ANNUAL REPORT 2013

Year Ended March 31, 2013

KYOEI STEEL

Company Profile

Kyoei Steel, Ltd., a steel minimill company, was founded in 1947. In December 2006, the Company listed on the first sections of the Tokyo Stock Exchange and the Osaka Securities Exchange, and is now an enterprise capitalized at ¥18.5 billion.

Kyoei Steel's core business is the steel business. It focuses on the manufacturing and sales of rebar and other steel products for construction and civil engineering, which involves melting steel scrap in electric arc furnaces, refining, continuous casting, and rolling. In fiscal 2013, the Kyoei Steel Group produced 1.89 million tons of crude steel, making it the second largest minimill steel producer in Japan, and had the largest share of the Japanese market for rebar, its mainstay product. Kyoei Steel's four integrated melting and rolling mills and one billet facility are all located in areas where rebar demand is concentrated in Japan.

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

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

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

Management Principle

Spirit of Challenge

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

Action Guidelines

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

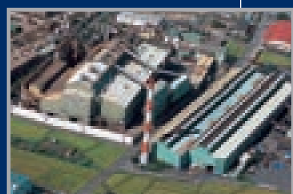
We cultivate a corporate culture imbued with a spirit of enterprise and innovation, eager to embrace challenges, and enthusiastically committed to the accomplishment of ambitious goals.

We are practical and realistic.

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

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

Hirakata Division (Osaka Mill)
- Billet (semi-finished product)



Hirakata Division (Hirakata Mill)
- Rebar (D10, D13, D16)

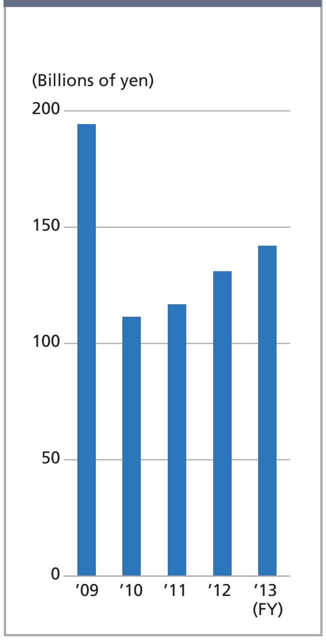
Nagoya Division
- Rebar (all sizes)
- Threaded rebar

Kanto Steel Ltd. (Wholly owned subsidiary)
- Rebar (D10, D13, D16)

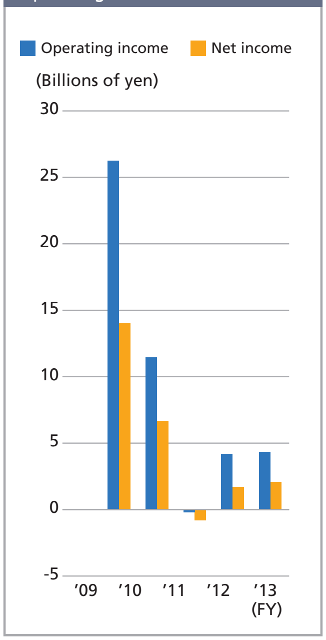
CONTENTS

Consolidated Financial Highlights

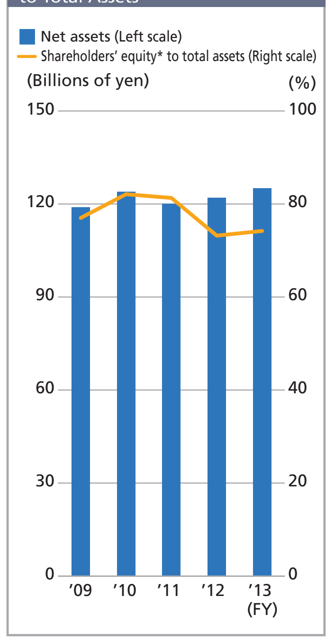
Net Sales



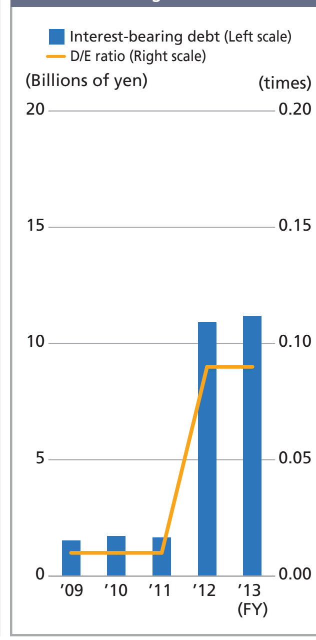
Operating Income & Net Income



Net Assets & Shareholders' Equity* to Total Assets



Interest-bearing Debt & D/E Ratio



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

	Millions of yen					Thousands of U.S. dollars
	2009	2010	2011	2012	**2013**	**2013**
For the Year:						
Net sales	¥ 194,345	¥ 111,485	¥ 116,828	¥ 130,650	**¥ 142,305**	**$ 1,512,917**
Operating income (loss)	26,270	11,454	(206)	4,166	**4,343**	**46,173**
Net income (loss)	14,009	6,691	(794)	1,692	**2,069**	**21,997**
Depreciation and amortization	4,869	4,992	4,806	4,644	**4,254**	**45,226**
Capital expenditures	5,173	4,815	2,706	4,991	**3,809**	**40,495**
At Year-End:						
Total assets	¥ 153,711	¥ 151,125	¥ 146,453	¥ 164,486	**¥ 165,129**	**$ 1,755,571**
Interest bearing debt	1,540	1,729	1,665	10,877	**11,231**	**119,403**
Net assets	119,154	124,905	119,973	122,725	**125,257**	**1,331,672**
			Yen			U.S. dollars
Amounts per Share :						
Net income (loss), basic	¥ 318.72	¥ 152.23	¥ (18.22)	¥ 38.89	**¥ 47.59**	**$ 0.51**
Net income (loss), diluted	—	—	—	—	**—**	**—**
Cash dividends applicable to the year	40.00	40.00	20.00	20.00	**20.00**	**0.21**
Shareholders' equity* to total assets (%)	77.0	82.1	81.3	73.2	**74.2**	**—**
D/E ratio (times)	0.01	0.01	0.01	0.09	**0.09**	**—**

Note: U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥94.06 to US$1 prevailing on March 31, 2013.
*Shareholders' equity = Net assets - Minority interest

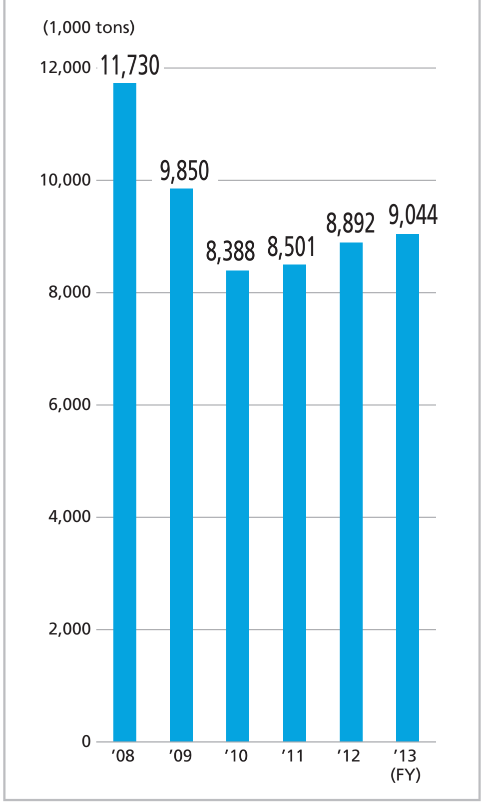
FORWARD-LOOKING STATEMENTS

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

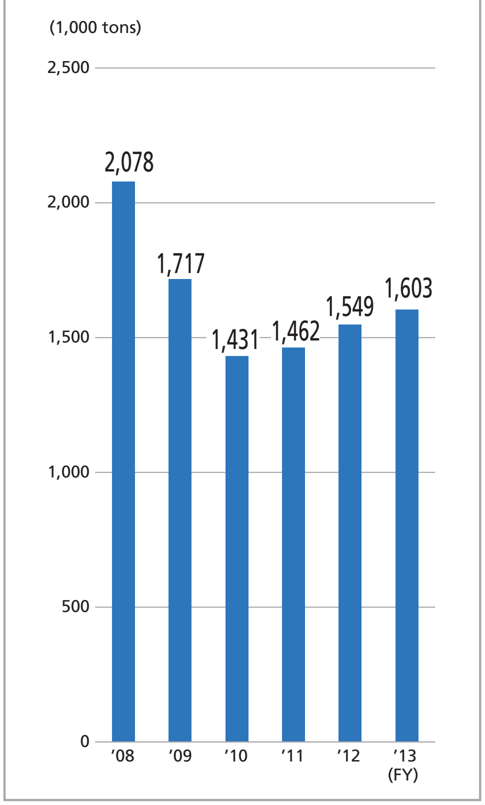
Market Data

Japanese Rebar Production Output

Source: the Japan Iron and Steel Federation



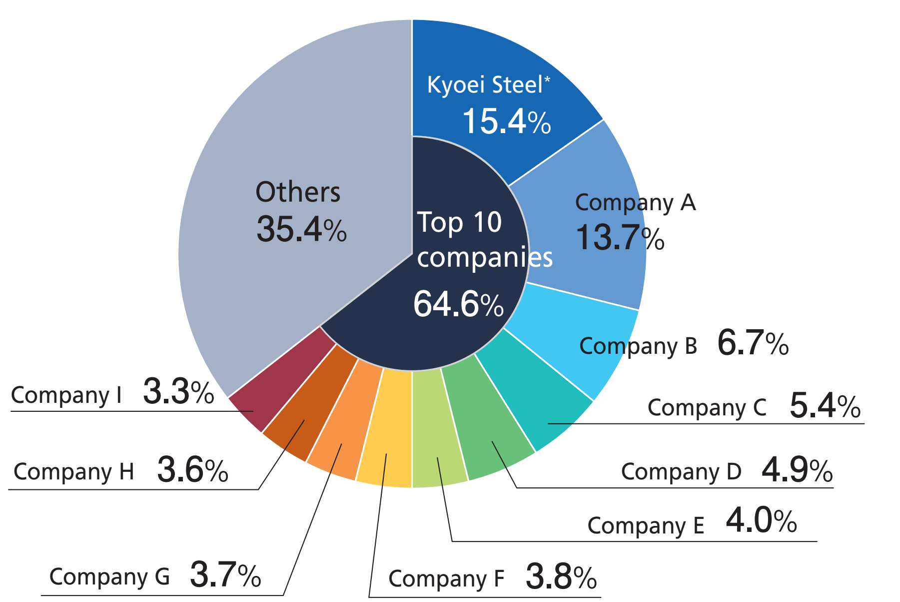
Kyoei Steel's Finished Product Shipments



Market Share of Rebar Product Shipments

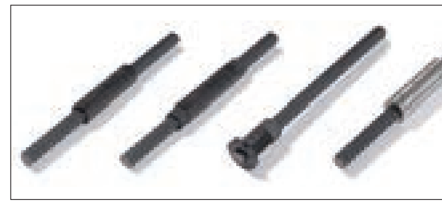
Source: Japan Metal Daily

Fiscal 2013 : 9,044 thousand tons

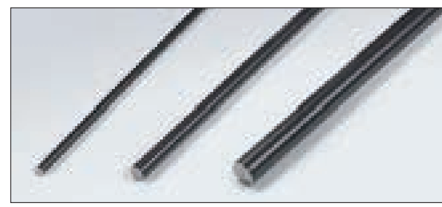


* Kyoei Steel includes Kanto Steel.

