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OVERVIEW OF OPERATING ENVIRONMENT AND PERFORMANCE

In fiscal 2010, ended March 31, 2011, the Japanese economy continued its steady recovery on the back of numerous economic measures by various governments, and expansion in emerging markets, most notably China. This gentle upward trend in performance of the economy overall was despite a sudden appreciation of the yen during this period, and the impact of a harsh employment environment on domestic growth. In the Japanese automotive industry, the main source of demand for Daido Steel's specialty steel, the end of government subsidies for eco-friendly vehicle purchases sent domestic sales plunging in the second half of the year under review. Overseas sales on the other hand picked up, with demand rebounding in Asia and North America in particular, leading to firm growth for the industry as a whole. In other sectors, while demand remains weak in industrial equipment markets such as heavy electric machines, ship and plant-related equipment, conditions improved as inventory adjustments progressed and overseas demand rallied.

Amid this environment, the Daido Steel Group promoted thorough cost reductions and streamlining measures in order to respond flexibly to this surge in demand.

These efforts resulted in a vast improvement in performance compared to the previous fiscal year. Net sales for the Group increased ¥109,555 million, year on year to ¥472,063 million. Recurring income rose ¥45,721 million to ¥31,726 million, to give net income of ¥23,004 million.

BUSINESS SEGMENT PERFORMANCE

Specialty Steel

Brisk growth in sales and production for automobiles in emerging economies fuelled an increase in sales volume in the specialty steel segment, centered on mechanical construction steel. Sales of high-grade products such as stainless steel and tool steel surged compared to the previous fiscal year in which we were required to make inventory adjustments. Contributing factors included rebounding demand in both the industrial machinery and IT sectors, as well as returning vitality in overseas markets.

To address this uptick in demand, the Daido Steel Group executed cost cutting measures and improved the flexibility of its production network to such changes. The Group also reviewed its sales prices to take into account the changes in raw material prices. As a result of the above, the value of contracts for the fiscal year under review rose 31.2% year on year, to ¥192,928 million.

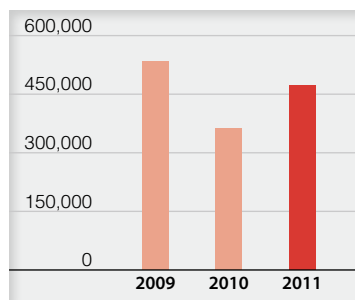
The Great East Japan Earthquake that struck towards the end of the fiscal year under review resulted in production line stoppages for many of our major customers. In anticipation of the impact this would have on our operations, we made the necessary adjustments to maintain adequate levels of inventory.

Thanks in part to these measures, sales volume in the specialty steel segment increased 34.2% year on year. Sales rose 38.5% to ¥286,827 million due to higher sales volume and sales price revisions implemented in light of the jump in the price of key materials such as steel scrap. Driven by the recovery in sales and production volumes, operating income soared ¥31,829 million year on year to ¥21,012 million.

NET SALES

Years ended March 31

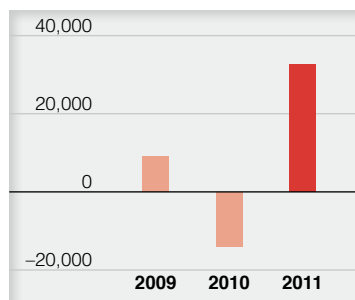
(millions of yen)



OPERATING INCOME (LOSS)

Years ended March 31

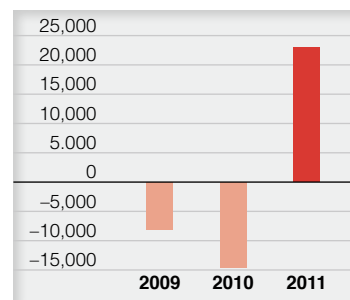
(millions of yen)



NET INCOME (LOSS)

Years ended March 31

(millions of yen)



Electronic & Magnetic Materials

Segment sales amounted to ¥39,905 million, increasing 15.3% from the previous fiscal year. Operating income increased ¥5,125 million year on year to ¥1,796 million.

In the high alloy business, sales increased year on year, albeit including the effect of inventory adjustments in IT-related products in the latter half of the year. This increase was the result of two factors: the continuing resurgence in demand for automobiles and electronic products, and sales price revisions implemented in light of the jump in the price of nickel. Consequently, the value of contracts for strip steel products rose 39.6% year on year, to ¥11,862 million. In the magnetic product business, sales increased year on year albeit including the effect of inventory adjustments in magnets used in spindle motors for hard disk drives. This increase was the result of two factors: the growth in demand for factory automation (FA) servomotors in turn driven by the expansion of capital investment in China, and sales price revisions implemented in light of the steep rise in the price of rare earth metal. Consequently, the value of contracts for magnetic products rose 17.1% year on year, to ¥8,505 million.

Parts for Automobile & Industrial Equipment

Sales in this segment totaled ¥102,536 million, an increase of 31.9% year on year. The segment recorded operating income of ¥6,528 million, up ¥6,838 million from the previous fiscal year.

This was due to higher sales for both die forgings and hot precision forging products on the back of a recovery in demand for passenger vehicles in Japan and overseas, as well as expanding export markets for trucks and construction machinery, in Southeast Asia in particular. Consequently, the value of contracts for die forgings rose 36.5% year on year, to ¥7,130 million. The value of contracts for hot precision forging products similarly increased year on year, 24.8% to ¥16,028 million. In precision casting parts, sales increased significantly compared to the previous fiscal year. The main contributory factor was a rise in popularity, and a related expansion in production, of diesel turbo engines in the European automobile market. Consequently, the value of contracts for iron-related precision cast products rose 59.5% year on year, to ¥7,413 million. In industrial equipment, sales rose year on year despite demand for free forgings, such as for heavy electric machines, ship and plant-related equipment, being dampened by the appreciation of the yen. This was made possible by inventory adjustments started in the previous year. Consequently, the value of contracts for free forgings in the fiscal year under review rose 22.6% year on year, to ¥33,627 million.

Engineering

Engineering segment sales amounted to ¥23,801 million, declining 8.7%, while operating income slid ¥445 million to ¥1,595 million. A sharp slowdown in orders in the previous year prolonged the slump in inquiries for new projects, in turn resulting in a year-on-year decline in sales. In maintenance work on the other hand, sales improved year on year in tandem with increases in capacity utilization. Consequently, the value of engineering contracts received rose 57.7% year on year, to ¥11,650 million.

