
Prepaid pension expenses	934	947	9,509
Accrued severance and retirement benefits	¥ (436)	¥ (358)	$ (4,439)

The components of retirement benefit expenses for the years ended March 31, 2009 and 2008 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥447	¥426	$4,551
Interest cost	85	83	865
Expected return on plan assets	(66)	(72)	(672)
Amortization of past service cost	69	(9)	703
Amortization of actuarial gain or loss	46	29	468
Additional retirement benefit expense	23	32	234
Total	¥604	¥489	$6,149

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

	2009	2008
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	2009	2008	2009
Net income	¥ 318.72	¥ 253.66	$ 3.24

	Yen		U.S. dollars
As of March 31	2009	2008	2009
Net assets	¥2,693.38	¥2,437.25	$27.42

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	2009	2008	2009
Basic net income per share:			
Net income	¥14,009	¥11,070	$142,629
Amounts not attributable to shareholders of common stock	—	—	—
Amounts attributable to shareholders of common stock	14,009	11,070	142,629
Weighted average number of shares outstanding	43,955 thousand shares	43,643 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, 2009 and 2008 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, 2009	Machinery, equipment and vehicles	Tools and equipment	Other	Total	Machinery, equipment and vehicles	Tools and equipment	Other	Total
Acquisition costs	¥186	¥111	¥39	¥336	$1,894	$1,130	$397	$3,421
Accumulated depreciation	151	91	30	272	1,538	926	305	2,769
Net book value	¥ 35	¥ 20	¥ 9	¥ 64	$ 356	$ 204	$ 92	$ 652

	Millions of yen			
As of 31, 2008	Machinery, equipment and vehicles	Tools and equipment	Other	Total
Acquisition costs	¥383	¥125	¥86	¥594
Accumulated depreciation	299	79	69	447
Net book value	¥ 84	¥ 46	¥17	¥147

Future minimum lease payments subsequent to March 31, 2009 and 2008 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2009	2008	2009
Due within one year	¥37	¥ 81	$ 377
Due after one year	28	65	275
Total	¥64	¥147	$ 652

(b) Operating leases

Future minimum rents under non-cancelable operating leases at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2009	2008	2009
Due within one year	¥ 5	¥ 6	$ 51
Due after one year	5	13	51
Total	¥10	¥19	$ 102

17. SECURITIES

(a) Other securities with determinable market value

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2009	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	¥1,248	¥3,753	¥2,505	$12,706	$38,210	$25,504
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Securities whose carrying value does not exceed acquisition costs:						
Stock	2,609	2,016	(593)	26,563	20,526	(6,037)
Bonds	102	99	(3)	1,038	1,007	(31)
Other	—	—	—	—	—	—
Total	¥3,959	¥5,868	¥1,909	$40,307	$59,743	$19,436

As of March 31, 2008	Millions of yen Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥1,551	¥6,433	¥4,882
Bonds	115	115	0
Other	—	—	—
Securities whose carrying value does not exceed acquisition costs:			
Stock	3,771	2,571	(1,200)
Bonds	704	700	(4)
Other	—	—	—
Total	¥6,141	¥9,819	¥3,678

(b) Other securities sold during the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Sales of other securities	¥1,434	¥ —	$14,600
Profit on sales	¥ 311	¥ —	$ 3,166

(c) Securities without determinable value

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Other securities:			
Unlisted securities	¥1,331	¥1,331	$13,551
Bonds	¥ 500	¥ —	$ 5,091

(d) Schedule for redemption of other securities with maturities and held-to-maturity debt securities at March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars	
As of March 31, 2009	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Bonds:				
Government and municipal bonds	¥ —	¥ —	$ —	$ —
Corporate bonds	—	—	—	—
Other	—	—	—	—
Others	500	—	5,091	—
Total	¥500	¥ —	$5,091	$ —

As of March 31, 2008	Millions of yen Due in one year or less	Due after one year through five years
Bonds:		
Government and municipal bonds	¥615	¥—
Corporate bonds	—	—
Other	—	—
Others	—	—
Total	¥615	¥—

18. DERIVATIVES FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Company uses derivative transactions to manage future risks of fluctuation in interest rates. The Company uses interest rate swap contracts with respect to interest rates to mitigate interest on loans payable and avoid future risks of fluctuation in interest rates. The Company does not use such transactions for the purposes of speculation or short-term dealing.

The following summarizes the hedging derivative financial instruments used by the Company and the corresponding items hedged:

Hedging instruments:
Interest rate swap contracts

Hedged items:
Interest on loans payable
The Company hedges future risks of fluctuation in interest rates mainly according to internal management regulations. The Company evaluates hedge effectiveness for the whole hedge term by comparing the cumulative changes in fair value or the cumulative change in cash flows from hedging instruments and the corresponding hedged items.

