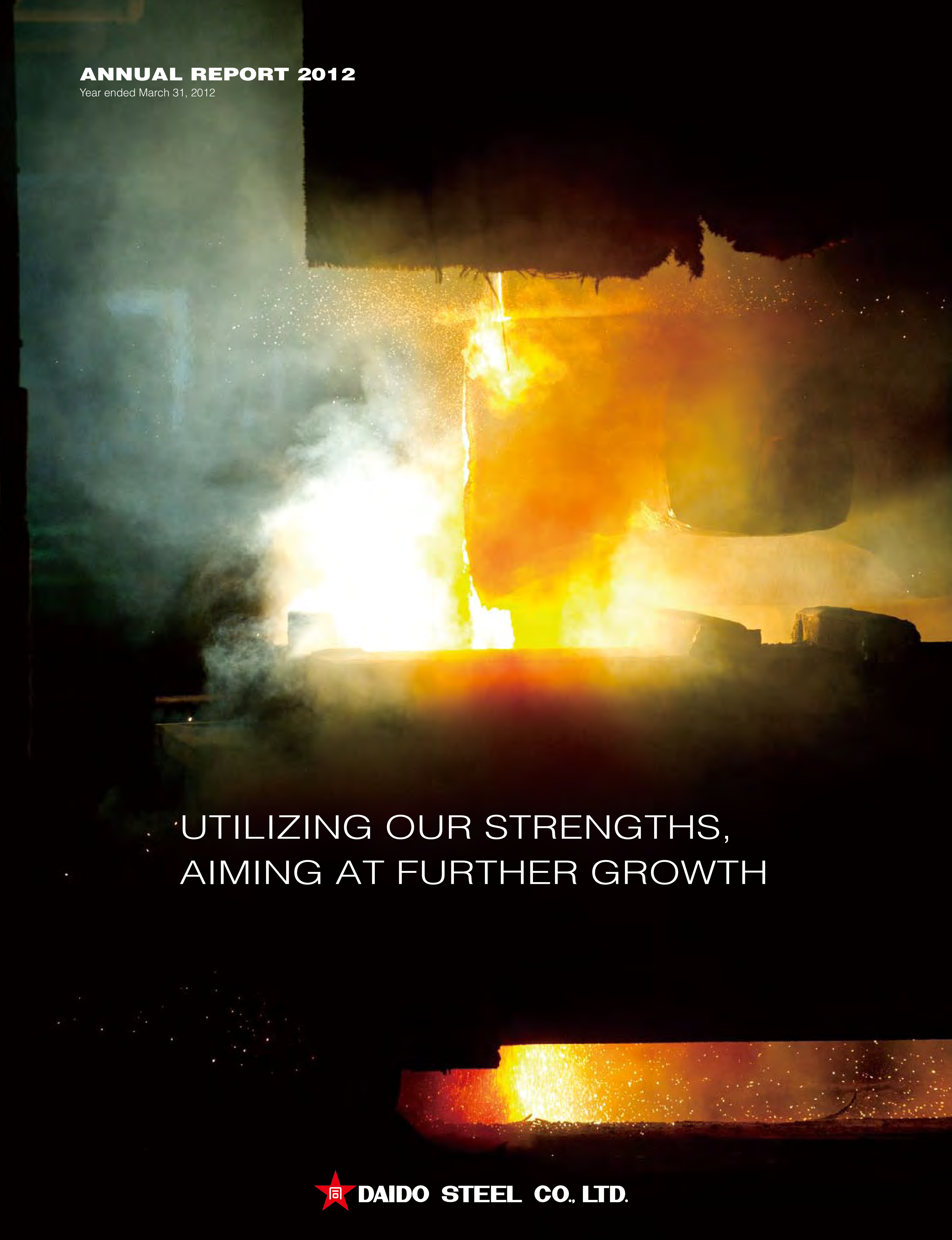


ANNUAL REPORT 2012

Year ended March 31, 2012

UTILIZING OUR STRENGTHS,
AIMING AT FURTHER GROWTH

DAIDO STEEL CO., LTD.

THE COMPANY

DAIDO STEEL CO., LTD. ranks among the world's largest manufacturers of specialty steel. With a history dating back to 1916, the Company has accumulated extensive skills in combining steel scrap with other materials to achieve the strength, workability and other characteristics to match exacting requirements. Along with the manufacture of value-added steel, the Company offers many services that leverage its technological resources. Most services target high-end market sectors that demand the highest levels of quality and specialization. DAIDO STEEL is one of the leading players worldwide in the manufacture of critical steel components where nothing less than absolute reliability is acceptable. These components include automobile transmission and engine parts as well as components used in ships, aircraft and electric generators. DAIDO STEEL shares are traded on the First Section of the Tokyo Stock Exchange under the securities code 5471.

New Segment (FY2012~)

Former Segment	Main Products / Business
Specialty Steel	• Mechanical construction steel (Automobile / bearings, etc.) • Stainless steel • Tool Steel (Chita Plant)
Electronic and Magnetic Materials	• High alloy (strips / bars, wire rods) • Magnets
Parts for Automobile and Industrial Equipment	• Die forging • Free forging (Shibukawa Plant) • Tool Steel (Shibukawa Plant) • Engine valves, turbo parts
Engineering	• Engineering
New Materials	• Powder metal • Titanium
Trading and Service	• Overseas trading company, Real Estate

New Segment	Main Products / Business
Specialty Steel	• Mechanical construction steel (Automobile / bearings, etc.) • Tool Steel (Chita Plant / Shibukawa Plant)
High Performance Materials and Magnetic Materials	• Stainless steel • High alloy (strips / bars, wire rods) • Magnets • Powder metal • Titanium
Parts for Automobile and Industrial Equipment	• Die forging • Free forging (Shibukawa Plant) • Engine valves, turbo parts
Engineering	• Engineering
Trading and Service	• Overseas trading company, Real Estate

DAIDO STEEL has partially changed its business segmentation accompanying organizational reforms conducted on April 1, 2012.

CONTENTS

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements concerning DAIDO STEEL CO., LTD.'s and its Group companies' current plans, projections, strategies and performance. These forward-looking statements are not historical facts. Rather, they represent the assumptions and beliefs of DAIDO STEEL's management based on information currently available.

They should therefore not be relied upon as the sole basis for evaluating the Company. DAIDO STEEL also wishes to caution readers that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of risks and uncertainties.

FINANCIAL HIGHLIGHTS

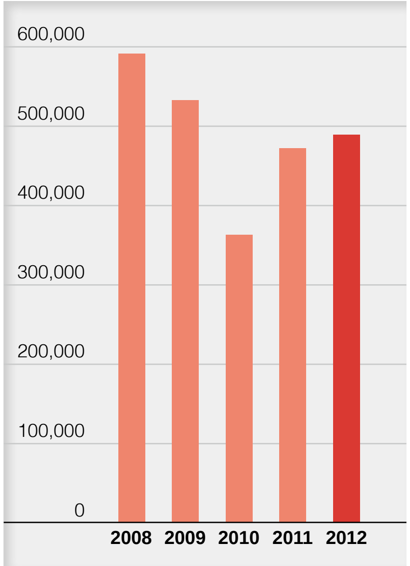
DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31

	Millions of Yen					Thousands of U.S. Dollars
	2012	2011	2010	2009	2008	**2012**
For the Year:						
Net Sales	**489,155**	472,063	362,507	532,655	591,398	**5,965,305**
Operating Income (Loss)	**31,534**	32,730	(14,050)	9,115	38,441	**384,561**
Net Income (Loss)	**22,718**	23,004	(14,610)	(8,147)	14,196	**277,049**
R&D Expenses	**4,360**	4,254	3,909	4,244	4,447	**53,171**
Capital Expenditures	**39,700**	18,900	7,900	13,400	20,800	**484,146**
Depreciation	**20,464**	20,073	20,303	21,809	19,586	**249,561**
At Year-end:						
Total Assets	**512,969**	491,722	464,629	496,411	559,278	**6,255,720**
Total Equity	**198,654**	178,348	159,301	166,235	188,090	**2,422,610**
Interest-bearing Debt	**156,336**	157,445	173,790	207,123	180,295	**1,906,537**
Number of Employees	**10,365**	10,272	10,414	10,212	11,131	—
Number of Consolidated Subsidiaries	**33**	32	32	32	32	—
Per Share of Common Stock (Yen and U.S. Dollars):						
Basic Net Income	**52.37**	53.02	(33.68)	(18.78)	32.72	**0.64**
Cash Dividends Applicable to the Year	**7.50**	7.00	2.00	6.00	8.00	**0.09**
ROA (%)	**6.3**	6.6	(2.9)	1.6	6.9	—
ROE (%)	**12.1**	13.6	(9.0)	(4.6)	7.6	—

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥82 to $1, the approximate rate of exchange at March 31, 2012.

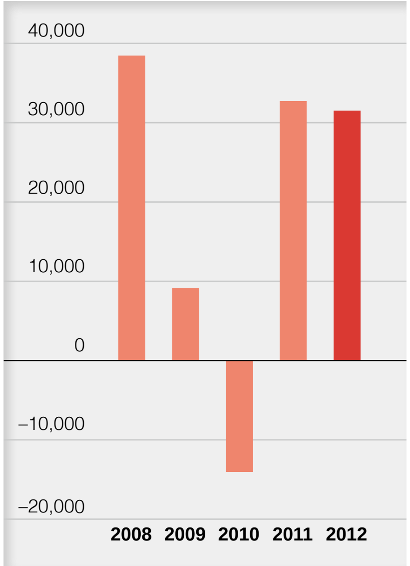
NET SALES
Years ended March 31

(millions of yen)



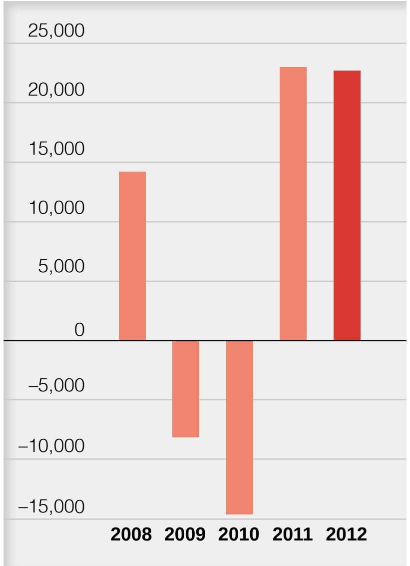
OPERATING INCOME (LOSS)
Years ended March 31

(millions of yen)



NET INCOME (LOSS)
Years ended March 31

(millions of yen)



Overview of Results for Fiscal 2011

In fiscal 2011, the Japanese economy continued a steady recovery as the supply chain was restored following a temporary economic downturn that stemmed from the Great East Japan Earthquake. Despite a standstill at one point owing to the recurrence of the European debt problem and the yen's surge, there were again signs of an improvement in Japan with a correction in the yen and a turnaround in the U.S. economy. Demand was generally strong in the automobile industry, a key source of demand for our specialty steel products, as well as from the industrial equipment and information technology sectors. This reflected rising demand in emerging countries, offsetting the influence of slowdowns elsewhere internationally and the impact of the floods in Thailand.

Against this backdrop, we responded flexibly to plunging production demand after the earthquake and to requests to conserve electricity in the summer period, accommodating expanded demand from fall.

Production and sales volumes were higher than a year earlier, reflecting a demand recovery from an initial downturn after the quake and efforts to boost production. Group net sales increased ¥17,092 million, to ¥489,154 million. Recurring income rose ¥36 million, to ¥31,762 million. Net income was ¥22,718 million.

Outlook for Fiscal 2012

We are looking for a recovery trend to build momentum on the strengths of various policies, especially those driving reconstruction demand, and an overseas economic recovery. At the same time, we face downside risks, notably from the rekindling of Europe's sovereign debt crisis and economic slowdowns in emerging countries. There are also the risks of crude oil prices rising and the yen again climbing. We consider it important to monitor such changes in the operating climate.

We anticipate ongoing expansion in the Japanese automobile industry, a key source of demand for specialty steel, against the background of economic growth in emerging countries. We expect this industry to generate higher output than in the year under review, when the Great East Japan Earthquake and floods in Thailand adversely affected production. We look for solid demand related to industrial equipment and information technology, although we must keep close checks on the potential for downward risks in those sectors, which are vulnerable to economic fluctuations, especially overseas.

In light of these factors, we have formulated the following segment forecasts for the next fiscal year. The assumptions on the following page are for new segments resulting from organizational changes effective from April 1.

NEW SEGMENT FORECASTS FOR NEXT FISCAL YEAR

SPECIALTY STEEL

We look for specialty steel demand for automotive applications to rise in the second half of the year, offsetting possible inventory adjustments earlier in the term, as we expect production to recover among Japanese automakers. We anticipate that other areas of demand will recover gradually, although there are concerns about higher prices for crude oil and other sources of energy and the issue of power demand and supply. We will thus monitor demand and supply trends while managing our operations flexibly. At the same time, we will undertake planned inventory management for the operational structures of the Chita Plant and other production facilities in keeping with changing demand and supply trends while taking into account operational constraints from electricity availability in summer and strategic investments. The costs of steel scrap, alloy steel, crude oil, and other key raw materials and fuels could change dramatically in light of global demand and supply trends, so we will endeavor to generate swift results from rationalization while reflecting changes in our pricing.

HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS

Although demand for stainless steel and high alloy products remains low, reflecting such factors as inventory adjustments in related products, we expect a mild recovery. Magnetic products should continue to do well. This is because we anticipate a recovery in magnets used in hard disk drive spindle motors, reflecting the restoration of Thai manufacturing facilities. Another factor is that demand should expand for magnets used in electric power steering systems for automobiles. We look for titanium product demand to head toward a recovery despite sluggish exports stemming from a low euro, as demand seems to be bottoming out in the domestic market. With demand for automobiles remaining favorable, powder metal products should again do well, particularly functional powder metal products for hybrid electric vehicles.

PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

We expect demand for die forgings to remain solid as demand for Japanese automobiles expands in domestic and overseas markets. In turbo-related products, global demand should increase amid a greater proportion of vehicles incorporating these systems, while we aim to swiftly benefit from our turbo parts line upgrade. In industrial equipment, while we anticipate a turnaround from higher resources-related investment and benefits from sales expansion, there are concerns about the potential impacts of European and U.S. economic trends and foreign exchange fluctuations.

ENGINEERING

While we expect domestic demand to stay low, we will reinforce marketing and cultivate overseas markets in view of increasingly brisk capital investment in China and other emerging nations. In the next fiscal year, we plan to deploy strategic investment projects for the Chita Plant and a new magnet production company, and will optimally employ our engineering technologies.

TRADING AND SERVICE

In the trading and service segment, demand should generally remain around the same as that in the year under review.

Given this business environment, our outlook for fiscal 2012 takes into account relatively strong automobile-related demand, notwithstanding concerns about economic prospects. We thus project ¥500,000 million in Group net sales, ¥31,500 million in recurring income, and ¥20,000 million in net income.

Medium- to Long-Term Management Strategies

Over the medium and long terms, we believe that specialty steel-related demand will continue expanding, particularly in emerging countries, amid a further acceleration in market globalization. At the same time, we assume that international competition will further intensify. Key factors would include users shifting more production offshore and increasing local procurement, as well as higher costs of electricity and other manufacturing inputs. To address these changes in the operating environment, in March 2012 the Group instituted a three-year management plan through fiscal 2014. Under this initiative, we will undertake business portfolio reforms and production innovations to prepare for intensified global competition. We will also implement the following management policies and pursue the following management indices.

By focusing on these key issues, we aim to achieve a sustainable increase in the corporate value of Daido Steel.