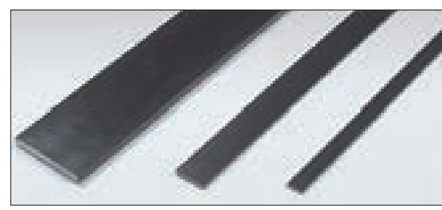
Rebar



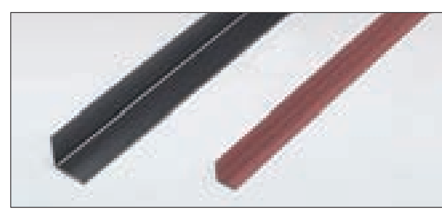
Threaded rebar



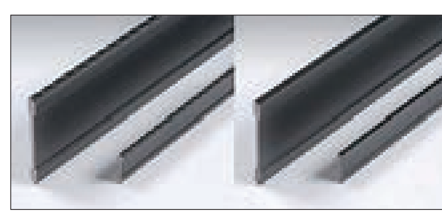
Round bar



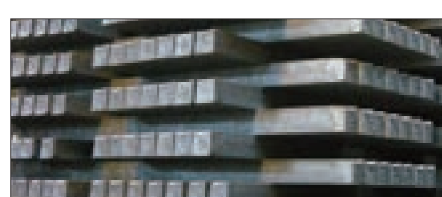
Flat bar



Angle bar



I beam



Billet (semi-finished product)

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

Sales increased due to consolidation of a Vietnamese affiliated company

Profit on a par with the previous year in a challenging business environment

In the market for steel products, demand had been lackluster during the first half of the fiscal year due to factors such as declining prices of steel scrap, the principal raw material of the Group's products, which prompted customers to postpone purchases. However, demand started to pick up from the third quarter onward. On the other hand, prices of steel scrap sharply increased toward the end of the fiscal year, spurred by an increase in exports and rising expectations of a recovery of the domestic economy.

In these circumstances, the Company strove to secure profit by attuning production and sales to demand, raising product prices, and reducing manufacturing costs. However, profit was slightly less than the forecast, because the metal spread, i.e., the price difference between the product sales prices and the steel scrap cost, narrowed due to the increase in steel scrap prices from the third quarter onward.

On a consolidated basis, net sales were ¥142,305 million, an increase of 8.9% year on year, partly due to the contribution of a Vietnamese subsidiary, which had been an equity-method affiliate up to the previous fiscal year and became a consolidated subsidiary from fiscal 2013. Operating income was ¥4,343 million, an increase of 4.2%, and net income was ¥2,069 million, an increase of 22.3%.

Prospects for the Japanese and overseas markets, plus initiatives for growth

Trend of domestic demand and Kyoei Steel's response

With the Japanese economy on a recovery track as a result of monetary, financial and economic policies of the Bank of Japan and the government, construction demand is likely to expand. In addition, in the market for steel products for construction, the principal source of demand for the Group's products, positive factors include the growing need to replace infrastructure, such as roads and bridges, constructed during the years of high economic growth as well as demand associated with reconstruction in the aftermath of the Great East Japan Earthquake and disaster prevention-related projects.

In terms of product performance, customer needs have become increasingly sophisticated and diverse in recent years. We will ensure the stable supply of the high-quality products that are a source of customer confidence, and will also promote development of new products that precisely address customer requirements, which we intend to clarify through enhanced information sharing between sales and manufactur-

ing departments. In all these endeavors, we will aim to improve profitability.

Response to increasing electricity charges

Following the suspension of operations of nuclear power stations, Tokyo Electric Power Company and Kansai Electric Power Company increased their electricity rates from April 2012 and April 2013, respectively. Moreover, increased prices of liquefied natural gas (LNG) and crude oil, which are used as fuel for thermal power generation, have resulted in higher electricity costs. In addition, there is concern that prices of imported materials used in manufacturing will increase in line with the depreciation of the yen. Thus, the Japanese electric arc furnace steel industry will continue to operate in a severe business environment.

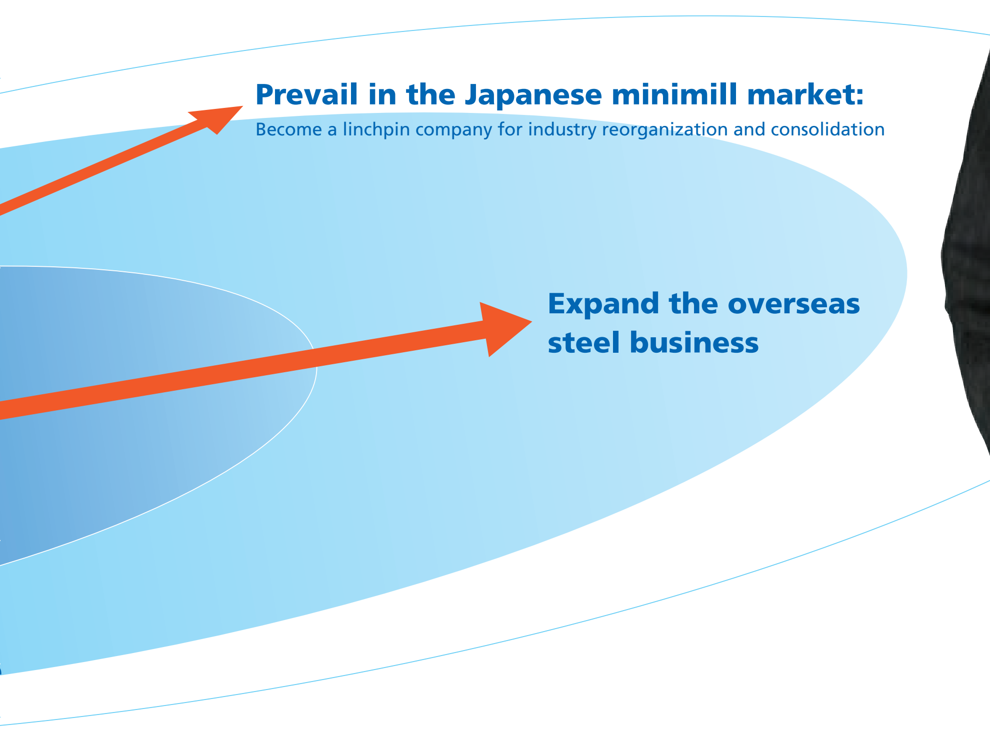
In response to the rise in manufacturing costs, the Group will leverage its accumulated expertise to implement thorough cost-reduction initiatives centering on the reduction of electricity consumption. We will also work to pass on the portion of the increased cost that cannot be absorbed through cost-reduction efforts to sales prices.

Trend of the Vietnamese economy and progress of the expansion plan for the production sites in northern and southern Vietnam

With regard to the Vietnamese economy, which has been experiencing a temporary slowdown due to the government's tight monetary policy to combat inflation, there are growing indications that a modest recovery is afoot.

In these circumstances, Vina Kyoei Steel Ltd. (VKS), which is located in southern Vietnam and whose new production line is scheduled to commence in 2014, is strengthening sales and marketing. In the fiscal year ended December 31, 2012*, VKS achieved annual production and sales of 400,000 tons, its second-highest result, despite weak demand. At Kyoei Steel Vietnam Co., Ltd. (KSVC), our base in northern Vietnam, design of a new production line is progressing and the start of operation of the line is targeted for 2015.

*The account closing month of VKS is December.



Aspiring to be a linchpin company for industry reorganization and consolidation

For the Japanese electric arc furnace steel industry, the need for reorganization and consolidation has been an issue for some time. However, as the number of players is still large in relation to the market size, fierce competition continues. The Company's stated policy, namely, that it aspires to be a linchpin company for industry reorganization and consolidation, remains unchanged. The Company will continue to be actively involved in industry reorganization.

Returns to shareholders

At Kyoei Steel, we believe that enhancing corporate value through business activities is the key to maximizing shareholder value. Our dividend policy is to ensure reasonable profit distribution while securing internal reserves necessary for reinforcing the foundation of the Japanese business and for expansion of the overseas business from a long-term perspective with a view to achieving future growth. In accordance with this policy, the Company paid a year-end dividend of ¥15 per share, unchanged from the forecast. Including the interim dividend of ¥5, dividends for the full year amounted to ¥20.

I would greatly appreciate your continued support and understanding.

July 2013

Koji Morita Representative Director

Overseas Business

Progress of Projects to Expand Production Capacity

Although growth of the Vietnamese economy has slowed lately, demand for steel, particularly demand for steel products for construction, is expected to expand over the medium to long term in line with the rise in population and initiatives to improve the country's infrastructure. Many projects are underway in Vietnam, including the construction of subways in major cities and the upgrading of ports.

In view of Vietnam's favorable prospects for economic growth, we are executing projects to expand production capacity at our two bases in Vietnam, one in the south and the other in the north, with the aim of propelling our steel business in Vietnam, which began in 1994, to a much higher level.

Plans call for construction of a production line featuring integrated melting and rolling facilities at each plant. Once completed, annual production capacity in Vietnam will increase more than twice the current 800,000 tons. At Vina Kyoei Steel in southern Vietnam, construction of a new line commenced in 2013 and is progressing smoothly toward the scheduled start of operation in mid-2014.