New Materials

New materials sales rose 40.7% year on year to ¥9,558 million. The segment recorded operating income of ¥649 million, up ¥3,317 million from the previous year.

Titanium product sales rebounded due to expansion in domestic demand resulting from inventory adjustments and revitalized real demand. This was despite the negative effect the strong yen had on exports. The value of contracts for titanium products bounced back by 38.2%, to ¥3,196 million. In powder metal products, the increase in orders for sintered parts for automotive applications was reflected in stronger sales figures compared to the previous year. The value of contracts for powder metal products jumped 34.2% from a year earlier, to ¥5,647 million.

Trading & Service

In the trading & service segment, despite an increase in sales in trading operations on the back of recovering demand, this was more than offset by the transfer of major real estate and construction transactions in the previous year resulting in a drop in segment sales of 7.4% year on year, to ¥9,436 million. Operating income was up by ¥136 million compared to the previous year, to ¥1,159 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 ¥4,254 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 to quality assurance for finished products. Specialty steel R&D costs during the fiscal year under review totaled ¥1,767 million.

CAPITAL EXPENDITURES BY SEGMENT

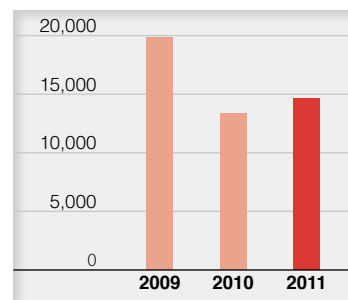
Years ended March 31

	Millions of Yen		
	2011	2010	Change (%)
Specialty Steel	¥ 8,357	¥ 6,610	26.4
Electronic and Magnetic Materials	948	831	14.1
Parts for Automobiles & Industrial Equipment	3,568	4,616	(22.7)
Engineering	184	314	(41.4)
New Materials	364	389	(6.4)
Trading & Service	1,249	604	106.8
Total	¥14,670	¥13,364	9.8

CAPITAL EXPENDITURES

Years ended March 31

(millions of yen)



(2) Electronic & 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 ¥311 million.

(3) Parts for Automobile & 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 ¥564 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 ¥71 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 ¥1,538 million.

(6) Trading & Service

There are no R&D activities in this segment.

FINANCIAL POSITION

Cash Flows

Cash and cash equivalents as of March 31, 2011 amounted to ¥47,341 million, representing an increase of ¥11,399 million, or 31.7%, year on year.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities amounted to ¥41,632 million, up ¥5,554 million from the previous fiscal year. The main components of cash inflow were income before income taxes and minority interests of ¥30,852 million and a ¥12,276 million increase in notes and accounts payable. The main components of cash outflow were a ¥12,078 million increase in inventories and a ¥10,816 million increase in notes and accounts receivable.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used in investing activities totaled ¥10,500 million, declining by ¥5,197 million from the previous fiscal year. The major cash outflows included ¥11,544 million in purchases of property, plant, and equipment.

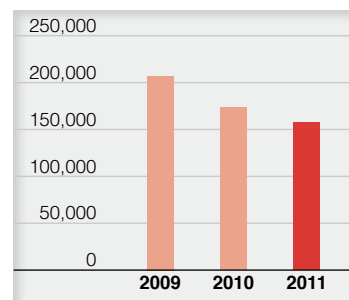
CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities was ¥19,281 million, decreasing ¥15,666 million from the previous year. The decrease was chiefly due to ¥18,497 million for the repayments of long-term debt.

INTEREST-BEARING DEBT

Years ended March 31

(millions of yen)



CONSOLIDATED BALANCE SHEETS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2011 AND 2010

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
Current Assets:			
Cash and cash equivalents (Note 15)	¥ 47,341	¥ 35,942	\$ 570,373
Time deposits (Notes 8 and 15)	171	489	2,060
Trade notes and accounts receivable (Note 15)	99,345	88,507	1,196,928
Inventories (Note 4)	92,328	80,438	1,112,386
Deferred tax assets (Note 12)	5,950	4,957	71,686
Prepaid expenses and other current assets	2,729	2,894	32,880
Allowance for doubtful accounts	(340)	(307)	(4,096)
Total current assets	247,524	212,920	2,982,217
Property, Plant and Equipment:			
Land (Notes 5, 6 and 8)	36,694	36,943	442,096
Buildings and structures (Notes 5, 6 and 8)	138,466	137,302	1,668,265
Machinery and equipment (Note 8)	401,061	401,441	4,832,060
Construction in progress	1,594	1,120	19,205
Total	577,815	576,806	6,961,626
Accumulated depreciation	(422,865)	(414,213)	(5,094,759)
Net property, plant and equipment	154,950	162,593	1,866,867
Investments and Other Assets:			
Investment securities (Notes 3, 8 and 15)	51,011	52,528	614,590
Investments in and advances to non-consolidated subsidiaries and associated companies (Notes 8 and 15)	13,356	12,962	160,916
Prepaid pension cost (Note 9)	17,582	15,320	211,831
Deferred tax assets (Note 12)	1,431	1,273	17,241
Other investments and assets (Note 8)	5,868	7,033	70,699
Total investments and other assets	89,248	89,116	1,075,277
TOTAL	¥ 491,722	¥ 464,629	\$ 5,924,361