June 2012

Tadashi Shimao
President

New Mid-term Management Plan

STRENGTHEN BUSINESS STRUCTURE AND EXECUTE GROWTH STRATEGIES TO WIN IN AN ERA OF GLOBAL COMPETITION

Major Initiatives

1. Radically strengthen business foundation for existing products

1) Reduce costs and improve quality by streamlining steelmaking processes at Chita Plant
2) Promote strategic alliance with companies around the world in broad-ranging areas
3) Maximize benefits of mutual collaboration in global market

2. Expand global leading products

- Automobile engine valves
- Stainless steel for HDD
- Ball bearing steel
- Parts for turbochargers
- Aircraft jet engine shafts

3. Expand future growth fields by cultivating next-generation businesses

1) Expand capabilities for magnet and turbo businesses for which demand is expected to grow worldwide
2) Precisely meet user's needs by combining our technologies and know-how

4. Develop global network and execute global strategies

1) Use the Daido Steel Group to enhance supply chain functions
2) Strengthen relationships with allied companies including Timken Company (U.S.A.) and Sunflag Iron and Steel Co. Ltd. (India)

5. Strengthen financial position

1) Increase profitability further and improve productivity
2) Reallocate management resources and further strengthen our financial position

Major Issues by Segment

Specialty Steel

Reform production structure

- Strengthen competitiveness of Chita Plant by improving QCD (quality, cost and delivery)
- Increase global supply capacity of the Daido Steel brand products
- Respond to increasing power costs

Actively advance into growth markets

- Expand business by capturing demand in Asia
- Expand sales of global leading products
- Cultivate user needs by providing solution

Enhance profitability for existing products

- Implement flexible production framework
- Secure an adequate profit margin
- Promote alliances in broad-ranging fields

Parts for Automobiles and Industrial Equipment

Free forging business

- Expand sales for high-grade products globally

Die forgings business

- Develop high-value-added products by providing solutions

Turbo products (Daido Castings Co., Ltd.)

- Increase production capacity for turbo products
- Cultivate Chinese market and develop processing bases

Engine valves (Fuji OOZX Inc.)

- Expand production bases for engine valves in China

High Performance Materials and Magnetic Materials

Stainless steel business

- Expand sales for high-performance stainless steel
- Increase cost-competitiveness and expand overseas sales for titanium

High alloy business

- Secure stable profits by improving portfolio

Powder metal business

- Develop high performance atomizing process and improve productivity

Magnets business (Daido Electronics Co., Ltd. and Intermetallics Japan Corporation)

- Promote growing strategies for neodymium magnet business

MANAGEMENT INDICATORS

	Mid-term Management Plan 2014	Fiscal 2011
Net Sales	¥580.0 billion	¥489.2 billion
Operating Income	¥45.0 billion	¥31.5 billion
Ordinary Income	¥45.0 billion	¥31.8 billion
Net Income	¥23.0 billion	¥22.7 billion
ROS	8.0%	6.5%
ROA	8.0%	6.3%
Total Assets	¥550.0 billion	¥513.0 billion
Interest-bearing debt (D/E ratio)	¥120.0 billion (0.5)	¥156.3 billion 0.8

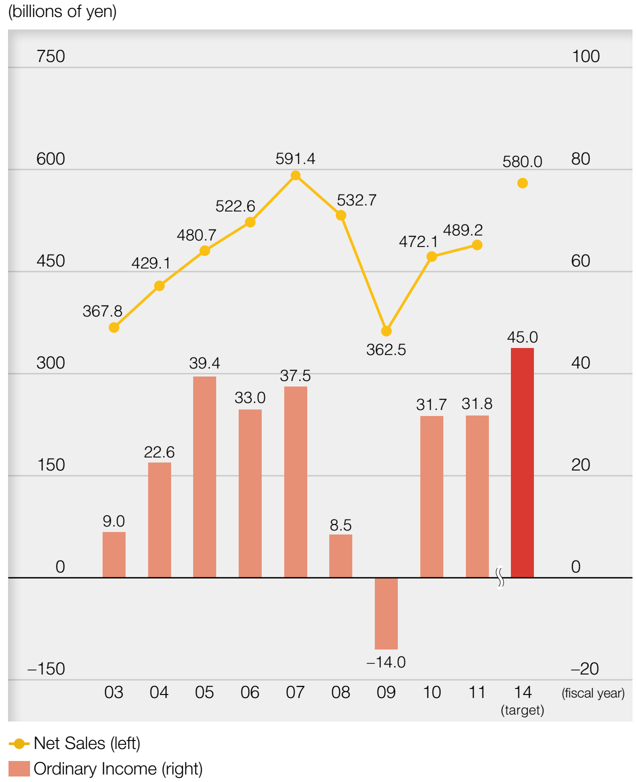
Engineering

Machinery business

- Establish the Daido brand in growing overseas markets

NET SALES AND ORDINARY INCOME (LOSS) (CONSOLIDATED)

(billions of yen)

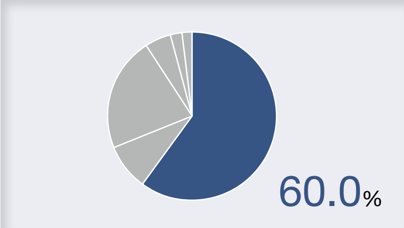


SPECIALTY STEEL

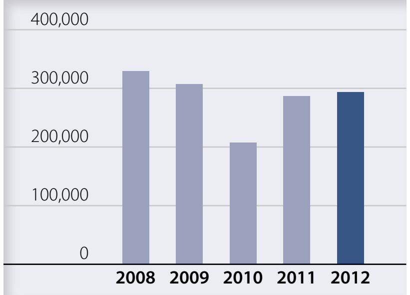
MAIN PRODUCTS

For automotive parts, industrial machinery parts, electrical machinery parts, welding, etc.

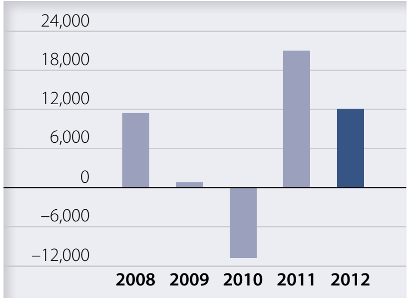
SHARE OF NET SALES
(%)



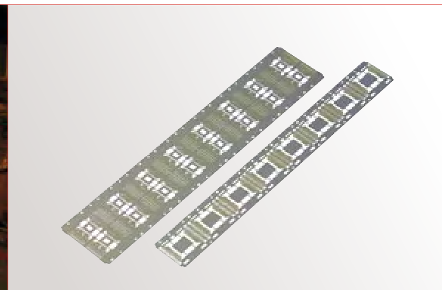
NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME (LOSS) Years ended March 31
(millions of yen)



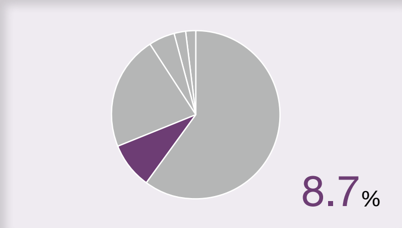
ELECTRONIC AND MAGNETIC MATERIALS



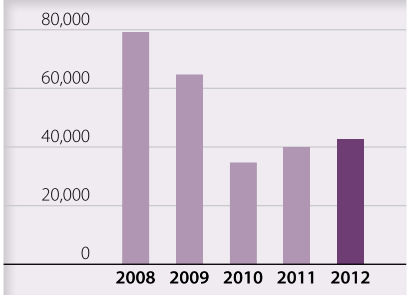
MAIN PRODUCTS

Nickel-based alloys
Electrical and electronics parts

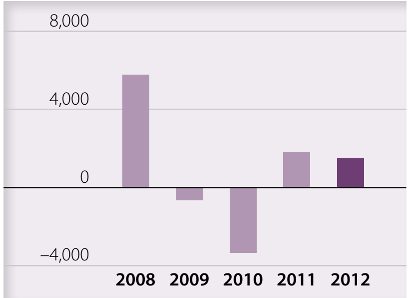
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME (LOSS) Years ended March 31
(millions of yen)

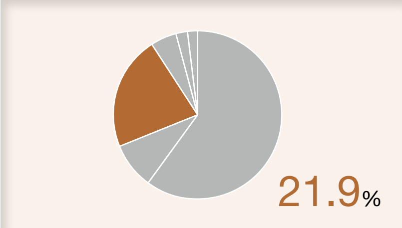


PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

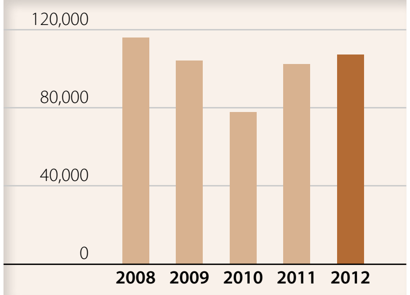
MAIN PRODUCTS

Die forging (automotive parts and drilling parts)
Precise hot forging (automotive parts and bearing races)
Welded parts (rear axle housing)
Open die forging (parts for heavy electric machines, boats and ships, spacecraft and aircraft, industrial machines, steelmaking equipment, chemical equipment, and oil drilling rigs)
Springs and band saws for lumber sawing

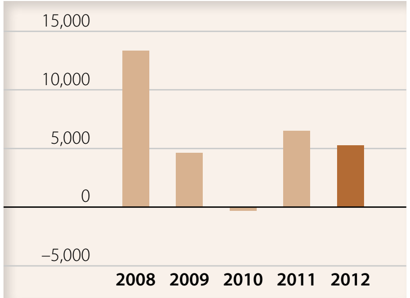
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME (LOSS) Years ended March 31
(millions of yen)

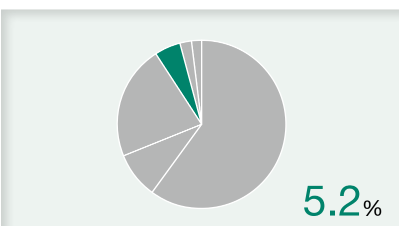


ENGINEERING

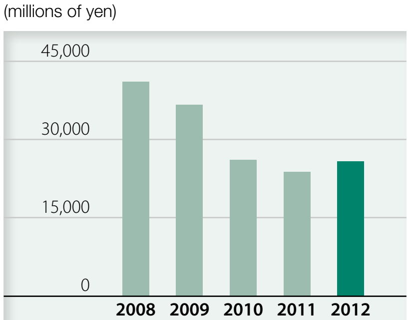
MAIN PRODUCTS

Environmental equipment (for waste treatment, water treatment and air pollution cleaning), etc.
Industrial furnaces and accessories

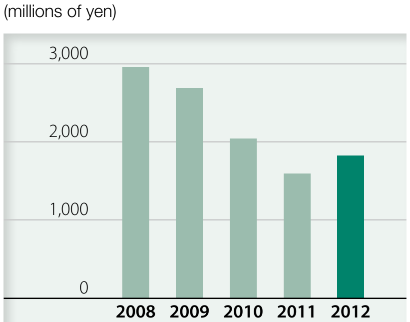
SHARE OF NET SALES
(%)



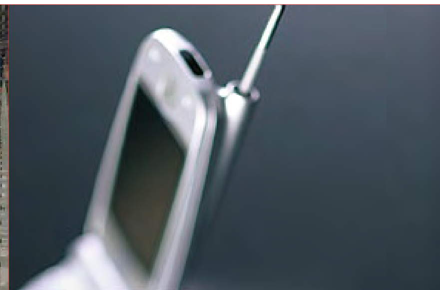
NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME Years ended March 31
(millions of yen)



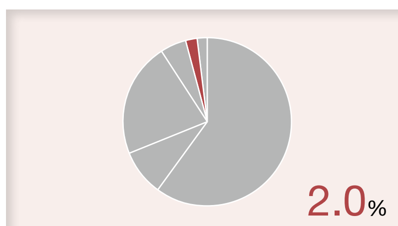
NEW MATERIALS



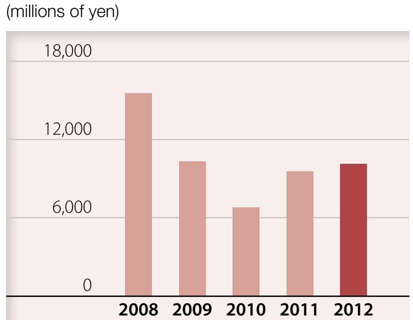
MAIN PRODUCTS

Powder metal (for automotive, mechanical, and electronics parts)
Titanium products and nickel-titanium alloys (shape-memory alloys)

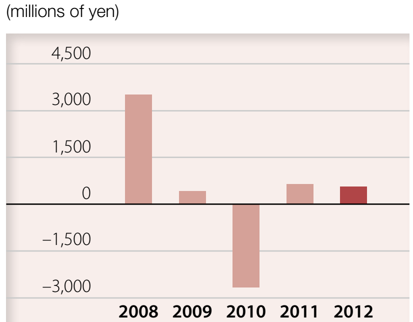
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME (LOSS) Years ended March 31
(millions of yen)

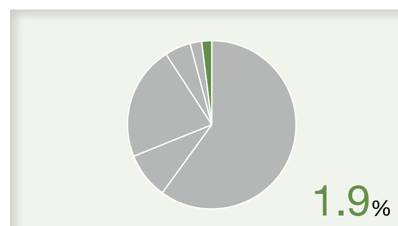


TRADING AND SERVICE

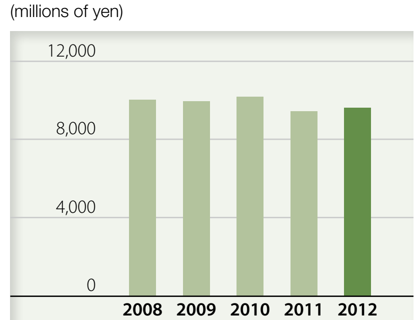
MAIN PRODUCTS

Sales of Group company products; provision of welfare services; real estate and insurance businesses; sales of information systems, etc.

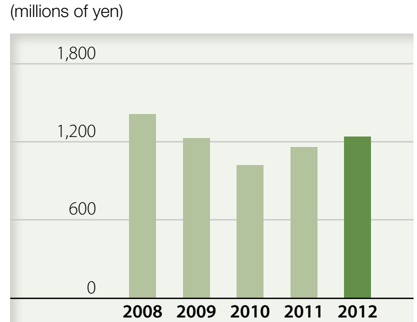
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



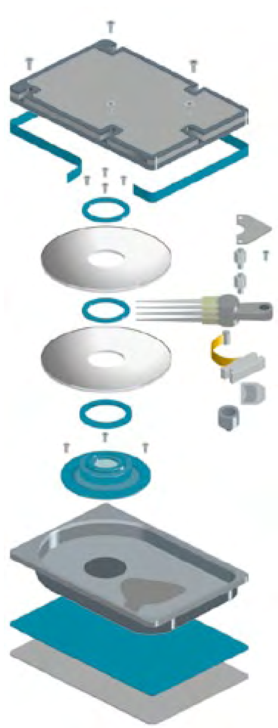
OPERATING INCOME Years ended March 31
(millions of yen)



SPECIALTY STEEL

Overview of Business

Specialty steel, the Company's core business, generates 60% of consolidated net sales. Specialty steel is made by combining steel with alloys to add value in the form of properties such as resistance to heat, abrasions or rust. Because a range of special properties can be achieved by varying the type and amount of alloy, one of the special features of the business is that products are developed to meet the specific applications required by the user. The automobile and industrial machinery sectors are the primary users of specialty steel, accounting for about 80% of sales in this business segment.



Daido Steel is the world's leading supplier of stainless steel for HDD spindle motors.

Results of Operations

There was brisk growth overall in the specialty steel segment against the backdrop of an expansion in overseas demand, despite the adverse impact on automobile-related demand of temporary cutbacks in the production of completed automobiles due to a stagnating supply chain at the start of the fiscal year caused by the March 2011 earthquake, and the flooding in Thailand. At the same time, steady demand continued in both the industrial machinery and IT sectors, but after autumn 2011 a phase of inventory adjustments reflected the slowing down of economies in Europe and the newly emerging countries.

As regards this kind of demand environment, the Daido Steel Group pushed forward with its production activities while responding flexibly to changes in the management environment. To accommodate requests to conserve electricity in the summer and the subsequent requests for expanded demand, the Group managed production by such measures as bringing forward scheduled production and shifting employees' work schedules. Moreover, the Group continued with various measures to increase production and reduce costs.

Thanks in part to these measures, the sales volume in the specialty steel segment for the consolidated fiscal year under review increased 3.0% year on year. Monetary sales rose 2.4% to ¥293,744 million. Moreover, operating income also rose, increasing ¥117 million year on year to ¥21,129 million, mainly due to the increase in the production and sales volume.

ELECTRONIC AND MAGNETIC MATERIALS

Overview of Business

This segment, which accounts for roughly 9% of consolidated net sales, manufactures and sells electronic and magnetic materials used chiefly in computers, automobiles, mobile phones and digital consumer electronics. Notably, Daido Steel holds the world's largest market share as a supplier of magnets for spindle motors* for hard disk drives (HDD).

