ANNUAL REPORT 2019

Year Ended March 31, 2019

Playing a Primary Role in Steel Resource Recycling

KYOEI STEEL

Management Principle

SPIRIT OF CHALLENGE

At the Kyoei Steel Group, we strive to become a corporate group in harmony with society through recycling operations that focus on the steel business and that contribute to the development of the national economy and local communities.

Action Guidelines

- We act with fairness and integrity in accordance with high ethical standards.
- We cultivate a corporate culture imbued with a spirit of enterprise and innovation, eager to embrace challenges, and enthusiastically committed to the accomplishment of ambitious goals.
- We are practical and realistic.
- We aspire to be a company where people and technologies are valued, and where work is a source of pride and satisfaction.

CONTENTS

Forward-Looking Statements: Projections of operating results and changes in the business environment provided in this report are based on information available to the management as of the date the report was prepared. As such, these projections are exposed to uncertainties and potential risks that may affect the projections, should they materialize. Readers are therefore cautioned that actual operating results and the business environment in the future may differ materially from the projections provided herein.

BUSINESS SEGMENTS

Domestic Steel Business

The steel business, which melts steel scrap in electric arc furnaces, transforming it into new steel products, is the core business of Kyoei Steel. The Company provides a stable supply of high-quality steel products by using technological capabilities nurtured for more than 70 years. Our mainstay product, concrete reinforcing bar (including threaded rebar), accounts for 80% of our production volume.

Overseas Steel Business

Kyoei Steel is developing overseas business in Vietnam and the United States. In addition to our two bases in Vietnam — Vina Kyoei Steel Co., Ltd. (VKS) in southern Vietnam and Kyoei Steel Vietnam Company Limited (KSVC) in the north — in May 2018 we converted Vietnam-Italy Steel Joint Stock Company (VIS), a steel minimill in northern Vietnam, into a subsidiary. In the United States, we acquired Vinton Steel LLC in December 2016. We will use Vinton Steel as a bridgehead to expand our steel business in that country.

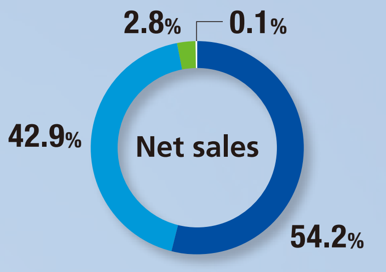
Material Recycling Business

Kyoei Steel became the first Japanese minimill steel company to succeed in melting and detoxifying potentially infectious medical and industrial waste, using the heat from electric arc furnaces that reaches thousands of degrees Celsius. We have been developing this as a business for almost 30 years. Our MESSCUD System for completely detoxifying and melting medical waste is an integrated collection, shipping, and disposal method developed nationwide.

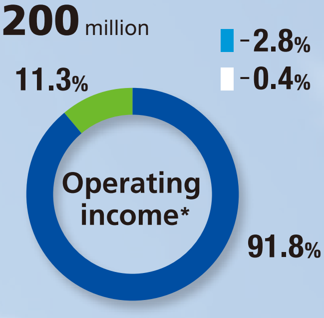
FY2019

Domestic Steel Business
Overseas Steel Business
Material Recycling Business
Other Business

¥242,257 million



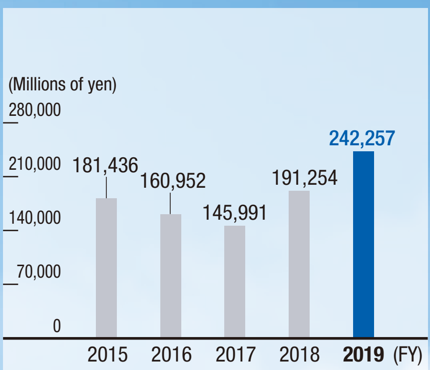
¥9,200 million



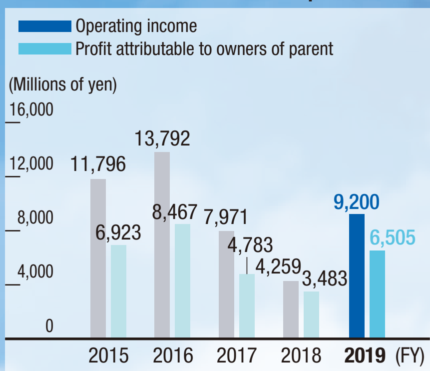
*Before the elimination of inter-segment transactions

FINANCIAL HIGHLIGHTS

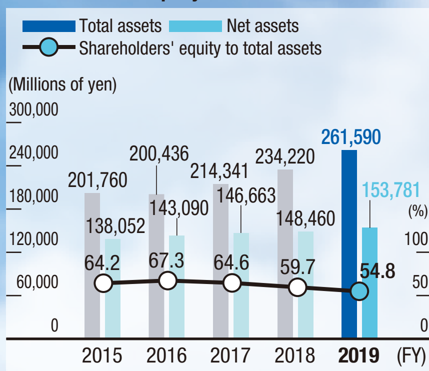
Net Sales



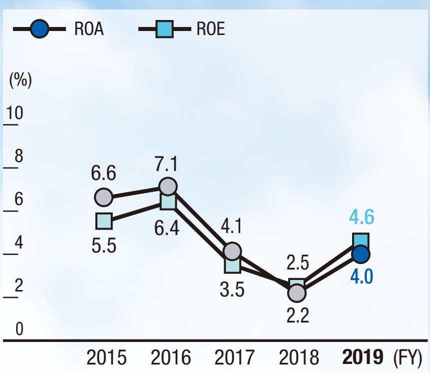
Operating income & Profit attributable to owners of parent



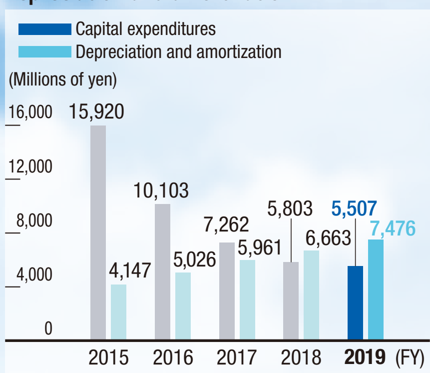
Total assets, Net assets & Shareholders' equity to total assets



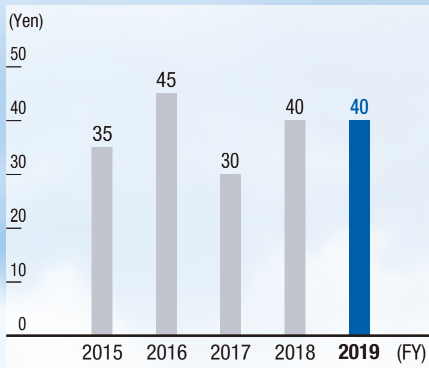
ROA & ROE



Capital expenditures & Depreciation and amortization



Cash dividends applicable to the year



Kyoei Steel contributes to the building

Strengths of Kyoei Steel

No. 1 market share for small rebar in Japan

The Company has the leading market share in Japan for rebar, which is indispensable for construction and civil engineering, especially high-rise buildings and condominiums, roads, and other social infrastructure.

Operating production and sales bases in every major demand region in Japan

The Kyoei Steel Group is the only steel mini-mill company with production and sales bases in the Kanto, Chubu, Kansai, and Kyushu regions, that account for 70% of the rebar market.

Material recycling business with steel mills

The material recycling business shares facilities with our steel business, contributing to high margins and stable profit that boosts Group performance.

Aiming for growth through a tri-polar structure: Japan, Vietnam, and the United States

By acquiring a mill in the United States in 2016, we created a tri-polar structure, spanning Japan, Vietnam, and the United States. By developing our business in different countries—Japan, our mainstay market; Vietnam, which continues to develop; and the United States, an advanced country—we intend to achieve stable growth.

Company Outline

Established	August 21, 1947
Head office	1-4-16 Dojimahama, Kita-ku, Osaka 530-0004 Japan
Capital	¥18,516 million
Employees	3,200 (as of March 31, 2019)

Production and Sales Bases

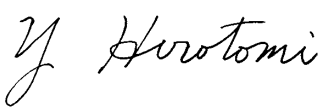
# of a recycling-oriented society

We will pull together as a group to work on business, aiming at achieving the goals of the medium-term business plan.

Performance for the Fiscal Year Ended March 31, 2019

Net sales reached the highest levels to date, and operating income more than doubled compared with one year earlier.

In the domestic steel business, product shipment volume rose year on year thanks to robust demand from the construction and civil engineering sectors. The price of steel scrap, our primary raw material, began falling in the second half of the fiscal year. Although product prices typically decrease in tandem with raw material prices, the Company has



Yasuyuki Hirotomi
President and Representative Director

stepped up efforts to maintain appropriate pricing levels to cover recent rising costs of submaterials and transportation. This situation led to a wider metal spread (the difference between the prices of steel products and steel scrap), which is a major source of earnings, compared with one year earlier.

In the overseas steel business, performance in Vietnam and the United States differed starkly. Performance in the United States was strong, benefiting from robust demand for steel and the US protectionist trade policies that caused the price of steel products to soar. In Vietnam, competition became more stringent on the back of anticipated growth in the demand for steel as competitors boosted production capacity. Consequently, the metal spread narrowed in both northern and southern Vietnam. In addition, in the fourth quarter of the fiscal year, Vietnamese regulatory authorities tightened regulations on steel scrap imports, making it more difficult to procure the scrap we use as raw material. As a result, Vietnam-Italy Steel Joint Stock Company (VIS) in the north of Vietnam and Vina Kyoei Steel Ltd. (VKS) in the south were forced to suspend steelmaking operations for a time, and their performance worsened significantly. Consequently, although sales in the overseas steel business increased, profits fell overall compared with the previous year. The difficult scrap procurement situation was settled at the end of 2018.

In the material recycling business, profits have been falling since fiscal 2016. However, we recorded operating income of more than ¥1.0 billion for the first time in two years by concentrating on new materials and on handling difficult-to-process waste, which has higher unit prices.

As a result, consolidated net sales of the Group came to ¥242,257 million (up 26.7% year on year), operating income was ¥9,200 million (up 116.0%), and profit attributable to owners of parent was ¥6,505 million (up 86.7%).

Outlook for the Fiscal Year Ending March 31, 2020

We aim to maintain stable performance in the domestic steel business and improve profits in Vietnam for the overseas steel business.

In the fiscal year ending March 31, 2020, we believe domestic steel production will continue benefiting from favorable demand from the construction and civil engineering sectors, although we expect a consumption tax hike to affect performance. At the same

Net sales	**¥ 242,257** million
Operating income	**¥ 9,200** million
Profit attributable to owners of parent	**¥ 6,505** million

time, we are anticipating increases in the prices of submaterials and the cost of shipping. We will continue cost cutting, including bolstering operating efficiency and saving labor.

Overseas, we aim to turn around our performance in the steel business by focusing on improving earnings at our two companies in northern Vietnam—Kyoei Steel Vietnam Co., Ltd. (KSVC) and VIS—where competition is particularly intense. We anticipate continued strong performance at Vinton Steel LLC in the United States, despite uncertainties, including the direction of US–China trade friction. We aim to increase earnings by raising production capacity and stepping up cost competitiveness.

We plan combined domestic and overseas product shipment volume to reach 3.62 million tons and forecast that shipments from our overseas operations will outstrip those in Japan for the first time.

In the material recycling business, to bolster profit levels, we will continue working to increase the amount of difficult-to-process waste that we handle and to expand the types of items that we process.

Based on these predictions, in the fiscal year ending March 31, 2020, the Group is forecasting consolidated net sales of ¥255.0 billion, consolidated operating income of ¥11.0 billion, and profit attributable to owners of parent of ¥7.0 billion.

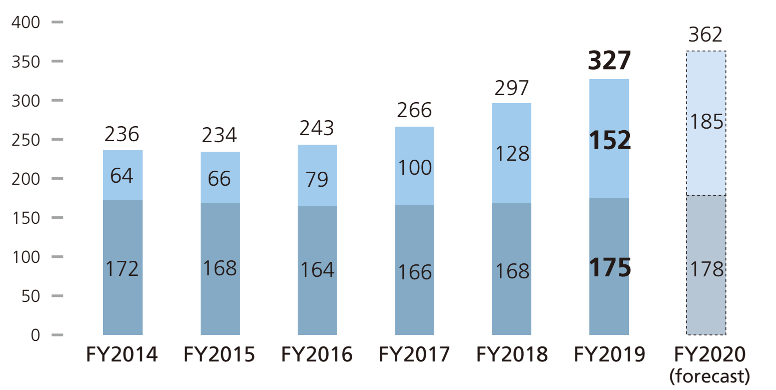
Growth Initiatives

Making the Kyoei Steel Group even stronger through initiatives to improve the quality of our management, work practices, and people

In October 2018, the Group formulated Quality Up 2020, a medium-term business plan concluding in the fiscal year ending March 31, 2021 (see page 8). For the final year of this plan, we are targeting net sales of ¥280.0 billion and operating income of ¥14.5 billion. Looking ahead toward the 100th anniversary of our founding, the Group set "enhancing quality" as an important theme, and we aim to improve the quality of our management, work practices, and people. For specific measures to reach our numeric targets, we will strive to strengthen competitiveness and productivity in domestic steel production; Overseas, we will expand shipments and increase profitability; For the material recycling and peripheral businesses associated with our steel businesses, we will work to increase profit-generating opportunities and to bolster the management

Product shipments

(Ten thousands of tons)



foundation that underpins those businesses.

We generally reached our numeric targets for the first year of the plan, the fiscal year ended March 31, 2019. However, in order to grow for the future, we have many challenges to overcome in each of our business segments. Specifically, it is essential to enhance the profitability of our overseas businesses to achieve the targets of the final year of the medium-term business plan. Accordingly, in the second year of the plan, the fiscal year ending March 31, 2020, we are placing the highest priority on improving the profitability of our business in Vietnam, and we will turn around the performance of our overseas steel operations.