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
Current Liabilities:			
Short-term bank loans (Notes 7, 8 and 15)	¥ 20,657	¥ 23,203	\$ 248,880
Current portion of long-term debt (Notes 7, 8, 14 and 15)	28,426	19,103	342,482
Payables:			
Trade notes and accounts (Notes 8 and 15)	70,919	58,746	854,446
Acquisitions of property, plant and equipment	4,049	2,233	48,783
Total payables	74,968	60,979	903,229
Income taxes payable (Note 15)	5,196	1,306	62,602
Accrued expenses	10,829	8,379	130,470
Other current liabilities (Note 8)	8,403	6,290	101,241
Total current liabilities	148,479	119,260	1,788,904
Long-Term Liabilities:			
Long-term debt (Notes 7, 8, 14 and 15)	108,363	131,484	1,305,578
Liability for employees' retirement benefits (Note 9)	6,877	6,645	82,855
Retirement allowance for directors and corporate auditors	1,037	975	12,494
Asset retirement obligations (Note 10)	426	—	5,133
Deferred tax liabilities (Note 12)	12,410	12,333	149,518
Other long-term liabilities	4,261	4,640	51,337
Total long-term liabilities	133,374	156,077	1,606,915
Commitments and Contingent Liabilities (Note 17)			
Equity (Note 11):			
Common stock:			
Authorized: 1,160,000 thousand shares			
Issued: 434,488 thousand shares in 2011 and 2010	37,172	37,172	447,855
Capital surplus	28,543	28,543	343,892
Retained earnings	106,919	86,085	1,288,181
Treasury stock, at cost			
665 thousand shares in 2011 and 641 thousand shares in 2010	(311)	(300)	(3,747)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	5,962	7,398	71,832
Deferred (loss) gain on derivatives under hedge accounting	(3)	0	(36)
Land revaluation surplus	1,357	1,357	16,349
Foreign currency translation adjustments	(1,291)	(953)	(15,555)
Total	178,348	159,302	2,148,771
Minority interests	31,521	29,990	379,771
Total equity	209,869	189,292	2,528,542
TOTAL	¥491,722	¥464,629	\$5,924,361

CONSOLIDATED STATEMENTS OF OPERATIONS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2011 AND 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
Net Sales	¥472,063	¥362,508	\$5,687,506
Cost of Sales (Note 13)	392,202	333,653	4,725,325
Gross profit	79,861	28,855	962,181
Selling, General and Administrative Expenses (Note 13)	47,131	42,906	567,843
Operating income (loss)	32,730	(14,051)	394,338
Other Income (Expenses):			
Interest and dividend income	1,488	1,195	17,928
Interest expense	(2,469)	(2,636)	(29,747)
Equity in earnings of associated companies	762	141	9,181
Gain on sales of investment securities and investments in an associated company—net	715	520	8,615
Foreign exchange (loss) gain	(553)	245	(6,663)
Loss on sales and disposals of property, plant and equipment—net	(262)	(575)	(3,157)
Investment rents received	547	547	6,590
Grants received	39	882	470
Cumulative effect of initial recognition of asset retirement obligations	(473)	—	(5,699)
Write-down of investment securities (Note 3)	(220)	(15)	(2,651)
Other—net (Note 5)	(1,452)	(1,027)	(17,494)
Other expenses—net	(1,878)	(723)	(22,627)
Income (Loss) Before Income Taxes and Minority Interests	30,852	(14,774)	371,711
Income Taxes (Note 12):			
Current	6,002	1,799	72,313
Deferred	(379)	(2,606)	(4,566)
Total income taxes	5,623	(807)	67,747
Net Income Before Minority Interests	25,229	—	303,964
Minority Interests in Net Income (Loss)	2,225	644	26,807
Net Income (Loss)	¥ 23,004	¥ (14,611)	\$ 277,157
Per Share of Common Stock (Note 2 (t)):			
Net income (loss)	¥ 53.02	¥ (33.68)	\$ 0.64
Cash dividends applicable to the year	7.00	2.00	0.08
Weighted Average Number of Shares of Common Stock	433,837	433,852	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2011

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2011	2011
Net Income Before Minority Interests	¥25,229	\$303,964
Other Comprehensive Loss (Note 18):		
Unrealized loss on available-for-sale securities	(1,568)	(18,892)
Deferred loss on derivatives under hedge accounting	(6)	(72)
Foreign currency translation adjustments	(375)	(4,518)
Share of other comprehensive income in associates	10	120
Total other comprehensive loss	(1,939)	(23,362)
Comprehensive Income (Note 18)	¥23,290	\$280,602
Total Comprehensive Income Attributable to (Note 18):		
Owners of the parent	¥21,227	\$255,747
Minority interests	2,063	24,855

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2011 AND 2010

	Thousands	Millions of Yen					Accumulated Other Compre- hensive Income
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	
Balance at April 1, 2009	433,857	¥37,172	¥28,546	¥101,564	¥(299)	¥ (931)	
Net loss	-	-	-	(14,611)	-	-	
Cash dividends, ¥2.00 per share	-	-	-	(868)	-	-	
Purchase of treasury stock	(23)	-	-	-	7	-	
Disposal of treasury stock	13	-	(3)	-	(8)	-	
Net change in the year	-	-	-	-	-	8,329	
Balance at March 31, 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	

	Millions of Yen					
	Accumulated Other Comprehensive Income			Total	Minority Interests	Total Equity
Deferred (Loss) Gain on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments				
Balance at April 1, 2009	¥(7)	¥1,357	¥(1,167)	¥166,235	¥29,377	¥195,612
Net loss	-	-	-	(14,611)	-	(14,611)
Cash dividends, ¥2.00 per share	-	-	-	(868)	-	(868)
Purchase of treasury stock	-	-	-	7	-	7
Disposal of treasury stock	-	-	-	(11)	-	(11)
Net change in the year	7	-	214	8,550	613	9,163
Balance at March 31, 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

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	
					Unrealized Gain on Available-for- Sale Securities	Deferred (Loss) Gain on Derivatives under Hedge Accounting
Balance at March 31, 2010	\$447,855	\$343,892	\$1,037,169	\$(3,614)	\$ 89,133	\$ 0
Net income	-	-	277,157	-	-	-
Cash dividends, \$0.06 per share	-	-	(26,145)	-	-	-
Purchase of treasury stock	-	-	-	(157)	-	-
Disposal of treasury stock	-	(0)	-	24	-	-
Net change in the year	-	-	-	-	(17,301)	(36)
Balance at March 31, 2011	\$447,855	\$343,892	\$1,288,181	\$(3,747)	\$ 71,832	\$(36)

Thousands of U.S. Dollars (Note 1)

	Accumulated other comprehensive income		Total	Minority Interests	Total Equity
	Land Revaluation Surplus	Foreign Currency Translation Adjustments			
Balance at March 31, 2010	\$16,349	\$(11,482)	\$1,919,302	\$361,325	\$2,280,627
Net income	-	-	277,157	-	277,157
Cash dividends, \$0.06 per share	-	-	(26,145)	-	(26,145)
Purchase of treasury stock	-	-	(157)	-	(157)
Disposal of treasury stock	-	-	24	-	24
Net change in the year	-	(4,073)	(21,410)	18,446	(2,964)
Balance at March 31, 2011	\$16,349	\$(15,555)	\$2,148,771	\$379,771	\$2,528,542