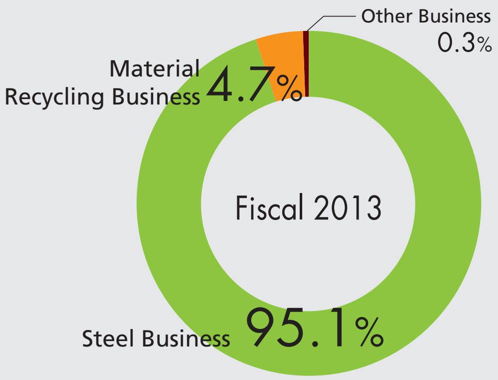
Business Overview

Kyoei at a Glance

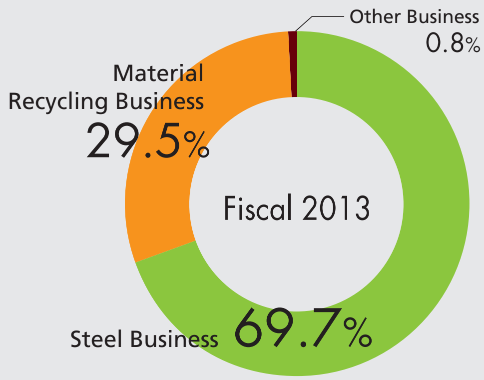
Kyoei Steel's main business segments are the steel business and the material recycling business, with the steel business using electric arc furnaces comprising Kyoei Steel's core business. Sales from the steel business account for more than 90% of total sales, while the material recycling business, despite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

In fiscal 2013 the Company recorded net sales of ¥135,283 million in the steel business and ¥6,644 million in the material recycling business, while operating income was ¥3,542 million for the steel business and ¥1,501 million for the material recycling business.

Composition Ratio of Net Sales



Composition Ratio of Operating Income



Kyoei Steel Vietnam Company (KSVC)

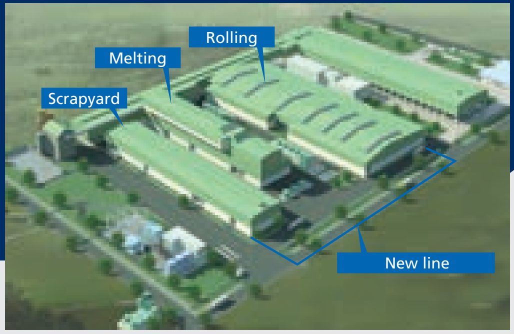
- **Location:** Ninh Bình Province, Northern Vietnam
- **Established:** September 2011
- **Ownership ratio:** 60%
- **Current production capacity:** 300,000 tons / year

Established as Kyoei Steel's latest overseas base, KSVC at present principally manufactures and sells rebar.
Construction of a production line featuring integrated melting and rolling facilities is planned for KSVC and scheduled to start operation in 2015.

Vina Kyoei Steel Ltd. (VKS)

- **Location:** Ba Ria-Vung Tau Province, Southern Vietnam
- **Established:** January 1994
- **Ownership ratio:** 45%
- **Current production capacity:** 450,000 tons / year

VKS's annual production capacity will reach 1,000,000 tons upon completion of the production line, currently under construction, equipped with integrated melting and rolling facilities.



Artist's rendition of the new line at VKS

Steel Business

Line of Business

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

TOPICS

Hamaoka Nuclear Power Station of Chubu Electric Power Co., Inc. adopts Kyoei Steel's threaded rebar for its seawall

Following the Great East Japan Earthquake and the accident at Fukushima Daiichi Nuclear Power Station that occurred in March 2011, an 18-meter-high seawall was constructed at the Hamaoka Nuclear Power Station of the Chubu Electric Power Co., Inc. as a tsunami countermeasure. Kyoei Steel's high-tensile rebar was adopted for the foundation of this seawall. Although operation of almost all nuclear power plants in Japan is currently suspended, there are expected to be more such projects in the future for strengthening disaster-prevention facilities.

Positioning rebars for the portion of the seawall that extends beneath the surface into the bedrock to form the foundation of the structure. (Photo from the website of Chubu Electric Power Co., Inc.)

Performance of Vina Kyoei Steel

Although demand for steel products for construction was lackluster, reflecting the slowing of the growth of the Vietnamese economy, VKS's production and sales amounted to 400,000 tons in the fiscal year ended December 31, 2012, the second highest result in VKS's history, exceeded only by 420,000 tons in fiscal 2010. Such high-level sales performance relative to the dwindling general economy reflects VKS's strong competitiveness as well as its definite intention to prepare for the upcoming 1,000,000 tons sales arena in 2014. As a result, VKS earned profit for the full year whereas several other steelmakers in Vietnam recorded losses.

Foundation work for new lines

Overview of the new office

Material Recycling Business

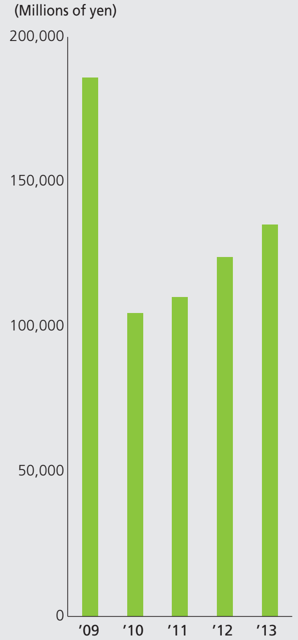
Performance by Segment

● Product shipments increased approximately 50,000 tons or 3.5% year on year, reflecting the trend toward the recovery of demand from the third quarter onward, but the product price decreased ¥6,900 per ton. The price of steel scrap, the principle raw material of the steel business, began increasing from the third quarter onward but the average consumption price for the full year declined ¥5,200 per ton from the previous year. As a result, the metal spread (price difference between the steel product sales price and the steel scrap price) decreased ¥1,600.

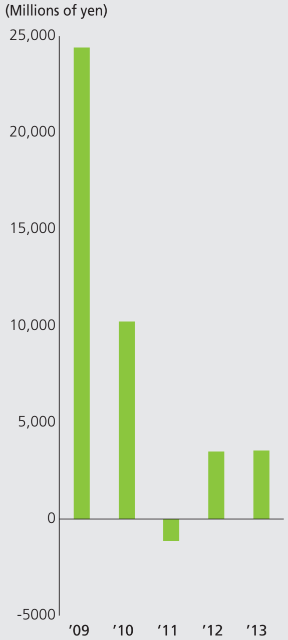
● Segment sales increased ¥11,216 million or 9.0% year on year to ¥135,283 million and operating income increased ¥49 million or 1.4% to ¥3,542 million.

● An affiliated company in Vietnam (Vina Kyoei Steel Ltd.), which had been an affiliate accounted for by the equity method, became a consolidated subsidiary at the end of the previous fiscal year. Thus, segment sales and operating income include Vina Kyoei Steel's sales of ¥23,122 million and operating income of ¥184 million.

Net Sales



Operating Income



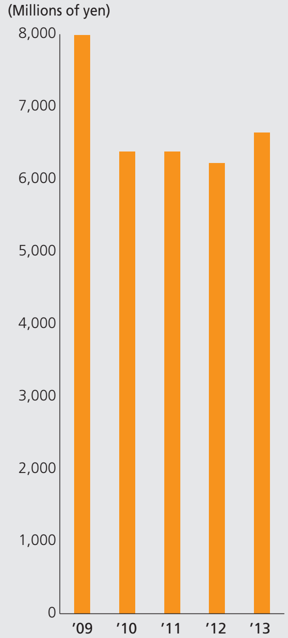
Line of Business

The Company's material recycling business, which utilizes the heat from the electric arc furnaces reaching thousands of degrees Celsius to melt and render potentially infectious medical waste and industrial waste harmless, was the first commercially successful business of that kind established by a Japanese electric arc steelmaker and has been operating for over 25 years. In the patented MESSCUD system, the company distributes specially designed containers for medical waste to partner medical institutions, and collects and melts the waste in an electric arc furnace together with the containers. Furthermore, in 2005, a gasification furnace was built to complement the electric arc furnace at the Yamaguchi Division and a system that reuses automobile shredder residue (ASR) and organic non-metal waste was developed. The gas produced by this system is used in the rolling process at the same plant.

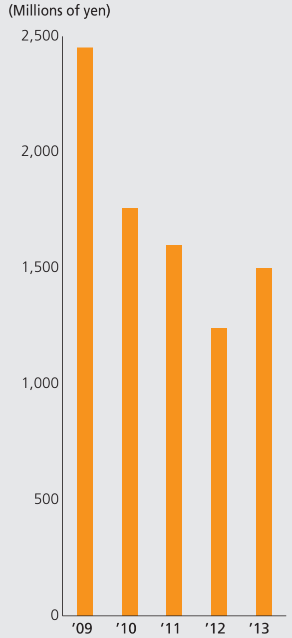
Performance by Segment

● Due to expansion of high-value-added waste disposal and cultivation of new customers, segment sales increased ¥423 million or 6.8% year on year to ¥6,644 million and operating income rose ¥261 million or 21.0% to ¥1,501 million.

Net Sales



Operating Income



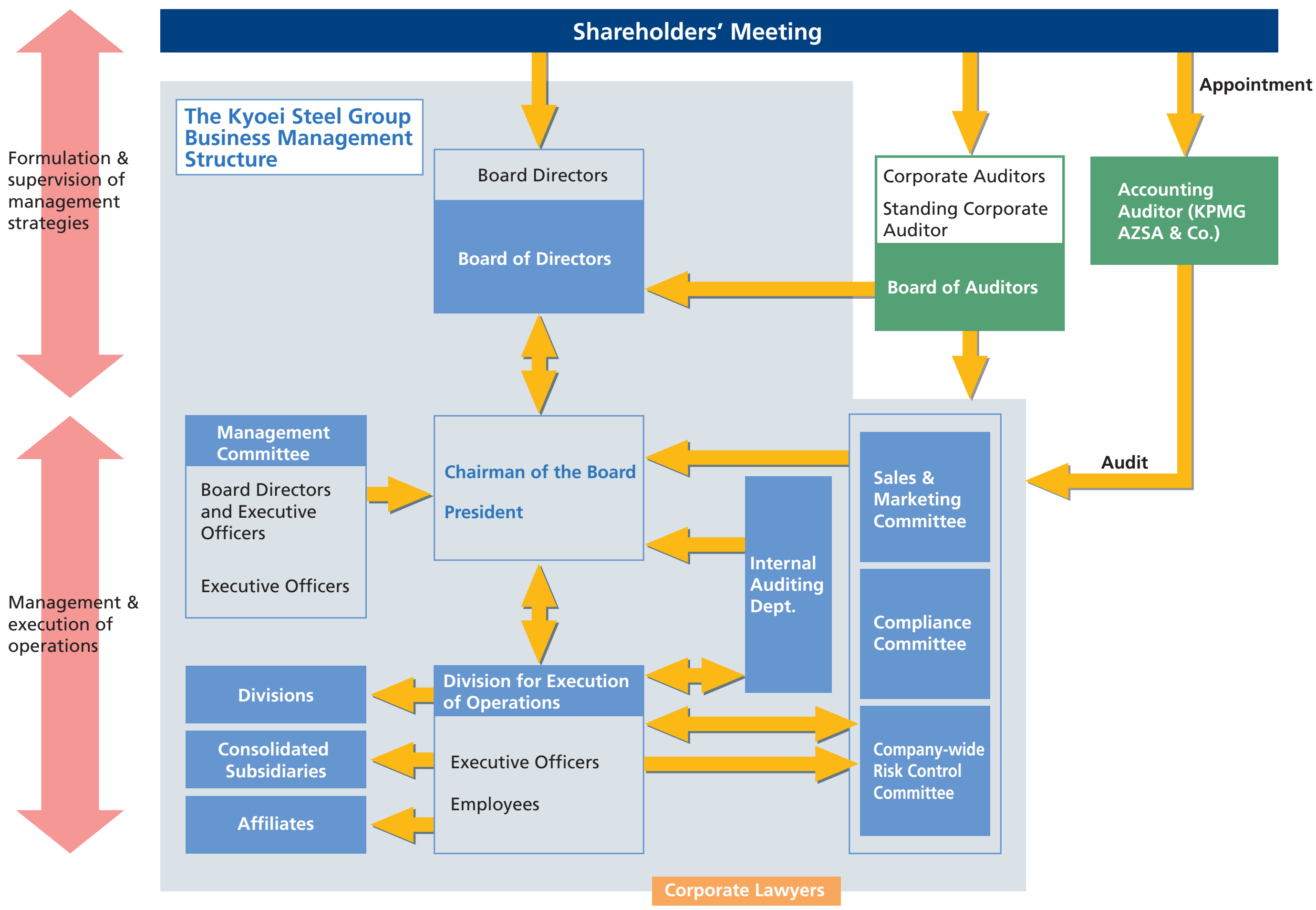
Corporate Governance

Basic Concept

Kyoei Steel believes that in order to coexist with society and be a good corporate citizen making meaningful contributions to society, it must practice a highly transparent form of management. To this end, the Company has set as its management goals:

1) a management structure that is capable of promptly and appropriately responding to changes in the business environment, 2) rational management decision-making and effective execution of duties that fulfill the demands of accountability, 3) prompt/appropriate disclosures to stakeholders, and 4) a sound set of ethics not only from the viewpoint of legal compliance but also from the viewpoint of conformity with social norms. And in order to achieve these goals and put the organization into action, the Company, considering the enhancement of corporate governance as a crucially important task, is establishing an appropriate organizational structure and implementing necessary measures.

Corporate Governance Structure



Board Directors, Corporate Auditors and Executive Officers

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

Board Directors and Corporate Auditors

Chairman and Representative Director	Hideichiro Takashima
Representative Director	Koji Morita
Board Directors	Nobuyuki Fukada
	Takeshi Ogata
	Koji Kawasaki
	Toshimasa Zako
	Naoyoshi Goroku
	Yoshihiro Matsuda
	Akira Okada
	Kazuyoshi Ota
	Yoshihiro Shima
	Haruo Hiraiwa
	Kenji Ishihara
	Yasuo Imai
Corporate Counselors	Akihiko Takashima
	Ryutaro Yoshioka
	Hirofumi Nagata
Standing Corporate Auditor	Shuji Ichihara
Corporate Auditors	Hirofumi Iseki
	Makoto Nakaoka
	Akira Kotani

Executive Officers

President	Koji Morita
Senior Executive Managing Officers	Nobuyuki Fukada
	Takeshi Ogata
Executive Managing Officers	Koji Kawasaki
	Toshimasa Zako
	Naoyoshi Goroku
	Yoshihiro Matsuda
Executive Officers	Akira Okada
	Kazuyoshi Ota
	Yoshihiro Shima
	Haruo Hiraiwa
	Kenji Ishihara
	Osamu Narumi
	Yoshiki Hoshi
	Atsushi Okayama
	Naoki Harima
	Kaoru Yamakawa
	Yoshio Hata
	Kotaro Katsurada
	Masahiro Monkawa

FINANCIAL SECTION

DATA SECTION

Consolidated Five-Year Summary

For the years ended March 31, 2009, 2010, 2011, 2012 and 2013

	2009	2010	2011	2012	**2013**
	Thousands of tons				
Product shipments					
Finished products	1,717	1,431	1,462	1,549	**1,603**
Billet (semi-finished products)	259	205	243	297	**303**
	Millions of yen				
For the year:					
Net sales	¥194,345	¥111,485	¥116,828	¥130,650	**¥142,305**
Gross profit	36,672	19,999	8,124	12,780	**13,256**
Operating income (loss)	26,270	11,454	(206)	4,166	**4,343**
Net income (loss) before income taxes	23,388	11,121	(386)	3,151	**3,738**
Net income (loss)	14,009	6,691	(794)	1,692	**2,069**
Research and development expenses	152	44	43	29	**95**
Depreciation and amortization	4,869	4,992	4,806	4,644	**4,254**
Capital expenditures	5,173	4,815	2,706	4,991	**3,809**
Per share amounts (yen):					
Net income (loss), basic	318.72	152.23	(18.22)	38.89	**47.59**
Net income (loss), diluted	—	—	—	—	**—**
Cash dividends applicable to the year	40.00	40.00	20.00	20.00	**20.00**
At year-end:					
Total assets	¥153,711	¥151,125	¥146,453	¥164,486	**¥165,129**
Working capital	43,120	50,334	51,265	61,950	**63,811**
Interest bearing debt	1,540	1,729	1,665	10,877	**11,231**
Net assets	119,154	124,905	119,973	122,725	**125,257**
Shareholders' equity*	118,387	124,076	119,064	120,344	**122,515**
Ratios:					
Return on equity (%)	12.4	5.5	(0.7)	1.4	**1.7**
Return on total assets (%)	16.6	7.7	(0.0)	2.8	**2.9**
Debt to equity ratio (times)	0.01	0.01	0.01	0.09	**0.09**
Shareholders' equity* to total assets (%)	77.0	82.1	81.3	73.2	**74.2**
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	**44,899**
Number of employees	1,045	1,061	1,077	1,299	**1,327**
Stock price (yen):					
High	¥2,590	¥2,805	¥2,082	¥1,692	**¥1,781**
Low	¥911	¥1,544	¥876	¥1,011	**¥1,105**

*Shareholders' equity = Net assets - Minority interest

Financial Review (Consolidated)

1. Consolidated Operating Results

Analysis of Operating Results

The Japanese economy in the consolidated fiscal year, from April 1, 2012 to March 31, 2013, under review continued to stagnate for a majority of the term due to the strong yen, slowing in the global economy and other factors, but beginning in the latter half of the third quarter, the potential for a recovery emerged owing to corrections in yen currency markets and expectations for economic stimulus measures.

In the construction steel market, the main demand sector for KYOEI STEEL, LTD. ("the Company") and its consolidated subsidiaries ("the Group"), product demand was slow through the second quarter due to customers delaying steel purchases against a backdrop of falling scrap prices and other factors. Demand however began to recover in the third quarter. Prices for steel scrap, the main raw material, were in a downtrend through the second quarter, but beginning in the latter half of the third quarter they rebounded and began increasing as the result of increased exports and expectations for a recovery in the domestic economy.

Amid such conditions, the Group carried out production and sales in line with demand, raised product prices and worked to secure profits by reducing manufacturing costs and through other measures. However, the metal spread (price difference between product price and steel scrap price) began to close due to prices for steel scrap starting to rise in the latter half of the third quarter, which resulted in profits falling somewhat short of our targets.

As a result of these developments, the consolidated sales of the Group totaled ¥142,305 million, a year-on-year increase of ¥11,655 million (8.9%). In terms of income, consolidated operating income increased ¥177 million year on year to an operating income of ¥4,343 million (4.2%). Consolidated net income increased ¥377 million to a net income of ¥2,069 million (22.3%).

Performance results by business segment.

(1) Steel Business

In the steel business, domestic product shipments increased approximately 50,000 tons, or 3.5%, year-on-year on the impact of a recovery in demand that began in the third quarter, but product prices fell by ¥6.9 thousand per ton. Prices for scrap steel, the main raw material, rebounded and began rising in the third quarter, but the average consumption unit price for the full year dropped by ¥5.2 thousand per ton compared to the previous year.

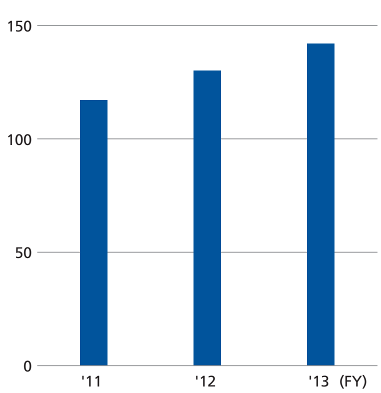
The results for the segment were net sales of ¥135,283 million, up ¥11,216 million (9.0%) from the previous year, and report a profit of operating income of ¥3,542 million, up ¥49 million (1.4%).

An affiliate in Vietnam, Vina Kyoei Steel Ltd. (VKS) changed in status at the end of the previous consolidated fiscal year from equity-method affiliate to consolidated subsidiary, so figures for the fiscal year under review include the company's net sales of ¥23,122 million and operating income of ¥184 million.

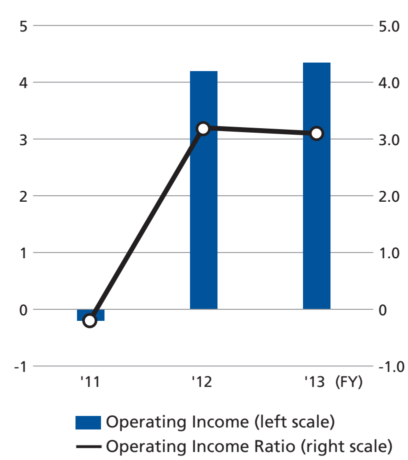
(2) Material Recycling Business

In the material recycling business segment, by acquiring customers for high value-added waste processing and by developing new customers, segment net sales totaled ¥6,644 million, up ¥423 million (6.8%) from the previous fiscal year,

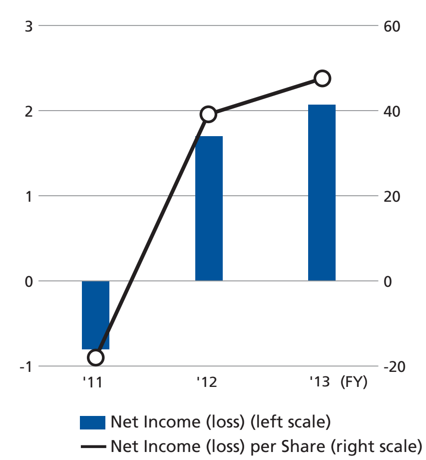
Net Sales
(Billions of yen)



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



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



and operating income was ¥1,501 million, a year-on-year increase of ¥261 million (21.0%).

(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 ¥377 million, up ¥16 million (4.4%) from the previous year, and operating income was ¥39 million, down ¥6 million (13.1%) from the previous year.