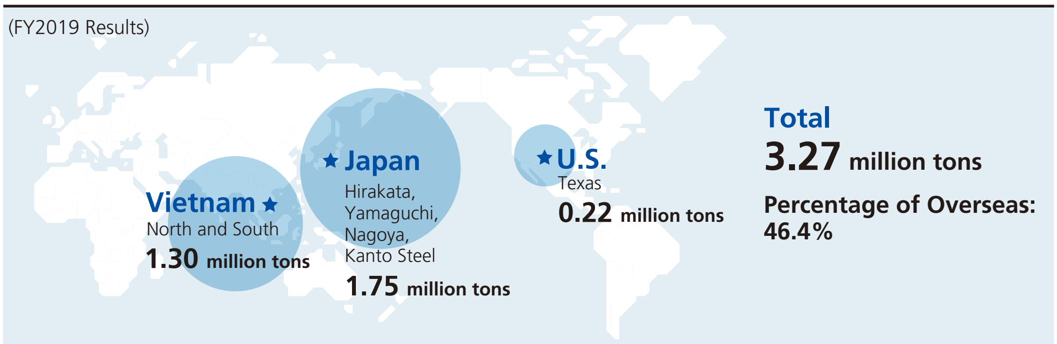
Another theme of our medium-term business plan is quality improvement in the three areas mentioned avove. We will strengthen the Group's overall capabilities as we globalize. At the same time, we will undertake a number of measures—in production, quality control, sales, and human resources—to further reform and improve the Group for the future. By implementing the measures outlined in our medium-term business plan, Quality Up 2020, we aim to ensure that society, our customers, and all other stakeholders trust us even more than in the past and consider the Kyoei Steel Group a high-quality and stronger organization.

PROFILE

Yasuyuki Hirotomi, President

Joined The Daiwa Bank, Limited (currently, Resona Bank, Limited) in 1978.
Became Representative Director, Deputy President and Executive Officer of the bank in 2009.
Joined Kyoei Steel in April 2014 and became Senior Vice President in June of that year.
Became President and Representative Director in June 2018.

Our Global Subsidiaries and Product Shipment Volume



Medium-Term Business Plan

Quality Up 2020

We are taking on new challenges to make the Kyoei Steel Group even stronger.

December 2017 marked Kyoei Steel's 70th anniversary since being founded. Having reached this milestone, we are now looking ahead to the 100th anniversary in 2047. Reaffirming the dedication to our "Spirit of Challenge" management philosophy, we have formulated a three-year medium-term business plan ending in the fiscal year ending March 31, 2021 and aimed at enhancing the Company's quality.

To accomplish this goal, we have established a vision for the Group that has four central elements. First is to contribute to the development of sound infrastructures and a better environment worldwide. Second is to increase earnings and give back to all stakeholders. Third is to place emphasis on compliance and quality. Fourth is to provide workplaces that are stimulating, pleasant, and safe.

Qualitative Targets

To become a corporate group that is trusted and valued by stakeholders over the long term, we will work on three "quality up" initiatives: to improve our management, work practices, and people's strengths.

Reinforce governance; place priority on compliance; and build a stronger quality management framework

Cultivate human resources to be self-reliant; recruit and fully utilize various human resources

Enhance steel mill operating technologies; improve the quality of sales strengths and customer service

Quantitative Targets

Quality Up 2020 has the following targets for the plan's final year, ending in March 2021.

Net sales	**280 billion yen**
Operating income	**14.5 billion yen**
Shipment volume (Tons)	**4 million tons** **Japan: 1.8 million tons** **Overseas: 2.2 million tons**

ROS	**5% or more**
ROE	**6% or more**
Dividend payout ratio	**Approx. 30%**
Capital expenditures and business investments	**45.0 billion yen over 3 years**

Initiatives

We developed specific initiatives for each business segment. At the same time, we are strengthening the management foundation to support these initiatives. For details on segment-specific activities, please see the IR release dated October 31, 2018 (http://www.kyoeisteel.co.jp/english/ir/data.php).

Domestic Steel Business – Become more competitive and improve productivity
Overseas Steel Business – Increase the volume of shipments and become more profitable
Material Recycling Business and Peripheral Steel Businesses – Increase opportunities to earn profits

Progress in the First Fiscal Year (FY2019)

Progress against Numeric Targets

In the first year, FY2019, we generally met our targets. For the second year, FY2020, we are forecasting net sales of ¥255.0 billion and operating income of ¥11.0 billion. These figures are essentially in line with the internal targets that we set when formulating the Group’s medium-term business plan.

Monetary unit: billions of yen / Unit of weight: millions of tons

<table>
<tr><th rowspan="2"></th><th>FY2018</th><th colspan="2">FY2019</th><th>FY2020</th><th>FY2021</th></tr>
<tr><th>(Results)</th><th>(Forecast) Note</th><th>(Results)</th><th>(Forecast)</th><th>(Plan)</th></tr>
<tr><td>Net sales</td><td>191.3</td><td>235.0</td><td>242.3</td><td>255.0</td><td>280</td></tr>
<tr><td>Operating income</td><td>4.3</td><td>7.5</td><td>9.2</td><td>11.0</td><td>14.5</td></tr>
<tr><td>Net income</td><td>3.5</td><td>5.0</td><td>6.5</td><td>7.0</td><td>—</td></tr>
<tr><td>Product shipment volume</td><td>2.97</td><td>3.26</td><td>3.27</td><td>3.62</td><td>4.00</td></tr>
<tr><td>Japan</td><td>1.68</td><td>1.74</td><td>1.75</td><td>1.78</td><td>1.80</td></tr>
<tr><td>Overseas</td><td>1.28</td><td>1.52</td><td>1.52</td><td>1.85</td><td>2.20</td></tr>
<tr><td>ROS</td><td>2.2%</td><td>3.2%</td><td>3.8%</td><td>4.3%</td><td>5% or more</td></tr>
<tr><td>ROE</td><td>2.5%</td><td>3.5%</td><td>4.6%</td><td>4.8%</td><td>6% or more</td></tr>
<tr><td>Dividend payout ratio</td><td>49.8%</td><td>Approx. 30%</td><td>26.7%</td><td>24.8%</td><td>Approx. 30%</td></tr>
<tr><td rowspan="2">Capital expenditure and business investments</td><td rowspan="2">10.4</td><td></td><td>12.3</td><td>13.0</td><td></td></tr>
<tr><td colspan="4">45 billion yen over 3 years</td></tr>
</table>

Note: Forecast figures for FY2019 are as of the release date of this medium-term business plan (October 31, 2018).

Enhancing Quality

Our principal initiatives in FY2019 :

Management

Began holding a global Group-wide management conference
Introduced a new accounting system
Launched the Central Quality Control Committee (strengthening our quality control structure)

Work Practices

Started a project to transform sales operations
Reinforced technology exchange activities
Promoted initiatives aimed at safe operation, labor savings, and automation (such as using robots for processes in front of the furnaces)

People

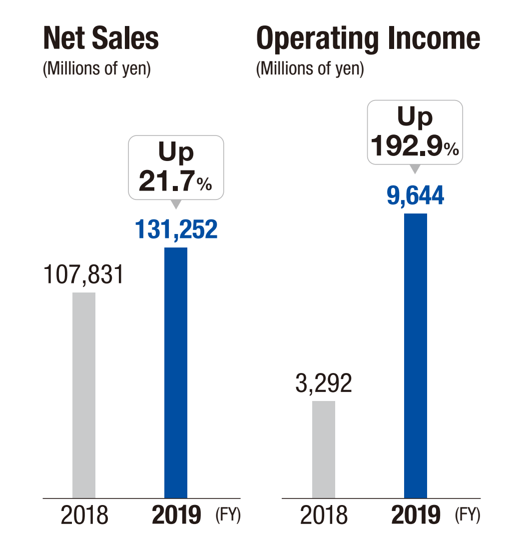
Launched a project to reform the human resources (HR) system
Expanded our management training and education program

The market for steel construction materials in Japan was characterized by robust demand from the construction and civil engineering sectors. Under this environment, we succeeded in a penetration of the price increase, leading to a wider metal spread (the difference between the prices of steel products and steel scrap), which is a major source of earnings. For the steel business overseas, performance in the United States was favorable, benefiting from solid demand for steel materials. The situation in Vietnam was challenging, however, due to increasingly tough competition.

Domestic Steel Business

Shipments increased by 66,000 tons year on year, to 1.75 million tons, buoyed by robust demand for steel construction materials in Japan. The price of steel scrap rose ¥3,000 per ton from the previous fiscal year, but the price of steel products increased by ¥10,200 per ton due to price rises, increasing the metal spread by ¥7,100 per ton.

As a result, segment sales rose ¥23,421 million or 21.7% year on year), to ¥131,252 million, and operating income rose ¥6,352 million or 192.9% to ¥9,644 million.



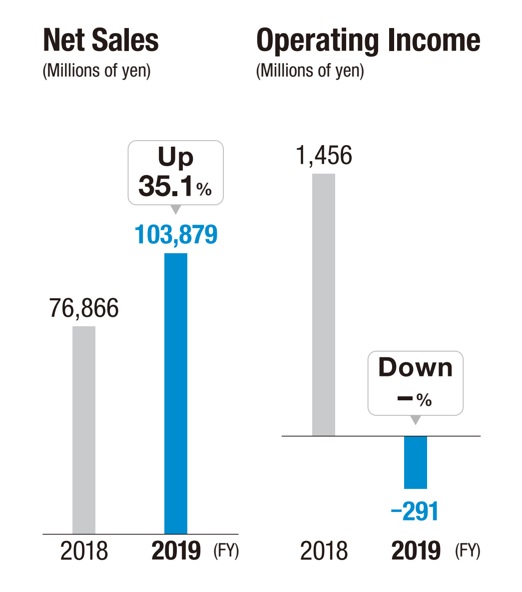
Overseas Steel Business

We are developing the steel business in Vietnam and the United States. Profits and losses of Vietnam Italy Steel Joint Stock Company (VIS) which produces steel in northern Vietnam, have been included as a consolidated subsidiary in the consolidated profit and loss account from the third quarter of the fiscal year under review.

Although demand for steel remains strong in Vietnam, competition increased as competitors ramped up production capacity, causing the metal spread to shrink and performance to fall substantially.

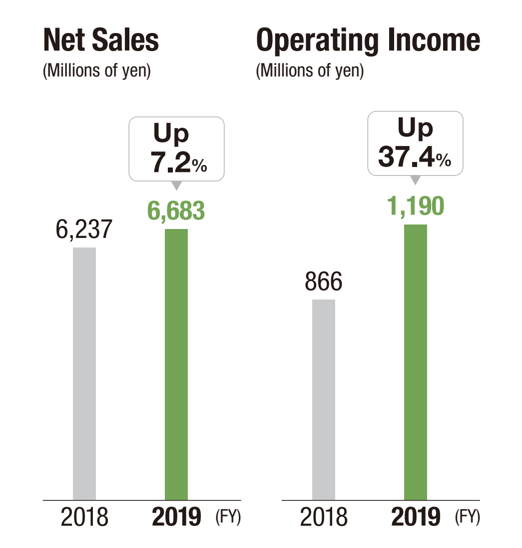
In the United States, demand for steel was favorable. Also, the introduction of protectionist trade policies caused steel import tariffs to rise, boosting prices and leading to a more favorable environment for us.

As the result, segment sales rose ¥27,014 million or 35.1% year on year, to ¥103,879 million, while the operating loss was ¥291 million, a ¥1,747 million decrease from the previous fiscal year (operating income of ¥1,456 million).



Material Recycling Business

We made progress in obtaining orders for difficult-to-process waste that has higher unit prices. Also, we expanded our processing of new materials, such as carbon fiber and automotive lithium-ion batteries. Segment sales consequently rose ¥446 million or 7.2% year on year, to ¥6,683 million, and operating income grew ¥324 million or 37.4%, to ¥1,190 million.



Kyoei Steel recognizes the importance of the following goals to coexist with society and contribute to the development of the Japanese economy and local communities as a corporate group: (1) build a management system capable of prompt and accurate responses to changes in the business environment; (2) strive for rational decision-making and efficient execution for sufficient fulfillment of the duty of accountability; (3) ensure transparent and fair decision-making; (4) seek to pursue sound ethics not only from a legal perspective but also more broadly in accordance with social norms; and (5) disclose information promptly and appropriately to stakeholders. We have systematically put in place and are enhancing our corporate governance framework to achieve these goals, and are working to achieve sustainable growth and enhance corporate value for Kyoei Steel and the Kyoei Steel Group.

Board of Directors

Our Board of Directors has nine members (with three external directors), including two representative directors and seven board directors. Our Board of Directors currently includes nine members: Hideichiro Takashima (chairman), Yasuyuki Hirotomi, Kazuyoshi Ota, Shogo Sakamoto, Osamu Narumi, Mitsuhiro Mori, Nobuhiko Arai (external board director), Tetsuya Yamao (external board director), and Tatsuya Kawabe (external board director). Board of Directors meetings are also attended by the standing corporate auditor Shuji Ichihara, as well as the external auditors Osamu Tsukamoto and Toru Muneoka, to audit the execution of management, including the duties of directors. The Board executes important decisions and oversees the execution of business by the board directors and executive officers. In addition to regular monthly meetings, extraordinary meetings of the Board are convened when necessary.

Management conferences are held concerning Board of Directors meeting agenda items or important matters for discussion, adjustment, or decision pertaining to management execution.

Management conferences are attended by the chairman, the president, executive managing officers, standing corporate auditors, senior executive officers, executive officers, and the president of Kanto Steel Ltd., as well as others designated by the chairman or president.

In addition to being held monthly, extraordinary management conferences may be convened when necessary. On June 15, 2016, we established the Nomination and Remuneration Advisory Committee as a voluntary advisory body to the Board of Directors. This committee is composed of independent external directors and board directors selected by resolution of the Board of Directors.

Board of Auditors

The Board of Auditors has one standing corporate auditor and two corporate auditors for a total of three members (two of whom are external auditors), each thoroughly versed in the business of the Company and the industry, with one corporate auditor who is an independent executive posing no conflict of interest with general shareholders. Auditors monitor the effectiveness of governance and audit management performance, including the execution of duties by directors. The Articles of Incorporation limit the number of corporate auditors to five.