In addition to future risks of interest rate changes, derivative transactions are subject to credit risks which arise from nonfulfillment of contracts by the contract partner to the derivative transaction. Since the Companies enter into derivative transactions only with counterparties of high credit rating, the Company believes there is almost no such credit risk. The derivative transactions are executed in accordance with internal management regulations and reported to the Board of Directors.

19. SEGMENT INFORMATION

The business and geographical segments and overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 are outlined as follows:
(a) Business segments

	Millions of yen					
Year ended March 31, 2009	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
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 losses 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
Impairment losses	—	—	—	—	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, ¥16 million for the material recycling segment.

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 losses 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 losses	—	—	—	—	672	672
Capital expenditures	50,143	1,751	152	52,046	621	52,667

Year ended March 31, 2008	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
	Millions of yen					
I. Sales and operating income						
Sales to external customers	¥173,048	¥8,077	¥ 451	¥181,576	¥ —	¥181,576
Intersegment sales and transfers	74	1,635	—	1,709	(1,709)	—
Total	173,122	9,712	451	183,285	(1,709)	181,576
Operating expenses	158,401	6,774	421	165,596	(1,209)	164,387
Operating income	¥ 14,721	¥2,938	¥30	¥ 17,689	¥ (500)	¥ 17,189
II. Total assets, depreciation, impairment losses and capital expenditures						
Total assets	¥125,053	¥6,430	¥5,531	¥137,014	¥29,558	¥166,572
Depreciation and amortization	4,323	346	8	4,677	61	4,738
Inpairment losses	22	—	—	22	145	167
Capital expenditures	5,224	238	6	5,468	82	5,550

(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 505 million yen.
4. Corporate assets included in the Eliminations and unallocated amounts column amounted to ¥37,098 million in the fiscal year ended March 31, 2008 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. As stated in the consolidated financial statements, pursuant to an amendment to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries, effective from the period under review, depreciate the difference between 5% of the acquisition cost of assets acquired on or before March 31, 2007 and the book value of said assets uniformly over a five-year period, starting the year following the fiscal year in which the depreciated value of said assets reaches 5% of the acquisition price using the pre-amendment depreciation method. Depreciated amounts are included in depreciation expenses. This adoption increased operating expenses and decreased operating income by ¥363 million for the steel segment, ¥4 million for the material recycling segment, ¥0 million for the others segment, and ¥101 million for eliminations and unallocated amounts, and ¥368 million for consolidated, compared with the results that would have been obtained if said standard had not been adopted.

(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, 2009 and 2008.

(c) Overseas sales amounts
As overseas sales for the year ended March 31, 2009 and 2008 were over 10% in the consolidated total sales, overseas sales are indicated as follows:

	Millions of yen			
Year ended March 31, 2009	Asia	North America	Other	Total
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 areas outside Japan.

	Thousands of U.S. dollars			
Year ended March 31, 2009	Asia	North America	Other	Total
I. Sales to customers outside Japan (millions of yen)	$192,160	$16,636	$133	$ 208,929
II. Consolidated sales (millions of yen)				$1,978,670

	Millions of yen			
Year ended March 31, 2008	Asia	North America	Other	Total
I. Sales to customers outside Japan (millions of yen)	¥17,583	¥1,946	¥6	¥ 19,535
II. Consolidated sales (millions of yen)				¥181,576
III. Ratio of sales to customers outside Japan to consolidated sales (%)	9.7	1.1	0.0	10.8

(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, China, Taiwan, Vietnam, Indonesia, Singapore
(2) North America: USA, Canada
(3) Other : Brazil
3. Overseas sales amounts represent those of the Company and its consolidated subsidiaries in countries areas outside Japan.

20. SUBSEQUENT EVENTS

The Company has agreed in "Principle to a management integration" through the formation of a joint holding company via a share transfer with Tokyo Tekko Co., Ltd. (hereinafter, Tokyo Tekko) at the Board of Directors' meeting on March 18, 2009, "Definitive agreement on the management integration" through share transfer at the Board meeting on May 20, 2009, and "Change memorandum of definitive agreement on the management integration" through the change of the effective date of the share transfer at the Board meeting on June 10, 2009.

The following is an overview of the items of the share transfer.

1. Background and Purpose of Management Integration by Means of Share Transfer
The Company and Tokyo Tekko are both in the steel minimill industry, which produce steel products using electric arc furnaces. Both companies' core business is the manufacture and sale of rebars, which are used in reinforced concrete buildings and in steel-reinforced concrete buildings.
In Japan's steel minimill industry, forecasts are for an overall shrinking of the scale of business as construction demand continues to drop amidst a maturing and slow-growing economic makeup. The situation is only expected to get worse and a shakeup is inevitable under the current supply structure. It is, therefore, imperative that we reorganize and integrate into highly competitive corporate groups.