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2011 AND 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
Operating Activities:			
Income (loss) before income taxes and minority interests	¥ 30,852	¥(14,774)	\$ 371,711
Adjustments for:			
Income taxes—paid	(1,903)	(200)	(22,928)
Depreciation and amortization	20,073	20,304	241,843
Loss on sales and disposals of property, plant, equipment and other—net	532	636	6,410
Gain on sales of investment securities, investments in an associated company and other—net	(715)	(520)	(8,615)
Equity in earnings of associated companies	(762)	(141)	(9,181)
Cumulative effect of initial recognition of asset retirement obligations	473	—	5,699
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(10,816)	(8,397)	(130,313)
Decrease in allowance for doubtful accounts	(72)	(214)	(867)
(Increase) decrease in inventories	(12,078)	33,137	(145,518)
Increase in notes and accounts payable	12,276	13,161	147,904
Increase (decrease) in liability for employees' retirement benefits	232	(188)	2,795
Other—net	3,540	(6,726)	42,651
Total adjustments	10,780	50,852	129,880
Net cash provided by operating activities	41,632	36,078	501,591
Investing Activities:			
Payment for time deposits	(0)	(301)	(0)
Repayment from time deposits	316	600	3,807
Purchases of property, plant and equipment	(11,544)	(13,623)	(139,085)
Proceeds from sales of property, plant and equipment	1,200	174	14,458
Purchases of investment securities and investments in a non-consolidated subsidiary	(1,057)	(5,371)	(12,735)
Proceeds from sales and redemption of investment securities and investments in an associated company	853	4,133	10,277
Disbursements for originating loans	(69)	(133)	(831)
Proceeds from collection of loans	158	108	1,904
Other—net	(357)	(1,284)	(4,301)
Net cash used in investing activities	(10,500)	(15,697)	(126,506)
Financing Activities:			
Net decrease in short-term bank loans	(2,369)	(50,968)	(28,542)
Proceeds from long-term borrowings	4,444	24,007	53,542
Proceeds from issuance of bonds	—	20,000	—
Repayments of long-term debt	(18,497)	(26,604)	(222,856)
Dividends paid including payments to minority shareholders of subsidiaries	(2,626)	(1,200)	(31,639)
Other—net	(233)	(182)	(2,807)
Net cash used in financing activities	(19,281)	(34,947)	(232,302)
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	(452)	44	(5,446)
Net Increase (Decrease) in Cash and Cash Equivalents	11,399	(14,522)	137,337
Cash and Cash Equivalents at Beginning of Year	35,942	50,464	433,036
Cash and Cash Equivalents at End of Year	¥ 47,341	¥ 35,942	\$ 570,373

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2011 AND 2010

1. BASIS OF PRESENTING 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.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 18. In addition, "net income before minority interests" is disclosed in the consolidated statement of operations from the year ended March 31, 2011.

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 2010 financial statements to conform to the classifications used in 2011.

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 ¥83 to \$1, the approximate rate of exchange at March 31, 2011. 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 58 (55 in 2010) majority-owned subsidiaries and 21 (21 in 2010) associated companies at March 31, 2011. The consolidated financial statements as of March 31, 2011 include the accounts of the Company and 32 (32 in 2010) 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, 2011 and 2010. 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 years 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 R&D; 4) cancellation of fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) 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) Property, Plant and Equipment

Property, plant and equipment are stated at cost, less gains on grant receipts, etc. The acquisition costs of property, plant and equipment were reduced in the amounts of ¥1,457 million (\$17,554 thousand) and ¥1,424 million at March 31, 2011 and 2010, 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.

(f) 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 statements of operations. 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, 2011, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥3,698 million (\$44,554 thousand).

(g) 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.

(h) Other Assets

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

(i) Bond Issuance Cost

Bond issuance costs are charged to income as incurred.

(j) 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.

(k) 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. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. The effect of this change was to decrease operating income by ¥4 million (\$48 thousand) and income before income taxes and minority interests by ¥478 million (\$5,759 thousand).

(l) Research and Development Costs

Research and development costs are charged to income as incurred.

(m) 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.

(n) Bonuses to Directors and Corporate Auditors

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

(o) 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. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009. The Company applied the accounting standard effective April 1, 2009.

(p) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. 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.

(q) 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 statements of operations to the extent that they are not hedged by forward exchange contracts.

(r) 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 separate component of equity.

(s) 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 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 statements of operations 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 statements of operations. 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.

(t) Per Share Information

Net income (loss) per share is computed by dividing net income (loss) attributable 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, 2011 and 2010.

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

(u) New Accounting Pronouncements

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.

3. INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Non-current:			
Equity securities	¥50,991	¥52,508	\$614,349
Debt securities	20	20	241
Total	¥51,011	¥52,528	\$614,590

Information regarding available-for-sale securities at March 31, 2011 and 2010 were as follows:

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

March 31, 2010	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥35,349	¥13,283	¥1,631	¥47,001

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2011				
Available-for-sale:				
Equity securities	\$432,012	\$140,144	\$27,036	\$545,120

Information for available-for-sale securities which were sold during the year ended March 31, 2011 and 2010 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
March 31, 2011						
Available-for-sale:						
Equity securities	¥635	¥502	¥6	\$7,651	\$6,048	\$72

March 31, 2010	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥1,053	¥530	¥3

Impairment losses on available-for-sale equity securities for the years ended March 31, 2011 and 2010 were ¥220 million (\$2,651 thousand) and ¥15 million, respectively.

The carrying values of debt securities classified as available-for-sale by contractual maturities at March 31, 2011 and 2010 were disclosed in Note 15.

4. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Merchandise	¥18,001	¥14,138	\$ 216,880
Finished products	10,631	9,541	128,084
Semi-finished products	17,346	17,221	208,988
Work-in-process	18,831	17,735	226,880
Raw materials	19,212	14,059	231,470
Supplies	8,307	7,744	100,084
Total	¥92,328	¥80,438	\$1,112,386

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 (\$1,265 thousand) 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 2010.

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." This accounting standard and the guidance are applicable to investment property and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Company applied the new accounting standard and guidance effective March 31, 2010.