Key products include rare earth magnets (used in spindle motors* for HDD and other products), high alloys, steel strip materials for lead frames and electromagnetic materials.

*Spindle motor:

The motor used to rotate hard disk drives installed in computers.

Results of Operations

In the high alloy business, sales decreased year on year because IT-related products declined due to the slowdown in the market despite the robust demand for products for automobiles due to production recovery after the March 2011 earthquake. (Orders received for steel strip materials by the Group in the consolidated fiscal year under review amounted to ¥10,374 million, a 12.5% drop year on year.) In the magnetic product business however, sales increased year on year mainly due to increased demand for magnets for HDDs and the new consolidation of a magnet manufacturing company in China.

As a result of all these factors, sales in the electronic and magnetic materials segment for the consolidated fiscal year under review amounted to ¥42,636 million, increasing 6.8% from the previous fiscal year. On the other hand, operating income fell ¥293 million year on year to ¥1,503 million, due to decreased sales in the high alloy business.

NEOQUENCH-P (NdFeB Polymer-bonded Magnets)
Magnets for precision, high-speed motors used in mobile phones, office automation (OA) equipment and other products; currently the world's most popular magnet for HDD spindle motors.

PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

Overview of Business

This segment contributes around 22% of consolidated net sales. It manufactures die forged parts such as crankshafts using specialty steel, precision cast parts for use in gears and turbochargers (used in diesel engines to improve fuel efficiency and reduce exhaust gases), engine valves, jet engine shafts and parts for industrial gas turbines. Most of the auto parts sold in this segment use materials that were developed through joint projects with automakers to meet their exacting requirements. These parts can therefore lower processing expenses at customers' factories as well as contribute to reducing the weight of finished products.

Many products in this segment are leading products in their respective market categories, such as aircraft jet engine shafts and marine diesel engine valves. Daido Steel also has a high market share in numerous other product categories, including automobile engine valves and turbine disks. We will continue to develop and launch new products that differentiate us from competitors and support our position as a provider of advanced products.

In addition to specialty steel supplied by the specialty steel segment of the Group, some steel materials used in this segment are manufactured in-house.

Hot, High-speed Precision Forgings
Daido Steel is one of the largest manufacturers of hot, high-speed precision forgings.

Results of Operations

Automobile parts-related sales for die forged products rose, despite the adverse impact of temporary production cutbacks at automakers due to the March 2011 earthquake and its aftermath, mainly because of a production recovery and an expansion in demand for trucks for Southeast Asia. In precision cast products, sales were on a par with the previous fiscal year. Although the trend of demand expansion, such as the rise in popularity of diesel turbo engines, continued, this was counterbalanced by the impact of inventory adjustments associated with the slowdowns in these European economies. In industrial equipment, sales rose year on year despite sluggish capital investment in Japan, which prolonged downward pressure on export-related demand due to the high yen. The sales increase was primarily made possible by recovery-related demand mainly for gas turbines and increased sales of materials for resource drilling. As a result, net sales in the parts for automobile and industrial equipment segment for the consolidated fiscal year under review increased 4.6% to ¥107,258 million. However, operating income decreased ¥1,256 million year on year to ¥5,272 million mainly due to fixed expenses and changes in the product mix.

ENGINEERING

Overview of Business

This segment generates about 5% of consolidated net sales. Major activities include the manufacture of steelmaking equipment, industrial furnaces, and associated equipment. This segment also supplies environmental equipment for the treatment of wastewater, gas emissions and waste materials (mainly to public-sector clients with incinerated ash melting systems for urban waste) and machine tools.

With respect to environmental equipment in particular, the operation and engineering technologies we have fostered over the years support our cutting-edge engineering business, which constantly has a grasp of current market needs. The many new types of equipment and technologies that this segment has created contribute to environmental preservation and energy reduction in a wide variety of settings. Operations also include maintenance and management of this machinery and equipment.

Results of Operations

In the engineering segment, net sales increased year on year despite the continued low levels of domestic demand. The increase was due to the contribution to sales of a rise in demand for parts and maintenance, spot projects related to the earthquake recovery, and increased capital investment and sales activity in China.

Reflecting all these factors, engineering segment sales for the consolidated fiscal year under review increased 8.3% to ¥25,769 million. Operating income rose ¥231 million to ¥1,826 million.

Daido Arc Process (DAP)

NEW MATERIALS

Overview of Business

Accounting for about 2% of consolidated net sales, this segment mainly supplies titanium products for medical-use artificial bones and eyeglass frames, and high-performance powder metals used to make valve sheets and magnetic materials.

Results of Operations

Titanium product sales rose year on year due mainly to expansion in domestic demand. This was despite weakness of exports to Europe and the U.S. due to the negative effect of the strong yen. In powder metal products, net sales increased year on year despite the temporary fall in demand caused by the earthquake and the impact of the strong yen on exchange rates. The increase was mainly due to the return to normal of automobile production and increased production of high performance powder metal products for hybrid electric vehicles.

Consequently, new materials segment sales for the consolidated fiscal year under review rose 5.8% year on year to ¥10,116 million. However, operating income declined ¥82 million year on year to ¥567 million mainly due to the impact of currency exchange rates.

TRADING AND SERVICE

Overview of Business

The major activities of this segment, which accounts for approximately 2% of consolidated net sales, include the sale of products made by Group companies, employee benefits services, real estate and insurance services, golf course management, analytics, and sales of software to external customers.

Results of Operations

Consolidated net sales of the trading and service segment in the consolidated fiscal year under review rose 2.1% to ¥9,632 million. The adverse impact of the earthquake on some services was outweighed by an expansion in sales at an overseas trading company and other factors. Operating income also rose, increasing ¥83 million to ¥1,242 million.

The Daido Steel Group's basic management policy is to leverage its advanced technology capabilities in specialty steel to "foster a corporate culture of creativity and originality that contributes to the 21st century society." Based on this policy, the Group conducts a proactive program of research and development to expand new products and businesses and strengthen the foundations for existing businesses.

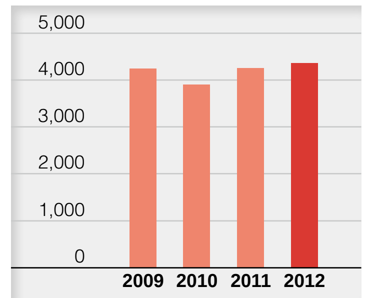
Currently, we are pursuing R&D for new products, materials and technologies, primarily through the Daido Corporate Research & Development Center, which houses the Special Steel Research Lab, Electromagnetic Material Research Lab, Process Technology Development Center, and Project Promotion Center. We employ a total of 286 researchers throughout the Daido Steel Group.

R&D expenses for the Daido Steel Group during the fiscal year under review amounted to ¥4,360 million. An explanation of our R&D efforts by segment, including purpose, major achievements, and expenditures follows.

R&D EXPENDITURES

Years ended March 31

(millions of yen)



(1) Specialty Steel

Daido Steel bears the principal responsibility for carrying out specialty steel R&D. Research areas include basic material development, such as automotive structural materials, materials that resist corrosion and heat, tool steel, and welding materials. Other areas of emphasis are development of process innovations ranging from steelmaking refining and solidification to quality assurance for finished products.

Specialty steel R&D costs during the fiscal year under review totaled ¥1,775 million.

Major Achievements

•Nickel-based alloy with outstanding hardness and corrosion resistance—DSA760

Daido Steel has developed the DSA760 nickel-based alloy that is highly resistant to corrosion in many environments and has a hardness of about 60 HRC by aging heat treatment process. These properties are unprecedented for alloys of this type. Normally, martensite stainless steel is the only way to obtain corrosion resistance along with hardness in the 60 HRC range. However, applications for this steel are limited when used in locations that are highly corrosive and subject to high temperatures. Although Nickel-based alloys have outstanding resistance to corrosion and high temperatures and are not magnetic, conventional alloys can achieve a maximum hardness of only about 50 HRC. With DSA760, Daido Steel succeeded in retaining the properties of nickel-based alloys while enhancing hardness and strength. Consequently the alloy would be used in the applications that ordinary nickel-based alloys cannot tolerate so far. For example, the new alloy might be suitable for bearings and dies used at high temperatures and unusual environments as well as for abrasive parts. One manufacturer has already selected DSA760 for the mechanism parts to vary exhaust gas flow in a diesel turbocharger. Daido Steel expects to see this revolutionary alloy used in a growing number of applications.

•High-performance hot-working die steel—DH31-EX

Dies used for die-casting and hot forging, methods used mainly for automotive parts, must be inexpensive and a long life. To meet these two requirements, Daido Steel combined its expertise in alloy design technology and manufacturing technology to develop the DH31-EX die steel. This alloy has the properties of high-performance steel while using smaller amounts of rare metals to reduce the cost. DH31-EX excels in terms of hardenability, too. As a result, high toughness is attained even for large dies that cannot be hardened when made of conventional steels. Using this steel thus prolong die life through crack prevention. Recently the procurement of dies in countries where casting and/or forging factories are located is becoming increasingly in global. Due to its excellent hardenability, DH31-EX enables the production of dies that have a consistently longer life than with conventional steels even in countries that have less advanced heat treating facilities or skills. DH31-EX has attracted attention worldwide and was registered in 2011 the North American Die Casting Association standard.

(2) Electronic and Magnetic Materials

In this segment the Daido Steel Group conducts R&D focusing on developing high-grade strip steel and magnetic materials and solar power generation systems. Magnet research is carried out principally by the Company and its consolidated subsidiary, Daido Electronics Co., Ltd.

R&D expenditures in this segment during the fiscal year under review amounted to ¥201 million. The following are some of our major achievements in this area.

Major Achievements

•PLP magnets

Daido Steel, Mitsubishi Corporation and Molycorp Inc. of the United States have developed a PLP magnet, the next generation of high performance magnets for hybrid vehicles and other applications. To manufacture and sell these magnets, the three companies established Intermetallics Japan Corp. in Gifu prefecture. The PLP magnet is manufactured by using a new technique developed by Dr. Masato Sagawa, who invented the neodymium-iron-boron magnet. Compared with conventional sintered magnets, this new magnet incorporates only half as much of the rare earth metal dysprosium. In addition, the new production method is expected to boost production yields. Daido Steel plans to utilize the PLP magnet to increase its share of the market for high-performance magnets, mainly for use in the growth field of electric and hybrid electric vehicles, and home appliances.

(3) Parts for Automobile and Industrial Equipment

R&D in this segment concentrates on development of engine valves and other automotive parts and parts for various types of industrial machinery.

R&D costs for the fiscal year under review in this segment totaled ¥508 million.

Major Achievements

•Turbocharger turbine wheel made of titanium-aluminide alloy

Most turbine wheels of automotive turbochargers are made of nickel-based superalloy. But because of nickel-based superalloy has high density, it makes occurring the turbo lag, which is caused by poor response when the turbocharger is operated. Daido Steel solved this problem by developing the DAT-TA series of titanium-aluminide alloys. Developed titanium-aluminide alloys have low density, which is a half of nickel-based superalloy, and high temperature strength comparison to nickel-based superalloy. These properties greatly improve turbocharger performance. DAT-TA series might be suitable for a wide range of vehicles in diesel or gasoline engines. Some customers have been already evaluating performance of turbine wheels made of DAT-TA series. It is confirmed that using turbine wheel of DAT-TA series improve a fuel efficiency. Then we expect further growth in applications of the DAT-TA series as one way to improve fuel efficiency in response to increasingly tighter environmental regulations.

(4) Engineering

Engineering R&D focused on the development of environmental conservation and recycling equipment, and a variety of energy-saving industrial furnaces.

R&D expenditures in this segment during the fiscal year under review amounted to ¥79 million. The following are some of our major achievements in this area.

Major Achievements

•New system for confirming burning through in electric arc furnaces

Daido Steel has manufactured a large number of electric arc furnaces for steelmakers in Japan and other countries. To make these furnaces even more energy efficient and easier to operate, we have developed an automated system that determines when burning through has occurred within the furnace. In the past, burning through could not be confirmed. Data from high-frequency electromagnetic signals along with sonic and vibration data are used to monitor the inside of the furnace. Electric arc furnaces, which are used chiefly for steelmaking, consume massive quantities of electricity. Since furnace interiors cannot be monitored, more than the necessary amount of power is used to melt the materials inside the furnace. Cutting electricity consumption is not the only benefit. The ability to contribute further to the automation of furnace operations, a demand that is particularly strong overseas, is expected to make this new system even more appealing to steelmakers.

(5) New Materials

R&D in this segment concentrates on R&D for such new materials as high performance powder metal and titanium alloys.

R&D expenditures in this segment during the fiscal year under review amounted to ¥1,795 million. The following are some of our major achievements in this area.

Major Achievements

•Damping alloys

In recent years, companies in many industries have been seeking ways to reduce vibrations even more. To meet this need, Daido Steel has been working on creating more applications for damping alloys. One advance is the incorporation of a damping alloy in the tool bit holders of lathes. Benefits include greater surface roughness and a longer life for chips produced during cutting. An increasing number of companies in Japan are using this technique for their lathes, mainly automakers. Companies in many more industries are expected to start using this technique as awareness of its benefits grows.

Damping alloys are frequently used in automobile parts because of the increasing need for more ways to make cars quieter. One example is washers that reduce road noise. Available at auto accessory stores throughout Japan, these washers are recording strong sales. As a result, Daido Steel is receiving an increasing number of inquiries from automakers about these washers. Damping alloys are expected to attract increasing attention as a key material for components that lower vibrations in automobiles and other machinery.

•Biocompatible titanium-based materials

Light weight, high strength and high corrosion resistance are the main benefits of titanium. Another characteristic is compatibility with the body because titanium never causes an allergic reaction. Titanium is used for a number of biocompatible materials. In particular, titanium alloys are often used material for artificial joints. Daido Steel has a large share of the market of raw materials for artificial joint materials like Ti-6Al-4V and Ti-6Al-7Nb. We have earned a reputation as a leading supplier of materials for applications that require the reliability. Recently, as a variety of needs emerge for biocompatible materials, one of great interest is about low modulus of elasticity titanium alloys that can heal bone structures earlier than using other metallic materials. Therefore, we have developed a beta type titanium alloy (TNCZ: Ti-Nb-Cr-Zr) that has a low modulus of elasticity and consists of elements that have cyto-toxicity. We plan to increase shares of biocompatible materials as customers perform evaluations to prepare for the use of our materials.

Basic Policy

The Daido Steel Group considers it extremely important for contemporary corporations to take on a role that extends beyond economic activities and to contribute to the sustainable development of society through environmentally conscious activities and involvement in the resolution of social issues.

The Daido Steel Group is playing a part in helping to create a recycling-oriented economy and society through its primary business operations: the manufacture and sale of specialty steel largely created from recycled scrap steel. Daido Steel is also engaged in a broad range of initiatives, including developing a variety of environmental activities, abiding firmly by our corporate ethics, striving for disclosure to increase the transparency of management, and creating a safe and pleasant place for employees to work.

Major Initiatives

Preventing global warming

The first commitment period for the Kyoto Protocol runs from 2008 to 2012. Daido Steel's five-year management plan for 2006—2010 aimed to reduce the volume of CO_2 emissions by 10% compared to the 1990 level in accordance with the guidelines of the Japan Iron and Steel Federation. We had planned to invest a total of approximately ¥2.9 billion towards the achievement of this goal by expanding the use of exhaust heat recovery in heating furnaces, shifting our fuel source from heavy oil to natural gas, and improving the yield ratio through an increase in the ratio of production by continuous casters.

Due to the effects of cumulative investments of ¥4.8 billion made from 2006 to 2011, operational improvements and changes in production levels, CO_2 emissions in 2011 decreased by 18.9% compared to 1990. Turning to fuel conversion, we achieved a change in the natural gas percentage in fuel from 35% (calorie basis) in 2005 to 71% at the end of fiscal 2011.

Going forward, we will implement further reform measures, such as reductions in the number of heats and improving the yield ratio. It is Daido Steel's policy not to purchase carbon credits during the first commitment period.