Sales & Marketing Committee

The president serves as the committee chairman, with other members being the director in charge of the Marketing Planning & Coordination Department, the general managers of the sales & marketing departments of each division, and others designated by the chairman. In principle, the committee meets monthly. In addition to the detailed sharing of information concerning the environment and situation surrounding steel scrap (raw material) and product market conditions, the members propose business strategy plans. Exchanges of timely information concerning sales and purchasing are also conducted via the Company intranet.

Corporate Risk Management Committee

This committee, chaired by the president, includes people in charge of risk and compliance in each department and is charged with the oversight of risk management and with promoting compliance for the Kyoei Steel Group. The committee also spearheads education and awareness programs aimed at preventing risks across the Group, setting priority items and formulating annual plans, as well as determining the status and assessing initiatives.

Central Quality Control Committee

This committee is chaired by the director in charge of the headquarters Production Planning & Coordination Department, with other members being headquarters executives and general managers of each division, or others designated by presidents of affiliated companies (Kanto Steel, Ltd., Kyoei Industrial Co., Ltd., and Kyoei Processing and Distribution Co., Ltd.) and the chairman. In principle, the committee meets twice a year. The committee oversees quality assurance issues and provides instructions for ways to enhance governance of the Group’s quality. The committee also reports necessary matters at management conferences and works to improve the quality control system.

Compliance System

The Internal Auditing Department has been established as a department to which the president is directly attached, and in addition to conducting regular business audits, it also audits the execution of work by the executive officers and employees.

Also, when questions arise concerning compliance, executive officers and employees can report to the Risk and Compliance Committee or internally to the Compliance Consultation Desk, which was set up for that purpose. A system has been established whereby the details and proposals for resolution are relayed via the Risk and Compliance Committee to the Board of Directors and the corporate auditors, in the rare event that a compliance infraction has occurred.

Initiatives Targeting Affiliated Companies

Based on Kyoei Steel’s management philosophy and code of conduct, we have formulated the Affiliated Company Management Regulations for managing subsidiaries and for ensuring the appropriate application of those rules. By dispatching corporate auditors to affiliated companies, we audit their internal control systems, and the Company’s Internal Auditing Department performs regular internal audits. We also call on individual subsidiaries to establish compliance programs based on the Company’s programs, depending on the type and scale of their operations. For the above items, we have also formulated a management structure by department for subsidiaries.

Elimination of Antisocial Forces

The Kyoei Steel Group maintains a basic policy of never associating with antisocial forces and organizations that threaten the order and safety of civil society, and resolutely opposes any injurious pressure or demands from them. Furthermore, we have joined with police, attorneys and other external specialist organizations to create a structure for the elimination of antisocial forces.

External Directors / External Auditors

Kyoei Steel has three external board directors and two external auditors.

We are working to strengthen our management oversight and have appointed external board directors and external auditors with assured independence for more sound, fair, and transparent management as well as to ensure fulfillment of our duty of accountability.

External Board Director Nobuhiko Arai has rich experience as manager at such companies as Resona Trust & Banking Co., Ltd. (the present Resona Bank, Ltd.) and TOYO TEC CO., LTD. and we have appointed him based on our belief that he will provide advice on overall management judgments.

External Board Director Tetsuya Yamao has significant experience gained over many years and specialized knowledge as an attorney, as well as a robust spirit of compliance. We have appointed him based on our judgment that he will conduct his duties appropriately.

External Board Director Tatsuya Kawabe, who had served as a director of the Kansai Electric Power Co., Inc., has deep knowledge and significant insight gained during his career. We have appointed him as a new external board director based on our judgment that he will conduct his duties effectively.

External Auditor Osamu Tsukamoto has extensive knowledge of and experience in the steel industry, and we have appointed him based on our judgment that he will strengthen and improve the Group’s auditing structure.

External Auditor Toru Muneoka has expert knowledge and extensive experience as a certified public accountant and as a university professor, and we have appointed him based upon our judgment that, as a specialist, his auditing will strengthen and improve our corporate Group's auditing structure.

Method for Deciding Executive Pay and Executive Pay Amounts

Compensation for the Company’s executives is within the remuneration range set at the General Meeting of Shareholders. Compensation includes a fixed amount depending on the position and a performance-based amount that takes into account the Company’s management status and each executive’s degree of responsibility. Based on these factors, the Company's policy is to pay amounts in line with the Company's operating performance, as well as individual performance and achievement. Following deliberations by the Nomination and Remuneration Advisory Committee, an advisory body to the Board of Directors, the resolution is made by the representative director at the Board of

Directors meeting. Compensation for corporate auditors is determined after discussions by the Board of Auditors.

Basic Compensation Based on Position

Basic compensation based on position is a fixed amount determined according to position. Amounts are determined by taking into account research by third-party institutions and remuneration levels at other companies.

Performance-Based Compensation

Performance-based compensation has two parts: one based on the Company's overall performance, which is indexed to profit attributable to owners of parent and one based on individual performance.

In the fiscal year ended March 31, 2019, profit attributable to owners of parent came to ¥6,505 million, compared with our forecast of ¥4,000 million.

The portion of performance-based compensation for individual performance is evaluated according to the performance of the division for which the executive is responsible, as well as the level of achievement of strategic targets set for the individual. Performance-based compensation amounts to around 10–40% of the basic compensation.

To ensure objectiveness and transparency, the Nomination and Remuneration Advisory Committee confirms specific remuneration amounts and calculation methods used for individual assessments based on performance targets. The Company discontinued retirement benefits for executives in 2009.

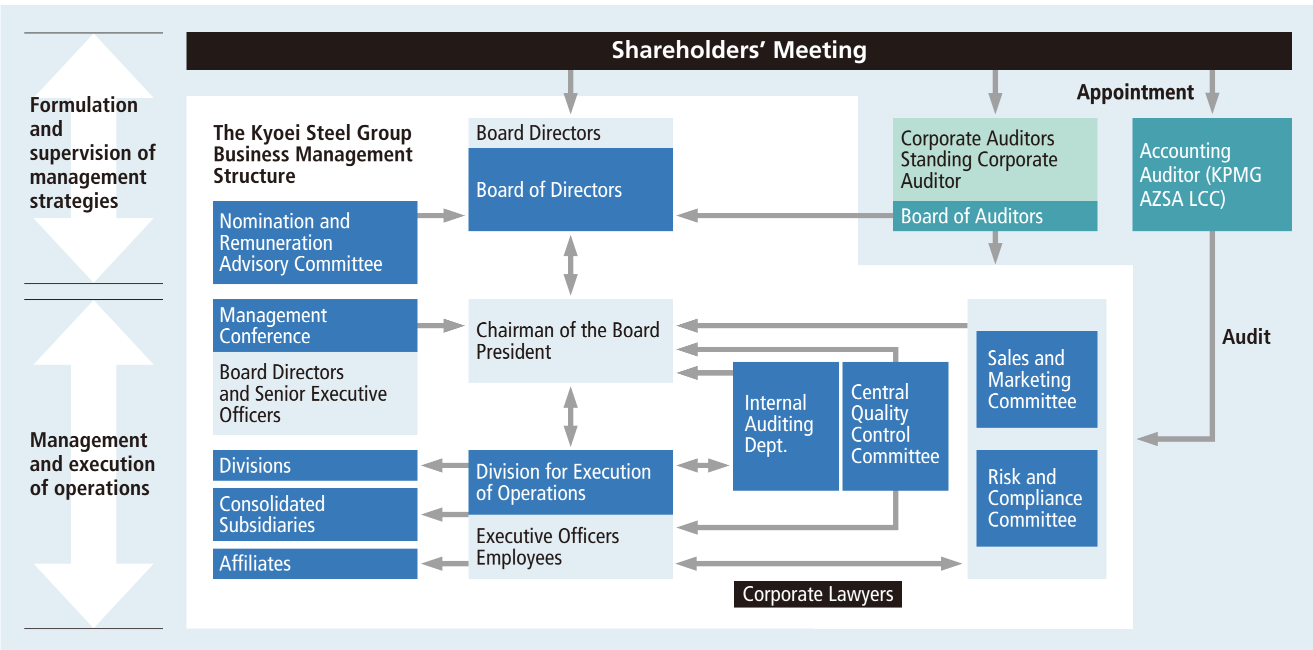
It has been resolved that compensation for all board directors will not exceed ¥550 million annually, while compensation for all corporate auditors will not exceed ¥60 million annually.

Risk Management

We classify potential risks as: (1) operational risks at our production sites; (2) product liability; (3) credit risk related to sales; (4) credit risk associated with investment and lending; and (5) risks related to natural disasters.

Our executives are always examining and sharing measures for preventing and hedging every type of risk. Moreover, the internal communication system for use in the event of an emergency is very well known, and in case of an emergency the department with jurisdiction immediately contacts the Headquarters Human Resources and General Affairs Department, whereupon the Headquarters Human Resources and General Affairs Department transmits the information via the prescribed network.

Corporate Governance Structure



(1) Relationship with Nippon Steel Corporation (Nippon Steel, former Nippon Steel & Sumitomo Metal Corporation)

As of June 25, 2019, Nippon Steel owned 25.8% of the outstanding shares in Kyoei Steel (26.7% of the voting rights) and is the Company's largest shareholder. Kyoei Steel is an equity-method affiliate of Nippon Steel. The Company operates autonomously and conducts business independently, and intends to continue doing so in the future, provided, however, that as the top shareholder in our company, Nippon Steel is in a position to influence our operations by exercising its voting rights, and the interests of Nippon Steel may not necessarily coincide with those of the Company's other shareholders.

(2) Selling Price Fluctuations Caused by Competition

There are a number of steel minimill companies competing in the main business of our Group, which is steel products for construction work, and excess production capacity is a structural issue that we face. Consequently, as demand for steel products fluctuates, competition to maintain sales volumes increases, and the resulting reductions in selling prices may influence the results of our Group.

(3) Fluctuations in Raw Materials Prices

Steel production is growing in the countries of Asia, which has experienced rapid economic growth in recent years, with consumption of steel scrap also trending upward. In China, the elimination of low-quality (ground long) products has led to increases in production volumes achieved using electric furnaces and the construction of new electric furnaces. As a result, our Group is forecasting sustained high prices for steel scrap. However, steel scrap prices are likely to fluctuate widely, depending on demand in China. These factors can cause the supply/demand environment for steel scrap, which is the principal raw material of our main products, to experience severe price fluctuations that may influence the results of our Group.

(4) Impact of the Downward Trend in Construction Demand

With the Japanese economy now mature, we believe that neither domestic public- nor private-sector demand is likely to expand significantly over the long term. Accordingly, we judge that demand for the Group's mainstay product, rebar, is likely to decrease. If the Group's efforts to supplement this demand are unsuccessful, the Group's results could be affected.

(5) Effects of Power Supply Issues

Most nuclear power plants in Japan are currently not operating, causing a significant increase in the cost of electricity. This has resulted in Tokyo Electric Power, Kansai Electric Power, Chubu Electric Power, and other power companies raising their rates, resulting in a significant increase in the cost of electrical power. The adjusted unit price for fuel costs, which is determined according to the cost of thermal power plant fuel (liquefied natural gas (LNG) and crude oil), may rise due to changes in energy prices and currency exchange rates. As a result, electricity rates and the power supply situation may influence Group results.

(6) Effects of Sharply Higher Energy Prices

If global energy prices (for oil, LNG, etc.) were to increase sharply, or if exchange rate trends were to cause a rise in energy import prices, the cost of the fuel used in our production processes (mainly those involving the reheat furnace) would also rise. In addition, against a backdrop of the cessation of operations of almost all nuclear power plants in Japan, higher energy prices are connected to higher electricity rates. Otherwise, a spike in oil prices could cause export costs to rise. An increase in energy prices that continues over the long term could indirectly cause a slowdown in the rate of Japanese economic growth, which may cause a contraction in construction demand. The above items may influence the results of our Group.

(7) Country Risk Regarding Our Subsidiaries

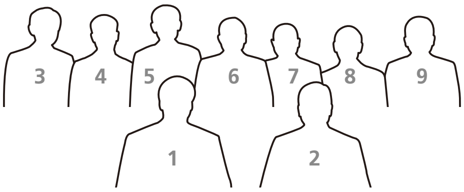
Kyoei Steel's subsidiaries are located in the Socialist Republic of Vietnam and the United States. The results of those subsidiaries are influenced by the economic conditions there and their markets for steel products. If economic conditions or markets for steel products deteriorate in Vietnam and the U.S., this may adversely affect the results of those subsidiaries. In addition, sudden political instability, a natural disaster or an industrial accident in those countries could lead to a cessation of operations or similar problems, and given that economic conditions and trade customs differ from those in Japan, recovery in these cases could take longer than expected. The above items may influence the Group's results.

(8) Impact of Natural Disasters

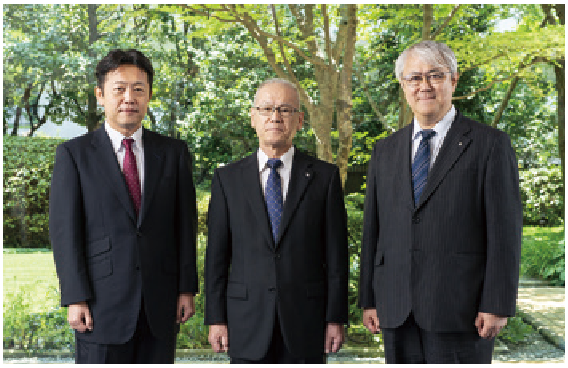
If a large earthquake, typhoon or other natural disaster affects a site where the Group's mills are located, damage to production equipment and infrastructure could result in a suspension of mill operations. Mills near the sea or rivers are particularly susceptible to tsunami, flooding, and other types of water damage. Disaster prevention measures are in place at all mills on both the facility and personnel fronts. However, if hit by disaster, the Group's results could be affected.