The Company and Tokyo Tekko agreed on a comprehensive technical alliance on May 8, 2008, with the two companies forming a collaborative committee for technical talks aimed at standardizing threaded-type rebars and expanding sales in material recycling, businesses common to both companies. The result of these talks was a mutual understanding of the possibilities for realizing improved corporate value and maximizing synergy through the effective use of both companies' management resources and know-how. The talks also fostered an awareness on both sides that the companies must move beyond simply a alliance of technologies and operations and embark on an integration of management, and that the alliance was the logical choice to ensure that both companies continued their healthy survival and growth.

The two companies are actually in direct competition in very few regions: The Company's business base is mainly west of the Nagoya region, while Tokyo Tekko's is in eastern Japan with a focus on the Kanto (Tokyo) region. This means the alliance allows both sides to build a nationwide supply network. We are confident that the new joint holding company will be a corporate group able to offer customers a high level of convenience and satisfaction through a stable supply system and a wide product lineup.

This merger will strive for a spirit of equality as we utilize the unique business bases of each company and place a high value on their history and corporate culture. This management integration will bring together both sides' personnel, know-how, assets, and financial strengths and seek to use them effectively for maximum management efficiency. We will also swiftly implement a variety of measures that will raise the corporate value of the entire group and thus meet the expectations of all stakeholders, including shareholders, business partners, employees and local communities.

2. Method of Share Transfer, Details of Allotment of Share Transfer, Overview of Share Transfer Plans

(1) Method of Share Transfer

The Company and Tokyo Tekko will conduct a joint share transfer (hereinafter, "share transfer") on April 1, 2010 or on an alternative date to which both sides jointly deliberate, agree and decide (planned date). However, the date will be fixed after the Japan Fair Trade Commission's approval on the share transfer pursuant to the Act on the Prohibition of Private Monopolization and Maintenance of Fair Trade (hereinafter "Antitrust Law") at a preliminary consultation. Besides allotting all outstanding shares of the two companies to the new joint holding company, we will allot shareholders of the Company and Tokyo Tekko new shares issued by the holding company on the occasion of the share transfer. Note, however, that as matters proceed, there may be unavoidable occurrences that will require both sides to jointly deliberate and change the time schedule or the details of the merger.

(2) Details of Allotment of Share Transfer, Overview of Share Transfer Plans

(i) Details of Allotment of Share Transfer

With the share transfer, regular shares of the joint holding company will be allotted with respect to both companies' shares in the following ratio (hereinafter, "share transfer ratio").

Company names	Kyoei Steel, Ltd.	Tokyo Tekko Co., Ltd.
Details of Share Transfer Allotment (Share Transfer Ratio)	1	0.15

Note 1: One regular share of the joint holding company will be issued for each regular share of the Company, and 0.15 regular share of the joint holding company will be issued for each share of Tokyo Tekko. However, this share transfer ratio may change if there are significant changes in the various conditions upon which the share transfer calculation is based.

Note 2: The number of share units for the joint holding company will be 100. For shareholders having more than the number of share units of shares of either the Company or Tokyo Tekko, the intention is to issue more than the number of share units. If the number of regular shares of the joint holding company issued to shareholders of Tokyo Tekko under the share transfer is a fractional number, under article 234 of the Corporate Law and other related laws and regulations, the holder of the shares shall be paid a cash amount for the fractional amount of each share.

Note 3: Number of shares to be issued (planned) with the share transfer of the joint holding company
Common shares: 50,961,268
The above number is based on the number of outstanding shares of both companies as of March 31, 2009. However, because we plan to cancel as many of the shares held by each company as possible at the time the share transfer takes effect, the shares held by each company at the end of March, 2009 are not included in the above calculation of the number of shares issued with the share transfer of the joint holding company.
As for the shares acquired by each company between the end of March, 2009 and the time the share transfer takes effect, we plan to cancel as many as possible, and therefore the number of shares issued in the share transfer by the joint holding company may change.

(ii) Share Transfer Schedule

Board of Directors meeting approving the basic agreement (both companies)	March 18, 2009
Signing of basic agreement (both companies)	March 18, 2009
Board of Directors meeting approving the definitive agreement and plan for share transfer (both companies)	May 20, 2009
Signing of definitive agreement (both companies)	May 20, 2009
General shareholders meeting approving the share transfer (both companies)	Undecided
Date of delisting on the Tokyo Stock Exchange (both companies)	March 29, 2010 (planned) or 3 working days before the effective date which the Company and Tokyo Tekko jointly deliberate, agree and decide (planned)
Date of delisting on the Osaka Securities Exchange (the Company)	March 29, 2010 (planned) or 3 working days before the effective date which the Company and Tokyo Tekko jointly deliberate, agree and decide (planned)
Register date for establishment of joint holding company (effective date)	April 1, 2010 (planned) or the date which the Company and Tokyo Tekko jointly deliberate, agree and decide (planned)
Date of listing of joint holding company	April 1, 2010 (planned) or the date which the Company and Tokyo Tekko jointly deliberate, agree and decide (planned)

(Note) The above delisting date follows the revised regulations of the Tokyo Stock Exchange and Osaka Securities Exchange which are planned for November 16, 2009.