2. Analysis of Financial Situation

i. Consolidated Assets, Liabilities and Net Assets Conditions

(1) Assets

Current assets decreased by ¥251 million, or 0.3%, from ¥88,184 million as of March 31, 2012 to ¥87,933 million as of March 31, 2013. This decrease in current assets was mainly a result of increasing of marketable securities ¥3,600 million and decreasing of notes and accounts receivable ¥3,387 million, goods and products ¥477 million.

Noncurrent assets increased by ¥894 million, or 1.2%, from ¥76,302 million as of March 31, 2012 to ¥77,196 million as of March 31, 2013. This increase in noncurrent assets was mainly a result of increasing of unconsolidated subsidiaries and affiliated companies ¥1,167 million and decreasing of investments in long-term loans receivable ¥531 million.

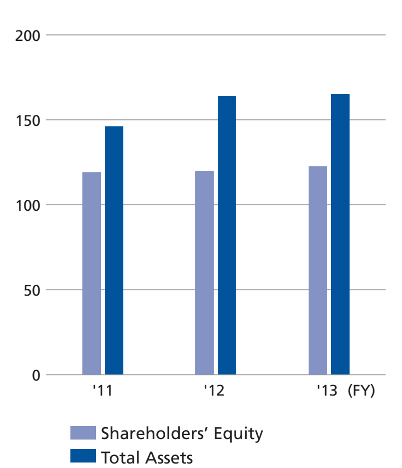
As a result, total assets increased by ¥643 million, or 0.4%, from ¥164,486 as of March 31, 2012 to ¥165,129 million as of March 31, 2013.

(2) Liabilities

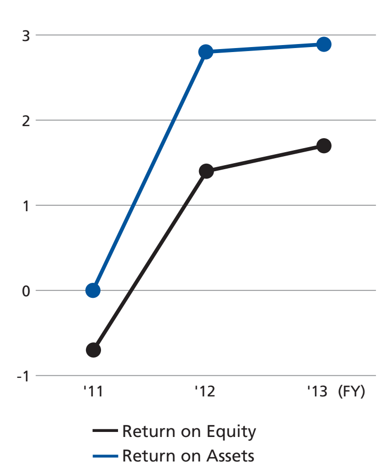
Current liabilities decreased by ¥1,629 million, or 5.1% from ¥31,922 as of March 31, 2012 to ¥30,293 million as of March 31, 2013. This decrease in current liabilities was mainly a result of decrease of notes and accounts payable of ¥723 million and income taxes payable of ¥842 million.

Long-term liabilities decreased by ¥ 261 million, or 2.6% from ¥9,839 million as of March 31, 2012 to ¥9,579 million as of March 31, 2013. This decrease in long-term liabilities was mainly a result of long-term debt ¥121 million and accrued employees' severance and retirement benefits of ¥102 million and increasing of deferred tax liability ¥176 million.

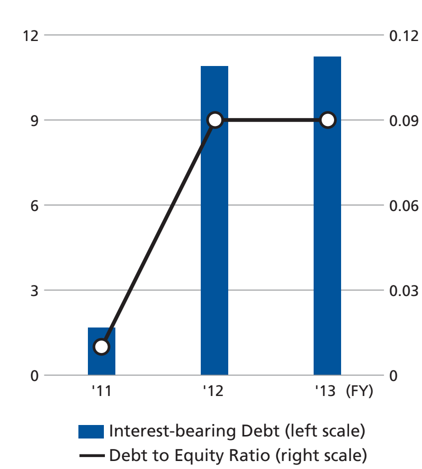
Shareholders' Equity/Total Assets (Billions of yen)



Return on Equity/Return on Assets (%)



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



As a result, total liabilities decreased by ¥1,890 million, or 4.5% from ¥41,761 million as of March 31, 2012 to ¥39,872 million as of March 31, 2013.

(3) Net Assets

Net assets increased by ¥ 2,533 million, or 2.1% from ¥122,725 million as of March 31, 2012 to ¥125,257 million as of March 31, 2013 due to net income of ¥2,069 million, cash dividends of ¥870 million, increase of ¥561 million in foreign currency translation adjustment and increase of ¥361 million in minority interests.

As a result, net assets per share increased by ¥52.83 from ¥2,766.24 at the previous fiscal year-end to ¥ 2,819.07. Shareholders' equity to total assets also increased to 74.2% from 73.2% at the previous fiscal year-end.

ii. Cash Flow Conditions

The ending balance for cash and cash equivalents as of March 31, 2013 increased by ¥5,996 million from ¥23,220 as of March 31, 2012 to ¥29,216 million. Below are the cash flow summaries for the current consolidated fiscal year.

(1) Cash Flows from Operating Activities

Net cash from operating activities was income of ¥9,839 million. The major components of net cash flows from operating activities were net income before income taxes of ¥3,738 million, depreciation and amortization of ¥4,254 million, decrease of ¥3,489 million in notes and accounts receivable, decrease of ¥1,016 million in inventories, decrease of ¥796 million in trade notes and accounts payable and payment of income taxes of ¥2,352 million.

(2) Cash Flows from Investing Activities

Net cash from investing activities was expense of ¥3,234 million. The major components of net cash flows from investing activities were increase in time deposits of ¥1,211 million, decrease of time deposits of ¥2,282 million, payment for acquisition of marketable securities of ¥1,800 million, proceeds from sales and redemption of marketable securities of ¥2,600 million, payment for purchase of investments in securities of ¥1,351 million and payment for purchase of property, plant and equipment of ¥4,420 million.

(3) Cash Flows from Financing Activities

Net cash from financing activities was outgo of ¥1,174 million. The major components of net cash flows from financing activities were net decrease in short-term loans payable ¥130 million, repayment of long-term debt ¥138 million, payment of cash dividends distributions ¥870 million.

3. Dividends

It is our fundamental principle to reward our shareholders by increasing corporate value. Therefore, we aim to ensure the necessary cash reserve for such important business activities as growth-driven investment in mergers and capital expenditures. For fiscal 2013, we paid an annual dividend of 20 yen per share.

4. Growth Strategy

In order to deal with the major changes in the business environment surrounding the Group, we established a Medium- to Long-Term Business Vision in April 2010 in which the following items are designated as business priorities. We work together to improve the Company's value.

(1) Move ahead on growth strategy

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

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

Ⅱ. Growth in the Overseas Steel Business

The Company has been moving forward with plans to increase capacity at our two affiliates in Vietnam, VKS and Kyoei Steel Vietnam Co., Ltd. (KSVC), in order to accommodate demand increases associated with mid- and long-term economic growth overseas, particularly in Southeast Asia.

VKS in southern Vietnam currently has only rolling lines (the downstream process) and annual production capacity is 450,000 tons, but we have recently begun to work on an integrated steel manufacturing and rolling line with an annual capacity of 500,000 tons. It is slated to go into operation in the first half of 2014.

KSVC in northern Vietnam is a new affiliate that was created by acquiring a steel bar rolling plant in March 2012 and establishing a joint venture with a local partner. In October 2012, we ended the alliance with the partner in order to raise operating efficiency and with the participation of two Japanese trading companies the capital structure was changed to solely Japanese equity. We are moving forward with a construction project at this company as well, an integrated steel manufacturing and rolling line with an annual capacity of 500,000 tons, which will supplement the existing rolling line. Operations are scheduled to go online in 2015.

The projects at both affiliates are projected to bring the Group's annual overseas production capacity to approximately 1.8 million tons by 2019 and propel us forward significantly toward the realization of our growth strategy.

Ⅲ. Achieve steady growth in our materials recycling business

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

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

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

Consolidated Balance Sheets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Assets			
Current assets:			
Cash and time deposits	¥ 15,923	¥ 15,398	$ 169,286
Notes and accounts receivable	35,695	39,081	379,492
Marketable securities (Notes 16 and 17)	14,000	10,400	148,841
Inventories (Note 4)	20,393	21,065	216,808
Deferred tax assets (Note 9)	381	493	4,051
Other current assets	1,589	1,800	16,893
Allowance for doubtful accounts	(48)	(53)	(510)
Total current assets	87,933	88,184	934,861
Property, plant and equipment:			
Buildings and structures (Note 6)	36,002	35,398	382,756
Machinery and equipment (Note 6)	87,157	85,063	926,611
Land (Note 6)	26,748	26,737	284,372
Construction in progress	739	423	7,857
Other (Note 6)	2,059	2,117	21,889
Total	152,705	149,738	1,623,485
Accumulated depreciation	(92,175)	(89,240)	(979,960)
Net property, plant and equipment	60,530	60,498	643,525
Investments and other assets:			
Investments in securities (Notes 16 and 17)	6,437	6,062	68,435
Unconsolidated subsidiaries and affiliated companies (Note 17)	6,790	5,623	72,188
Investments in long-term loans receivable	258	789	2,743
Intangible assets, net	1,258	1,352	13,374
Deferred tax assets (Note 9)	213	236	2,265
Other noncurrent assets	1,792	1,823	19,052
Allowance for doubtful accounts	(82)	(81)	(872)
Total investments and other assets	16,666	15,804	177,185
Total assets	¥165,129	¥164,486	$1,755,571

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

KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2013 and 2012	Millions of yen 2013	 2012	Thousands of U.S. dollars (Note 1) 2013
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	¥ 16,151	¥ 16,875	$ 171,710
Bank loans (Note 6)	6,041	5,549	64,225
Long-term debt due within one year (Note 6)	130	139	1,382
Income taxes payable	736	1,578	7,825
Accrued employees' bonuses	636	597	6,761
Accrued directors' bonuses	42	35	446
Other current liabilities	6,557	7,149	69,711
Total current liabilities	30,293	31,922	322,060
Long-term liabilities:			
Long-term debt (Note 6)	5,047	5,168	53,657
Deferred tax liabilities (Note 9)	548	372	5,826
Deferred tax liabilities for revaluation	3,492	3,492	37,125
Accrued employees' severance and retirement benefits (Note 13)	127	229	1,350
Accrued directors' severance and retirement benefits	16	14	170
Other long-term liabilities	349	564	3,711
Total long-term liabilities	9,579	9,839	101,839
Total liabilities:	39,872	41,761	423,899
Contingent liabilities (Note 5)			
Net assets (Note 8)			
Shareholders' equity			
Common stock	18,516	18,516	196,853
Authorized – 150,300,000 shares in 2013			
150,300,000 shares in 2012			
Issued – 44,898,730 shares in 2013			
44,898,730 shares in 2012			
Capital surplus	21,493	21,493	228,503
Retained earnings	77,300	76,101	821,816
Treasury stock	(1,699)	(1,635)	(18,063)
Total shareholders' equity	115,610	114,475	1,229,109
Accumulated other comprehensive income			
Valuation difference on available for sales securities	1,324	965	14,076
Deferred gains and losses on hedges	117	1	1,244
Revaluation reserve for land	5,329	5,329	56,656
Foreign currency translation adjustments	135	(426)	1,435
Total accumulated other comprehensive income	6,905	5,869	73,411
Minority interests	2,742	2,381	29,152
Total net assets	125,257	122,725	1,331,672
Total liabilities and net assets	¥165,129	¥164,486	$1,755,571