BOARD DIRECTORS AND CORPORATE AUDITORS

Chairman and Representative Director	Hideichiro Takashima	1
President and Representative Director	Yasuyuki Hirotomi	2
Board Director & Senior Executive Managing Officer	Kazuyoshi Ota	5
Board Directors & Executive Managing Officers	Shogo Sakamoto	7
	Osamu Narumi	4
Board Director	Mitsuhiro Mori	6
Board Directors (External Board Directors)	Nobuhiko Arai	8
	Tetsuya Yamao	3
	Tatsuya Kawabe	9



Standing Corporate Auditor	Shuji Ichihara	11
Corporate Auditors	Osamu Tsukamoto	10
	Toru Muneoka	12



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Board of Directors

Hideichiro Takashima 1

March 1989	Joined the Company
March 1990	Board Director
April 1991	Board Director and Executive Managing Officer
June 1992	Board Director and Senior Executive Managing Officer
June 1993	Board Director and Senior Vice President
October 1993	Senior Vice President and Representative Director
June 1995	President and COO
June 2007	Vice Chairman of the Board
June 2010	Chairman and Representative Director (current position)

Yasuyuki Hirotomi 2

April 1978	Joined the Daiwa Bank Ltd. (currently Resona Bank, Ltd.)
October 2003	Executive Officer of Resona Bank, Ltd.
June 2005	Managing Executive Officer and General Manager of Osaka Sales Division and Osaka Central Sales Division of Resona Bank, Ltd.
June 2008	Director and Senior Managing Executive Officer of Resona Bank, Ltd.
June 2009	Representative Director, Deputy President and Executive Officer of Resona Bank, Ltd.
April 2014	Joined the Company
June 2014	Board Director and Senior Vice President, Executive Officer and Assistant to the President
June 2017	External Director of Ichinen Holdings Co., Ltd. (current position)
October 2017	Board Director, Senior Vice President, Executive Officer, Assistant to the President
June 2018	President and Representative Director (current position)

Kazuyoshi Ota 5

March 1975	Joined the Company
May 2002	General Manager of Production Dept. of Yamaguchi Division
June 2009	Executive Officer
June 2011	Executive Officer, Deputy General Manager of Yamaguchi Division, General Manager of Production Dept., Deputy General Manager of Nagoya Division (in charge of production) and Deputy General Manager of Headquarters for New Mill Construction in Vietnam
June 2012	Board Director and Executive Officer, General Manager of Yamaguchi Division
June 2014	Board Director and Executive Managing Officer, General Manager of Yamaguchi Division
June 2017	Board of Director and Senior Executive Managing Officer, General Manager of Yamaguchi Division (current position)

Shogo Sakamoto 7

April 1999	Joined the Company
June 2012	General Manager of Sales & Marketing Dept. of Yamaguchi Division
June 2014	Executive Officer, Deputy General Manager of Yamaguchi Division, General Manager of Sales & Marketing Dept. of Yamaguchi Division
June 2017	Board Director and Executive Officer, Deputy General Manager of Yamaguchi Division, General Manager of Sales & Marketing Dept. of Yamaguchi Division
January 2018	Board Director and Executive Officer, General Manager of Marketing Planning & Coordination Dept. of head office, Deputy General Manager of Yamaguchi Division
April 2018	Director and Executive Officer, General Manager of Marketing Planning & Coordination Dept.
June 2018	Board Director and Executive Managing Officer, General Manager of Marketing Planning & Coordination Dept. of head office
June 2019	Board Director and Executive Managing Officer in charge of Marketing Planning & Coordination Dept. of head office and General Manager of Marketing Planning & Coordination Dept. of the Company (current position)

Osamu Narumi 4

August 1974	Joined the Company
May 1999	Deputy General Manager of Production Dept. of Hirakata Division of the Company
June 2011	Executive Officer, and dispatched to Vina Kyoei Steel Ltd., with the head office's Overseas Business Dept. of the Company (Vice President of Vina Kyoei Steel Ltd.)
June 2015	Corporate Adviser of the Company (Vice President of Vina Kyoei Steel Ltd.)
June 2016	Board Director and Executive Officer, and General Manager of Hirakata Division of the Company
June 2018	Senior Executive Officer and General Manager of Hirakata Division of the Company
April 2019	Senor Executive Officer, General Manager of Hirakata Division and General Manager of Production Dept. of Hirakata Division of the Company
June 2019	Board Director and Executive Managing Officer, General Manager of Hirakata Division and General Manager of Production Dept. of Hirakata Division of the Company (current position)

Mitsuhiro Mori 6

March 1970	Joined the Company
August 1994	Dispatched to Vina Kyoei Steel Ltd., as President of Vina Kyoei Steel Ltd.
June 2000	General Manager of Overseas Business Dept. of the Company
July 2001	General Manager (treated as Executive Officer) of Planning & Administration-Overseas Investment Dept., Deputy General Manager of Hirakata Division
June 2003	Executive Officer, Deputy General Manager of Hirakata Division
June 2006	Board Director and Executive Officer, Deputy General Manager of Hirakata Division
June 2007	Managing Director and General Manager of Sales & Marketing Dept. of Nakayama Steel Products Co., Ltd.
June 2009	Corporate Advisor of the Company
July 2009	Corporate Advisor of the Company (President of Thi Vai International Port Co., Ltd.)
January 2010	Corporate Advisor of the Company (President of Vina Kyoei Steel Ltd.)
June 2015	President of the Company
June 2018	Board Director and Corporate Counselor of the Company (current position)

Nobuhiko Arai 8

April 1970	Joined The Daiwa Bank Ltd. (currently Resona Bank, Ltd.)
June 1999	Director and Manger of Hong Kong Branch of Resona Bank, Ltd.
June 2000	Executive Officer, General Manager of International Dept. of Resona Bank, Ltd.
June 2001	Executive Managing Officer and General Manager of International Dept. of Resona Bank, Ltd.
June 2003	Representative Director, President and Executive Officer of Resona Trust & Banking Co., Ltd.
June 2005	Executive Officer of Resona Holdings, Inc.
June 2006	President and Representative Officer of TOYO TEC CO, LTD.
June 2011	Chairman and Representative Officer of TOYO TEC CO, LTD.
June 2016	Board Director of the Company (current position)
June 2017	Corporate Counselor of TOYO TEC CO, LTD. (current position)
June 2018	External Auditor of Cominix Co., Ltd. (current position)

Tetsuya Yamao 3

April 1984	Joined Hanshin Law Office
April 1991	Established Tokiwa Law Office
April 2004	Established Yamao Law Office
September 2015	Partner of Umeda Shinmichi Law Office (current position)
March 2016	External Auditor of Cypressclub Co., Ltd. (current position)
June 2016	Board Director of the Company (current position)

Tatsuya Kawabe 9

April 1976	Joined the Kansai Electric Power Company Incorporated ("KEPCO")
June 2006	Manager of District Symbiosis and Public Relation Office of KEPCO
June 2007	Executive Officer and Manager of District Symbiosis and Public Relations Office of KEPCO
May 2009	Executive Officer of the KEPCO, and Managing Director and Head of the Secretariat of Kansai Economic Federation
June 2009	Executive Managing Officer of KEPCO, and Managing Director and Head of the Secretariat of Kansai Economic Federation
May 2011	Executive Managing Officer of KEPCO, and Senior Managing Director and Head of Secretariat of Kansai Economic Federation
June 2011	Director of KEPCO and Senor Managing Director of Kansai Economic Federation
June 2015	President of Kansai Electrical Safety Inspection Association (current position)
June 2019	Board Director of the Company (current position)

Auditors

Shuji Ichihara 11

March 1974	Joined the Company
July 2001	General Manager of General Affairs Dept. of head office
September 2005	General Manager of Human Resources & General Affairs Dept. of head office
June 2006	Executive Officer, General Manager of Human Resources & General Affairs Dept. of head office
April 2010	Executive Officer, General Manager of Human Resources & General Affairs Dept. of head office, General Manager of Tokyo Office
June 2010	Standing Auditor (current position)

Osamu Tsukamoto 10

April 1989	Joined former Nippon Steel Corporation (currently Nippon Steel Corporation)
October 2012	Manager of Personnel & Industrial Relations Office, Personnel & Industrial Division of Nippon Steel & Sumitomo Metal Corporation ("NSSMC")
April 2013	Senior Manager of NSSMC and dispatched to China Steel Sumikin Vietnam Joint Stock Company
July 2015	General Manager, General Administration Division of Amagasaki Works, Pipe Division of NSSMC
April 2019	General Manager, Affiliated Companies Division of NIPPON STEEL CORPORATION (current position)
June 2019	Auditor of the Company (current position)
June 2019	Auditor of Godo Steel, Ltd. (current position)

Toru Muneoka 12

September 1984	Joined Tomatsu Aoki (currently Deloitte Touche Tohmatsu LLC)
February 1988	Registered Certified Public Accountant
September 1990	Joined Industrial Bank of Japan (currently Mizuho Bank, Ltd.)
April 2003	Joined Sony Corporation
April 2006	Professor, School of Accountancy of Graduate School of Kansai University (current position)
March 2011	Auditor of DDS Inc. (current position)
January 2016	Outside Director of SENSHU ELECTRIC CO., LTD. (current position)
January 2019	Provisional Auditor of the Company
June 2019	Auditor of the Company (current position)

Executive Officers

Senior Executive Officers

Katashi Enomoto	in charge of Compliance, Human Resources & General Affairs Dept. of head office and Information System Dept.
Aimei Shiraishi	General Manager of Nagoya Division
Hiroshi Kunimaru	in charge of Corporate Planning Dept., Accounting & Finance Dept., Overseas Business Dept.
Masahiro Kitada	President of Kyoei Steel America LLC and President of Vinton Steel LLC
Masami Yokoyama	in charge of Production Planning & Coordination Dept., Material Recycling Dept., and Project Planning & Development Dept.

Executive Officers

Kenji Kawai	Deputy General Manager of Nagoya Division and General Manager of Sales & Marketing Dept. of Nagoya Division
Kosei Kawakami	General Manager of Overseas Business Dept. of head office
Akio Shinoda	General Manager of Administration Dept., and General Manager of MESSCUD Dept. of Yamaguchi Division
Akira Ono	General Manager of Material Recycling Dept. of head office
Toyoji Maeda	General Manager of Internal Auditing Dept.
Tetsuya Matsumoto	Deputy General Manager of Yamaguchi Division and General Manager of Sales & Marketing Dept. of Yamaguchi Division
Susumu Hayashi	General Manager of Accounting & Financing Dept., and General Manager of Information System Dept. of head office

Consolidated Ten-Year Summary

For the years ended March 31, 2010 through 2019

	2010	2011	2012	2013	2014
Product shipments (Thousands of tons)**:**					
Finished products (total)	1,822	1,883	1,919	2,081	2,357
Domestic	1,431	1,462	1,549	1,603	1,720
Overseas	391	421	371	478	637

	2010	2011	2012	2013	2014
For the year (Millions of yen)**:**					
Net sales	¥ 111,485	¥ 116,828	¥ 130,650	¥ 142,305	¥ 174,694
Gross profit	19,999	8,124	12,780	13,256	12,293
Operating income (loss)	11,454	(206)	4,166	4,343	2,857
Income (loss) before income taxes	11,121	(386)	3,151	3,738	9
Profit (loss) attributable to owners of parent	6,691	(794)	1,692	2,069	(795)
Research and development expenses	44	43	29	95	188
Depreciation and amortization	4,992	4,806	4,644	4,254	4,232
Capital expenditures	4,815	2,706	4,991	3,809	7,344
Per share amounts (yen):					
Net income (loss), basic	152.23	(18.22)	38.89	47.59	(18.28)
Net income (loss), diluted	–	–	–	–	–
Cash dividends applicable to the year	40.00	20.00	20.00	20.00	20.00
At year-end:					
Total assets	¥ 151,125	¥ 146,453	¥ 164,486	¥ 165,129	¥ 180,771
Working capital	50,334	51,265	61,950	63,811	79,699
Interest bearing debt	1,729	1,665	10,877	11,231	26,530
Net assets	124,905	119,973	122,725	125,257	128,788
Shareholders' equity*	124,076	119,064	120,344	122,515	121,622
Ratios:					
Return on equity (%)	5.5	(0.7)	1.4	1.7	(0.7)
Return on total assets (%)	7.7	(0.0)	2.8	2.9	2.1
Debt to equity ratio (times)	0.01	0.01	0.09	0.09	0.22
Shareholders' equity* to total assets (%)	82.1	81.3	73.2	74.2	67.3
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	44,899
Number of employees	1,061	1,077	1,299	1,327	1,611
Stock price (yen)**:**					
High	¥ 2,805	¥ 2,082	¥ 1,692	¥ 1,781	¥ 2,220
Low	¥ 1,544	¥ 876	¥ 1,011	¥ 1,105	¥ 1,372

	2015	2016	2017	2018	2019
Products shipment (Thousands of tons)**:**					
Finished products (total)	2,338	2,429	2,662	2,965	**3,269**
Domestic	1,680	1,641	1,662	1,682	**1,747**
Overseas	657	788	999	1,284	**1,522**

	2015	2016	2017	2018	2019
For the year (Millions of yen)**:**					
Net sales	¥ 181,436	¥ 160,952	¥ 145,991	¥ 191,254	**¥ 242,257**
Gross profit	21,900	23,889	18,726	16,472	**23,474**
Operating income	11,796	13,792	7,971	4,259	**9,200**
Income before income taxes	10,730	12,432	7,698	5,449	**8,444**
Profit (loss) attributable to owners of parent	6,923	8,467	4,783	3,483	**6,505**
Research and development expenses	231	104	119	177	**169**
Depreciation and amortization	4,147	5,026	5,961	6,663	**7,476**
Capital expenditures	15,920	10,103	7,262	5,803	**5,507**
Per share amounts (yen):					
Net income (loss), basic	159.30	194.94	110.41	80.31	**149.78**
Net income (loss), diluted	–	–	–	–	**–**
Cash dividends applicable to the year	35.00	45.00	30.00	40.00	**40.00**
At year-end:					
Total assets	¥ 201,760	¥ 200,436	¥ 214,341	¥ 234,220	**¥ 261,590**
Working capital	81,872	83,565	93,301	105,791	**126,734**
Interest bearing debt	32,810	33,149	41,414	50,088	**69,247**
Net assets	138,052	143,090	146,663	148,460	**153,781**
Shareholders’ equity*	129,546	134,886	138,365	140,010	**143,407**
Ratios:					
Return on equity (%)	5.5	6.4	3.5	2.5	**4.6**
Return on total assets (%)	6.6	7.1	4.1	2.2	**4.0**
Debt to equity ratio (times)	0.24	0.23	0.28	0.34	**0.45**
Shareholders' equity* to total assets (%)	64.2	67.3	64.6	59.8	**54.8**
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	**44,899**
Number of employees	1,741	1,806	2,341	2,430	**3,200**
Stock price (yen)**:**					
High	¥ 2,286	¥ 2,455	¥ 2,349	¥ 2,295	**¥ 2,510**
Low	¥ 1,618	¥ 1,584	¥ 1,387	¥ 1,594	**¥ 1,473**

*Shareholders’ equity = Net assets – Non-controlling interests

Financial Review (Consolidated)

1 Consolidated Operating Results

(1) Operating Results

In the fiscal year ended March 31, 2019, the overall Japanese economy recovered slowly as improvements in corporate earnings, jobs and income environment continued. However, the outlook remained uncertain because of concerns about slowing global economic growth due to the effects of US-China trade friction.