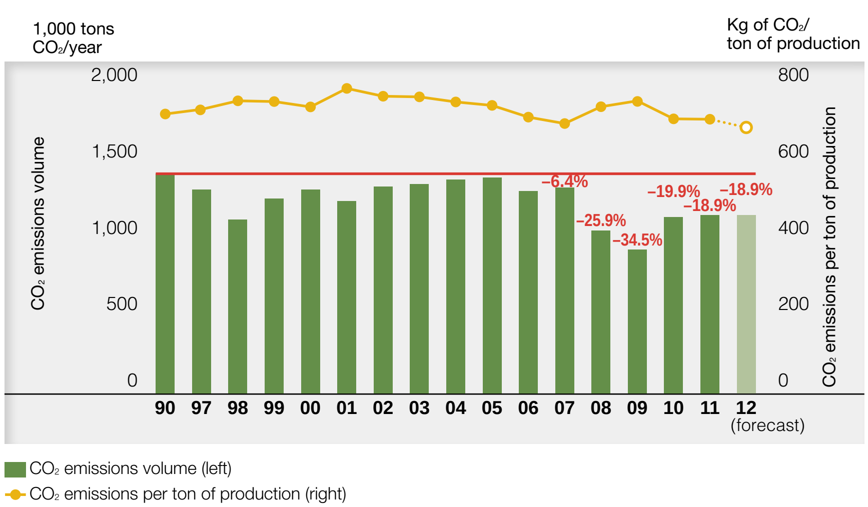
Strengthening the CSR promotion framework

The Daido Steel Group has responded to the needs of our various stakeholders by establishing committees as parent organizations to support CSR activities, such as the Environment and Energy Committee and the Human Resources Labor Committee. With a view to further strengthening this framework, in fiscal 2007 the CSR Committee was established to supervise general CSR activities. Members of the CSR Committee formulate Group-wide policies and action plans with the aim of unifying and expanding CSR activities across all Group companies and divisions.

For details, please refer to the annually issued CSR Report.
URL: http://www.daido.co.jp/csr/data/report.html
(Japanese only)

CSR

ENERGY CONSUMPTION AND CARBON DIOXIDE EMISSIONS VOLUME



CO_2 emissions coefficient for electric power: 0.374 kg of CO_2/ kWh
Figures for 2012 are estimates

Basic Policy

Daido Steel views corporate governance as one of the key issues for management in today's rapidly changing business environment. We strive to increase management efficiency, accelerate and improve decision-making, and ensure management transparency.

In addition, in order to clarify our responsibilities as a company contributing to society, Daido Steel has established a Risk Management Committee. The Company has also implemented the Daido Steel Corporate Code of Ethics, and is working to improve its basic structure as a company open to society. In order to ensure the reliability of its financial reporting, the Company has set up an Internal Control Committee.

Governance System

Daido Steel uses the corporate auditor system. The business execution of the 19 directors (including one external director) is conducted according to a medium-term management plan, covering a period of three years in principle, and one-year plans for each business segment that specify steps to be taken under the medium-term plan, based on common Group goals shared with all employees.

The Board of Directors convenes a minimum of once a month to decide important matters and report on the status of the directors' business execution. A Management Meeting attended by managing directors and above is held once monthly in principle, as well as on an as-needed basis, in order to increase the flexibility of decision-making on important matters and ensure more detailed dissemination of information. In addition, the Executive Directors' Meeting takes place once a month to increase the efficiency of execution of duties by Directors and review the progress on the medium-term management plan.

Three corporate auditors, including two external corporate auditors, attend important meetings such as the Management Meeting and Board of Directors' meetings and conduct visiting audits of all business divisions and consolidated subsidiaries in order to audit and oversee the business execution of directors.

Internal Control System

Risk Management Initiatives

Daido Steel emphasizes risk management and legal compliance in its management. To this end, the Company has set out basic points for risk management in the Risk Management Regulations. In addition, the Risk Management Committee, chaired by the president, discusses management of projected upcoming and latent risks within the Group, reports to the Company's Executive Directors and advises the Company's Board of Directors. The Company also appoints a director who is responsible for the company-wide supervision of risk management and compliance.

In preparation for a major accident or other problem, relevant information is shared with all concerned people, and speedy and smooth countermeasures are formulated. The Company has also formulated regulations for emergency countermeasures in the event of a major accident, aimed at minimizing the impact of the accident or other problem on business activities, and disseminated the regulations to all employees and Group companies.

Furthermore, in response to any major share-purchase activity (for example, purchases of the Company's shares aimed at increasing the voting rights of a specific shareholders' group to over 20%), Daido Steel will implement takeover defense measures from the perspective of ensuring and improving corporate value and, by extension, the shared beneficial interests of all shareholders.

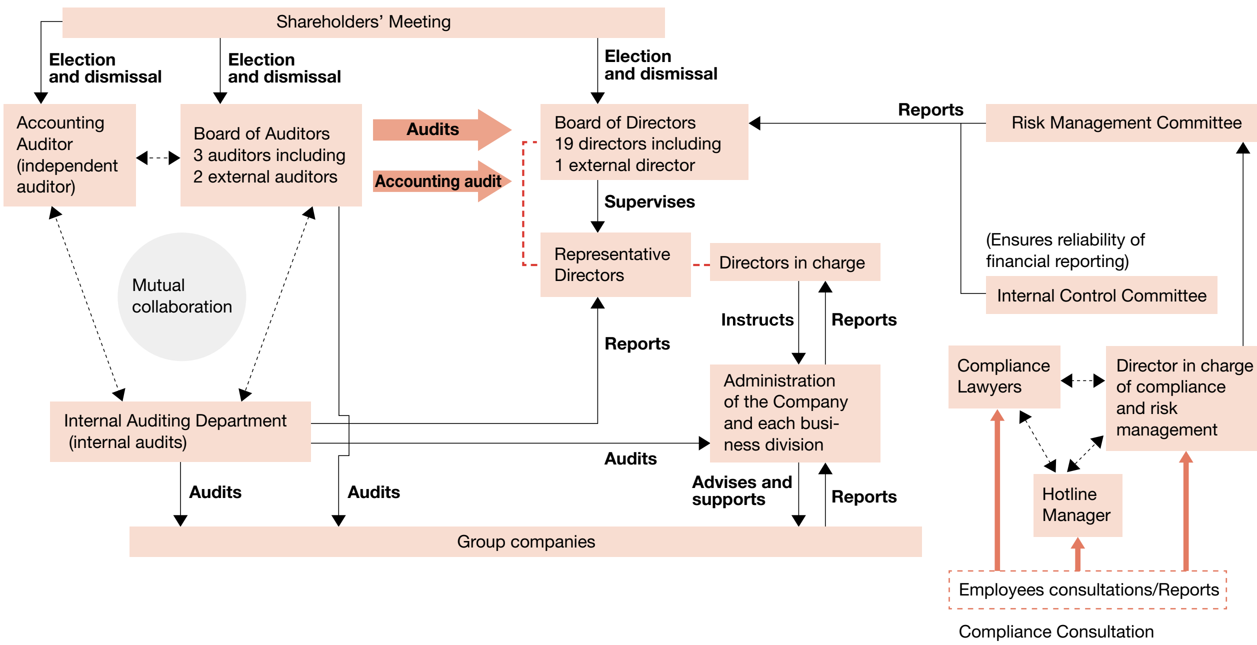
Efforts to enhance compliance

Daido Steel has established the Daido Steel Corporate Code of Ethics and the Daido Steel Code of Conduct, and works to disseminate them to all employees and Group companies. The Company also maintains a hotline for consultation and reporting by employees regarding compliance, as well as directors in charge of compliance and risk management, divisions in charge and outside attorneys.

Efforts to ensure the reliability of financial reporting

In order to ensure the reliability of financial reporting and enhance the level of response of the Company and Group companies to J-SOX, the Daido Steel Group prescribes the basic points for system improvement and operation in the Internal Control Regulations and has established an Internal Control Committee chaired by the president.

MECHANISM FOR BUSINESS EXECUTION, AUDIT, SUPERVISION AND INTERNAL CONTROL (As of June 28, 2012)



BOARD OF DIRECTORS AND CORPORATE AUDITORS

CHAIRMAN AND REPRESENTATIVE EXECUTIVE DIRECTOR


Masatoshi Ozawa

PRESIDENT AND REPRESENTATIVE EXECUTIVE DIRECTOR


Tadashi Shimao

EXECUTIVE VICE PRESIDENTS AND REPRESENTATIVE EXECUTIVE DIRECTORS


Shuichi Nakatsubo


Michio Okabe


Hitoshi Horie

MANAGING DIRECTORS


Akira Miyajima


Yasuhiro Itazuri


Yasuma Yasuda


Motoshi Shinkai


Takeshi Ishiguro


Hajime Takahashi

DIRECTORS

Akihiro Miyasaka
Tsukasa Nishimura
Kazuto Tachibana
Satoshi Tsujimoto
Susumu Shimura
Shuji Matsubuchi
Shinji Naruse
Takeshi Muto

STANDING CORPORATE AUDITORS

Masaru Hashizume
Toshinori Koike

CORPORATE AUDITOR

Yukichi Ozawa

CONTENTS

OVERVIEW OF OPERATING ENVIRONMENT AND PERFORMANCE

In fiscal 2011, ended March 31, 2012, the Japanese economy continued a steady recovery as the supply chain was restored following a temporary economic downturn that stemmed from the Great East Japan Earthquake. Despite a standstill at one point owing to the recurrence of the European debt problem and the yen's surge, there were again signs of an improvement in Japan with a correction in the yen and a turnaround in the U.S. economy. Demand was generally strong in the automobile industry, a key source of demand for Daido Steel's specialty steel products, as well as from the industrial equipment and information technology sectors. This reflected rising demand in emerging countries, offsetting the influence of slowdowns elsewhere internationally and the impact of floods in Thailand.

In this operating environment, the Daido Steel Group faced continuing substantial changes in demand trends. The Group responded flexibly to plunging production demand after the earthquake and to requests to conserve electricity in the summer period, and then accommodated expanded demand from fall.

Production and sales volumes were higher than a year earlier, reflecting a demand recovery from an initial downturn after the quake and various efforts to boost production. Moreover, net sales were impacted by a rise in sales prices primarily reflecting an increased sales volume and scrap iron prices. Group net sales increased ¥17,092 million, to ¥489,155 million. Recurring income rose ¥36 million, to ¥31,762 million. Net income was ¥22,718 million.

BUSINESS SEGMENT PERFORMANCE

Specialty Steel

There was brisk growth overall in the specialty steel segment against the backdrop of an expansion in overseas demand, despite the adverse impact on automobile related demand of temporary cutbacks in the production of completed automobiles due to a stagnating supply chain at the start of the fiscal year caused by the March 2011 earthquake, and the flooding in Thailand. At the same time, steady demand continued in both the industrial machinery and IT sectors, but after autumn 2011 a phase of inventory adjustments reflected the slowing down of economies in Europe and the newly emerging countries.

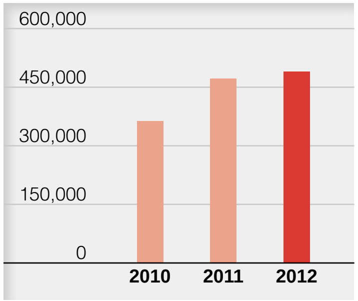
As regards this kind of demand environment, the Daido Steel Group pushed forward with its production activities while responding flexibly to changes in the management environment. To accommodate requests to conserve electricity in the summer and the subsequent requests for expanded demand, the Group managed production by such measures as bringing forward scheduled production and shifting employees' work schedules. Moreover, the Group continued various measures to increase production and reduce costs. As a result of the above, the value of contracts for the fiscal year under review rose 5.9% year on year, to ¥204,301 million.

Thanks in part to these measures, the sales volume in the specialty steel segment for the consolidated fiscal year under review increased 3.0% year on year. Monetary sales rose 2.4% to ¥293,744 million. Moreover, operating income also rose, increasing ¥117 million year on year to ¥21,129 million, mainly due to the increase in the production and sales volume.

FINANCIAL SECTION

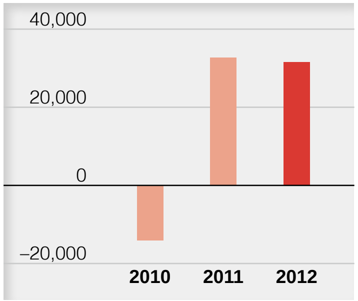
NET SALES
Years ended March 31

(millions of yen)



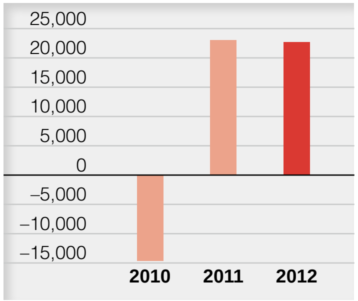
OPERATING INCOME (LOSS)
Years ended March 31

(millions of yen)



NET INCOME (LOSS)
Years ended March 31

(millions of yen)



Electronic and Magnetic Materials

In the high alloy business, sales decreased year on year because IT-related products declined due to the slowdown in the market, despite the robust demand for products for automobiles due to the production recovery after the March 2011 earthquake. (Monetary orders received for steel strip materials by the Group in the consolidated fiscal year under review amounted to ¥10,374 million, a 12.5% drop year on year.) In the magnetic product business however, sales increased year on year despite a drop in demand in the information technology sector for magnets for HDDs and the impact of floods in Thailand. This sales increase reflected expected demand for motor magnets for electric power steering and the new consolidation of a Chinese magnets manufacturing company. Consequently, the value of contracts for magnetic products rose 57.0% year on year, to ¥13,356 million.

As a result of all these factors, sales in the electronic and magnetic materials segment for the consolidated fiscal year under review amounted to ¥42,636 million, increasing 6.8% from the previous fiscal year. On the other hand, operating income fell ¥293 million year on year to ¥1,503 million, due to decreased sales in the high alloy business.

Parts for Automobile and Industrial Equipment

Automobile parts-related sales for die forged products rose, despite the adverse impact of temporary production cutbacks at automakers due to the March 2011 earthquake and its aftermath, mainly because of a production recovery and an expansion in demand for trucks for Southeast Asia. Consequently, the value of contracts for die forgings rose 14.5% year on year, to ¥8,161 million. The value of contracts for hot precision forging products decreased 2.9% year on year, to ¥15,559 million.

In precision cast products, sales were on a par with the previous fiscal year. Although the trend of demand expansion, such as the rise in popularity of diesel turbo engines, continued, this was counterbalanced by the impact of inventory adjustments associated with the slowdowns in European economies. Consequently, the value of contracts for iron-related precision cast products rose 0.8% year on year, to ¥7,469 million.

In industrial equipment, sales rose year on year despite the sluggish capital investment in Japan and the prolonged downward pressure on export-related demand due to the high yen. The sales increase was primarily made possible by the recovery-related demand, mainly for gas turbines, and increased sales of materials for resource drilling. Consequently, the value of contracts for free forgings in the fiscal year under review rose 6.0% year on year, to ¥35,633 million.

As a result, net sales in the parts for automobile & industrial equipment segment for the consolidated fiscal year under review increased 4.6% to ¥107,258 million. However, operating income decreased ¥1,256 million year on year to ¥5,272 million mainly due to fixed expenses and changes in the product composition.

Engineering

In the engineering segment, net sales increased year on year despite the continued low levels of domestic demand. The increase was due to the contribution to sales of a rise in demand for parts and maintenance, spot projects related to the earthquake recovery, and increased capital investment and sales activity in China. Consequently, the value of engineering contracts received fell 14.2% year on year, to ¥10,000 million.

Reflecting all these factors, engineering segment sales for the consolidated fiscal year under review increased 8.3% to ¥25,769 million. Operating income rose ¥231 million to ¥1,826 million.

New Materials

Titanium product sales rose year on year due mainly to recovery in domestic demand. This was despite weakness of exports to Europe and the U.S. due to the negative effect of the strong yen. The value of contracts for titanium products increased 6.8% to ¥3,414 million. In powder metal products, net sales increased year on year despite the temporary fall in demand caused by the earthquake and the impact of the strong yen on exchange rates. The increase was mainly due to the return to normal of automobile production and increased production of high performance powder metal products for HEVs. The value of contracts for powder metal products increased 3.2% from a year earlier, to ¥5,828 million.

Consequently, new materials segment sales for the consolidated fiscal year under review rose 5.8% year on year to ¥10,116 million. However, operating income declined ¥82 million year on year to ¥567 million mainly due to the impact of currency exchange rates.