The accompanying notes 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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net sales	¥142,305	¥130,650	$1,512,917
Cost of sales	129,049	117,870	1,371,986
Gross profit	13,256	12,780	140,931
Selling, general and administrative expenses (Note 7)	8,913	8,614	94,758
Operating income	4,343	4,166	46,173
Other income (expenses):			
Interest income	338	35	3,593
Dividend income	117	123	1,244
Interest expense	(410)	(109)	(4,359)
Equity in net income of unconsolidated subsidiaries and affiliates	2	292	21
Gain on sale and disposal of property, plant and equipment	21	41	223
Gain on sale of scrap	123	67	1,308
Loss on sale and disposal of property, plant and equipment	(284)	(365)	(3,019)
Loss on sale of investments in securities	(185)	—	(1,967)
Impairment loss on fixed assets (Note 18)	—	(526)	—
Loss on step acquisitions	(417)	—	(4,433)
Cash sales discount	(38)	(49)	(404)
Commitment fees	—	(4)	—
Loss on sales of stocks of subsidiaries and affiliates	—	(577)	—
Other, net	128	57	1,360
Other income (expenses), net	(605)	(1,015)	(6,433)
Net income before income taxes	3,738	3,151	39,740
Income taxes (Note 9)			
Current	1,413	1,643	15,022
Deferred	43	(254)	457
Total income taxes	1,456	1,389	15,479
Income before minority interests	2,282	1,762	24,261
Minority interests in net income of consolidated subsidiaries	213	70	2,264
Net income	¥ 2,069	¥ 1,692	$ 21,997

	Yen		U.S. dollars (Note 1)
Amounts per share (Note 14)	2013	2012	2013
Net income			
Basic	¥47.59	¥38.89	$0.51
Diluted	—	—	—
Cash dividends applicable to the year	¥20.00	¥20.00	$0.21

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

Consolidated Statements of Comprehensive Income

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Income before minority interests	¥2,282	¥1,762	$24,261
Other comprehensive income			
Valuation difference on available for sales securities	359	(18)	3,817
Deferred gains and losses on hedges	116	1	1,233
Revaluation reserve for land	—	524	—
Foreign currency translation adjustments	737	—	7,835
Share of other comprehensive income of affiliates accounted for using equity method	(0)	(49)	(0)
Other comprehensive income, net (Note 19)	1,212	458	12,885
Comprehensive income	¥3,494	¥2,220	$37,146
Breakdown of comprehensive income:			
Comprehensive income attributable to owners of the parent	¥3,105	¥2,149	$33,010
Comprehensive income attributable to minority interests	¥ 389	¥ 71	$ 4,136

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

Consolidated Statements of Changes in Net Assets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Shareholders' equity			
Common stock			
Balance at the beginning of current period	¥ 18,516	¥ 18,516	$ 196,853
Balance at the end of current period	18,516	18,516	196,853
Capital surplus			
Balance at the beginning of current period	21,493	21,493	228,503
Balance at the end of current period	21,493	21,493	228,503
Retained earnings			
Balance at the beginning of current period	76,101	75,322	809,069
Changes during the period			
Cash dividends	(870)	(870)	(9,250)
Net income	2,069	1,692	21,997
Reversal of revaluation reserve for land	—	(43)	—
Total changes during the period	1,199	779	12,747
Balance at the end of current period	77,300	76,101	821,816
Treasury stock			
Balance at the beginning of current period	(1,635)	(1,635)	(17,383)
Changes during the period			
Purchase of treasury stock	(64)	(0)	(680)
Total changes during the period	(64)	(0)	(680)
Balance at the end of current period	(1,699)	(1,635)	(18,063)
Total shareholders' equity			
Balance at the beginning of current period	114,475	113,696	1,217,042
Changes during the period			
Cash dividends	(870)	(870)	(9,250)
Net income	2,069	1,692	21,997
Reversal of revaluation reserve for land	—	(43)	—
Purchase of treasury stock	(64)	(0)	(680)
Total changes during the period	1,135	779	12,067
Balance at the end of current period	¥115,610	¥114,475	$1,229,109

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

KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2013 and 2012	Millions of yen 2013	 2012	Thousands of U.S. dollars (Note 1) 2013
Accumulated other comprehensive income			
Valuation difference on available for sales securities			
Balance at the beginning of current period	¥ 965	¥ 982	$ 10,259
Changes during the period			
Net changes in items other than shareholders' equity	359	(17)	3,817
Total changes during the period	359	(17)	3,817
Balance at the end of current period	1,324	965	14,076
Deferred gains and losses on hedges			
Balance at the beginning of current period	1	—	11
Change during the period			
Net changes in items other than shareholders' equity	116	1	1,233
Total changes during the period	116	1	1,233
Balance at the end of current period	117	1	1,244
Revaluation reserve for land			
Balance at the beginning of current period	5,329	4,762	56,656
Changes during the period			
Net changes in items other than shareholders' equity	—	567	—
Total changes during the period	—	567	—
Balance at the end of current period	5,329	5,329	56,656
Foreign currency translation adjustments			
Balance at the beginning of current period	(426)	(376)	(4,529)
Changes during the period			
Net changes in items other than shareholders' equity	561	(50)	5,964
Total changes during the period	561	(50)	5,964
Balance at the end of current period	135	(426)	1,435
Total accumulated other comprehensive income			
Balance at the beginning of current period	5,869	5,368	62,396
Changes during the period			
Net changes in items other than shareholders' equity	1,036	501	11,015
Total changes during the period	1,036	501	11,015
Balance at the end of current period	6,905	5,869	73,411
Minority interests			
Balance at the beginning of current period	2,381	909	25,314
Changes during the period			
Net changes in items other than shareholders' equity	361	1,472	3,838
Total changes during the period	361	1,472	3,838
Balance at the end of current period	2,742	2,381	29,152
Total net assets			
Balance at the beginning of current period	122,725	119,973	1,304,753
Changes during the period			
Cash dividends	(870)	(870)	(9,250)
Net income	2,069	1,692	21,997
Reversal of revaluation reserve for land	—	(43)	—
Purchase of treasury stock	(64)	(0)	(680)
Net changes in items other than shareholders' equity	1,397	1,973	14,852
Total changes during the period	2,532	2,752	26,919
Balance at the end of current period	¥125,257	¥122,725	$1,331,672

Consolidated Statements of Cash Flows

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash flows from operating activities:			
Net income before income taxes	¥ 3,738	¥ 3,151	$ 39,740
Depreciation and amortization	4,254	4,644	45,226
Impairment loss on fixed assets	—	526	—
Decrease in provision	(60)	(60)	(638)
Equity in net income of unconsolidated subsidiaries and affiliates	(2)	(292)	(21)
Loss on sale of investments in securities	185	—	1,967
Loss on devaluation of investments in securities	29	—	308
Loss on sales of stocks of subsidiaries and affiliates	—	577	—
Loss on sale and disposal of property, plant and equipment	263	324	2,796
Interest and dividend income	(455)	(158)	(4,837)
Interest expense	410	109	4,359
Decrease (increase) in notes and accounts receivable	3,489	(9,883)	37,093
Decrease in inventories	1,016	611	10,802
Increase (decrease) in trade notes and accounts payable	(796)	4,397	(8,463)
Other	55	1,282	584
Subtotal	12,126	5,228	128,916
Interest and dividends received	470	158	4,997
Interest paid	(405)	(85)	(4,306)
Income taxes refund	(2,352)	1,498	(25,005)
Net cash provided by operating activities	9,839	6,799	104,602
Cash flows from investing activities:			
Increase in time deposits	(1,211)	(2,086)	(12,875)
Decrease in time deposits	2,282	2,033	24,261
Payment for acquisition of marketable securities	(1,800)	(1,300)	(19,137)
Proceeds from sale and redemption of marketable securities	2,600	2,700	27,642
Payment for purchase of investments in securities	(1,351)	(1,466)	(14,363)
Proceeds from sale of marketable securities and investments	167	—	1,775
Payment for sale of investments in subsidiaries resulting in change in scope of consolidation (Note 12)	—	(354)	—
Increase in money deposited	(100)	(100)	(1,063)
Decrease in money deposited	—	100	—
Investments in loans	(60)	(68)	(638)
Collection of loans	811	79	8,622
Payment for purchase of property, plant and equipment	(4,420)	(3,956)	(46,991)
Proceeds from sale of property, plant and equipment	31	88	330
Payment for purchase of intangibles	(99)	(196)	(1,053)
Other	(84)	(588)	(892)
Net cash used in investing activities	(3,234)	(5,114)	(34,382)
Cash flows from financing activities:			
Net decrease in short-term loans payable	(130)	—	(1,382)
Proceeds from long-term debt	—	5,000	—
Repayment of long-term debt	(138)	(468)	(1,467)
Repayments of installment payables	(6)	(6)	(64)
Payment for payback of treasury stock	—	(0)	—
Cash dividends paid	(870)	(870)	(9,250)
Dividends paid to minority shareholders	(28)	(49)	(298)
Other	(2)	(2)	(20)
Net cash provided (used in) by financing activities	(1,174)	3,605	(12,481)
Effect of exchange rate changes on cash and cash equivalents	565	(0)	6,007
Net increase (decrease) in cash and cash equivalents	5,996	5,290	63,746
Cash and cash equivalents at the beginning of the period	23,220	16,014	246,864
Increase in cash and cash equivalents from newly consolidated subsidiary (Note 12)	—	1,916	—
Cash and cash equivalents at the end of the period (Note 12)	¥29,216	¥23,220	$310,610

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

Notes to Consolidated Financial Statements

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act 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 Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The significant portions of the accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with accounting principles generally accepted in Japan.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥94.06 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements include the accounts of the parent company and all the subsidiaries over which it exerts substantial control either through majority ownership of voting stock or by other means. As a result, the accompanying consolidated financial statements include the accounts of the Company and eight consolidated subsidiaries for the years ended March 31, 2013 and 2012. All significant intercompany balances and transactions have been eliminated in consolidation.

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

(b) Foreign currency translation

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

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

(c) Cash and cash equivalents

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

(d) Securities

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

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

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

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

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

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

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

Buildings and structures:	31 years
Machinery and equipment:	14 years

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

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

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

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

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

(k) Accrued retirement benefits
Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the fair value of pension fund assets. Prior service cost is amortized as incurred by the straight-line method over a period of 10 years, which is shorter than the average remaining years of service of the employees participating in the plans. Actuarial gain or loss is amortized from the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of 10 years, which is less than the average remaining years of service of the employees participating in the plans.
The liability for retirement benefits to directors and corporate auditors is provided at the amount which would be required if they retired at the balance sheet date.