In the market for steel construction materials in Japan, the primary source of demand for the Kyoei Steel Group's products, demand was firm in the building construction and civil engineering markets. In addition, the price of steel scrap, which is the main raw material for the Kyoei Steel's products, remained at a high level, and, there was a gradual increase in the selling prices for the Group's products, the metal spread (the difference between the prices of steel products and steel scrap), which is a major source of the Group's earnings, widened. The overseas steel business performed well in the United States as the demand for steel products was strong. However, intense competition made the business climate challenging in Vietnam.

Consolidated net sales increased by 51,003 million yen ($459,445 thousand), or 26.7%, to 242,257 million yen ($2,182,299 thousand). Operating income increased by 4,941 million yen ($44,509 thousand), or 116.0%, to 9,200 million yen ($82,875 thousand), and profit attributable to owners of parent increased by 3,022 million yen ($27,222 thousand), or 86.7%, to 6,505 million yen ($58,598 thousand), respectively in the fiscal year ended March 31, 2019.

Results by business segment are as follows.

1) Domestic Steel Business

Reflecting the strong domestic demand for steel products, shipments increased 66,000 tons from the previous year to 1,750,000 tons. The price of steel scrap rose by 3,000 yen ($27.02) per ton and product prices increased by 10,200 yen ($91.88) per ton due to efforts of raising product prices to reflect the higher cost. Therefore, the difference between the prices of steel products and steel scrap widened by 7,100 yen ($63.95) per ton from the previous year. Segment sales increased by 23,421 million yen ($210,980 thousand), or 21.7%, to 131,252 million yen ($1,182,341 thousand) and operating income increased by 6,352 million yen ($57,220 thousand), or 192.9%, to 9,644 million yen ($86,874 thousand), respectively in the fiscal year ended March 31, 2019.

2) Overseas Steel Business

From the third quarter of the fiscal year, the profit and loss of the Vietnam Italy Steel Joint Stock Company (VIS), a consolidated subsidiary that operates a steel business in northern Vietnam, was fully consolidated.
In Vietnam, although demand for steel remained strong, the competitive environment became more severe due to the sustained increase in the scale of the production capacity of other companies in the same industry. As a result, the metal spread narrowed, causing a significant deterioration in business performance.
In the United States, the business environment was favorable as prices of steel products increased. This was mainly the result of strong demand for steel and tight supplies of steel products caused by import tariff hikes due to U.S. trade protectionism. Segment sales increased by 27,013 million yen ($243,338 thousand), or 35.1%, to 103,879 million yen ($935,766 thousand) and operating income decreased by 1,747 million yen ($15,737 thousand) (from the operating profit of 1,456 million yen ($13,115 thousand) the previous year) for a loss of 291 million yen ($2,621 thousand), respectively in the fiscal year ended March 31, 2019.

3) Material Recycling Business

The performance of the material recycling business benefited from the receipt of orders with higher unit prices for difficult-to-process waste and from expanding the processing volume for the recycling of new materials such as carbon fibers and automotive lithium ion batteries. Segment sales increased 446 million yen ($4,017 thousand), or 7.2%, to 6,683 million yen ($60,200 thousand) and operating income increased by 324 million yen ($2,918 thousand), or 37.4%, to 1,190 million yen ($10,720 thousand), respectively in the fiscal year ended March 31, 2019.

4) Others

Others includes sales of civil engineering materials, an insurance agent business and other activities by a subsidiary. In addition, earnings of Thi Vai International Port Co., Ltd. (TVP), a harbor operating company in Vietnam, are fully consolidated from the beginning of this fiscal year. Sales increased by 123 million yen ($1,108 thousand) (38.3%) to 443 million yen ($3,992 thousand), but operating income decreased by 64 million yen ($576 thousand) from operating profit of 24 million yen ($216 thousand) in the previous year for a loss of 40 million yen ($364 thousand), respectively in the fiscal year ended March 31, 2019.

(2) Financial Position

1) Assets, liabilities and net assets

(i) Assets

Current assets increased by 23,655 million yen ($213,089 thousand), or 17.1%, from the end of the previous fiscal year to 161,916 million yen ($1,458,571 thousand). This was attributable mainly to increases of 6,063 million yen ($54,625 thousand) in cash and time deposits, 5,300 million yen ($47,743 thousand) in notes and accounts receivable, 3,102 million yen ($27,943 thousand) in electronically recorded monetary claims - operating, 7,175 million yen ($64,634 thousand) in inventories and 3,376 million yen ($30,411 thousand) in other current assets. Long-term assets increased by 3,715 million yen ($33,465 thousand), or 3.9%, from the end of the previous fiscal year to 99,674 million yen ($897,883 thousand). This was attributable mainly to increases of 6,143 million yen ($55,337 thousand) in buildings and structures and 7,785 million yen ($70,128 thousand) in machinery and equipment, 3,394 million yen ($30,573 thousand) in goodwill and increases of 10,474 million yen ($94,351 thousand) in accumulated depreciation, and to decrease of 1,285 million yen ($11,575 thousand) in investment securities and 1,826 million yen ($16,449 thousand) in unconsolidated subsidiaries and affiliated companies, respectively.

Total assets increased by 27,370 million yen ($246,554 thousand), or 11.7%, from the end of the previous fiscal year to 261,590 million yen ($2,356,454 thousand).

(ii) Liabilities

Current liabilities increased by 14,671 million yen ($132,159 thousand), or 22.5%, from the end of the previous fiscal year to 79,900 million yen ($719,754 thousand). This was attributable mainly to increases of 4,242 million yen ($38,213 thousand) in electronically recorded obligations - operating and 11,070 million yen ($99,721 thousand) in short-term loans.

Long-term liabilities increased by 7,378 million yen ($66,462 thousand), or 35.9%, from the end of the previous fiscal year to 27,909 million yen ($251,410 thousand). This was attributable mainly to an increase of 7,249 million yen ($65,300 thousand) in long-term debt.

Total liabilities increased by 22,049 million yen ($198,621 thousand), or 25.7%, from the end of the previous fiscal year to 107,809 million yen ($971,164 thousand).

(iii) Net assets

Net assets increased by 5,321 million yen ($47,932 thousand), or 3.6%, from the end of the previous fiscal year to 153,781 million yen ($1,385,290 thousand). This was attributable mainly to profit attributable to owners of parent of 6,505 million yen ($58,598 thousand), dividends of surplus of 1,739 million yen ($15,665 thousand), an increase of 1,924 million yen ($17,332 thousand) in noncontrolling interests, a decrease of 640 million yen ($5,765 thousand) in valuation difference on available-for-sale securities and a decrease of 455 million yen ($4,099 thousand) in foreign currency translation adjustments.

As a result, from the end of the previous fiscal year, net assets per share increased by 73.97 yen ($ 0.66) to 3,299.82 yen ($29.72), and the equity to total asset ratio declined from 59.8% to 54.8%.

2) Cash flows

Cash and cash equivalents at the end of the current fiscal year decreased by 2,892 million yen ($26,051 thousand) from the end of the previous fiscal year to 26,407 million yen ($237,879 thousand). The cash flow components during the fiscal year and the main reasons for changes are as described below.

(i) Cash flows from operating activities

Net cash provided by operating activities was 4,367 million yen ($ 39,339 thousand). The major components were income before income taxes of 8,444 million yen ($76,065 thousand), depreciation and amortization of 7,476 million yen ($67,345 thousand), a 5,406 million yen ($48,698 thousand) increase in notes and accounts receivable, a 3,511 million yen ($31,628 thousand) increase in inventories, a 1,228 million yen ($11,062 thousand) decrease in notes and accounts payable and income taxes paid of 1,726 million yen ($15,549 thousand).

(ii) Cash flows from investing activities

Net cash used in investing activities was 19,430 million yen ($175,029 thousand). The major components were payments in time deposits of 17,887 million yen ($161,130 thousand), decreases in time deposits of 9,809 million yen ($88,361 thousand), payments for acquisition of marketable securities of 4,000 million yen ($36,033 thousand), proceeds from sales of marketable securities of 5,000 million yen ($45,041 thousand), investments in loans of 851 million yen ($7,666 thousand), payments for purchases of investments in subsidiaries resulting in change in scope of consolidation of 5,458 million yen ($49,167 thousand), and payments for purchases of property, plant and equipment of 5,626 million yen ($50,680 thousand).

(iii) Cash flows from financing activities

Net cash provided by financing activities was 11,081 million yen ($99,820 thousand). The major components include a net increase of 7,011 million yen ($63,156 thousand) in short-term loans payable, proceeds from long-term debt of 10,000 million yen ($90,082 thousand), repayments of long-term debt of 3,270 million yen ($29,457 thousand), cash dividends paid of 1,739 million yen ($15,665 thousand) and payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation of 893 million yen ($8,044 thousand).

(3) Dividends

It is our fundamental principle to reward our shareholders by increasing corporate value. We endeavor to distribute dividends while ensuring appropriate reserves for business growth and enhancing the corporation structure from a long-term prospective. Accordingly, we plan to pay a year-end dividend of 30 yen ($0.27) per share. Including the interim dividend of 10 yen ($0.09), the total dividend per share for the fiscal year will be 40 yen ($0.36).

Consolidated Balance Sheets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2019 and 2018	**2019**	2018	**2019**
ASSETS			
Current assets:			
Cash and time deposits (Note 13)	**¥ 42,133**	¥ 36,070	**$ 379,542**
Notes and accounts receivable	**48,845**	43,545	**440,005**
Electronically recorded monetary claims - operating	**14,854**	11,752	**133,808**
Marketable securities (Note 18)	**4,400**	5,400	**39,636**
Inventories (Note 6)	**44,895**	37,720	**404,423**
Other current assets	**7,289**	3,913	**65,661**
Allowance for doubtful accounts	**(500)**	(139)	**(4,504)**
Total current assets	**161,916**	138,261	**1,458,571**
Property, plant and equipment:			
Buildings and structures (Note 8)	**49,430**	43,287	**445,275**
Machinery and equipment (Note 8)	**119,117**	111,332	**1,073,029**
Land (Note 7)	**24,249**	24,122	**218,440**
Construction in progress	**628**	295	**5,657**
Other	**2,812**	2,536	**25,331**
Total	**196,236**	181,572	**1,767,732**
Accumulated depreciation	**(114,619)**	(104,145)	**(1,032,510)**
Net property, plant and equipment	**81,617**	77,427	**735,222**
Investments and other assets:			
Investments in securities (Note 18)	**3,963**	5,248	**35,700**
Unconsolidated subsidiaries and affiliated companies (Note 18)	**4,157**	5,983	**37,447**
Investments in long-term loans receivable	**475**	506	**4,279**
Net defined benefit asset (Note 14)	**275**	304	**2,477**
Goodwill	**3,944**	550	**35,528**
Other intangible assets (Note 8)	**2,564**	1,930	**23,097**
Deferred tax assets (Note 11)	**731**	402	**6,585**
Other noncurrent assets (Note 18)	**2,012**	3,675	**18,125**
Allowance for doubtful accounts	**(64)**	(66)	**(577)**
Total investments and other assets	**18,057**	18,532	**162,661**
Total assets	**¥ 261,590**	¥ 234,220	**$ 2,356,454**

KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2019 and 2018	Millions of yen 2019	 2018	Thousands of U.S. dollars (Note 1) 2019
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	**¥ 17,816**	¥ 21,251	**$ 160,490**
Electronically recorded obligations – operating	**4,673**	431	**42,095**
Short-term loans (Note 8)	**40,857**	29,787	**368,048**
Long-term debt due within one year (Note 8)	**3,861**	2,971	**34,781**
Income taxes payable	**2,053**	846	**18,494**
Accrued employees' bonuses	**718**	709	**6,468**
Accrued directors' bonuses	**2**	20	**18**
Other current liabilities	**9,920**	9,214	**89,360**
Total current liabilities	**79,900**	65,229	**719,754**
Long-term liabilities:			
Long-term debt (Note 8)	**24,069**	16,820	**216,818**
Deferred tax liabilities (Note 11)	**730**	457	**6,576**
Deferred tax liabilities for revaluation (Note 7)	**2,433**	2,433	**21,917**
Accrued directors' severance and retirement benefits	**12**	10	**108**
Net defined benefit liability (Note 14)	**74**	70	**667**
Other long-term liabilities	**591**	741	**5,324**
Total long-term liabilities	**27,909**	20,531	**251,410**
Total liabilities:	**107,809**	85,760	**971,164**
Net assets (Note 10)			
Shareholders' equity			
Common stock	**18,516**	18,516	**166,796**
Authorized – 150,300,000 shares in 2019 and 150,300,000 shares in 2018			
Issued – 44,898,730 shares in 2019 and 44,898,730 shares in 2018			
Capital surplus	**21,141**	21,493	**190,442**
Retained earnings	**98,550**	93,909	**887,758**
Treasury stock	**(1,700)**	(1,809)	**(15,314)**
Total shareholders' equity	**136,507**	132,109	**1,229,682**
Accumulated other comprehensive income			
Valuation difference on available for sale securities	**785**	1,425	**7,072**
Deferred gains and losses on hedges	**32**	(48)	**288**
Revaluation reserve for land (Note 7)	**4,626**	4,618	**41,672**
Foreign currency translation adjustments	**1,251**	1,706	**11,269**
Remeasurement of defined benefit plans	**206**	200	**1,856**
Total accumulated other comprehensive income	**6,900**	7,901	**62,157**
Noncontrolling interests	**10,374**	8,450	**93,451**
Total net assets	**153,781**	148,460	**1,385,290**
Total liabilities and net assets	**¥ 261,590**	¥ 234,220	**$ 2,356,454**