Note, however, that as matters proceed there may be unavoidable occurrences that will require both sides to jointly deliberate and change the above time schedule of the merger. The two companies currently proceed against the predetermined procedure of the Antitrust Law. The schedule for share transfer can be amended depending on the result of the examination by the Japan Fair Trade Commission.

(iii) Details of Share Transfer Plan

The share transfer plan will be decided promptly based on deliberations by both sides, and as the details are worked out, they will be approved at the Board of Directors meeting of both companies.

3. After Share Transfer: Company Name, Head Office Address, Name of Representative, Capitalization, Net Assets, Total Assets, and Nature of Business

(1) Company Name	Kyoei Tokyotekko Holdings Co., Ltd.
(2) Address	1-4-16 Dojima-hama, Kita-ku, Osaka, Japan
(3) Representative	Chairman and Representative Director : Tsunebumi Yoshihara (President and CEO of Tokyo Tekko Co., Ltd.) Representative Director: Ryutaro Yoshioka (Representative Director of Kyoei Steel, Ltd.)
(4) Capitalization	10 billion yen
(5) Net assets	Undecided
(6) Total assets	Undecided
(7) Nature of business	Manufacture, processing, and sale of various types of steel and steel products, as well as reinforced mechanical joint products; collection, transport, and disposal of general industrial waste; operation and management of group company carrying out recycling of industrial waste; work related to these

4. Overview of Accounting Procedures Relating to Share Transfer

Because the share transfer will be treated as an acquisition under accounting standards for business combinations, the purchase method will likely apply. However, because it is not possible at this time to calculate an estimate of items like goodwill, we will announce such items and the relevant amounts and years for depreciation as they are fixed.

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 its consolidated subsidiaries as of March 31, 2009 and 2008, 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 its consolidated subsidiaries as of March 31, 2009 and 2008, 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.
(1) As discussed in Note 3. to the consolidated financial statements, effective for the year ended March 31, 2009, the Company and consolidated subsidiaries adopted "Accounting Standard for Measurement of Inventories."
(2) As discussed in Note 20. to the consolidated financial statements, the Company has agreed to "Final contract on a management integration" through the formation of a joint holding company via a share transfer with Tokyo Tekko Co.,Ltd. at the board meeting on May 20, 2009 and "Change memorandum of definitive agreement on the management integration" through the change of the effective date of the share transfer at the Board meeting on June 10, 2009.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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, 2009

KPMG AZSA & Co.

Board Directors, Corporate Auditors and Executive Officers

(As of June 26, 2009)

Board Directors and Corporate Auditors

Chairman and Representative Director	Akihiko Takashima
Vice Chairman and Representative Director	Hideichiro Takashima
Representative Director	Ryutaro Yoshioka
Board Directors	Hirofumi Nagata Nobuyuki Fukada Takeshi Ogata Koji Kawasaki Toshimasa Zako Naoyoshi Goroku Hirotaka Kimura Makoto Doi Yoshihiro Matsuda Koji Morita Hiroshi Aoki
Standing Corporate Auditor	Toshihiko Onigata
Corporate Auditors	Hirofumi Iseki Michiharu Takii

Executive Officers

President	Ryutaro Yoshioka
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	Makoto Doi Yoshihiro Matsuda Fumio Nakagawa Haruo Hiraiwa Yoshihiro Shima Shuji Ichihara Yoshio Kitsukawa Akira Okada Ei Takeda Kazuyoshi Ohta

Investor Information

(As of March 31, 2009)

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	3,465
Number of Employees	1,045 (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, 2009)

Name of shareholder	Number of shares owned	% of total-shares issued
Sumitomo Metal Industries, Ltd.	11,592,932	25.82%
Hideichiro Takashima	5,375,460	11.97
Air Water Inc.	3,292,400	7.33
Akihiko Takashima	2,233,000	4.97
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	1,585,600	3.53
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,546,100	3.44
Mitsui & Co., Ltd.	1,470,000	3.27
Japan Trustee Services Bank, Ltd. (Trust Account)	1,360,900	3.03
Godo Steel, Ltd.	1,347,000	3.00
Kyoei Steel, Ltd. (Treasury stock)	943,974	2.10

KYOEI STEEL

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