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 ¥1,078 million (\$12,988 thousand) and ¥1,093 million for the years ended March 31, 2011 and 2010, respectively. In addition, net gain on sales of those rental properties and impairment losses for those rental properties were ¥709 million (\$8,542 thousand) and ¥105 million (\$1,265 thousand), respectively, for the fiscal year ended March 31, 2011.

The carrying amounts, changes in such balances and market prices of such properties were as follows:

Millions of Yen				Thousands of U.S. Dollars			
Carrying Amount		Fair Value		Carrying Amount		Fair Value	
April 1, 2010	Increase/ (Decrease)	March 31, 2011	March 31, 2011	April 1, 2010	Increase/ (Decrease)	March 31, 2011	March 31, 2011
¥5,743	¥(394)	¥5,349	¥25,690	\$69,193	\$(4,747)	\$64,446	\$309,518

Millions of Yen			
Carrying Amount		Fair Value	
April 1, 2009	Increase/ (Decrease)	March 31, 2010	March 31, 2010
¥5,888	¥(145)	¥5,743	¥26,874

Notes:

- 1) Carrying amount recognized in the balance sheet was net of accumulated depreciation and accumulated impairment losses, if any.
- 2) Decrease during the fiscal year ended March 31, 2011 was primarily due to net of sales of idle assets of ¥298 million (\$3,590 thousand), depreciation of ¥161 million (\$1,940 thousand), impairment of idle assets of ¥105 million (\$1,265 thousand) and increase of idle assets of ¥195 million (\$2,349 thousand).
- 3) Fair value of properties as of March 31, 2011 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, 2011 and 2010 were 0.61% and 0.84%, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Loans from banks and other financial institutions, due serially to 2016 with weighted average interest rates of 1.38% in 2011 and 1.42% in 2010	¥105,026	¥108,983	\$1,265,373
1.83% unsecured bonds due October 22, 2010	–	5,000	–
1.48% unsecured bonds due March 16, 2011	–	5,000	–
1.90% unsecured bonds due June 20, 2013	10,000	10,000	120,482
1.08% unsecured bonds due December 18, 2015	20,000	20,000	240,964
Unsecured bonds issued by a consolidated subsidiary due serially from February 28, 2013 to March 31, 2014	1,000	1,100	12,048
Obligations under finance leases	763	504	9,193
Total	136,789	150,587	1,648,060
Less: Portion due within one year	(28,426)	(19,103)	(342,482)
Total long-term debt	¥108,363	¥131,484	\$1,305,578

Annual maturities of long-term debt at March 31, 2011 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 28,426	\$ 342,482
2013	25,389	305,891
2014	35,024	421,976
2015	17,780	214,217
2016	24,057	289,843
2017 and thereafter	6,113	73,651
Total	¥136,789	\$1,648,060

The Group entered into line of credit agreements with ten banks. The details of the agreements were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Line of credit amount	¥25,000	\$301,205
Balance used at March 31, 2011	–	–

8. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral for notes and accounts payable of ¥20 million (\$241 thousand), short-term bank loans of ¥640 million (\$7,711 thousand), long-term debt (including current portion) of ¥787 million (\$9,482 thousand) and other current liabilities of ¥4 million (\$48 thousand) at March 31, 2011 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	¥ 9	\$ 108
Land	2,232	26,892
Buildings and structures	3,877	46,711
Machinery and equipment	241	2,904
Investment securities	28	337
Total	¥6,387	\$76,952

Land held for investment, in the amount of ¥103 million (\$1,241 thousand) included in "Other investments and assets" was pledged as collateral for borrowings of ¥2,547 million (\$30,687 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 (\$5,964 thousand) and other assets of ¥629 million (\$7,578 thousand) were pledged as collateral for borrowings of ¥5,771 million (\$69,530 thousand) by Takakura, including the above borrowings of ¥2,547 million (\$30,687 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, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Projected benefit obligation	¥ 56,753	¥ 57,412	\$ 683,771
Fair value of plan assets	(62,568)	(64,302)	(753,831)
Unrecognized prior year service cost	1,240	1,411	14,940
Unrecognized actuarial loss	(6,130)	(3,196)	(73,856)
Prepaid pension cost	17,582	15,320	211,831
Liability for retirement benefit	¥ 6,877	¥ 6,645	\$ 82,855

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, 2010 (the latest available information as of March 31, 2011) to which contributions paid by certain domestic subsidiaries were recorded as net periodic retirement benefit costs was as follows:

	Millions of Yen
Fair value of plan assets	¥209,985
Pension obligation recorded by pension fund	244,644
Difference	¥ (34,659)
The Group's contribution percentage for contributory funded pension plans	1.84%

The components of net periodic employees' retirement benefit costs for the years ended March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Service cost	¥2,296	¥2,398	\$ 27,663
Interest cost	1,004	1,075	12,096
Expected return on plan assets	(928)	(887)	(11,181)
Recognized actuarial loss	419	2,523	5,048
Amortization of prior service (benefit) cost	(172)	61	(2,072)
Contribution to defined contribution plans	61	62	735
Contribution to multi-employer contributory funded pension plans	135	126	1,627
Additional severance payments	1,312	2,148	15,807
Effect of change in estimation method of retirement benefits	372	-	4,482
Net periodic employees' retirement benefit cost	¥4,499	¥7,506	\$ 54,205

Assumptions used for the years ended March 31, 2011 and 2010 were set forth as follows:

	2011	2010
Discount rate	Primarily 1.9%	Primarily 1.9%
Expected rate of return on plan assets	1.1~2.0%	0.8~2.5%
Recognition period of actuarial gain/loss	Mainly 10 years	Mainly 10 years
Recognition period of prior year service cost	Mainly 10 years	Mainly 10 years

10. ASSET RETIREMENT OBLIGATIONS

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

	Millions of Yen	Thousands of U.S. Dollars
	2011	2011
Balance at beginning of year	¥426	\$5,133
Reconciliation associated with passage of time	0	0
Balance at end of year	¥426	\$5,133