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2019 and 2018	**2019**	2018	**2019**
Net sales	**¥ 242,257**	¥ 191,254	**$ 2,182,299**
Cost of sales	**218,783**	174,782	**1,970,840**
Gross profit	**23,474**	16,472	**211,459**
Selling, general and administrative expenses (Note 9)	**14,274**	12,213	**128,584**
Operating income	**9,200**	4,259	**82,875**
Other income (expenses):			
Interest income	**613**	494	**5,522**
Dividend income	**157**	266	**1,414**
Interest expense	**(1,707)**	(1,144)	**(15,377)**
Share of profit of entities accounted for using equity method	**118**	21	**1,063**
Foreign exchange losses	**(33)**	(16)	**(297)**
Gain on sale and disposal of property, plant and equipment	**38**	27	**342**
Loss on sale and disposal of property, plant and equipment	**(368)**	(337)	**(3,315)**
Impairment loss on fixed assets(Note 19)	**(342)**	–	**(3,081)**
Gain on sales of investments in securities	**0**	1,981	**0**
Gain on step acquisitions	**549**	–	**4,946**
Insurance income	**313**	–	**2,820**
Cash sales discounts	**(29)**	(29)	**(261)**
Loss on sales of investments in securities	**(136)**	(293)	**(1,225)**
Loss on accidents	**–**	(158)	**–**
Loss on disaster	**(184)**	–	**(1,658)**
Other, net	**255**	378	**2,297**
Other income (expenses), net	**(756)**	1,190	**(6,810)**
Income before income taxes	**8,444**	5,449	**76,065**
Income taxes (Note 11)			
Current	**2,932**	1,598	**26,412**
Deferred	**(165)**	(11)	**(1,486)**
Total income taxes	**2,767**	1,587	**24,926**
Profit	**5,677**	3,862	**51,139**
Profit (loss) attributable to noncontrolling interests	**(828)**	379	**(7,459)**
Profit attributable to owners of parent	**¥ 6,505**	¥ 3,483	**$ 58,598**

	Yen		U.S. dollars (Note 1)
Amounts per share (Note 15)	**2019**	2018	**2019**
Net income			
Basic	**¥ 149.78**	¥ 80.31	**$ 1.35**
Diluted*	**–**	–	**–**
Cash dividends applicable to the year	**¥ 40.00**	¥ 40.00	**$ 0.36**

* As there was no dilutive stock outstanding during the year, the computation of diluted net income per share was not calculated.

Consolidated Statements of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2019 and 2018	**2019**	2018	**2019**
Profit	**¥ 5,677**	¥ 3,862	**$ 51,139**
Other comprehensive income			
Valuation difference on available for sale securities	**(640)**	(527)	**(5,765)**
Deferred gains and losses on hedges	**57**	(79)	**513**
Foreign currency translation adjustments	**(552)**	(444)	**(4,972)**
Remeasurement of defined benefit plans	**6**	198	**54**
Other comprehensive income, net (Note 20)	**(1,129)**	(852)	**(10,170)**
Comprehensive income	**¥ 4,548**	¥ 3,010	**$ 40,969**
Breakdown of comprehensive income:			
Attributable to owners of parent	**¥ 5,639**	¥ 2,843	**$ 50,797**
Attributable to noncontrolling interests	**¥ (1,091)**	¥ 167	**$ (9,828)**

Consolidated Statements of Changes in Net Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2019 and 2018	**2019**	2018	**2019**
Shareholders' equity			
Common stock			
Balance at the beginning of current period	**¥ 18,516**	¥ 18,516	**$ 166,796**
Balance at the end of current period	**18,516**	18,516	**166,796**
Capital surplus			
Balance at the beginning of current period	**21,493**	21,493	**193,613**
Changes during the period			
Change in scope of consolidation	**14**	–	**126**
Change in ownership interest of parent due to transactions with noncontrolling interests	**(366)**	–	**(3,297)**
Total changes during the period	**(352)**	–	**(3,171)**
Balance at the end of current period	**21,141**	21,493	**190,442**
Retained earnings			
Reversal of revaluation			
Balance at the beginning of current period	**93,909**	91,730	**845,951**
Changes during the period			
Cash dividends	**(1,739)**	(1,304)	**(15,661)**
Profit attributable to owners of parent	**6,505**	3,483	**58,598**
Change in scope of consolidation	**(117)**	–	**(1,068)**
Reversal of revaluation reserve for land	**(8)**	–	**(62)**
Total changes during the period	**4,641**	2,179	**41,807**
Balance at the end of current period	**98,550**	93,909	**887,758**
Treasury stock			
Balance at the beginning of current period	**(1,809)**	(1,916)	**(16,296)**
Changes during the period			
Purchase of treasury stock	**(0)**	(0)	**(0)**
Sale of treasury stock	**109**	107	**982**
Total changes during the period	**109**	107	**982**
Balance at the end of current period	**(1,700)**	(1,809)	**(15,314)**
Total shareholders' equity			
Balance at the beginning of current period	**132,109**	129,823	**1,190,064**
Changes during the period			
Cash dividends	**(1,739)**	(1,304)	**(15,661)**
Profit attributable to owners of parent	**6,505**	3,483	**58,598**
Purchase of treasury stock	**(0)**	(0)	**(0)**
Sale of treasury stock	**109**	107	**982**
Change in scope of consolidation	**(103)**	–	**(942)**
Change in ownership interest of parent due to transactions with noncontrolling interests	**(366)**	–	**(3,297)**
Reversal of revaluation reserve for land	**(8)**	–	**(62)**
Total changes during the period	**4,398**	2,286	**39,618**
Balance at the end of current period	**¥ 136,507**	¥ 132,109	**$ 1,229,682**

KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2019 and 2018	Millions of yen 2019	 2018	Thousands of U.S. dollars (Note 1) 2019
Accumulated other comprehensive income			
Valuation difference on available for sale securities			
Balance at the beginning of current period	**¥ 1,425**	¥ 1,952	**$ 12,837**
Changes during the period			
Net changes in items other than shareholders' equity	**(640)**	(527)	**(5,765)**
Total changes during the period	**(640)**	(527)	**(5,765)**
Balance at the end of current period	**785**	1,425	**7,072**
Deferred gains and losses on hedges			
Balance at the beginning of current period	**(48)**	40	**(432)**
Change during the period			
Net changes in items other than shareholders' equity	**80**	(88)	**720**
Total changes during the period	**80**	(88)	**720**
Balance at the end of current period	**32**	(48)	**288**
Revaluation reserve for land			
Balance at the beginning of current period	**4,618**	4,618	**41,599**
Changes during the period			
Net changes in items other than shareholders' equity	**8**	–	**73**
Total changes during the period	**8**	–	**73**
Balance at the end of current period	**4,626**	4,618	**41,672**
Foreign currency translation adjustments			
Balance at the beginning of current period	**1,706**	1,930	**15,368**
Changes during the period			
Net changes in items other than shareholders' equity	**(455)**	(224)	**(4,099)**
Total changes during the period	**(455)**	(224)	**(4,099)**
Balance at the end of current period	**1,251**	1,706	**11,269**
Remeasurement of defined benefit plans			
Balance at the beginning of current period	**200**	2	**1,802**
Changes during the period			
Net changes in items other than shareholders' equity	**6**	198	**54**
Total changes during the period	**6**	198	**54**
Balance at the end of current period	**¥ 206**	¥ 200	**$ 1,856**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**7,901**	8,542	**71,174**
Changes during the period			
Net changes in items other than shareholders' equity	**(1,001)**	(641)	**(9,017)**
Total changes during the period	**(1,001)**	(641)	**(9,017)**
Balance at the end of current period	**¥ 6,900**	¥ 7,901	**$ 62,157**

Consolidated Statements of Changes in Net Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2019 and 2018	**2019**	2018	**2019**
Noncontrolling interests			
Balance at the beginning of current period	**¥ 8,450**	¥ 8,298	**$ 76,119**
Changes during the period			
Net changes in items other than shareholders' equity	**1,924**	152	**17,332**
Total changes during the period	**1,924**	152	**17,332**
Balance at the end of current period	**10,374**	8,450	**93,451**
Total net assets			
Balance at the beginning of current period	**148,460**	146,663	**1,337,357**
Changes during the period			
Cash dividends	**(1,739)**	(1,304)	**(15,661)**
Profit attributable to owners of parent	**6,505**	3,483	**58,598**
Purchase of treasury stock	**(0)**	(0)	**(0)**
Sale of treasury stock	**109**	107	**982**
Change in scope of consolidation	**(103)**	–	**(942)**
Change in ownership interest of parent due to transactions with noncontrolling interests	**(366)**	–	**(3,297)**
Reversal of revaluation reserve for land	**(8)**	–	**(62)**
Net changes in items other than shareholders' equity	**923**	(489)	**8,315**
Total changes during the period	**5,321**	1,797	**47,933**
Balance at the end of current period	**¥ 153,781**	¥ 148,460	**$ 1,385,290**

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2019 and 2018	**2019**	2018	**2019**
Cash flows from operating activities:			
Income before income taxes	**¥ 8,444**	¥ 5,449	**$ 76,065**
Depreciation and amortization	**7,476**	6,663	**67,345**
Impairment loss on fixed assets	**342**	–	**3,081**
Amortization of goodwill	**257**	136	**2,315**
Increase (decrease) in provision	**(117)**	(53)	**(1,054)**
Increase (decrease) in net defined benefit liability	**47**	62	**423**
Share of profit of entities accounted for using equity method	**(118)**	(21)	**(1,063)**
Loss (gain) on sale of investments in securities	**136**	(1,688)	**1,225**
Loss (gain) on sale and disposal of property, plant and equipment	**329**	310	**2,964**
Insurance income	**(313)**	–	**(2,820)**
Loss on accidents	**–**	158	**–**
Loss on disaster	**184**	–	**1,658**
Loss (gain) on step acquisitions	**(549)**	–	**(4,946)**
Interest and dividend income	**(771)**	(760)	**(6,945)**
Interest expense	**1,707**	1,144	**15,377**
Decrease (increase) in notes and accounts receivable	**(5,406)**	(19,892)	**(48,698)**
Decrease (increase) in inventories	**(3,511)**	(8,829)	**(31,628)**
Increase (decrease) in notes and accounts payable	**(1,228)**	9,753	**(11,062)**
Increase (decrease) in accrued consumption taxes	**945**	126	**8,513**
Decrease (increase) in net defined benefit asset	**(5)**	89	**(45)**
Other	**(1,173)**	838	**(10,566)**
Subtotal	**6,676**	(6,515)	**60,139**
Interest and dividends received	**774**	779	**6,975**
Interest paid	**(1,744)**	(1,119)	**(15,711)**
Payments for loss on accidents	**–**	(153)	**–**
Payments for loss on disaster	**(6)**	–	**(55)**
Proceeds from insurance income	**393**	–	**3,540**
Income taxes paid	**(1,726)**	(1,626)	**(15,549)**
Net cash provided by (used in) operating activities	**4,367**	(8,634)	**39,339**
Cash flows from investing activities:			
Increase in time deposits	**(17,887)**	(18,929)	**(161,130)**
Decrease in time deposits	**9,809**	15,675	**88,361**
Payment for acquisition of marketable securities	**(4,000)**	(6,000)	**(36,033)**
Proceeds from sale of marketable securities	**5,000**	8,000	**45,041**
Payment for purchase of investments in securities	**(2)**	(1,957)	**(18)**
Proceeds from sale or redemption of investments in securities	**220**	3,114	**1,982**
Increase in money deposited	**(2,751)**	(80)	**(24,782)**
Decrease in money deposited	**2,714**	83	**24,448**
Payment for purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 13)	**(5,458)**	–	**(49,167)**
Payment for acquisition of investment securities in subsidiaries	**–**	(347)	**–**
Payment for acquisition of investments of capital in subsidiaries	**(146)**	–	**(1,315)**
Proceeds from sale of investments in capital of subsidiaries	**–**	283	**–**
Investments in loans	**(851)**	(705)	**(7,666)**
Collection of loans	**58**	35	**522**

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2018 and 2017	**2019**	2018	**2019**
Payment for purchase of property, plant and equipment	**(5,626)**	(5,282)	**(50,680)**
Proceeds from sale of property, plant and equipment	**50**	57	**450**
Payment for purchase of intangibles	**(230)**	(796)	**(2,072)**
Other	**(330)**	(421)	**(2,970)**
Net cash provided by (used in) investing activities	**(19,430)**	(7,270)	**(175,029)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**7,011**	6,080	**63,156**
Proceeds from long-term debt	**10,000**	6,760	**90,082**
Repayment of long-term debt	**(3,270)**	(3,060)	**(29,457)**
Repayment of installment payables	**(41)**	(40)	**(369)**
Payment for purchase of treasury stock	**(0)**	(0)	**(0)**
Proceeds from sale of treasury stock	**109**	107	**982**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(893)**	–	**(8,044)**
Cash dividends paid	**(1,739)**	(1,305)	**(15,665)**
Dividends paid to noncontrolling shareholders	**(11)**	(15)	**(99)**
Other	**(85)**	–	**(766)**
Net cash provided by (used in) financing activities	**¥ 11,081**	¥ 8,527	**$ 99,820**
Effect of exchange rate changes on cash and cash equivalents	**¥ (198)**	¥ (64)	**$ (1,784)**
Net increase (decrease) in cash and cash equivalents	**(4,180)**	(7,441)	**(37,654)**
Cash and cash equivalents at the beginning of the period	**29,299**	36,740	**263,930**
Increase in cash and cash equivalents from newly consolidated subsidiary	**1,288**	–	**11,603**
Cash and cash equivalents at the end of the period (Note 13)	**¥ 26,407**	¥ 29,299	**$ 237,879**

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The significant portions of the accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with International Financial Reporting Standards with adjustments for the specified following four items as applicable.