Trading and Service

Consolidated net sales of the trading and service segment in the consolidated fiscal year under review rose 2.1% to ¥9,632 million. The adverse impact of the earthquake on some services was outweighed by an expansion in sales at an overseas trading company and other factors. Operating income also rose, increasing ¥83 million to ¥1,242 million.

CAPITAL EXPENDITURES

Capital expenditures by business segment during the fiscal year under review are shown in the table below.

Figures in the table include intangible fixed assets in addition to property, plant and equipment.

RESEARCH AND DEVELOPMENT

R&D costs for the entire Daido Steel Group during the fiscal year under review totaled ¥4,360 million. The research objectives, achievements and R&D expenses in each business segment were as follows:

(1) Specialty Steel

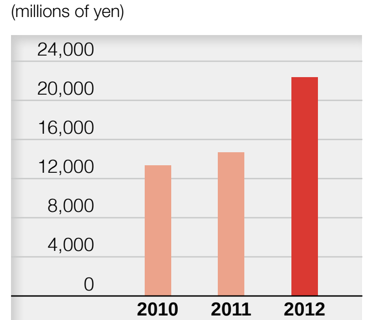
Daido Steel bears the principal responsibility for carrying out specialty steel R&D. Research areas include basic material development, such as automotive structural steel, steel that resists corrosion and heat, tool steel, and welding materials. Other areas of emphasis are development of process innovations ranging from steelmaking, refining and solidification to quality assurance for finished products. Specialty steel R&D costs during the fiscal year under review totaled ¥1,775 million.

CAPITAL EXPENDITURES BY SEGMENT
Years ended March 31

	Millions of Yen		
	2012	2011	Change (%)
Specialty Steel	**¥10,707**	¥ 8,357	28.1
Electronic and Magnetic Materials	**2,866**	949	202.1
Parts for Automobile and Industrial Equipment	**7,313**	3,568	105.0
Engineering	**233**	184	26.6
New Materials	**520**	364	42.9
Trading and Service	**727**	1,249	(41.8)
Total	**¥22,366**	¥14,670	52.5

CAPITAL EXPENDITURES
Years ended March 31

(millions of yen)



(2) Electronic and Magnetic Materials

Development of high-performance steel strips, electromagnetic materials, and other basic materials, as well as R&D of photovoltaic power generation systems is conducted mainly by Daido Steel, while magnet R&D is conducted primarily by Daido Steel and consolidated subsidiary Daido Electronics Co., Ltd. R&D costs in this segment during the fiscal year under review amounted to ¥201 million.

(3) Parts for Automobile and Industrial Equipment

Mainly the responsibility of Daido Steel, R&D in this segment concentrates on development of engine valves and other automotive parts and parts for various types of industrial machinery. R&D costs for the fiscal year under review in this segment totaled ¥508 million.

(4) Engineering

Engineering R&D is carried out primarily by Daido Steel, focused on development of environmental conservation and recycling equipment and a variety of energy-saving industrial furnaces. Engineering R&D costs during the fiscal year under review were ¥79 million.

(5) New Materials

R&D in this segment is done mainly by Daido Steel and concentrates on R&D for such new materials as high performance powder metal and titanium alloys.

R&D costs for the new materials segment during the fiscal year under review totaled ¥1,795 million.

(6) Trading and Service

There are no R&D activities in this segment.

FINANCIAL POSITION

Cash Flows

Cash and cash equivalents as of March 31, 2012 amounted to ¥61,956 million, representing an increase of ¥ 14,615 million, or 30.8%, year on year.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities amounted to ¥41,796 million, up ¥164 million from the previous fiscal year. The main component of cash inflow was income before income taxes and minority interests of ¥30,214 million. The main component of cash outflow was a ¥4,242 million increase in notes and accounts receivable.

CASH FLOWS FROM INVESTING ACTIVITIES

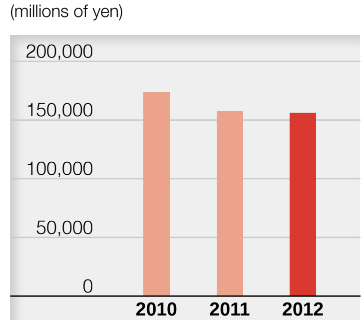
Net cash used in investing activities totaled ¥21,412 million, increasing by ¥10,912 million from the previous fiscal year. The major cash outflows included ¥19,964 million in purchases of property, plant, and equipment.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities was ¥6,160 million, decreasing ¥13,121 million from the previous year. The decrease was chiefly due to ¥28,680 million for the repayments of long-term debt.

INTEREST-BEARING DEBT
Years ended March 31

(millions of yen)



CONSOLIDATED BALANCE SHEET

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2012**	2011	**2012**
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	**¥ 61,956**	¥ 47,341	**$ 755,561**
Time deposits (Notes 8 and 15)	**246**	171	**3,000**
Notes and accounts receivable (Note 15)	**104,127**	99,345	**1,269,841**
Inventories (Note 4)	**90,921**	92,328	**1,108,793**
Deferred tax assets (Note 12)	**5,295**	5,950	**64,573**
Prepaid expenses and other current assets	**2,672**	2,729	**32,585**
Allowance for doubtful accounts	**(251)**	(340)	**(3,060)**
Total current assets	**264,966**	247,524	**3,231,293**
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 5, 6 and 8)	**36,558**	36,694	**445,829**
Buildings and structures (Notes 5, 6 and 8)	**140,037**	138,466	**1,707,768**
Machinery and equipment (Note 8)	**408,616**	401,061	**4,983,122**
Construction in progress	**3,305**	1,594	**40,305**
Total	**588,516**	577,815	**7,177,024**
Accumulated depreciation	**(432,104)**	(422,865)	**(5,269,561)**
Net property, plant and equipment	**156,412**	154,950	**1,907,463**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 8 and 15)	**49,737**	51,011	**606,549**
Investments in non-consolidated subsidiaries and associated companies (Notes 8 and 15)	**14,992**	13,356	**182,829**
Prepaid pension cost (Note 9)	**19,962**	17,582	**243,439**
Deferred tax assets (Note 12)	**1,019**	1,431	**12,427**
Other investments and assets (Note 8)	**5,881**	5,868	**71,720**
Total investments and other assets	**91,591**	89,248	**1,116,964**
TOTAL	**¥ 512,969**	¥ 491,722	**$ 6,255,720**

LIABILITIES AND EQUITY	Millions of Yen 2012	2011	Thousands of U.S. Dollars (Note 1) 2012
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7, 8 and 15)	**¥ 23,609**	¥ 20,657	**$ 287,915**
Current portion of long-term debt (Notes 7, 8, 14 and 15)	**25,435**	28,426	**310,183**
Payables:			
Trade notes and accounts (Notes 8 and 15)	**72,163**	70,919	**880,037**
Acquisitions of property, plant and equipment	**5,649**	4,049	**68,890**
Total payables	**77,812**	74,968	**948,927**
Income taxes payable (Note 15)	**2,004**	5,196	**24,439**
Accrued expenses	**11,525**	10,829	**140,548**
Other current liabilities (Note 8)	**9,866**	8,403	**120,317**
Total current liabilities	**150,251**	148,479	**1,832,329**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 8, 14 and 15)	**107,293**	108,363	**1,308,451**
Liability for employees' retirement benefits (Note 9)	**6,799**	6,877	**82,915**
Retirement allowance for directors and corporate auditors	**913**	1,037	**11,134**
Asset retirement obligations (Note 10)	**426**	426	**5,195**
Deferred tax liabilities (Note 12)	**11,616**	12,410	**141,659**
Other long-term liabilities	**4,158**	4,261	**50,707**
Total long-term liabilities	**131,205**	133,374	**1,600,061**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 17)			
EQUITY (Note 11)**:**			
Common stock:			
Authorized: 1,160,000 thousand shares			
Issued: 434,488 thousand shares in 2012 and 2011	**37,172**	37,172	**453,317**
Capital surplus	**28,543**	28,543	**348,085**
Retained earnings	**126,844**	106,919	**1,546,878**
Treasury stock, at cost			
714 thousand shares in 2012 and 665 thousand shares in 2011	**(335)**	(311)	**(4,085)**
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	**6,456**	5,962	**78,732**
Deferred loss on derivatives under hedge accounting	**(7)**	(3)	**(85)**
Land revaluation surplus	**1,654**	1,357	**20,170**
Foreign currency translation adjustments	**(1,673)**	(1,291)	**(20,402)**
Total	**198,654**	178,348	**2,422,610**
Minority interests	**32,859**	31,521	**400,720**
Total equity	**231,513**	209,869	**2,823,330**
TOTAL	**¥512,969**	¥491,722	**$6,255,720**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	**2012**
NET SALES	**¥489,155**	¥472,063	**$5,965,305**
COST OF SALES (Note 13)	**408,639**	392,202	**4,983,403**
Gross profit	**80,516**	79,861	**981,902**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	**48,982**	47,131	**597,341**
Operating income	**31,534**	32,730	**384,561**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**1,639**	1,488	**19,988**
Interest expense	**(2,383)**	(2,469)	**(29,061)**
Equity in earnings of associated companies	**680**	762	**8,292**
(Loss) gain on sales of investment securities and investments in a non-consolidated subsidiary and an associated company—net	**(56)**	715	**(683)**
Foreign exchange gain (loss)	**51**	(553)	**622**
Loss on sales and disposals of property, plant and equipment—net	**(470)**	(262)	**(5,732)**
Investment rents received	**547**	547	**6,671**
Grants received	**19**	39	**232**
Cumulative effect of initial recognition of asset retirement obligations	**–**	(473)	**–**
Write-down of investment securities (Note 3)	**(601)**	(220)	**(7,329)**
Other—net (Note 5)	**(746)**	(1,452)	**(9,098)**
Other expenses—net	**(1,320)**	(1,878)	**(16,098)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**30,214**	30,852	**368,463**
INCOME TAXES (Note 12)**:**			
Current	**4,231**	6,002	**51,597**
Deferred	**1,112**	(379)	**13,561**
Total income taxes	**5,343**	5,623	**65,158**
NET INCOME BEFORE MINORITY INTERESTS	**24,871**	25,229	**303,305**
MINORITY INTERESTS IN NET INCOME	**2,153**	2,225	**26,256**
NET INCOME	**¥ 22,718**	¥ 23,004	**$ 277,049**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2(u))**:**			
Net income	**¥ 52.37**	¥ 53.02	**$ 0.64**
Cash dividends applicable to the year	**7.50**	7.00	**0.09**

	Thousands	
WEIGHTED-AVERAGE NUMBER OF OUTSTANDING SHARES OF COMMON STOCK	**433,799**	433,837

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	**2012**
NET INCOME BEFORE MINORITY INTERESTS	**¥24,871**	¥25,229	**$303,305**
OTHER COMPREHENSIVE INCOME (Note 18)**:**			
Unrealized gain (loss) on available-for-sale securities	**546**	(1,568)	**6,658**
Deferred loss on derivatives under hedge accounting	**(1)**	(6)	**(12)**
Revaluation surplus	**297**	–	**3,622**
Foreign currency translation adjustments	**(446)**	(375)	**(5,439)**
Share of other comprehensive income in associates	**(1)**	10	**(12)**
Total other comprehensive income (loss)	**395**	(1,939)	**4,817**
COMPREHENSIVE INCOME (Note 18)	**¥25,266**	¥23,290	**$308,122**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 18)**:**			
Owners of the parent	**¥23,123**	¥21,227	**$281,988**
Minority interests	**2,143**	2,063	**26,134**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2012

	Thousands	Millions of Yen				
						Accumulated Other Comprehensive Income
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities
BALANCE AT APRIL 1, 2010	433,847	¥37,172	¥28,543	¥ 86,085	¥(300)	¥ 7,398
Net income	–	–	–	23,004	–	–
Cash dividends, ¥5.00 per share	–	–	–	(2,170)	–	–
Purchase of treasury stock	(28)	–	–	–	(13)	–
Disposal of treasury stock	4	–	(0)	–	2	–
Net change in the year	–	–	–	–	–	(1,436)
BALANCE AT MARCH 31, 2011	433,823	37,172	28,543	106,919	(311)	5,962
Net income	**–**	**–**	**–**	**22,718**	**–**	**–**
Cash dividends, ¥7.50 per share	**–**	**–**	**–**	**(3,254)**	**–**	**–**
Purchase of treasury stock	**(55)**	**–**	**–**	**–**	**(28)**	**–**
Disposal of treasury stock	**6**	**–**	**(0)**	**–**	**4**	**–**
Net change in the year	**–**	**–**	**–**	**461**	**–**	**494**
BALANCE AT MARCH 31, 2012	**433,774**	**¥37,172**	**¥28,543**	**¥126,844**	**¥(335)**	**¥ 6,456**

	Millions of Yen					
	Accumulated Other Comprehensive Income					
	Deferred Loss on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE AT APRIL 1, 2010	¥ 0	¥1,357	¥ (953)	¥159,302	¥29,990	¥189,292
Net income	–	–	–	23,004	–	23,004
Cash dividends, ¥5.00 per share	–	–	–	(2,170)	–	(2,170)
Purchase of treasury stock	–	–	–	(13)	–	(13)
Disposal of treasury stock	–	–	–	2	–	2
Net change in the year	(3)	–	(338)	(1,777)	1,531	(246)
BALANCE AT MARCH 31, 2011	(3)	1,357	(1,291)	178,348	31,521	209,869
Net income	**–**	**–**	**–**	**22,718**	**–**	**22,718**
Cash dividends, ¥7.50 per share	**–**	**–**	**–**	**(3,254)**	**–**	**(3,254)**
Purchase of treasury stock	**–**	**–**	**–**	**(28)**	**–**	**(28)**
Disposal of treasury stock	**–**	**–**	**–**	**4**	**–**	**4**
Net change in the year	**(4)**	**297**	**(382)**	**866**	**1,338**	**2,204**
BALANCE AT MARCH 31, 2012	**¥(7)**	**¥1,654**	**¥(1,673)**	**¥198,654**	**¥32,859**	**¥231,513**

	Thousands of U.S. Dollars (Note 1)					
					Accumulated Other Comprehensive Income	
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting
BALANCE AT MARCH 31, 2011	$453,317	$348,085	$1,303,890	$(3,793)	$72,707	$(37)
Net income	**–**	**–**	**277,049**	**–**	**–**	**–**
Cash dividends, $0.09 per share	**–**	**–**	**(39,683)**	**–**	**–**	**–**
Purchase of treasury stock	**–**	**–**	**–**	**(341)**	**–**	**–**
Disposal of treasury stock	**–**	**(0)**	**–**	**49**	**–**	**–**
Net change in the year	**–**	**–**	**5,622**	**–**	**6,025**	**(48)**
BALANCE AT MARCH 31, 2012	**$453,317**	**$348,085**	**$1,546,878**	**$(4,085)**	**$78,732**	**$(85)**

	Thousands of U.S. Dollars (Note 1)				
	Accumulated Other Comprehensive Income				
	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE AT MARCH 31, 2011	$16,548	$(15,744)	$2,174,973	$384,403	$2,559,376
Net income	**–**	**–**	**277,049**	**–**	**277,049**
Cash dividends, $0.09 per share	**–**	**–**	**(39,683)**	**–**	**(39,683)**
Purchase of treasury stock	**–**	**–**	**(341)**	**–**	**(341)**
Disposal of treasury stock	**–**	**–**	**49**	**–**	**49**
Net change in the year	**3,622**	**(4,658)**	**10,563**	**16,317**	**26,880**
BALANCE AT MARCH 31, 2012	**$20,170**	**$(20,402)**	**$2,422,610**	**$400,720**	**$2,823,330**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 30,214	¥ 30,852	$ 368,463
Adjustments for:			
Income taxes—paid	(7,647)	(1,903)	(93,256)
Depreciation and amortization	20,464	20,073	249,561
Loss on sales and disposals of property, plant, equipment and other—net	800	532	9,756
Loss (gain) on sales of investment securities and investments in a non-consolidated subsidiary and an associated company—net	56	(715)	683
Equity in earnings of associated companies	(680)	(762)	(8,293)
Cumulative effect of initial recognition of asset retirement obligations	–	473	–
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(4,242)	(10,816)	(51,731)
Decrease in allowance for doubtful accounts	(104)	(72)	(1,268)
Decrease (increase) in inventories	1,456	(12,078)	17,756
Increase in notes and accounts payable	1,068	12,276	13,024
(Decrease) increase in liability for employees’ retirement benefits	(76)	232	(927)
Other—net	487	3,540	5,939
Total adjustments	11,582	10,780	141,244
Net cash provided by operating activities	41,796	41,632	509,707
INVESTING ACTIVITIES:			
Payment for time deposits	(107)	(0)	(1,305)
Repayment from time deposits	179	316	2,183
Purchases of property, plant and equipment	(19,964)	(11,544)	(243,463)
Proceeds from sales of property, plant and equipment	418	1,200	5,097
Purchases of investment securities and investments in non-consolidated subsidiaries and an associated company	(594)	(1,057)	(7,244)
Proceeds from sales and redemption of investment securities and investments in a non-consolidated subsidiary and an associated company	240	853	2,927
Disbursements for originating loans	(472)	(69)	(5,756)
Proceeds from collection of loans	92	158	1,122
Other—net	(1,204)	(357)	(14,683)
Net cash used in investing activities	(21,412)	(10,500)	(261,122)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term bank loans	1,800	(2,369)	21,951
Proceeds from long-term borrowings	14,758	4,444	179,976
Proceeds from issuance of bonds	10,000	–	121,951
Repayments of long-term debt	(28,680)	(18,497)	(349,756)
Dividends paid including payments to minority shareholders of subsidiaries	(3,793)	(2,626)	(46,256)
Other—net	(245)	(233)	(2,988)
Net cash used in financing activities	(6,160)	(19,281)	(75,122)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(146)	(452)	(1,780)
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,078	11,399	171,683
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR	537	–	6,549
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	47,341	35,942	577,329
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 61,956	¥ 47,341	$ 755,561

See notes to consolidated financial statements.