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, 2011 and 2010.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deferred Tax Assets:			
Accrued bonuses	¥ 2,787	¥ 2,027	\$ 33,578
Retirement benefits	2,913	2,788	35,096
Allowance for doubtful accounts	178	168	2,145
Write-down of securities and other assets	1,206	1,602	14,530
Elimination of unrealized gain on property, plant and equipment	340	340	4,097
Net loss carried forward	7,866	14,768	94,771
Elimination of unrealized gain on inventories	1,161	806	13,988
Enterprise tax	505	133	6,084
Unrealized loss on securities	107	7	1,289
Loss on devaluation of inventories	85	–	1,024
Asset retirement obligations	243	–	2,928
Other	2,246	2,512	27,060
Valuation allowance	(8,984)	(15,911)	(108,241)
Total deferred tax assets	¥10,653	¥ 9,240	\$ 128,349
Deferred Tax Liabilities:			
Deferred gain on property, plant and equipment	¥ 3,016	¥ 2,900	\$ 36,337
Land revaluation surplus	1,694	1,694	20,410
Unrealized gain on securities	4,055	4,647	48,855
Prepaid pension cost	4,849	4,031	58,422
Unrealized gain on lands resulting from consolidation of a subsidiary	1,352	1,352	16,289
Other	716	719	8,627
Total deferred tax liabilities	¥15,682	¥ 15,343	\$ 188,940
Net Deferred Tax Liabilities	¥ (5,029)	¥ (6,103)	\$ (60,591)

A reconciliation between the normal effective statutory tax rates for the years ended March 31, 2011 and 2010 and the actual effective tax rates reflected in the accompanying consolidated statements of operations was as follows:

	2011	2010
Normal effective statutory tax rates	41.0%	41.0%
Expenses not deductible for income tax purposes	1.2	(1.7)
Revenues not recognized for income tax purposes	(2.2)	3.6
Per capita tax	0.4	(0.9)
Net change in valuation allowance	(21.6)	(34.8)
Effects of elimination of dividend for consolidation purposes	1.6	(3.2)
Effect of accounting for by the equity method	(1.0)	0.4
Lower income tax rates applicable to income in certain foreign countries	(0.7)	(0.6)
Tax credit	(0.4)	0.8
Other—net	(0.1)	0.9
Actual effective tax rates	18.2%	5.5%

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,254 million (\$51,253 thousand) and ¥3,909 million for the years ended March 31, 2011 and 2010, 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			
	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Software	Total
2011				
Acquisition cost	¥721	¥277	¥213	¥1,211
Accumulated depreciation	498	215	158	871
Net leased property	¥223	¥ 62	¥ 55	¥ 340

	Millions of Yen			
	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Software	Total
2010				
Acquisition cost	¥805	¥843	¥355	¥2,003
Accumulated depreciation	478	659	246	1,383
Net leased property	¥327	¥184	¥109	¥ 620

	Thousands of U.S. Dollars			
	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Software	Total
2011				
Acquisition cost	\$8,687	\$3,337	\$2,566	\$14,590
Accumulated depreciation	6,000	2,590	1,904	10,494
Net leased property	\$2,687	\$ 747	\$ 662	\$ 4,096

Obligations under finance leases at March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥164	¥280	\$1,976
Due after one year	176	340	2,120
Total	¥340	¥620	\$4,096

Depreciation expense, which was not reflected in the accompanying consolidated statements of operations, computed by the straight-line method, was ¥280 million (\$3,373 thousand) and ¥457 million for the years ended March 31, 2011 and 2010, respectively.

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

Obligations under operating leases at March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 53	¥ 92	\$ 39
Due after one year	64	100	771
Total	¥117	¥192	\$1,410

(As lessor)

Consolidated subsidiaries lease equipment, vehicles, tools, furniture and fixtures as lessor. Finance lease revenues were ¥35 million (\$422 thousand) and ¥58 million for the years ended March 31, 2011 and 2010, respectively. Leased property whose ownership does not transfer to the lessee during or at the completion of the lease term at March 31, 2011 and 2010 was as follows:

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

	Millions of Yen		
	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Total
2010			
Acquisition cost	¥200	¥26	¥226
Accumulated depreciation	161	16	177
Net leased property	¥ 39	¥10	¥ 49

	Thousands of U.S. Dollars		
	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Total
2011			
Acquisition cost	\$1,663	\$120	\$1,783
Accumulated depreciation	1,494	108	1,602
Net leased property	\$ 169	\$ 12	\$ 181

Expected revenues from finance leases at March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥27	¥48	\$325
Due after one year	12	39	145
Total	¥39	¥87	\$470

Depreciation expense, which was reflected in the accompanying consolidated statements of operations, was ¥12 million (\$145 thousand) and ¥27 million for the years ended March 31, 2011 and 2010, respectively. The amounts of expected revenues under finance leases include the imputed interest revenue portion.

Expected revenues from operating leases at March 31, 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011		2011
Due within one year	¥ 596		\$ 7,181
Due after one year	5,675		68,373
Total	¥6,271		\$75,554

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

In March 2008, the ASBJ revised ASBJ Statement No. 10 “Accounting Standard for Financial Instruments” and issued ASBJ Guidance No. 19 “Guidance on Accounting Standard for Financial Instruments and Related Disclosures”. This accounting standard and the guidance were applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and the guidance effective March 31, 2010.

(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.

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 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, 2011.

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		
	Carrying Amount	Fair Value	Unrealized Gain/(Loss)	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
March 31, 2011						
Cash and cash equivalents	¥ 47,341	¥ 47,341	–	\$ 570,373	\$ 570,373	–
Time deposits	171	171	–	2,060	2,060	–
Receivables	99,345	99,345	–	1,196,928	1,196,928	–
Investment securities and investment in an associated company	49,028	47,400	¥(1,628)	590,699	571,084	\$(19,615)
Total	¥195,885	¥194,257	¥(1,628)	\$2,360,060	\$2,340,445	\$(19,615)
Short-term bank loans	¥ 20,657	¥ 20,657	–	\$ 248,880	\$ 248,880	–
Current portion of long-term debt	28,225	28,225	–	340,060	340,060	–
Payables: trade notes and accounts	70,919	70,919	–	854,446	854,446	–
Income taxes payable	5,196	5,196	–	62,602	62,602	–
Long-term debt	108,363	108,972	¥ 609	1,305,578	1,312,916	\$ 7,338
Total	¥233,360	¥233,969	¥ 609	\$2,811,566	\$2,818,904	\$ 7,338