(1) Goodwill not subject to amortization
(2) Actuarial gains and losses of defined benefit retirement plans recognized outside profit and loss
(3) Capitalized expenditures for research and development activities
(4) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2019, which was ¥111.01 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates
The consolidated financial statements include the accounts of the parent company and all the subsidiaries over which it exerts substantial control either through majority ownership of voting stock or by other means. As a result, the accompanying consolidated financial statements for the years ended March 31, 2019 and 2018 include the accounts of the Company and its 14 and 12 subsidiaries, respectively. Among these subsidiaries, TVP was included in the scope of consolidation following an increase in materiality during the current fiscal year. And VIS is also included in the scope of consolidation following the acquisition of equity during the current fiscal year. All significant intercompany balances and transactions have been eliminated in consolidation.

The companies VKS, KSVC, KSA, VS, MPI, TVP and VIS, which were included in consolidation have fiscal years that end on December 31. These subsidiaries do not prepare for consolidation purposes statements with periods that correspond to the fiscal year of the Company, which ends on March 31. For these consolidated subsidiaries, if there were significant transactions between their fiscal year-end and the Company’s year-end, necessary adjustments were made to reflect these transactions in the accompanying consolidated financial statements.

Investments in affiliates (other than the subsidiaries defined above) are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

(b) Foreign currency translation
Monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at each balance sheet date. The resulting gain or loss is recognized as other income or expense.

Assets and liabilities of the overseas consolidated subsidiaries are translated at the exchange rates in effect at each balance sheet date, and revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation adjustments are presented as foreign currency translation adjustments and noncontrolling interests in the consolidated financial statements.

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

(d) Securities
Marketable securities classified as available for sale securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving average method.
Nonmarketable securities classified as available for sale securities are carried at cost determined by the moving average method. If the market value of marketable securities classified as available for sale securities declines significantly, the securities are written down to fair value, thus establishing a new cost basis.

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

(f) Inventories
Rolls are stated at cost determined by the specific identification method. Other inventories are stated mainly at cost determined by the average method. The balance sheet values and written down to reduce book value when the contribution of the inventories to profitability declines.

(g) Depreciation and amortization

(1) Property, plant and equipment (excluding lease assets)

Depreciation of property, plant and equipment is calculated principally by the straight-line method. For buildings and structures the useful life is 31 years. For machinery and equipment the useful life is 14 years.

(2) Intangible assets (excluding lease assets)

Most intangible assets are depreciated by the straight-line method. Expenditures related to computer software intended for internal use are amortized over the useful life of the respective asset which in general is 5 years.

(3) Lease assets

Lease assets related to finance lease transactions that do not transfer ownership of the leased assets are depreciated by the straight-line method with the lease term as the useful life and a residual value of zero.

(h) Allowance for doubtful accounts

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

(i) Accrued employees' bonuses

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

(j) Accrued directors' bonuses

At some consolidated subsidiaries, to provide for the payment of bonuses to directors, the projected amount of such bonuses is set aside as a provision.

(k) Accrued directors' severance and retirement benefits

At some consolidated subsidiaries, to provide for future payments of retirement benefits to directors, an estimated amount as of the balance sheet date based on internal regulations is reserved.

(l) Accounting policies for severance and retirement benefits

(1) The method of attributing expected benefit to periods

In calculating retirement benefit obligation, estimated retirement benefits are attributed to the period up to the end of the consolidated fiscal year using a benefit formula basis.

(2) Recognition of actuarial differences and past service costs

Actuarial differences are amortized on a straight-line basis over a fixed number of years (10 years) within the average remaining service period of employees at the time of occurrence in each consolidated fiscal year beginning the fiscal year following the year they occur. Past service costs are amortized on a straight-line basis over a fixed number of years (10 years) within the average service period of employees at the time of occurrence.

(3) Simplified method applied by small companies, etc.

Some consolidated subsidiaries apply a simplified method in calculating liabilities for retirement benefits and retirement benefit costs. An amount payable assuming the voluntary retirement of all employees at the fiscal year-end is considered to be equal to the retirement benefit obligation for a lump-sum severance pay plan, and the actual obligation in the latest pension finance calculation is considered to be equal to the retirement benefit obligation for the corporate pension plan.

(m) Income taxes

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

(n) Significant hedge accounting

(1) Method of hedge accounting

The Company and its consolidated subsidiaries use mainly deferred hedging. Hedges that meet the conditions for the special treatment of interest rate swaps and the designation of forward exchange contracts and currency swaps are accounted for separately.

(2) Hedging instruments and hedged items

a. Hedge instruments: Interest rate swaps
   Hedge items: Interest rates
b. Hedge instruments: Forward exchange contracts, currency swaps
   Hedge items: Foreign monetary assets and liabilities

(3) Hedging policy

Interest rate swap agreements are entered into to manage the risk associated with interest rate fluctuations on borrowings. Forward foreign exchange contracts and currency swaps are entered into in order to reduce risks associated with exchange rate fluctuations for transactions denominated in foreign currencies. Hedged items are identified separately with each agreement.

(4) Evaluating hedge effectiveness

Hedge effectiveness is evaluated by comparing the hedge instrument transaction value with the hedged item transaction value for each transaction. However, when interest rate swaps meet the conditions for special treatment, an assessment of effectiveness is omitted. Also, for forward exchange contracts and currency swaps that meet conditions for appropriate treatment, important terms, etc., related to the hedge instrument and hedged item are the same and the cash flow is fixed, so an assessment of effectiveness is omitted.

(o) Goodwill

Goodwill is depreciated by the straight-line method within 20 years. However, goodwill is expensed in a lump sum when the value is immaterial.

(p) Cash in consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, bank deposits that are able to be withdrawn on demand and short-term investments with original maturities of three months or less and which represent only a minor risk of fluctuation in value.

3 ACCOUNTING STANDARDS NOT YET IMPLEMENTED, ETC.

- Accounting Standards on Revenue Recognition (Corporate Accounting Standard No. 29, March 30, 2018, Accounting Standards Board of Japan)
- Implementation Guidelines on Accounting Standard on Revenue Recognition (Corporate Accounting Standards Application Guideline No. 30, March 30, 2018, Accounting Standards Board of Japan)

(a) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and published "Revenue from Contracts with Customers" in May 2014 (IFRS No. 15 in IASB, Topic 606 in FASB). Considering IFRS No. 15 application from the fiscal year starting January 1, 2018 and Topic 606 from the fiscal year starting December 15, 2017, the Accounting Standards Board of Japan (ASBJ) developed comprehensive Accounting Standards on Revenue Recognition and published them together with implementation guidelines. In developing the Accounting Standards on Revenue Recognition, by the Accounting Standards Board of Japan incorporated the fundamental policy of IFRS No. 15 as the starting point from the perspective of comparability of financial statements, which is the one of the benefits of achieving consistency with IFRS No. 15. If there are matters to be taken into consideration in Japan in actual practice, alternative treatment will be added within a range that will not impair financial statement comparability.

(b) Planned date of application

To be applied from the beginning of the fiscal year ending in March 2022

(c) Impact of application of accounting standards.

The Company and its domestic consolidated subsidiaries are currently assessing the impact of the Accounting Standards on Revenue Recognition on the consolidated financial statements.

4 CHANGES IN PRESENTATION METHODS OF ACCOUNTING

(a) Consolidated Balance Sheets

1. "Goodwill," which was included in "Intangible assets" in the previous fiscal year, is reclassified and presented as a separate item in the current fiscal year since the amount is more than 1/100 of total assets. To conform to this change, the consolidated financial statements for the previous fiscal year have been reclassified. As a result, "Intangible assets, net" of 2,480 million yen ($22,340 thousand) in the previous fiscal year's consolidated balance sheet has been reclassified as "Goodwill" of 550 million yen ($4,954 thousand) and "Other intangible assets" of 1,930 million yen ($17,385 thousand).

2. "Electronically recorded obligations - operating," which was included in "Notes and accounts payable" under "Current liabilities" in the previous fiscal year, has been reclassified and presented as a separate item in the current fiscal year since it had increased in its monetary materiality in the context of the consolidated financial statements. To conform to this change, the consolidated financial statements for the previous fiscal year were reclassified. As a result, "Notes and accounts payable" of 21,682 million yen ($195,315 thousand) presented under "Current liabilities" in the previous fiscal year's consolidated balance sheet has been reclassified as "Notes and accounts payable" of 21,251 million yen ($191,433 thousand) and "Electronically recorded obligations-operating" of 431 million yen ($3,882 thousand).

(b) Changes caused by the early application of the Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) at the beginning of the current fiscal year. Accordingly, deferred tax assets and deferred tax liabilities have been reclassified and included in the investments and other assets section and the long-term liabilities section, respectively. The effect of this change was to decrease "Deferred tax assets" under "Current assets" by 440 million yen ($3,963 thousand), increase "Deferred tax assets" under "Investments and other assets" by 103 million yen ($928 thousand) and to decrease "Deferred tax liabilities" under "Long-term liabilities" by 337 million yen ($3,035 thousand) in the consolidated balance sheet for the previous fiscal year. Net figures are used for deferred tax assets and deferred tax liabilities for the same taxing authority. This change reduced total assets by 337 million yen ($3,035 thousand).

5 ADDITIONAL INFORMATION

Employee stock ownership plan (ESOP) by using a trust

(1) Summary

The Company's Employee Stock Ownership Association Support Trust ESOP (the "ESOP Trust") was terminated as of January 31, 2019. The Company established this trust for the purpose of providing an incentive for contributing to the medium and long-term growth of corporate value. By distributing stock to group employees, the Company aimed to increase their motivation and encourage the use of the employee stock ownership association and the stable accumulation of their assets.

The ESOP Trust is a scheme based on the use of Employee Stock Ownership Plans (ESOPs) in the United States to encourage employee to hold equity in the company holding in a manner that conforms to the Laws of Japan. By combining employee stock ownership with a trust it will be possible for the trust to secure the stock to be purchased by the employees in the future. Moreover, the scheme promotes the expansion of the employee benefits system and an increase it employee motivation.

(2) Stock remaining in the trust

The book value, excluding incidental expenses, of the Company stock held by the ESOP Trust is included as "treasury stock" in net assets in the consolidated balance sheets. The ESOP Trust held 57 thousand shares of Company stock with a book value of 109 million yen as of the end of March 2018. There was no Company stock held by the trust as of March 31, 2019 because of the termination of the trust following the sale of the stock it held.

(3) Book value of loans using the gross price method

Using the gross price method, the book value of loans was 106 million yen at the end of March 2018. No loans were recorded as of March 31, 2019 because of the termination of the trust following the sale of the stock it held.

6 INVENTORIES

Inventories at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Merchandise	**¥ 197**	¥ 228	**$ 1,774**
Finished goods	**15,832**	14,423	**142,615**
Semi-finished goods	**8,807**	6,756	**79,330**
Work-in-process	**1,524**	5,522	**13,728**
Raw materials	**7,914**	1,050	**71,291**
Supplies	**7,343**	6,580	**66,147**
Rolls	**3,278**	3,161	**29,538**
Total	**¥ 44,895**	¥ 37,720	**$ 404,423**

7 APPLICATION OF LAND REVALUATION LAW

Land used for business purposes was revalued in accordance with the "Act on Revaluation of Land" (Law 34 of 1998, promulgated on March 31, 1998). The portion of the revaluation gain equivalent to the corporation tax and other taxes with tax bases linked to corporate profits has been presented under liabilities as "Deferred tax liabilities on revaluation," while the net sum after this transfer to the deferred tax liability account is presented under net assets as "Revaluation reserve for land."

Revaluation method

The land value has been calculated as stipulated in Article 2.4 of the "Regulations for Applying the Land Revaluation Law" (Government Ordinance No. 119 of 1998, promulgated on March 31, 1998) by making adjustments to the price determined by the method publicly announced for the calculation of the tax base under the Land Value Tax.

Revaluation date: March 31, 2000

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Difference between the market value at end of year and the book value after revaluation of the land	**¥(5,843)**	¥(5,807)	**$(52,634)**

8 BANK LOANS

Short-term loans consisted of unsecured loans payable from banks at the weighted average interest rate of 3.70% at March 31, 2019 and 2.93% at March 31, 2018.

Long-term debt from banks at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Long-term debt from banks at average interest rates of 1.40% and 1.30% for current and noncurrent portions, respectively	**¥ 27,930**	¥ 19,791	**$ 251,599**
Less current portion	**(3,861)**	(2,971)	**(34,781)**
Long-term debt from banks	**¥ 24,069**	¥ 16,820	**$ 216,818**

The assets pledged as collateral for short-term loans at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Buildings and structures	**¥ 1,958**	¥ –	**$ 17,638**
Machinery and equipment	**1,443**	–	**12,999**
Other intangible assets	**187**	–	**1,684**
Total	**¥ 3,588**	¥ –	**$ 32,321**

Secured debts at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Short-term loans	**¥ 5,836**	¥ –	**$ 52,571**
Total	**¥ 5,836**	¥ –	**$ 52,571**

The annual maturities of long-term debt from banks as of March 31, 2019 are summarized as follows:

Year ended March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 3,861	$ 34,781
2021	4,088	36,826
2022	4,161	37,483
2023	2,835	25,538
2024	2,028	18,269
Thereafter	10,957	98,702
Total	¥ 27,930	$ 251,599

The annual maturities of long-term debt from banks as of March 31, 2018 are summarized as follows:

Year ended March 31,	Millions of yen
2019	¥ 2,971
2020	3,078
2021	3,198
2022	3,181
2023	1,706
Thereafter	5,657
Total	¥ 19,791

9 R&D EXPENSES

R&D expenses included in selling, general and administrative expenses for the years ended March 31, 2019 and 2018 amounted to ¥169 million ($1,523 thousand) and ¥177 million, respectively.