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

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

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

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

(o) Scope of funds in consolidated statement of cash flows
Cash on hand, bank deposits able to be withdrawn on demand, and short-term investments with original maturities of three months or less and which represent a minor risk of fluctuations in value.

(p) Accounting standard not yet adopted
"Accounting standard for Retirement Benefits "(ASBJ Statement No.26 May 17, 2012)
"Guidance on Accounting Standard for Retirement Benefits"(ASBJ Guidance No.25 May 17,2012)
(Please also refer to the ASBJ homepage, which has a summary in English of the accounting standard.)

(1) Summary
Under the amended rule, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss would be recognized within the net assets section, after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments. For determining method of attributing expected benefit to periods, the Standard now allows to choose benefit formula basis, as well as straight-line basis. Method for determination of discount rate has also been amended.

(2) Effective dates
Effective for the end of annual periods ending on or after March 31, 2014. Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.

(3) Effect of application of the standard
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. CHANGES IN METHODS OF ACCOUNTING
Change in method of depreciation (year ended March 31, 2013)
In accordance with revisions to the Japanese Corporation Tax Law, from the consolidated fiscal year under review, the method of depreciation for property, plant and equipment acquired on or after April 1, 2012 was changed based upon the revised Japanese Corporation Tax Law.
This change has had no significant effect on the profits or losses in the current consolidated fiscal year.

4. INVENTORIES

Inventories at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Merchandise	¥ 40	¥ 4	$ 425
Finished goods	7,343	7,702	78,067
Semi-finished goods	4,371	4,130	46,470
Work-in-process	810	1,205	8,612
Raw materials	2,105	2,414	22,380
Supplies	3,554	3,563	37,784
Rolls	2,170	2,047	23,070
Total	¥20,393	¥21,065	$216,808

5. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2013 and 2012 consisted of the following;

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
As endorser of notes discounted	¥ 800	¥ 772	$ 8,505
As guarantor of indebtedness			
Kyoei Steel Vietnam Co., Ltd.	2,454	872	26,090
Kyoei Steel Singapore Co., Ltd.	—	1,410	—
Total	¥2,454	¥2,282	$26,090

6. BANK LOANS

Bank loans consisted of unsecured loans payable from banks at the weighted average interest rate of 3.65% at March 31, 2013.

Long-term debt from banks at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Long-term debt from banks at average rates of 1.87% and 1.11% for current and noncurrent portions, respectively	¥5,177	¥5,307	$55,039
Less current portion	(130)	(139)	(1,382)
Long-term debt from banks	¥5,047	¥5,168	$53,657

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Buildings and structures	¥10,238	¥10,444	$108,845
Machinery and equipment	17,923	17,441	190,549
Land	16,984	16,984	180,566
Other	160	134	1,701
Total	¥45,305	¥45,003	$481,661

The annual maturities of long-term debt from banks as of March 31, 2013 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥ 130	$ 1,382
2015	388	4,125
2016	733	7,793
2017	716	7,612
2018 and thereafter	3,210	34,127
Total	¥5,177	$55,039

7. R&D EXPENSES

R&D expenses, included in selling, general and administrative expenses for the years ended March 31, 2013 and 2012, amounted to ¥95 million ($1,010 thousand) and ¥29 million, respectively.

8. NET ASSETS

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

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings 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 the Law and regulations. At the Board Directors' meeting held on April 30, 2013, the Board approved cash dividends amounting to ¥652 million ($6,932 thousand). The appropriation had not been accrued in the consolidated financial statements as of March 31, 2013.

9. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 38.0% for the year ended March 31, 2013, and approximately 40.6% for the year ended March 31, 2012.

The major components of deferred tax assets and liabilities as of March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Impairment losses	¥ 441	¥ 350	$ 4,688
Accrued enterprise taxes	65	143	691
Allowance for doubtful accounts	494	485	5,252
Accrued bonuses	246	228	2,615
Accrued directors' retirement benefits	80	144	851
Tax carry forward	174	112	1,850
Other	419	453	4,455
Gross deferred tax assets	1,919	1,915	20,402
Valuation allowance	(854)	(787)	(9,079)
Total deferred tax assets	1,065	1,128	11,323
Net deferred tax assets	¥ 46	¥ 357	$ 489
Deferred tax liabilities:			
Net unrealized gains/losses on other securities	(771)	(571)	(8,197)
Retained earnings appropriated for tax deductible reserves	(37)	(39)	(393)
Deferred gains and losses on hedges	(72)	(0)	(765)
Reserve for special depreciation for tax purposes	(7)	(14)	(74)
Prepaid pension expenses	(126)	(138)	(1,340)
Other	(6)	(9)	(64)
Total deferred tax liabilities	¥(1,019)	¥ (771)	$(10,834)

Net deferred tax liabilities at March 31, 2013 and 2012 were included in the consolidated balance sheets as follows;

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets (current)	¥381	¥493	$4,051
Deferred tax assets (noncurrent)	213	236	2,265
Deferred tax liabilities (noncurrent)	(548)	(372)	(5,826)
Net deferred tax assets	¥ 46	¥357	$ 489

The major components of a reconciliation between the statutory tax rate and the effective tax rate as of March 31, 2013 and 2012 are as follows:

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

The note was omitted because the difference between the statutory tax rate and the effective tax rate was equal to or less than 5% as of March 31, 2013.

10. BUSINESS COMBINATIONS AND DIVESTITURES

<Business combination through acquisition>

(1) Outline of the business combination

(a) Name of the acquired company and its business

Vina Kyoei Steel Ltd., (Production and sales of steel)

(b) Main reasons for the business combination

For the Group's performance improvement through taking lively steel demand due to expansion of infrastructure investment accompany economic growth in Vietnam.

(c) Date of business combination

January 1, 2012

(d) Legal form of the business combination

Domination of decision-making body by acquiring power of appointment

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

Remain unchanged

(f) Percentage share of voting rights

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

(g) Main reason for deciding to acquire the company

Agreement on the power of appointment for the general director of the Company

(2) Period of the acquired company's financial results included in the consolidated statements of income

From January 1, 2011 to December 31, 2011

The performance is included in consolidated statements of income by equity method.

(3) Acquisition cost of the acquired company

Acquisition cost ¥ 914 million ($ 11,121 thousand)

(4) Amount of accrued goodwill, cause of accrual, amortization method, amortization period

No relevant items

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

(a) Assets

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

(b) Liabilities

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

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

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

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

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

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

(c) Date of stocks transfer
April 1, 2012

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

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

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

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

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

(5) Outline of ongoing involvement
The company extended a ¥710 million loan to such company as of March 31, 2012.

11. 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, 2013:

(a) Number of shares issued

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

(b) Treasury stock

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	1,394,242	45,000	—	1,439,242

(c) Cash dividends

Amount of dividend payments

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
April 27, 2012 (Board of Directors)	Common stock	¥653	$6,942	¥15	$0.2	March 31, 2012	June 11, 2012

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
October 31, 2012 (Board of Directors)	Common stock	¥218	$2,318	¥5	$0.1	September 30, 2012	December 10, 2012

12. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Reconciliation of cash and cash equivalents

The following table represents a reconciliation of cash and cash equivalents at March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and time deposits	¥15,923	¥15,398	$169,285
Time deposits with a maturity of more than three months	(707)	(1,778)	(7,516)
Negotiable certificates of deposit with maturities of three months	14,000	9,600	148,841
Cash and cash equivalents	¥29,216	¥23,220	$310,610

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

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

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

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

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

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

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

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

13. 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, 2013 and 2012 for the Company's and its consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Severance and retirement benefit obligation	¥(4,823)	¥(4,912)	$(51,276)
Plan assets at fair value	4,635	4,031	49,277
Unfunded retirement benefit obligation	(188)	(881)	(1,999)
Unrecognized actuarial gain or loss	258	842	2,743
Unrecognized past service cost	158	204	1,680
Net severance and retirement benefit obligation	228	165	2,424
Prepaid pension expenses	355	394	3,774
Accrued severance and retirement benefits	¥ (127)	¥ (229)	$ (1,350)

The components of retirement benefit expenses for the years ended March 31, 2013 and 2012 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥247	¥308	$2,626
Interest cost	60	79	638
Expected return on plan assets	(50)	(53)	(532)
Amortization of past service cost	104	101	1,106
Amortization of actuarial gain or loss	46	46	489
Additional retirement benefit expense	23	27	245
Total	¥430	¥508	$4,572

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

	2013	2012
Method adopted for periodic distribution of projected retirement benefits	Equal amounts per period	Equal amounts per period
Discount rate	1.5%	1.5%
Expected rate of return on plan assets	1.5%	1.5%
Amortization period of past service cost	10 years (straight-line method)	10 years (straight-line method)
Amortization period of actuarial gain or loss	10 years (straight-line method)	10 years (straight-line method)

14. AMOUNTS PER SHARE

	Yen		U.S. dollars
Years ended March 31	2013	2012	2013
Net income	¥ 47.59	¥ 38.89	$ 0.51

	Yen		U.S. dollars
As of March 31	2013	2012	2013
Net assets	¥2,819.07	¥2,766.24	$29.97

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

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

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

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	2013	2012	2013
Basic net income per share:			
Net income	¥2,069	¥1,692	$21,997
Amount attributable to shareholders of common stock	¥2,069	¥1,692	$21,997
Weighted average number of shares outstanding	43,482 thousand share	43,505 thousand share	—

15. 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, 2013 and 2012 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, 2013	Tools and equipment	Other	Total	Tools and equipment	Other	Total
Acquisition costs	¥8	¥—	¥8	$85	$—	$85
Accumulated depreciation	7	—	7	74	—	74
Net book value	¥1	¥—	¥1	$11	$—	$11

	Millions of yen		
As of March 31, 2012	Tools and equipment	Other	Total
Acquisition costs	¥8	¥ 8	¥16
Accumulated depreciation	6	8	14
Net book value	¥2	¥—	¥ 2

Future minimum lease payments subsequent to March 31, 2013 and 2012 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2013	2012	2013
Due within one year	¥1	¥1	$11
Due after one year	—	1	—
Total	¥1	¥2	$11

(b) Operating leases

Operating leases at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2013	2012	2013
Due within one year	¥1	¥ 8	$11
Due after one year	1	2	11
Total	¥2	¥10	$22

16. FINANCIAL INSTRUMENTS

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

1. Qualitative information on financial instruments

(a) Policies for using financial instruments

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

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

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

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

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

Almost all notes and accounts payable are due within four months.

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

Hedged instruments are recognized by individual contracts. Hedge effectiveness testing is conducted by each transactions and it is not conducted as the interest rate swap contracts meet certain hedging criteria.

(c) Policies and processes for managing the risk

The Group enters into derivative transactions only with counterparties of high credit rating and with respect to which the Company believes there is almost no credit risk. The derivative transactions are executed in accordance with internal management regulations. The Company and its subsidiaries have not entered into any such derivatives transactions as of March 31, 2013.