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2012

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements 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 the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2011 financial statements to conform to the classifications used in 2012.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which DAIDO STEEL CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥82 to $1, the approximate rate of exchange at March 31, 2012. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company had 57 (58 in 2011) majority-owned subsidiaries and 23 (21 in 2011) associated companies at March 31, 2012. The consolidated financial statements as of March 31, 2012 include the accounts of the Company and 33 (32 in 2011) significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the Group has ability to exercise significant influence are accounted for by the equity method.

Investments in six associated companies are accounted for by the equity method for the years ended March 31, 2012 and 2011. Investments in other non-consolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The fiscal years of the subsidiaries are not necessarily the same as that of the Company. Accounts of those subsidiaries, which have different fiscal years, have been adjusted for significant transactions to properly reflect their financial position at March 31 of each year and the results of operations for the year then ended.

The difference between the cost of acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized on a straight-line basis over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of research and development; 4) cancellation of fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting; and 5) exclusion of minority interests from net income, if contained.

(c) Cash and Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and short-term investments which mature or become due within three months of the date of acquisition.

(d) Investment Securities

Investment securities are classified and accounted for, depending on management's intent, as follows:

Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

A limited partnership investment is accounted for by the equity method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, marketable and investment securities are reduced to net realizable value by a charge to income.

(e) Inventories

Inventories are stated at the lower of cost, mainly determined by the average method, or market.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost, less gains on grant receipts, etc. Under certain conditions such as government grant receipt, exchanges of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section. The acquisition costs of property, plant and equipment were reduced in the amounts of ¥1,526 million ($18,610 thousand) and ¥1,457 million at March 31, 2012 and 2011, respectively.

Depreciation of certain plants of the Company and certain domestic and foreign subsidiaries is computed by the straight-line method. Depreciation of other plants of the Company and other subsidiaries is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998 for domestic companies.

Depreciation of leased assets is computed by the straight-line method over the lease period.

The range of useful lives is from 3 to 60 years for buildings and structures and from 3 to 17 years for machinery and equipment.

(g) Land Revaluation

Under the "Law of Land Revaluation," Nippon Drop Forge Co., Ltd., a consolidated subsidiary, elected a one-time revaluation of its own-use land to a value based on real estate appraisal information at March 31, 1999. The resulting land revaluation surplus represented unrealized appreciation of land and was stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation surplus account and related deferred tax liabilities. At March 31, 2012, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥3,730 million ($45,488 thousand).

(h) Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(i) Other Assets

Intangible assets are amortized by the straight-line method. Software costs are amortized over five years.

(j) Bond Issuance Cost

Bond issuance costs are charged to income as incurred.

(k) Retirement and Pension Plans

The Company and its domestic consolidated subsidiaries have unfunded retirement benefit plans and non-contributory funded pension plans. Certain consolidated subsidiaries have defined contribution pension plans, multi-employer contributory funded pension plans and smaller enterprise retirement allowance mutual aid plans. The liability for employees' retirement benefits is accounted for based on projected benefit obligations and plan assets at the balance sheet date. Certain small domestic subsidiaries provide their employees' retirement benefits at the amount that would be required if all employees retired at the balance sheet date.

Retirement benefits to directors and corporate auditors of the Company and certain subsidiaries are provided at the amount that would be required if all directors and corporate auditors retired at the balance sheet date.

(l) Asset Retirement Obligations

In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(m) Research and Development Costs

Research and development costs are charged to income as incurred.

(n) Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.

(As lessee)

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and did not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

(As lessor)

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the notes to the lessor's financial statements. The revised accounting standard requires that all finance leases that are deemed to transfer ownership of the leased property to the lessee should be recognized as lease receivables and all finance leases that are deemed not to transfer ownership of the leased property to the lessee should be recognized as investments in leases.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and did not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

(o) Bonuses to Directors and Corporate Auditors

Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

(p) Construction Contracts

In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account for construction contracts. Under this new accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

(q) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(r) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

(s) Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated comprehensive income in a separate component of equity.

(t) Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, currency swaps and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and, except those derivatives which qualify for hedge accounting, gains or losses are recognized in the consolidated statement of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions.

Foreign exchange forward contracts are measured at fair value and the unrealized gains (losses) are recognized in the consolidated statement of income. Forward contracts used to hedge forecasted (or committed) transactions are also measured at fair value but the unrealized gains (losses) are deferred until the underlying transactions are completed.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense.

(u) Per Share Information

Net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because the Group had no dilutive shares at March 31, 2012 and 2011.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years without giving retroactive adjustment for subsequent stock splits.

(v) Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies: When a new accounting policy is applied with a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentation: When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates: A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period-Errors: When an error in prior-period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

(w) New Accounting Pronouncement

Accounting Standard for Retirement Benefits—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidances, being followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the statement of comprehensive income (or the statement of income and comprehensive income)

The revised accounting standard would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013 with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

3. INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Non-current:			
Equity securities	**¥49,737**	¥50,991	**$606,549**
Debt securities	**–**	20	**–**
Total	**¥49,737**	¥51,011	**$606,549**

Information regarding available-for-sale securities at March 31, 2012 and 2011 was as follows:

	Millions of Yen			
March 31, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥35,092**	**¥11,031**	**¥1,624**	**¥44,499**

	Millions of Yen			
March 31, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥35,857	¥11,632	¥2,244	¥45,245

	Thousands of U.S. Dollars			
March 31, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$427,951**	**$134,524**	**$19,804**	**$542,671**

Information for available-for-sale securities which were sold during the years ended March 31, 2012 and 2011 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
March 31, 2012	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale:						
Equity securities	**¥215**	**¥4**	**¥65**	**$2,622**	**$49**	**$793**

	Millions of Yen		
March 31, 2011	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥635	¥502	¥6

Impairment losses on available-for-sale equity securities for the years ended March 31, 2012 and 2011 were ¥601 million ($7,329 thousand) and ¥220 million, respectively.

The carrying values of debt securities classified as available-for-sale by contractual maturities at March 31, 2012 and 2011 were disclosed in Note 15.

4. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Merchandise	**¥17,107**	¥18,001	**$ 208,622**
Finished products	**12,237**	10,631	**149,232**
Semi-finished products	**16,689**	17,346	**203,524**
Work in process	**19,755**	18,831	**240,915**
Raw materials	**16,549**	19,212	**201,817**
Supplies	**8,584**	8,307	**104,683**
Total	**¥90,921**	¥92,328	**$1,108,793**

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2011 and, as a result, recognized impairment losses for idle assets of ¥105 million for the year ended March 31, 2011 due to other-than-temporary declines in market value. This amount was included in other—net of other income (expenses). The carrying amount of the relevant assets was written down to the recoverable amount. The recoverable amount of such idle assets was measured at its net selling price mainly determined by quotation from a third-party real estate appraiser or assessed by the valuation of fixed assets for tax purposes. No impairment loss was recognized in 2012.

6. INVESTMENT PROPERTY

In November 2008, the ASBJ issued ASBJ Statement No. 20, “Accounting Standard for Investment Property and Related Disclosures” and issued ASBJ Guidance No. 23, “Guidance on Accounting Standard for Investment Property and Related Disclosures.”

The Company holds some rental properties such as office buildings and land in Aichi and other areas. Net of rental income and operating expenses for those rental properties were ¥1,066 million ($13,000 thousand) and ¥1,078 million for the years ended March 31, 2012 and 2011, respectively.

The carrying amounts, changes in such balances and market prices of such properties at March 31, 2012 and 2011 were as follows:

Millions of Yen				Thousands of U.S. Dollars			
Carrying Amount			Fair Value	Carrying Amount			Fair Value
April 1, 2011	Decrease	March 31, 2012	March 31, 2012	April 1, 2011	Decrease	March 31, 2012	March 31, 2012
¥5,349	¥(254)	¥5,095	¥25,149	$65,232	$(3,098)	$62,134	$306,695

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2010	Decrease	March 31, 2011	March 31, 2011
¥5,743	¥(394)	¥5,349	¥25,690

Notes:
1) The carrying amount recognized in the balance sheet was net of accumulated depreciation and accumulated impairment losses, if any.
2) The decrease during the fiscal year ended March 31, 2012 was primarily due to sales of idle assets of ¥118 million ($1,439 thousand) and depreciation of ¥161 million ($1,963 thousand).
3) The fair value of properties as of March 31, 2012 was measured by the Group in accordance with its Real Estate Appraisal Standard.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans consisted of notes to banks and bank overdrafts. The weighted average rates of annual interest applicable to short-term bank loans at March 31, 2012 and 2011 were 0.62% and 0.61%, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Loans from banks and other financial institutions, due serially to 2018 with weighted-average interest rates of 1.32% in 2012 and 1.38% in 2011	**¥ 91,181**	¥105,026	**$1,111,964**
1.90% unsecured bonds due June 20, 2013	**10,000**	10,000	**121,951**
1.08% unsecured bonds due December 18, 2015	**20,000**	20,000	**243,902**
0.68% unsecured bonds due December 1, 2016	**10,000**	–	**121,951**
Unsecured bonds issued by a consolidated subsidiary due serially from February 28, 2013 to March 31, 2014	**900**	1,000	**10,976**
Obligations under finance leases	**647**	763	**7,890**
Total	**132,728**	136,789	**1,618,634**
Less: Portion due within one year	**(25,435)**	(28,426)	**(310,183)**
Total long-term debt	**¥107,293**	¥108,363	**$1,308,451**

Annual maturities of long-term debt at March 31, 2012 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2013	¥ 25,435	$ 310,183
2014	35,578	433,878
2015	18,028	219,854
2016	24,071	293,549
2017	16,115	196,524
2018 and thereafter	13,501	164,646
Total	¥132,728	$1,618,634

The Company and a consolidated subsidiary entered into line-of-credit agreements with 10 banks. The details of the agreements were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Line-of-credit amount	¥25,000	$304,878
Balance used at March 31, 2012	–	–

8. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral for notes and accounts payable of ¥29 million ($354 thousand), short-term bank loans of ¥600 million ($7,317 thousand), long-term debt (including current portion) of ¥427 million ($5,207 thousand) and other current liabilities of ¥3 million ($37 thousand) at March 31, 2012 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	**¥ 9**	**$ 110**
Land	**2,232**	**27,220**
Buildings and structures	**3,705**	**45,183**
Machinery and equipment	**177**	**2,158**
Investment securities	**27**	**329**
Total	**¥6,150**	**$75,000**

Land held for investment in the amount of ¥103 million ($1,256 thousand) included in “Other investments and assets” was pledged as collateral for borrowings of ¥2,547 million ($31,061 thousand) by Yugen Kaisha Takakura Funding Corporation (“Takakura”). In the event that acceleration of the maturity of the borrowings for Takakura occurs, the Company may repay the balance of the borrowings on behalf of Takakura. The Company entered into an agreement with the lender that the Company shall settle the borrowings by way of a transfer of ownership of the pledged land to the lender with the settlement amount (the difference between the balance of the borrowings and the fair market value of the land) if the Company does not repay the borrowings on behalf of Takakura.

In addition, investment in a limited partnership of ¥495 million ($6,037 thousand) and other assets of ¥714 million ($8,707 thousand) were pledged as collateral for borrowings of ¥5,285 million ($64,451 thousand) by Takakura, including the above borrowings of ¥2,547 million ($31,061 thousand).

9. RETIREMENT AND PENSION PLANS

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from trustees. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for employees’ retirement benefits at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Projected benefit obligation	**¥ 54,310**	¥ 56,753	**$ 662,317**
Fair value of plan assets	**(64,434)**	(62,568)	**(785,780)**
Unrecognized prior service benefit	**981**	1,240	**11,963**
Unrecognized actuarial loss	**(4,020)**	(6,130)	**(49,024)**
Prepaid pension cost	**19,962**	17,582	**243,439**
Liability for retirement benefit	**¥ 6,799**	¥ 6,877	**$ 82,915**

Certain domestic subsidiaries contribute to a multi-employer plan of which pension assets or obligations are not recorded as the Group's pension assets or obligations.

The funded status of the multi-employer plan at March 31, 2012 and 2011 to which contributions paid by certain domestic subsidiaries were recorded as net periodic retirement benefit costs was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Fair value of plan assets	**¥203,680**	¥209,985	**$2,483,902**
Pension obligation recorded by pension fund	**239,852**	244,644	**2,925,024**
Difference	**¥ (36,172)**	¥ (34,659)	**$ (441,122)**
The Group's contribution percentage for contributory funded pension plans	**2.55%**	1.84%	

The components of net periodic employees' retirement benefit costs for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Service cost	**¥2,162**	¥2,296	**$26,366**
Interest cost	**1,007**	1,004	**12,280**
Expected return on plan assets	**(1,093)**	(928)	**(13,329)**
Recognized actuarial loss	**495**	419	**6,037**
Amortization of prior service benefit	**(162)**	(172)	**(1,976)**
Contribution to defined contribution plans	**74**	61	**902**
Contribution to multi-employer contributory funded pension plans	**137**	135	**1,671**
Additional severance payments	**1,596**	1,312	**19,463**
Effect of change in estimation method of retirement benefits	**–**	372	**–**
Loss on revision of retirement benefit plan	**290**	–	**3,537**
Net periodic employees' retirement benefit cost	**¥4,506**	¥4,499	**$54,951**

Assumptions used for the years ended March 31, 2012 and 2011 were set forth as follows:

	2012	2011
Discount rate	**Primarily 1.9%**	Primarily 1.9%
Expected rate of return on plan assets	**Mainly 2.0%**	1.1~2.0%
Recognition period of actuarial gain (loss)	**Mainly 10 years**	Mainly 10 years
Recognition period of prior service benefit	**Mainly 10 years**	Mainly 10 years

10. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Balance at beginning of year	**¥426**	¥426	**$5,195**
Reconciliation associated with passage of time	**–**	–	**–**
Balance at end of year	**¥426**	¥426	**$5,195**

11. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria. The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of the legal reserve and additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2012 and 2011.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Deferred tax assets:			
Accrued bonuses	**¥ 2,557**	¥ 2,787	**$ 31,183**
Retirement benefits	**2,406**	2,913	**29,342**
Allowance for doubtful accounts	**120**	178	**1,463**
Write-down of securities and other assets	**966**	1,206	**11,781**
Elimination of unrealized gain on property, plant and equipment	**340**	340	**4,146**
Net loss carryforward	**1,910**	7,866	**23,293**
Elimination of unrealized gain on inventories	**1,108**	1,161	**13,512**
Enterprise tax	**192**	505	**2,341**
Unrealized loss on securities	**108**	107	**1,317**
Loss on devaluation of inventories	**33**	85	**402**
Asset retirement obligations	**174**	243	**2,122**
Other	**1,962**	2,246	**23,927**
Less valuation allowance	**(2,732)**	(8,984)	**(33,317)**
Total deferred tax assets	**¥ 9,144**	¥10,653	**$111,512**
Deferred tax liabilities:			
Deferred gain on property, plant and equipment	**¥ 2,524**	¥ 3,016	**$ 30,781**
Land revaluation surplus	**1,397**	1,694	**17,037**
Unrealized gain on securities	**3,504**	4,055	**42,732**
Prepaid pension cost	**5,260**	4,849	**64,146**
Unrealized gain on lands resulting from consolidation of a subsidiary	**1,185**	1,352	**14,451**
Other	**576**	716	**7,024**
Total deferred tax liabilities	**¥14,446**	¥15,682	**$176,171**
Net deferred tax liabilities	**¥ (5,302)**	¥ (5,029)	**$ (64,659)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2012 with the corresponding figures for 2011 is as follows:

	2012	2011
Normal effective statutory tax rates	**41.0%**	41.0%
Expenses not deductible for income tax purposes	**1.3**	1.2
Revenues not recognized for income tax purposes	**(3.3)**	(2.2)
Per-capita tax	**0.4**	0.4
Net change in valuation allowance	**(19.8)**	(21.6)
Effects of elimination of dividend for consolidation purposes	**2.5**	1.6
Effect of accounting for by the equity method	**(0.9)**	(1.0)
Lower income tax rates applicable to income in certain foreign countries	**(1.3)**	(0.7)
Tax credit	**(0.3)**	(0.4)
Effect of change in statutory tax rate	**(1.7)**	–
Other—net	**(0.2)**	(0.1)
Actual effective tax rates	**17.7%**	18.2%

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 41.0% to 38.0% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.0% afterwards. The effect of this change was to decrease deferred tax liabilities in the consolidated balance sheet as of March 31, 2012 by ¥1,073 million ($13,085 thousand) and to decrease income taxes—deferred in the consolidated statement of income for the year then ended by ¥509 million ($6,207 thousand).