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
March 31, 2010			
Cash and cash equivalents	¥ 35,942	¥ 35,942	–
Time deposits	489	489	–
Receivables	88,507	88,507	–
Investment securities and investment in an associated company	50,552	49,123	¥(1,429)
Total	¥175,490	¥174,061	¥(1,429)
Short-term bank loans	¥ 23,203	¥ 23,203	–
Current portion of long-term debt	19,103	19,180	¥ 77
Payables: trade notes and accounts	58,746	58,746	–
Income taxes payable	1,306	1,306	–
Long-term debt	131,484	131,687	203
Total	¥233,842	¥234,122	¥ 280

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		Thousands of U.S. Dollars
	2011	2010	2011
Securities that do not have a quoted market price in an active market	¥12,736	¥14,918	\$153,446

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

	Millions of Yen			
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Due After Ten Years
March 31, 2011				
Cash and cash equivalents	¥ 47,341	-	-	-
Time deposits	171	-	-	-
Receivables	99,345	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	¥20	-	-
Total	¥146,857	¥20	-	-

	Thousands of U.S. Dollars			
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Due After Ten Years
March 31, 2011				
Cash and cash equivalents	\$ 570,373	-	-	-
Time deposits	2,060	-	-	-
Receivables	1,196,928	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	\$241	-	-
Total	\$1,769,361	\$241	-	-

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, 2011 and 2010

	Millions of Yen			
	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain/(Loss)
At March 31, 2011				
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 Swaps:				
Selling—Put option				
U.S. Dollar	5	—	0	0
Buying—Call option				
U.S. Dollar	5	—	(0)	(0)

	Millions of Yen			
	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain/(Loss)
At March 31, 2010				
Foreign currency forward contracts:				
Buying:				
U.S. Dollar	¥1,162	—	¥ 26	¥ 26
Euro	145	—	(0)	(0)
Hong Kong Dollar	0	—	0	0
Selling:				
U.S. Dollar	2,085	—	(41)	(41)
Euro	145	—	(0)	(0)
Hong Kong Dollar	1	—	(0)	(0)
Interest rate swaps:				
(Fixed rate payment, floating rate receipt)	1,000	—	(4)	(4)

	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain/(Loss)
At March 31, 2011				
Foreign currency forward contracts:				
Buying:				
U.S. Dollar	\$ 2,952	—	\$ (24)	\$ (24)
Euro	229	—	12	12
Yen	10,349	—	108	108
Selling:				
U.S. Dollar	33,421	—	(169)	(169)
Euro	867	—	(36)	(36)
Currency Swap:				
Selling—Put option				
U.S. Dollar	60	—	0	0
Buying—Call option				
U.S. Dollar	60	—	(0)	(0)

Derivative transactions to which hedge accounting is applied at March 31, 2011 and 2010

	Hedged item	Millions of Yen			
		Contract Amount	Contract Amount due after One Year	Fair Value	
At March 31, 2011					
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		

		Millions of Yen			
At March 31, 2010	Hedged item	Contract Amount	Contract Amount due after One Year	Fair Value	
Foreign currency forward contracts:					
Hedge accounting:					
Buying					
U.S. Dollar	Payables—trade	¥ 62	—	¥(1)	
Pound Sterling	Payables—trade	20	—	1	
Selling					
U.S. Dollar	Receivables—trade	6	—	(0)	
Qualified for hedge accounting not remeasured at market value:					
Buying					
U.S. Dollar	Payables—trade	183	—	See Note below	
Pound Sterling	Payables—trade	29	—		
Selling					
U.S. Dollar	Receivables—trade	26	—		
Euro	Receivables—trade	6	—		
Currency swaps (Paying Yen, receiving U.S. Dollar)	Short-term bank loans and long-term debt	5,700	¥ 700		
Interest rate swaps (fixed rate payment, floating rate receipt)	Short-term bank loans and long-term debt	61,310	61,040		

		Thousands of U.S. Dollars			
At March 31, 2011	Hedged item	Contract Amount	Contract Amount due after One Year	Fair Value	
Foreign currency forward contracts:					
Hedge accounting:					
Buying					
U.S. Dollar	Payables—trade	\$ 3,313	—	\$(96)	
Pound Sterling	Payables—trade	349	—	(12)	
Selling					
U.S. Dollar	Receivables—trade	518	—	(0)	
Pound Sterling	Receivables—trade	72	—	(0)	
Qualified for hedge accounting not remeasured at market value:					
Buying					
U.S. Dollar	Payables—trade	663	—	See Note below	
Pound Sterling	Payables—trade	313	—		
Yen	Payables—trade	1,446	—		
Selling					
U.S. Dollar	Receivables—trade	277	—		
Currency swaps (Paying Yen, receiving U.S. Dollar)	Short-term bank loans and long-term debt	8,434	¥ 8,434		
Interest rate swaps:					
floating rate payment, fixed rate receipt	Long-term debt	24,096	24,096		
fixed rate payment, floating rate receipt	Short-term bank loans and long-term debt	735,422	432,048		
floating rate payment, floating rate receipt	Long-term debt	12,048	12,048		

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.

17. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2011, the Group had contingent liabilities for notes with recourse in the course of asset liquidation in the amount of ¥691 million (\$8,325 thousand).

At March 31, 2011, the Group was contingently liable for ¥2,823 million (\$34,012 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 (\$6,313 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 (LOSS)

For the year ended March 31, 2010

Total comprehensive loss for the year ended March 31, 2010 was the following:

	Millions of Yen
	2010
Total comprehensive loss attributable to:	
Owners of the parent	¥(6,062)
Minority interests	1,051
Total comprehensive loss	¥(5,011)

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of Yen
	2010
Other comprehensive income:	
Unrealized gain on available-for-sale securities	¥8,663
Deferred gain on derivatives adjustments	13
Foreign currency translation adjustments	264
Share of other comprehensive income in associates	16
Total other comprehensive income	¥8,956

19. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2011 was approved at the Company's shareholders meeting held on June 29, 2011:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥4.00 (\$0.05) per share	¥1,736	\$20,916

20. SEGMENT INFORMATION

For the years ended March 31, 2011 and 2010

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, 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. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

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 & Industrial Equipment," "Engineering," "New Materials" and "Trading & 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 & 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 others.