While operating payables and loans payable are exposed to liquidity risk, the Group manages by producing cash flow plans on a monthly basis.

(d) Supplemental information on fair values

The fair value of financial instruments is estimated by reasonable methods when market price is not available. To estimate such fair value, certain assumptions must be made, and the fair value may have been determined differently if other assumptions had been made.

2. Fair values of financial instruments

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars		
Year ended March 31, 2013	Carrying amount shown balance sheet	Fair value	Difference	Carrying amount shown balance sheet	Fair value	Difference
Cash and time deposits	¥15,923	¥15,923	¥ —	$169,286	$169,286	$ —
Notes and accounts receivable	35,695	35,695	—	379,492	379,492	—
Marketable securities	14,000	14,000	—	148,841	148,841	—
Investments in securities						
Available for sales securities	5,107	5,107	—	54,295	54,295	—
Notes and accounts payable	(16,151)	(16,151)	—	(171,710)	(171,710)	—
Bank loans	(6,041)	(6,041)	—	(64,225)	(64,225)	—
Long-term debt						
Due within one year	(130)	(134)	4	(1,382)	(1,425)	43
Due after one year	(5,047)	(5,172)	125	(53,657)	(54,986)	1,329

	Millions of yen		
Year ended March 31, 2012	Carrying amount shown balance sheet	Fair value	Difference
Cash and time deposits	¥15,398	¥15,398	¥—
Notes and accounts receivable	39,081	39,081	—
Marketable securities	10,400	10,400	—
Investments in securities			
Available for sales securities	4,731	4,731	—
Notes and accounts payable	(16,875)	(16,875)	—
Bank loans	(5,549)	(5,549)	—
Long-term debt			
Due within one year	(139)	(140)	1
Due after one year	(5,168)	(5,228)	60

17. SECURITIES

(a) Available for sales securities with determinable market values

As of March 31, 2013	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	¥1,815	¥4,253	¥2,438	$19,296	$45,216	$25,920
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Securities whose carrying value does not exceed acquisition costs:						
Stock	1,183	854	(329)	12,577	9,079	(3,498)
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	¥2,998	¥5,107	¥2,109	$31,873	$54,295	$22,422

As of March 31, 2012	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥ 858	¥2,797	¥1,939
Bonds	—	—	—
Other	—	—	—
Securities whose carrying value does not exceed acquisition costs:			
Stock	2,324	1,934	(390)
Bonds	—	—	—
Other	—	—	—
Total	¥3,182	¥4,731	¥1,549

(b) Available for sales securities sold during the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Sales of other securities	¥ 167	¥—	$ 1,775
Profit (Loss) on sales	¥(185)	¥—	$(1,967)

(c) Securities without determinable market values

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Other securities:			
Unlisted securities	¥1,331	¥1,331	$14,151
Bonds	¥ —	¥ —	$ —
Unconsolidated subsidiary and affiliated company:			
Unlisted securities	¥6,790	¥5,623	$72,188

18. LOSS ON IMPAIRMENT OF FIXED ASSETS

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

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

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

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

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

19. STATEMENTS OF COMPREHENSIVE INCOME

Comprehensive income for the years ended March 31, 2013 and 2012 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Valuation difference on available for sales securities:			
Current accrual	¥ 346	¥ (78)	$3,678
Reclassification adjustment	214	(88)	2,276
Before tax effect adjustment	560	(166)	5,954
Tax effect adjustment	(201)	148	(2,137)
Valuation difference on available for sales securities	359	(18)	3,817
Deferred gains and losses on hedges:			
Current accrual	188	1	1,999
Reclassification adjustment	(0)	—	(1)
Before tax effect adjustment	188	1	1,998
Tax effect adjustment	(72)	(0)	(765)
Deferred gains and losses on hedges	116	1	1,233
Revaluation reserve for land:			
Current accrual	—	29	—
Tax effect adjustment	—	495	—
Revaluation reserve for land	—	524	—
Foreign currency translation adjustments:			
Current accrual	320	—	3,402
Reclassification adjustment	417	—	4,433
Before tax effect adjustment	737	—	7,835
Tax effect adjustment	—	—	—
Foreign currency translation adjustments:	737	—	7,835
Share of other comprehensive income of associates accounted for using equity method:			
Current accrual	(0)	(49)	(0)
Reclassification adjustment	(0)	—	(0)
Share of other comprehensive income of associates accounted for using equity method	(0)	(49)	(0)
Total	¥1,212	¥458	$12,885

20. SEGMENT INFORMATION

(a) Overview of Reporting Segments

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

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

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

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

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

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

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

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

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

Segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2013 and 2012 is outlined as follows:

	Millions of yen					
Year ended March 31, 2013	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
Sales						
Sales to external customers	¥135,283	¥6,644	¥ 378	¥142,305	¥ —	¥142,305
Intersegment sales and transfers	182	1,633	—	1,815	(1,815)	—
Total	135,465	8,277	378	144,120	(1,815)	142,305
Segment income	¥ 3,542	¥1,501	¥ 39	¥ 5,082	¥ (739)	¥ 4,343
Segment assets	¥120,806	¥5,687	¥3,346	¥129,838	¥35,290	¥165,129
Other						
Depreciation and amortization	3,972	193	20	4,185	69	4,254
Increase in property, plant, equipment and intangible assets	3,661	103	6	3,770	39	3,809

(Note) 1. Inter-segment eliminations of ¥20 million and corporate expenses of ¥(759) million not allocated to the reporting segments are included in the (¥739) million adjustment for "Segment profit (operating income)". Corporation expenses are mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
2. Adjustment amount of segment assets was ¥35,290 million, mainly related to included the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
3. Adjustment amount of depreciation and amortization was ¥69 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.

4. Adjustment amount of expenditure for addition to tangible and intangible assets was ¥39 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
5. Segment income was adjusted against operating income of the consolidated statement of income.

	Thousands of U.S. dollars					
Year ended March 31, 2013	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
Sales						
Sales to external customers	$1,438,263	$70,636	$ 4,018	$1,512,917	$ —	$1,512,917
Intersegment sales and transfers	1,935	17,361	—	19,296	(19,296)	—
Total	1,440,198	87,997	4,018	1,532,213	(19,296)	1,512,917
Segment income	$ 37,657	$15,958	$ 415	$ 54,030	$ (7,857)	$ 46,173
Segment assets	$1,284,350	$60,461	$35,573	$1,380,385	$375,186	$1,755,571
Other						
Depreciation and amortization	42,228	2,052	213	44,493	733	45,226
Increase in property, plant, equipment and intangible assets	38,922	1,095	64	40,081	414	40,495

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

(Note) 1. Inter-segment eliminations of ¥19 million and corporate expenses of ¥(631) million not allocated to the reporting segments are included in the (¥612) million adjustment for "Segment profit (operating income)". Corporation expenses are mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
2. Adjustment amount of segment assets was ¥32,463 million, mainly related to included the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
3. Adjustment amount of depreciation and amortization was ¥68 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
4. Adjustment amount of expenditure for addition to tangible and intangible assets was ¥32 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
5. Segment income was adjusted against operating income of the consolidated statement of income.

(d) Related Party Transaction

Related party transactions for the year ended March 31, 2013 were as follows:

Type	Company name	Location	Capital or investment (million yen)	Business content	Ratio of ownership (%)	Relation with related party	Details of transaction	Transaction amount (million yen)
Subsidiary	Kyoei Steel Vietnam Co., Ltd.	Ninh Binh Province, Vietnam	48 Million US$	Production and sale of steel	Indirectly 60.0	•Additional post of director •Guarantee of indebtedness	Debt guarantee*	¥2,454

*Note: The debt guarantee is provided for bank loans of Kyoei Steel Vietnam Co., Ltd.

21. SUBSEQUENT EVENTS

Dividend distribution of surplus

On April 30, 2013, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥652	$6,932

Cash dividends: ¥15 (U.S. $0.16) per share.

Independent Auditor's Report

To the Board of Directors of KYOEI STEEL, LTD.

We have audited the accompanying consolidated financial statements of KYOEI STEEL, LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KYOEI STEEL, LTD. and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 16, 2013
Osaka, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

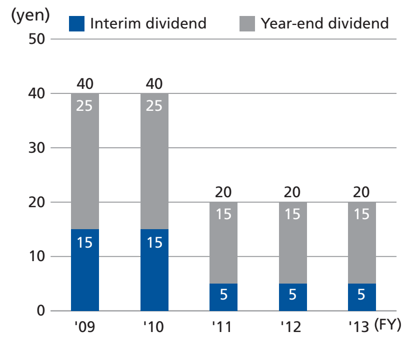
Investor Information

(As of March 31, 2013)

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	3,087
Number of Employees	1,327 (Consolidated: regular employees)
Stock Listings	Tokyo, Osaka*
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan

* On July 16, 2013, the cash equity market of the Osaka Securities Exchange was integrated into that of the Tokyo Stock Exchange.

Dividends per Share

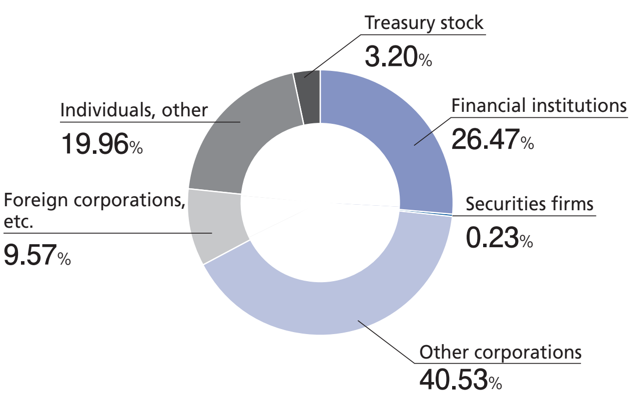


Major Shareholders (As of March 31, 2013)

Name of shareholder	Number of shares owned	% of total-shares issued
Nippon Steel & Sumitomo Metal Corporation	11,592,932	25.82%
Hideichiro Takashima	4,492,460	10.00
Japan Trustee Services Bank, Ltd. (Air Water Inc. retirement benefit trust account)*	2,600,400	5.79
Japan Trustee Services Bank, Ltd. (Trust Account)	2,328,400	5.18
Akihiko Takashima	2,233,000	4.97
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,708,800	3.80
Mitsui & Co., Ltd.	1,470,000	3.27
Kyoei Steel, Ltd. (Treasury stock)	1,439,242	3.20
Godo Steel, Ltd.	1,347,000	3.00
NORTHERN TRUST CO AVFC RE NORTHERN TRUST GUERNSEY IRISH CLIENTS	956,900	2.13

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

Composition of Shareholders by Type



Stock Price Movement and Trading Volume

KYOEI STEEL

KYOEI STEEL

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