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,360 million ($53,171 thousand) and ¥4,254 million for the years ended March 31, 2012 and 2011, respectively.

14. LEASES

Pro forma information of leased property whose lease inception was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. The Company applied the ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis were as follows:

(As lessee)

	Millions of Yen			
2012	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	**¥519**	**¥152**	**¥129**	**¥800**
Accumulated depreciation	**397**	**132**	**110**	**639**
Net leased property	**¥122**	**¥ 20**	**¥ 19**	**¥161**

	Millions of Yen			
2011	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	¥721	¥277	¥213	¥1,211
Accumulated depreciation	498	215	158	871
Net leased property	¥223	¥ 62	¥ 55	¥ 340

	Thousands of U.S. Dollars			
2012	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	**$6,329**	**$1,854**	**$1,573**	**$9,756**
Accumulated depreciation	**4,841**	**1,610**	**1,341**	**7,792**
Net leased property	**$1,488**	**$ 244**	**$ 232**	**$1,964**

Obligations under finance leases at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Due within one year	**¥ 81**	¥164	**$ 988**
Due after one year	**80**	176	**976**
Total	**¥161**	¥340	**$1,964**

Depreciation expense, which was not reflected in the accompanying consolidated statement of income, computed by the straight-line method, was ¥161 million ($1,963 thousand) and ¥280 million for the years ended March 31, 2012 and 2011, respectively.

The amounts of acquisition cost and obligations under finance leases include the imputed interest expense portion.

Obligations under operating leases at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Due within one year	**¥39**	¥ 53	**$ 476**
Due after one year	**46**	64	**561**
Total	**¥85**	¥117	**$1,037**

(As lessor)

Consolidated subsidiaries lease equipment, vehicles, tools, furniture and fixtures as lessor. Finance lease revenues were ¥19 million ($232 thousand) and ¥35 million for the years ended March 31, 2012 and 2011, respectively. Leased property whose ownership does not transfer to the lessee during or at the completion of the lease term at March 31, 2012 and 2011 was as follows:

	Millions of Yen		
2012	Equipment and Vehicles	Tools, Furniture and Fixtures	Total
Acquisition cost	**¥68**	**¥9**	**¥77**
Accumulated depreciation	**67**	**9**	**76**
Net leased property	**¥ 1**	**¥0**	**¥ 1**

	Millions of Yen		
2011	Equipment and Vehicles	Tools, Furniture and Fixtures	Total
Acquisition cost	¥138	¥10	¥148
Accumulated depreciation	124	9	133
Net leased property	¥ 14	¥ 1	¥ 15

	Thousands of U.S. Dollars		
2012	Equipment and Vehicles	Tools, Furniture and Fixtures	Total
Acquisition cost	**$829**	**$111**	**$939**
Accumulated depreciation	**817**	**111**	**927**
Net leased property	**$ 12**	**$ 0**	**$ 12**

Expected revenues from finance leases at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Due within one year	**¥11**	¥27	**$134**
Due after one year	**1**	12	**12**
Total	**¥12**	¥39	**$146**

Depreciation expense, which was reflected in the accompanying consolidated statement of income was ¥5 million ($61 thousand) and ¥12 million for the years ended March 31, 2012 and 2011, respectively. The amounts of expected revenues under finance leases include the imputed interest revenue portion.

Expected revenues from operating leases at March 31, 2012 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2012	**2012**
Due within one year	**¥ 593**	**$ 7,232**
Due after one year	**5,096**	**62,146**
Total	**¥5,689**	**$69,378**

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group uses financial instruments, mainly short-term and long-term debt including bank loans, bonds and lease obligations, based on its capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above. In addition, foreign currency trade payables in certain consolidated subsidiaries are exposed to risk resulting from fluctuations in foreign currency exchange rates. The risk is hedged by using forward foreign currency contracts.

Short-term bank loans are mainly used for general operating purposes and long-term bank loans and bonds are mainly used for investment and strategy. Although a part of such bank loans, excluding bonds and lease obligations, is exposed to risks of changes in variable interest rates, that risk is mitigated by using interest rate swaps.

Derivatives mainly include forward foreign currency contracts, currency swaps, currency options and interest rate swaps, which are used to manage exposure to risks from changes in foreign currency exchange rates of receivables and payables and from changes in interest rates of bank loans. Please see Note 16 for more detail about derivatives.

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. Please see Note 16 for the detail about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2012.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is net against the balance of receivables and payables. In addition, certain consolidated subsidiaries hedge such risk principally by using forward foreign currency contracts.

Interest rate swaps are used to manage exposure to risks of changes in interest rates of loan payables and bond payables.

Marketable and investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

Derivative transactions are undertaken by the finance and accounting department and the procurement center based on internal regulations which prescribe the authority and maximum amount for each transaction.

Liquidity risk management

The Group manages its liquidity risk by establishing a cash management plan according to reports from each department.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Please see Note 16 for the detail of the fair value of derivatives.

(a) Fair value of financial instruments

	Millions of Yen			Thousands of U.S. Dollars		
March 31, 2012	Carrying Amount	Fair Value	Unrealized Gain/(Loss)	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	**¥ 61,956**	**¥ 61,956**	**–**	**$ 755,561**	**$ 755,561**	**–**
Time deposits	**246**	**246**	**–**	**3,000**	**3,000**	**–**
Notes and accounts receivable	**104,127**	**104,127**	**–**	**1,269,841**	**1,269,841**	**–**
Investment securities and investment in an associated company	**48,521**	**46,919**	**¥(1,602)**	**591,720**	**572,183**	**$(19,537)**
Total	**¥214,850**	**¥213,248**	**¥(1,602)**	**$2,620,122**	**$2,600,585**	**$(19,537)**
Short-term bank loans	**¥ 23,609**	**¥ 23,609**	**–**	**$ 287,915**	**$ 287,915**	**–**
Current portion of long-term debt	**25,435**	**25,435**	**–**	**310,183**	**310,183**	**–**
Payables: Trade notes and accounts	**72,163**	**72,163**	**–**	**880,037**	**880,037**	**–**
Income taxes payable	**2,004**	**2,004**	**–**	**24,439**	**24,439**	**–**
Long-term debt	**107,293**	**108,341**	**¥ 1,048**	**1,308,451**	**1,321,231**	**$ 12,780**
Total	**¥230,504**	**¥231,552**	**¥ 1,048**	**$2,811,025**	**$2,823,805**	**$ 12,780**

	Millions of Yen		
March 31, 2011	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 47,341	¥ 47,341	–
Time deposits	171	171	–
Notes and accounts receivable	99,345	99,345	–
Investment securities and investment in an associated company	49,028	47,400	¥(1,628)
Total	¥195,885	¥194,257	¥(1,628)
Short-term bank loans	¥ 20,657	¥ 20,657	–
Current portion of long-term debt	28,426	28,426	–
Payables: Trade notes and accounts	70,919	70,919	–
Income taxes payable	5,196	5,196	–
Long-term debt	108,363	108,972	¥ 609
Total	¥233,561	¥234,170	¥ 609

Cash and cash equivalents, time deposits, receivables, payables, short-term bank loans and current portion of long-term debt with variable interest rates

The carrying values of cash and cash equivalents, time deposits, receivables, payables, short-term bank loans and current portion of long-term debt with variable interest rates approximate fair values because of their short maturities. The fair values of receivables and payables include the fair values of foreign currency forward contracts and interest rate swaps.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Information on the fair value of the investment securities by classification is included in Note 3.

Long-term debt with fixed interest rates

The fair values of long-term debt with fixed interest rates are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives

Information on the fair value of derivatives is included in Note 16.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen 2012	Millions of Yen 2011	Thousands of U.S. Dollars 2012
Securities that do not have a quoted market price in an active market			
Investment securities	**¥ 5,238**	¥5,766	**$ 63,878**
Investments in non-consolidated subsidiaries and associated companies	**10,970**	9,573	**133,780**

(5) Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen			
March 31, 2012	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	**¥ 61,956**	**–**	**–**	**–**
Time deposits	**246**	**–**	**–**	**–**
Notes and accounts receivable	**104,089**	**¥38**	**–**	**–**
Total	**¥166,291**	**¥38**	**–**	**–**

	Thousands of U.S. Dollars			
March 31, 2012	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	**$ 755,561**	**–**	**–**	**–**
Time deposits	**3,000**	**–**	**–**	**–**
Notes and accounts receivable	**1,269,378**	**$463**	**–**	**–**
Total	**$2,027,939**	**$463**	**–**	**–**

Please see Note 7 for annual maturities of long-term debt and the current portion of long-term debt.

16. DERIVATIVES

The Group enters into foreign exchange forward contracts and interest rate swaps. The Group does not hold or issue derivatives for trading or speculative purposes. Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate hedge policy, authorization, credit limit and reporting to the management. Each derivative transaction is periodically reported to the management, that evaluates and analyzes derivatives.

Derivative transactions to which hedge accounting is not applied at March 31, 2012 and 2011

	Millions of Yen			
At March 31, 2012	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain / (Loss)
Foreign currency forward contracts:				
Buying:				
U.S. dollar	**¥ 460**	**–**	**¥ 1**	**¥ 1**
Euro	**62**	**–**	**(0)**	**(0)**
Yen	**430**	**–**	**3**	**3**
Selling:				
U.S. dollar	**2,831**	**–**	**(19)**	**(19)**
Euro	**18**	**–**	**0**	**0**
Currency options:				
Selling—Call option				
U.S. dollar	**11**	**–**	**0**	**0**
Selling—Put option				
U.S. dollar	**6**	**–**	**0**	**0**
Buying—Call option				
U.S. dollar	**6**	**–**	**(0)**	**(0)**
Buying—Put option				
U.S. dollar	**11**	**–**	**(0)**	**(0)**

	Millions of Yen			
At March 31, 2011	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain / (Loss)
Foreign currency forward contracts:				
Buying:				
U.S. dollar	¥ 245	–	¥ (2)	¥ (2)
Euro	19	–	1	1
Yen	859	–	9	9
Selling:				
U.S. dollar	2,774	–	(14)	(14)
Euro	72	–	(3)	(3)
Currency options:				
Selling—Put option				
U.S. dollar	5	–	0	0
Buying—Call option				
U.S. dollar	5	–	(0)	(0)

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At March 31, 2012	Thousands of U.S. Dollars Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain / (Loss)
Foreign currency forward contracts:				
Buying:				
U.S. dollar	**$ 5,610**	**–**	**$ 12**	**$ 12**
Euro	**756**	**–**	**(0)**	**(0)**
Yen	**5,244**	**–**	**37**	**37**
Selling:				
U.S. dollar	**34,524**	**–**	**(232)**	**(232)**
Euro	**220**	**–**	**0**	**0**
Currency options:				
Selling—Call option				
U.S. dollar	**134**	**–**	**0**	**0**
Selling—Put option				
U.S. dollar	**73**	**–**	**0**	**0**
Buying—Call option				
U.S. dollar	**73**	**–**	**(0)**	**(0)**
Buying—Put option				
U.S. dollar	**134**	**–**	**(0)**	**(0)**

Derivative transactions to which hedge accounting is applied at March 31, 2012 and 2011

At March 31, 2012	Millions of Yen Hedged item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Hedge accounting:				
Buying:				
U.S. dollar	Payables—trade	**¥ 244**	**–**	**¥ (1)**
Pound sterling	Payables—trade	**35**	**–**	**(1)**
Selling:				
U.S. dollar	Receivables—trade	**280**	**–**	**(10)**
Qualified for hedge accounting not remeasured at market value:				See note below
Buying:				
U.S. dollar	Payables—trade	**81**	**–**	
Pound sterling	Payables—trade	**89**	**–**	
Yen	Payables—trade	**99**	**–**	
Selling				
U.S. dollar	Receivables—trade	**41**	**–**	
Currency swaps—Qualified for hedge accounting not remeasured at market value: (Paying yen, receiving U.S. dollar)	Short-term bank loans and long-term debt	**700**	**–**	
Interest rate swaps:				
Floating rate payment, fixed rate receipt		**2,000**	**¥ 1,000**	
Fixed rate payment, floating rate receipt		**49,360**	**27,230**	
Floating rate payment, floating rate receipt		**1,000**	**–**	

At March 31, 2011	Hedged item	Millions of Yen Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Hedge accounting:				
Buying:				
U.S. dollar	Payables—trade	¥ 275	–	¥(8)
Pound sterling	Payables—trade	30	–	(1)
Selling:				
U.S. dollar	Receivables—trade	43	–	(0)
Pound sterling	Receivables—trade	6	–	(0)
Qualified for hedge accounting not remeasured at market value:				
Buying:				
U.S. dollar	Payables—trade	55	–	See note below
Pound sterling	Payables—trade	26	–	
Yen	Payables—trade	120	–	
Selling				
U.S. dollar	Receivables—trade	23	–	
Currency swaps				
(Paying yen, receiving U.S. dollar)	Long-term debt	700	¥ 700	
Interest rate swaps:				
Floating rate payment, fixed rate receipt	Long-term debt	2,000	2,000	
Fixed rate payment, floating rate receipt	Short-term bank loans and long-term debt	61,040	35,860	
Floating rate payment, floating rate receipt	Long-term debt	1,000	1,000	

At March 31, 2012	Hedged item	Thousands of U.S. Dollars Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Hedge accounting:				
Buying				
U.S. dollar	Payables—trade	**$ 2,976**	**–**	**$ (12)**
Pound sterling	Payables—trade	**427**	**–**	**(12)**
Selling				
U.S. dollar	Receivables—trade	**3,415**	**–**	**(122)**
Qualified for hedge accounting not remeasured at market value:				
Buying				
U.S. dollar	Payables—trade	**988**	**–**	See note below
Pound sterling	Payables—trade	**1,085**	**–**	
Yen	Payables—trade	**1,207**	**–**	
Selling				
U.S. dollar	Receivables—trade	**500**	**–**	
Currency swaps—Qualified for hedge accounting not remeasured at market value:				
(Paying yen, receiving U.S. dollar)	Short-term bank loans and long-term debt	**8,537**	**–**	
Interest rate swaps:				
floating rate payment, fixed rate receipt		**24,390**	**$ 12,195**	
fixed rate payment, floating rate receipt		**601,951**	**332,073**	
floating rate payment, floating rate receipt		**12,195**	**–**	

Note: Fair values of derivatives qualified for hedge accounting, which are not remeasured at market value, are included in the fair values of hedged items in Note 15.

FINANCIAL SECTION

17. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2012, the Group had contingent liabilities for notes with recourse in the course of asset liquidation in the amount of ¥688 million ($8,390 thousand).