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

2. Methods of measurement for the amounts of sales, profit (loss), 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 (loss), assets and other items is as follows:

	Millions of Yen									
	Reportable Segment							Total	Reconciliations	Consolidated
	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Services				
2011										
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	114,212	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	198	7,855	
Increase in plant, property and equipment and intangible assets	8,357	948	3,568	184	364	1,249	14,670	-	14,670	

	Millions of Yen									
	Reportable Segment							Total	Reconciliations	Consolidated
	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Services				
2010										
Sales										
Sales to external customers	¥207,072	¥34,624	¥ 77,746	¥26,082	¥ 6,791	¥10,193	¥362,508	-	¥362,508	
Intersegment sales or transfers	22,728	846	13,446	662	337	7,249	45,268	¥(45,268)	-	
Total	¥229,800	¥35,470	¥ 91,192	¥26,744	¥ 7,128	¥17,442	¥407,776	¥(45,268)	¥362,508	
Segment (loss) profit	¥ (10,817)	¥ (3,329)	¥ (310)	¥ 2,040	¥(2,668)	¥ 1,023	¥(14,061)	¥ 10	¥ (14,051)	
Segment assets	259,650	32,299	106,574	15,095	10,063	19,058	442,739	21,890	464,629	
Other:										
Depreciation and amortization	10,216	1,289	7,127	338	358	976	20,304	-	20,304	
Investments in associated companies	6,119	407	298	62	37	-	6,923	229	7,152	
Increase in plant, property and equipment and intangible assets	6,610	831	4,616	314	389	604	13,364	-	13,364	

Thousands of U.S. Dollars									
Reportable Segment									
2011	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Service	Total	Reconciliations	Consolidated
Sales									
Sales to external customers	\$3,455,747	\$480,783	\$1,235,373	\$286,759	\$115,157	\$113,687	\$5,687,506	-	\$5,687,506
Intersegment sales or transfers	438,506	19,157	283,434	13,506	12,229	85,578	852,410	\$(852,410)	-
Total	\$3,894,253	\$499,940	\$1,518,807	\$300,265	\$127,386	\$199,265	\$6,539,916	\$(852,410)	\$5,687,506
Segment profit	\$ 253,156	\$ 21,639	\$ 78,651	\$ 19,217	\$ 7,819	\$ 13,964	\$ 394,446	\$ (108)	\$ 394,338
Segment assets	3,290,120	435,301	1,376,049	176,265	130,518	251,386	5,659,639	264,722	5,924,361
Other:									
Depreciation and amortization	123,518	17,048	79,819	3,277	6,554	11,627	241,843	-	241,843
Investments in associated companies	81,639	5,277	4,000	831	506	-	92,253	2,386	94,639
Increase in plant, property and equipment and intangible assets	100,687	11,421	42,988	2,217	4,386	15,048	176,747	-	176,747

Notes: 1. Reconciliations of segment profit (loss) 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 (loss) was reconciled to operating income (loss) in the consolidated statements of operations.

Associated Information

1. Information about products and services

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

Thousands U.S. Dollars					
2011	Japan	North America	Asia	Other	Total
Sales to external customers	\$4,788,301	\$153,349	\$663,735	\$82,121	\$5,687,506

2. Information about impairment loss on assets

Millions of Yen							
2011	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Material	Trading & Service	Total
Impairment loss on assets	¥37	-	-	-	-	¥68	¥105

Thousands of U.S. Dollars							
2011	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Material	Trading & Service	Total
Impairment loss on assets	\$446	-	-	-	-	\$819	\$1,265

3. Information about goodwill

Negative goodwill included in other liabilities arose from business combinations executed before April 1, 2010 and it was not allocated to any reportable segments. The carrying amount of negative goodwill was ¥4 million (\$48 thousand) as of March 31, 2011 and amortization of negative goodwill amounted to ¥6 million (¥72 thousand) for the year then ended.

For the year ended March 31, 2010

The Group operates in the following segments of "Specialty Steel," "Electronic and Magnetic Materials," "Parts for Automobile & Industrial Equipment," "Engineering," "New Materials" and "Trading & Service."

(a) Industry Segments

(1) A summary of net sales, costs and expenses and operating income (loss) by industry segments for the year ended March 31, 2010 was as follows:

2010	Millions of Yen								
	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Service	Total	Eliminations/ corporate	Consolidated
Net sales:									
Outside customers	¥207,072	¥41,179	¥71,191	¥26,082	¥ 6,791	¥10,193	¥362,508		¥362,508
Intersegment transactions	22,728	845	13,447	662	337	7,249	45,268	¥(45,268)	–
Total	229,800	42,024	84,638	26,744	7,128	17,442	407,776	(45,268)	362,508
Costs and expenses	240,618	44,248	86,053	24,703	9,795	16,419	421,836	(45,277)	376,559
Operating income (loss)	¥ (10,818)	¥ (2,224)	¥ (1,415)	¥ 2,041	¥(2,667)	¥ 1,023	¥ (14,060)	¥ 9	¥ (14,051)

(2) Assets, depreciation and capital expenditures for the year ended March 31, 2010 were as follows:

2010	Millions of Yen								
	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Service	Total	Eliminations/ Corporate	Consolidated
Assets	¥223,352	¥29,276	¥87,746	¥13,556	¥7,898	¥18,916	¥380,744	¥83,885	¥464,629
Depreciation	9,781	1,316	6,863	323	331	977	19,591	713	20,304
Capital expenditures	5,746	702	4,276	285	335	604	11,948	1,416	13,364

(b) Geographical Segments

Geographical segment information for the year ended March 31, 2010 was not disclosed as net sales and assets in Japan were more than 90 percent of the consolidated net sales and assets of all segments.

(c) Export Sales

A summary of export sales information to foreign customers for the Group for the fiscal year ended March 31, 2010 was as follows:

2010	Millions of Yen			
	North America	Asia	Others	Total
Export sales	¥7,647	¥38,400	¥4,149	¥ 50,197
Net sales				362,508
Ratio of export sales to net sales	2.1%	10.6%	1.1%	13.8%

Note: Countries in each classification are as follows:

North America: The United States of America, Canada

Asia: Taiwan, South Korea, Thailand, Malaysia, China

Others: Italy, the United Kingdom, Germany



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 AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of DAIDO STEEL CO., LTD. (the "Company") and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of operations for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Our audits 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.

June 29, 2011

Member of
Deloitte Touche Tohmatsu Limited