At March 31, 2012, the Group was contingently liable for ¥1,328 million ($16,195 thousand) for guarantees of loans and payables of non-consolidated subsidiaries, associated and other companies and employees.

The Company had an obligation to invest additionally in Takakura via an anonymous association contract with an upper limit of ¥524 million ($6,390 thousand) in the event that buildings owned by Takakura are destroyed or impaired by natural disaster.

The Company transferred all stocks of one of its consolidated subsidiaries, Tokuhatsu Co., Ltd., held by the Company, to NHK Spring Co., Ltd. in January 2006. Under the agreement with NHK Spring Co., Ltd., the Company would owe a defect liability against NHK Spring Co., Ltd. at the maximum ¥3,200 million for 10 years starting on the date of transfer. The Company agreed to owe the defect liability such as product liability and remedy cost for land pollution, which would be caused by events occurring prior to the date of transfer. As a result of the due diligence process between the Company and NHK Spring Co., Ltd., the management of the Company believes that the possibility of exposure to loss would be remote.

18. COMPREHENSIVE INCOME

The components of other comprehensive income for the year ended March 31, 2012 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2012	**2012**
Unrealized gain (loss) on available-for-sale securities:		
Gains arising during the year	**¥(643)**	**$(7,841)**
Reclassification adjustments to profit or loss	**647**	**7,890**
Amount before income tax effect	**4**	**49**
Income tax effect	**542**	**6,609**
Total	**¥ 546**	**$ 6,658**
Deferred loss on derivatives under hedge accounting:		
Gains arising during the year	**¥ (2)**	**$ (24)**
Amount before income tax effect	**(2)**	**(24)**
Income tax effect	**1**	**12**
Total	**¥ (1)**	**$ (12)**
Land revaluation surplus:		
Income tax effect	**¥ 297**	**$ 3,622**
Total	**¥ 297**	**$ 3,622**
Foreign currency translation adjustments:		
Adjustments arising during the year	**¥(446)**	**$(5,439)**
Total	**¥(446)**	**$(5,439)**
Share of other comprehensive income in associates:		
Loss arising during the year	**¥ (1)**	**$ (12)**
Total	**¥ (1)**	**$ (12)**
Total other comprehensive income	**¥ 395**	**$ 4,817**

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

19. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2012 was approved at the Company's shareholders meeting held on June 28, 2012:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥4.00 ($0.05) per share	**¥1,736**	**$21,171**

20. SEGMENT INFORMATION

Under ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The Group has business divisions based on the nature of products and services. Each division draws up strategies and operates its own business.

The Group consists of six industries: "Specialty Steel," "Electronic and Magnetic Materials," "Parts for Automobile and Industrial Equipment," "Engineering," "New Materials" and "Trading and Service."

"Specialty Steel" industry consists of manufacturing of specialty steel for automotive and industrial machinery parts.

"Electronic and Magnetic Materials" industry consists of manufacturing of high alloy and magnetic materials for electrical and electronics parts.

"Parts for Automobile and Industrial Equipment" industry consists of manufacturing of die-forged parts, forging products and other products for automotive and industrial machinery parts.

"Engineering" industry consists of manufacturing and maintenance of steelmaking and environmental equipment, industrial furnaces and associated equipment.

"New Materials" industry consists of manufacturing of titanium products and powder metals and other.

"Trading and Service" industry consists of real estate-related services and welfare and other services.

2. Methods of measurement for the amounts of sales, profit, assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

Reportable segment profit represents operating income.

3. Information about sales, profit, assets and other items is as follows:

	Millions of Yen								
	Reportable Segment								
2012	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	New Materials	Trading and Service	Total	Reconciliations	Consolidated
Sales									
Sales to external customers	**¥293,744**	**¥42,636**	**¥107,258**	**¥25,769**	**¥10,116**	**¥ 9,632**	**¥489,155**	**–**	**¥489,155**
Intersegment sales or transfers	**28,164**	**899**	**20,938**	**2,042**	**640**	**8,465**	**61,148**	**¥(61,148)**	**–**
Total	**¥321,908**	**¥43,535**	**¥128,196**	**¥27,811**	**¥10,756**	**¥18,097**	**¥550,303**	**¥(61,148)**	**¥489,155**
Segment profit	**¥ 21,129**	**¥ 1,503**	**¥ 5,272**	**¥ 1,826**	**¥ 567**	**¥ 1,242**	**¥ 31,539**	**¥ (5)**	**¥ 31,534**
Segment assets	**282,094**	**43,404**	**119,736**	**15,989**	**10,694**	**19,487**	**491,404**	**21,565**	**512,969**
Other:									
Depreciation and amortization	**10,371**	**1,646**	**6,597**	**301**	**522**	**1,027**	**20,464**	**–**	**20,464**
Investments in associated companies	**7,281**	**463**	**347**	**72**	**43**	**–**	**8,206**	**221**	**8,427**
Increase in plant, property and equipment and intangible assets	**10,707**	**2,866**	**7,313**	**233**	**520**	**727**	**22,366**	**–**	**22,366**

	Millions of Yen								
	Reportable Segment								
2011	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	New Materials	Trading and Service	Total	Reconciliations	Consolidated
Sales									
Sales to external customers	¥286,827	¥39,905	¥102,536	¥23,801	¥ 9,558	¥ 9,436	¥472,063	–	¥472,063
Intersegment sales or transfers	36,396	1,590	23,525	1,121	1,015	7,103	70,750	¥(70,750)	–
Total	¥323,223	¥41,495	¥126,061	¥24,922	¥10,573	¥16,539	¥542,813	¥(70,750)	¥472,063
Segment profit	¥ 21,012	¥ 1,796	¥ 6,528	¥ 1,595	¥ 649	¥ 1,159	¥ 32,739	¥ (9)	¥ 32,730
Segment assets	273,080	36,130	114,213	14,630	10,833	20,865	469,750	21,972	491,722
Other:									
Depreciation and amortization	10,252	1,415	6,625	272	544	965	20,073	–	20,073
Investments in associated companies	6,776	438	332	69	42	–	7,657	199	7,855
Increase in plant, property and equipment and intangible assets	8,357	949	3,568	184	364	1,249	14,670	–	14,670
Impairment loss	37	–	–	–	–	68	105	–	105

	Thousands of U.S. Dollars								
	Reportable Segment								
2012	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	New Materials	Trading and Service	Total	Reconciliations	Consolidated
Sales									
Sales to external customers	**$3,582,244**	**$519,951**	**$1,308,024**	**$314,256**	**$123,366**	**$117,464**	**$5,965,305**	**–**	**$5,965,305**
Intersegment sales or transfers	**343,463**	**10,964**	**255,342**	**24,902**	**7,805**	**103,231**	**745,707**	**$(745,707)**	**–**
Total	**$3,925,707**	**$530,915**	**$1,563,366**	**$339,158**	**$131,171**	**$220,695**	**$6,711,012**	**$(745,707)**	**$5,965,305**
Segment profit	**$ 257,671**	**$ 18,329**	**$ 64,293**	**$ 22,268**	**$ 6,915**	**$ 15,146**	**$ 384,622**	**$ (61)**	**$ 384,561**
Segment assets	**3,440,171**	**529,317**	**1,460,195**	**194,988**	**130,415**	**237,646**	**5,992,732**	**262,988**	**6,255,720**
Other:									
Depreciation and amortization	**126,476**	**20,073**	**80,451**	**3,671**	**6,366**	**12,524**	**249,561**	**–**	**249,561**
Investments in associated companies	**88,793**	**5,646**	**4,232**	**878**	**524**	**–**	**100,073**	**2,695**	**102,768**
Increase in plant, property and equipment and intangible assets	**130,573**	**34,951**	**89,183**	**2,841**	**6,342**	**8,866**	**272,756**	**–**	**272,756**

Notes: 1. Reconciliations of segment profit consisted of elimination of intersegment transactions.
2. Reconciliations of segment assets and investments in associated companies consisted of corporate assets which were not allocated to any reportable segments.
3. Segment profit was reconciled to operating income in the consolidated statement of income.

Associated Information

1. Information about geographical areas

Sales

	Millions of Yen				
2012	Japan	North America	Asia	Other	Total
	¥411,451	**¥14,267**	**¥57,396**	**¥6,041**	**¥489,155**

	Millions of Yen				
2011	Japan	North America	Asia	Other	Total
	¥397,429	¥12,728	¥55,090	¥6,816	¥472,063

	Thousands U.S. Dollars				
2012	Japan	North America	Asia	Other	Total
	$5,017,695	**$173,988**	**$699,951**	**$73,671**	**$5,965,305**

2. Information about goodwill

	Millions of Yen						
2012	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	New Material	Trading and Service	Total
Goodwill (negative goodwill)	**¥4**	**–**	**¥(2)**	**–**	**–**	**–**	**¥2**

	Thousands of U.S. Dollars						
2012	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	New Material	Trading and Service	Total
Goodwill (negative goodwill)	**$48**	**–**	**$(24)**	**–**	**–**	**–**	**$24**

Negative goodwill, which arose from business combinations executed before April 1, 2010, was not allocated to any reportable segments. The carrying amount of goodwill was ¥2 million ($24 thousand) and ¥4 million as of March 31, 2012 and 2011, respectively, and amortization of negative goodwill amounted to ¥6 million (¥73 thousand) and ¥6 million, respectively, for the years then ended.

Deloitte.

Deloitte Touche Tohmatsu LLC
Nagoya Daiya Building 3-goukan
13-5, Meieki, 3-chome, Nakamura-ku
Nagoya, Aichi 450-8530
Japan

Tel:+81 (52) 565 5511
Fax:+81 (52) 569 1394
www.deloitte.com/jp

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of DAIDO STEEL CO., LTD.:

We have audited the accompanying consolidated balance sheet of DAIDO STEEL CO., LTD. and consolidated subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity 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 audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we 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 the auditor's judgment, 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, the auditor considers 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, but 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 referred to above present fairly, in all material respects, the consolidated financial position of DAIDO STEEL CO., LTD. and consolidated subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 28, 2012

Member of
Deloitte Touche Tohmatsu Limited

FINANCIAL SECTION

Offices & Branches

	Address	Phone (Facsimile)
Head Office	Urbannet Nagoya Building,1-10, Higashisakura 1-chome, Higashi-ku, Nagoya, Aichi 461-8581, Japan	81-52-963-7501 (81-52-963-4386)
Tokyo Head Office	Daido Shinagawa Building, 6-35, Konan 1-chome, Minato-ku, Tokyo 108-8478, Japan	81-3-5495-1253 (81-3-5495-6733)
Osaka Branch	Kogin Building, 1-1, Koraibashi 4-chome, Chuo-ku, Osaka 541-0043, Japan	81-6-6229-6530 (81-6-6202-8663)
Niigata Sales Office	1084, Kotaka, Tsubame, Niigata 959-1241, Japan	81-256-63-4405 (81-256-62-2484)
Fukuoka Sales Office	13-2, Tenjin 1-chome, Chuo-ku, Fukuoka 810-0001, Japan	81-92-771-4481 (81-92-771-9384)

Research Institute & Plants

Daido Corporate Research & Development Center	30, Daido-cho 2-chome, Minami-ku, Nagoya, Aichi 457-8545, Japan	81-52-611-2522 (81-52-611-9004)
Chita Plant	39, Motohama-machi, Tokai, Aichi 477-0035, Japan	81-562-33-3101 (81-562-33-1570)
Chita Forging Plant		81-562-33-7461 (81-562-33-1550)
Chita Steel Strip Plant		81-562-33-7465 (81-562-33-1019)
Hoshizaki Plant	30, Daido-cho 2-chome, Minami-ku, Nagoya, Aichi 457-8545, Japan	81-52-611-2512 (81-52-614-2492)
Shibukawa Plant	500, Ishihara, Shibukawa, Gunma 377-0007, Japan	81-279-25-2000 (81-279-25-2040)
Kawasaki Plant	4-1, Yako 2-chome, Kawasaki-ku, Kawasaki, Kanagawa 210-0863, Japan	81-44-266-3760 (81-44-266-3768)
Tsukiji Techno Center	10, Ryugu-cho, Minato-ku, Nagoya, Aichi 455-0022, Japan	81-52-691-5181 (81-52-691-5212)
Metal Powder Plant		81-52-691-5186 (81-52-691-5195)
Oji Plant	9-3, Kamiya 3-chome, Kita-ku, Tokyo 115-0043, Japan	81-3-3901-4161 (81-3-3901-8211)
Kimitsu Plant	1, Kimitsu, Kimitsu, Chiba 299-1141, Japan	81-439-52-1541 (81-439-54-1280)
Takiharu Techno Center	9, Takiharu-cho, Minami-ku, Nagoya, Aichi 457-8712, Japan	81-52-613-6801 (81-52-613-6840)
Nakatsugawa Techno Center	1642-144, Nasubigawa, Nakatsugawa, Gifu 509-9132, Japan	81-573-68-6171 (81-573-68-6188)

Specialty Steel

Nippon Seisen Co., Ltd.
Shimomura Tokushu Seiko Co., Ltd.
Daido Amistar Co., Ltd.
Daido Matex Co., Ltd.
Daido Tienwen Steel Co., Ltd.
DAIDO AMISTAR (S) PTE LTD
DAIDO PDM (Thailand) CO., LTD.
DAIDO AMISTAR (M) SDN. BHD.
Daido Shizai Service Co., Ltd.
Daido EcoMet Co., Ltd.
Daido Technica Co., Ltd.
Maruta Transport Co., Ltd.
Sakurai Kosan Co., Ltd.
Izumi Denki Kogyo Co., Ltd.
Riken Seiko Co., Ltd.
Kawaichi Sangyo Co., Ltd.
Tohoku Steel Co., Ltd.

Electronic and Magnetic Materials

Daido Electronics Co., Ltd.
Daido Electronics (Thailand) Co., Ltd.
Daido-Special Metals Ltd.

Parts for Automobile and Industrial Equipment

Fuji OOZX Inc.
Daido Castings Co., Ltd.
Toyo Sangyo Co., Ltd.
Japan Drop Forge Co., Ltd.
Daido Star Techno Co., Ltd
Nissei Seiko Co., Ltd.
Daido Precision Industries Ltd.
OHIO STAR FORGE CO.

Engineering

Daido Machinery Co., Ltd.
Daido Environment Engineering Co., Ltd.
Daido Plant Industries Co., Ltd.

Trading and Service

Daido Kogyo Co., Ltd.
Daido Life Service Co., Ltd.
Life Support Co., Ltd.
Kisokoma Heights Co., Ltd.
Daido Bunseki Research Inc.
Daido Steel (America) Inc.
Star Info Tech Co., Ltd.

(As of March 31, 2012)

CORPORATE DATA

(As of March 31, 2012)

Corporate Name:	Daido Steel Co., Ltd.
Founded:	August 19, 1916
Incorporated:	February 1, 1950
Office:	(Head Office) Urbannet Nagoya Building, 1-10, Higashisakura 1-chome, Higashi-ku, Nagoya, Aichi 461-8581, Japan Phone: 81 (Japan) -52-963-7501 Facsimile: 81 (Japan) -52-963-4386 (Tokyo Head Office) Daido Shinagawa Building, 6-35, Konan 1-chome, Minato-ku, Tokyo 108-8478, Japan Phone: 81-3-5495-1253 Facsimile: 81-3-5495-6733
Internet Address:	http://www.daido.co.jp
Number of Employees:	3,121
Common Stock:	¥37,172 million
Number of Authorized Shares:	1,160,000,000
Number of Issued Shares:	434,487,693
Number of Shareholders:	34,691
Independent Auditors:	Deloitte Touche Tohmatsu LLC
Stock Exchange Listings:	Tokyo, Nagoya
Transfer Agent of Common Stock:	The Chuo Mitsui Trust and Banking Company, Limited
Principal Shareholders:	NIPPON STEEL CORPORATION Meiji Yasuda Life Insurance Company Japan Trustee Services Bank, Ltd. (Trust Account) Mizuho Corporate Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. HONDA MOTOR CO., LTD. The Master Trust Bank of Japan, Ltd. (Trust Account) NHK Spring Co., Ltd. National Mutual Insurance Federation of Agricultural Cooperatives TOYOTA MOTOR CORPORATION
For Further Information, Please Contact:	Investor Relations (Head Office) Phone: 81-52-963-7516 Facsimile: 81-52-963-4386

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