10 NET ASSETS

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

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

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders. The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law and regulations.

At the Board Directors’ meeting held on April 26, 2019, the Board approved cash dividends in the amount of ¥1,304 million ($11,746 thousand). The appropriation had not been accrued in the consolidated financial statements as of March 31, 2019. At the Board Directors’ meeting held on April 27, 2018, the Board approved cash dividends in the amount of ¥1,304 million. The appropriation had not been accrued in the consolidated financial statements as of March 31, 2018.

11 INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 30.6% for the year ended March 31, 2019 and 30.8% for the year ended March 31, 2018.

The major components of deferred tax assets and liabilities as of March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Deferred tax assets:			
Impairment loss	**¥ 413**	¥ 527	**$ 3,720**
Accrued enterprise taxes	**151**	69	**1,360**
Allowance for doubtful accounts	**37**	50	**333**
Accrued bonuses	**220**	218	**1,982**
Accrued directors’ retirement benefits	**40**	40	**360**
Tax carryforwards	**640**	393	**5,765**
Other	**767**	898	**6,910**
Gross deferred tax assets	**2,268**	2,195	**20,430**
Valuation allowance	**(1,078)**	(1,378)	**(9,711)**
Total deferred tax assets	**1,190**	817	**10,719**
Deferred tax liabilities:			
Valuation difference on available for sale securities	**(391)**	(682)	**(3,522)**
Retained earnings appropriated for tax deductible reserves	**(20)**	(22)	**(180)**
Reserve for special depreciation for tax purposes	**(1)**	(2)	**(9)**
Valuation difference on assets	**(386)**	–	**(3,477)**
Net defined benefit asset	**(117)**	(114)	**(1,054)**
Other	**(275)**	(53)	**(2,477)**
Total deferred tax liabilities	**¥ (1,190)**	¥ (873)	**$ (10,719)**
Net deferred tax assets	**¥ 0**	¥ (56)	**$ 0**

The major components of the reconciliation between the statutory tax rate and the effective tax rate as of March 31, 2019 and 2018 were as follows:

	2019	2018
Statutory tax rate	**30.6 %**	30.8 %
Disallowed expenses, including entertainment expenses	**3.8**	1.0
Dividends and other income deductible for income tax purposes	**(0.0)**	(0.5)
Inhabitants per capita taxes	**0.3**	0.5
Increase in valuation allowance	**(2.6)**	1.8
Prior year's taxes, other	**(1.1)**	(3.5)
Others	**1.8**	(1.0)
Effective tax rates	**32.8 %**	29.1 %

12 CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

The following tables present information related to the consolidated statements of changes in net assets for the year ended March 31, 2019 and March 31, 2018 respectively:

(a) Number of shares issued

For the year ended March 31, 2019

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

For the year ended March 31, 2018

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

(b) Treasury stock

For the year ended March 2019

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	**1,496,219**	**63**	**56,600**	**1,439,682**

(1) Treasury stock increased by 63 shares due to the repurchase of shares of less than one unit.
(2) Treasury stock decreased by 56,600 due to the sale by the ESOP Trust.

For the year ended March 31, 2018

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	1,551,786	33	55,600	1,496,219

(1) Treasury stock increased by 33 shares due to the repurchase of shares of less than one unit.
(2) Treasury stock decreased by 55,600 due to the sale by the ESOP Trust.
(3) Treasury stock included 56,600 shares of the Company owned by the ESOP Trust as of March 31, 2018.

(c) Cash dividends

Amount of dividend payments

For the year ended March 31, 2019

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
April 27, 2018 (Board of Directors)	**Common stock**	**¥ 1,304**	**$ 11,746**	**¥ 30**	**$ 0.3**	**March 31, 2018**	**June 11, 2018**

(Note) Total amount of dividends included ¥2 million ($18 thousand) for the treasury stock owned by the ESOP Trust.

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
October 31, 2018 (Board of Directors)	**Common stock**	**¥ 435**	**$ 3,915**	**¥ 10**	**$ 0.1**	**September 30, 2018**	**December 7, 2018**

(Note) Total amount of dividends included ¥1 million ($9 thousand) for the treasury stock owned by the ESOP Trust.

For the year ended March 31, 2018

Date of approval	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
April 28, 2017 (Board of Directors)	Common stock	¥ 869	¥ 20	March 31, 2017	June 12, 2017

Date of approval	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
October 31, 2017 (Board of Directors)	Common stock	¥ 435	¥ 10	September 30, 2017	December 8, 2017

13 SUPPLEMENTARY CASH FLOW INFORMATION

1. Reconciliation of cash and cash equivalents

The following table represents a reconciliation of cash and cash equivalents at March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Cash and time deposits	**¥ 42,133**	¥ 36,070	**$ 379,542**
Time deposits with a maturity of more than three months	**(18,126)**	(9,171)	**(163,283)**
Negotiable certificates of deposit with maturities of three months or less from the acquisition date	**2,400**	2,400	**21,620**
Cash and cash equivalents	**¥ 26,407**	¥ 29,299	**$ 237,879**

2. Reconciliation of payment for purchases of investments in subsidiaries

A breakdown of assets and liabilities at the start of consolidation of VIS resulting from the acquisition of shares, along with details regarding the share acquisition price and related expenditure are follows.

	Millions of yen	Thousands of U.S.dollars
Current assets	¥ 9,214	**$83,001**
Fixed assets	4,818	**43,401**
Goodwill	3,683	**33,177**
Current liabilities	(7,040)	**(63,417)**
Long-term liabilities	(395)	**(3,558)**
Noncontrolling interests	(2,309)	**(20,801)**
Foreign currency translation adjustments	7	**63**
Gain on step acquisitions	(549)	**(4,945)**
Equity methods value prior to acquiring control	(1,906)	**(17,169)**
Share acquisition price	5,523	**49,752**
Cash and cash equivalents	(65)	**(585)**
Net Payments for share acquisition	¥ 5,458	**$49,167**

14 SEVERANCE AND RETIREMENT BENEFITS

(a)Defined benefit plans, lump-sum benefit plans and defined contribution plans

Some of the Company's subsidiaries have instituted defined benefit plans or lump-sum benefit plans and calculate defined benefit liabilities and periodic pension cost by the simplified method.

(b) Defined benefit plan

(1) Movement in retirement benefit obligations, except those applying a simplified method and described in (3)

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Balance at April 1	**¥ 4,911**	¥ 4,721	**$ 44,239**
Service cost	**284**	286	**2,558**
Interest cost	**20**	25	**180**
Actuarial loss	**10**	(10)	**90**
Benefits paid	**(301)**	(118)	**(2,711)**
Others	**–**	7	**–**
Balance at March 31	**¥ 4,924**	¥ 4,911	**$ 44,356**

(2) Movements in plan assets, except those applying a simplified method and described in (3)

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Balance at April 1	**¥ 5,131**	¥ 4,822	**$ 46,221**
Expected return on plan assets	**77**	73	**693**
Actuarial gain (loss)	**10**	157	**90**
Contributions paid by the employer	**193**	197	**1,738**
Benefits paid	**(301)**	(118)	**(2,711)**
Balance at March 31	**¥ 5,110**	¥ 5,131	**$ 46,031**

(3) Movement in liability for retirement benefits by applying the simplified method

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Balance at April 1	**¥ (13)**	¥ 2	**$ (117)**
Retirement benefit cost	**112**	74	**1,008**
Benefits paid	**(47)**	(15)	**(423)**
Other	**(0)**	(1)	**(0)**
Contributions to benefit plans	**(66)**	(73)	**(594)**
Balance at March 31	**¥ (14)**	¥ (13)	**$ (126)**

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Funded retirement benefit obligations	**¥ 6,197**	¥ 6,160	**$ 55,824**
Plan assets	**(6,464)**	(6,459)	**(58,229)**
	(267)	(299)	**(2,405)**
Unfunded retirement benefit obligations	**66**	65	**595**
Total net liability (asset) for retirement benefits at March 31	**¥ (201)**	¥ (234)	**$ (1,810)**

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Net defined benefit asset	**¥ (275)**	¥ (304)	**$ (2,477)**
Net defined benefit liability	**74**	70	**667**
Total net liability (asset) for retirement benefits at March 31	**¥ (201)**	¥ (234)	**$ (1,810)**

(5) Retirement benefit costs

	Millions of yen				Thousands of U.S.dollars	
	2019		2018		**2019**	
Service cost	**¥**	**284**	¥	286	**$**	**2,558**
Interest cost		**20**		25		**180**
Expected return on plan assets		**(77)**		(73)		**(693)**
Net actuarial loss (gain) amortization		**8**		103		**72**
Past service costs amortization		**–**		16		**–**
Retirement benefit cost applying the simplified method		**112**		74		**1,008**
Total retirement benefit costs for the year ended March 31	**¥**	**347**	¥	431	**$**	**3,125**

(6) Remeasurement of defined benefit plans

	Millions of yen				Thousands of U.S.dollars	
	2019		2018		**2019**	
Prior service cost	**¥**	**–**	¥	16	**$**	**–**
Actuarial gain or loss		**8**		270		**72**
Total balance at March 31	**¥**	**8**	¥	286	**$**	**72**

(7) Accumulated adjustments for retirement benefits

	Millions of yen				Thousands of U.S.dollars	
	2019		2018		**2019**	
Unrecognized actuarial gain or loss	**¥**	**297**	¥	289	**$**	**2,675**
Total balance at March 31	**¥**	**297**	¥	289	**$**	**2,675**

(8) Plan assets

a. Plan assets comprise:

	2019	2018
Bonds	**54%**	55%
Stock	**27**	26
Life insurance company general accounts	**16**	16
Other	**3**	3
Total	**100%**	100%

b. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions were as follows:

	2019	2018
Discount rate	**0.2%**	0.4%
Expected long-term rate of return	**1.5%**	1.5%
Salary increase rate	**2.3%**	2.3%

(c) Defined contribution scheme

The required contribution to the Company's defined contribution plan was ¥26 million ($234 thousand) for the year ended March 31, 2019 and 2018, respectively.

15 AMOUNTS PER SHARE

	Yen		U.S.dollars
Years ended March 31	**2019**	2018	**2019**
Net income	**¥ 149.78**	¥ 80.31	**$ 1.34**
	Yen		U.S.dollars
As of March 31	**2019**	2018	**2019**
Net assets	**¥ 3,299.82**	¥ 3,225.85	**$ 29.72**

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

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

Basic net assets per share were as follows:

	Millions of yen		Thousands of U.S.dollars
Years ended March 31	**2019**	2018	**2019**
Basic net assets per share:			
Total net assets on the balance sheets	**¥ 153,781**	¥ 148,460	**$ 1,385,290**
Deduction on total net assets	**¥ (10,374)**	¥ (8,450)	**$ (93,451)**
Noncontrolling interests	**¥ (10,374)**	¥ (8,450)	**$ (93,451)**
Amount attributable to shareholders of common stock	**¥ 143,407**	¥ 140,010	**$ 1,291,839**
Number of shares outstanding	**44,899**	44,899	**–**
Number of treasury shares	**(1,440)**	(1,496)	**–**
Number of shares at fiscal year-end used in calculation of net assets per share	**43,459 thousand share**	43,403 thousand share	**–**

Basic net income per share was as follows:

	Millions of yen		Thousands of U.S.dollars
Years ended March 31	**2019**	2018	**2019**
Basic net income per share:			
Profit attributable to owners of parents	**¥ 6,505**	¥ 3,483	**$ 58,598**
Amount attributable to shareholders of common stock	**¥ 6,505**	¥ 3,483	**$ 58,598**
Weighted average number of shares outstanding	**43,429 thousand share**	43,374 thousand share	**–**

Company stock held by the ESOP Trust included in treasury stock in shareholders' equity is treated as treasury stock and is excluded from the average number of shares used to calculate net income per share. For the calculation of net assets per share, this stock held by the ESOP Trust stock is included in treasury stock, which is deducted from the number of shares outstanding at the end of the fiscal year.

For the calculation of net income per share, the average number of shares of treasury stock held by the ESOP Trust and therefore excluded was 31 thousand for the year ended March 31, 2019 and 85 thousand for the year ended March 31, 2018. For the calculation of net assets per share, the number of shares of treasury stock held by the ESOP Trust and therefore excluded was 57 thousand for the year ended March 31, 2018.

16 LEASES

The Group has entered into finance lease contracts which do not transfer the ownership of the leased assets. The main assets of these finance leases are optical instruments used for the steel business and classified as tools, furniture and fixtures.

The Group also has entered into noncancellable operating lease contracts. Future lease payments subsequent to March 31, 2019 and 2018 under noncancellable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
As of March 31	**2019**	2018	**2019**
Due within one year	**¥ 97**	¥ 74	**$ 874**
Due after one year	**1,099**	1,414	**9,900**
Total	**¥ 1,196**	¥ 1,488	**$ 10,774**

17 FINANCIAL INSTRUMENTS

Additional information – Disclosure of fair value of financial instruments

(a) Qualitative information on financial instruments

(1) Policies for using financial instruments

Surplus capital is managed using financial instruments that carry little or no risk, and working capital is procured from bank loans. The Group uses derivatives to reduce the risks associated with exchange rate fluctuations for transactions denominated in foreign currencies and with interest rate fluctuations on borrowings and, as a matter of policy, does not use derivatives for speculative purposes.

(2) Details of financial instruments used, the exposure to risk and policies and processes for managing risk

Notes and accounts receivable and electronically recorded monetary claims - operating expose the Group to customer credit risk. To manage this risk, the Group has established internal procedures for receivables, manages the amounts and settlement dates and monitors the financial condition of the counterparties. Bonds and negotiable deposits expose the Group to the credit risk of the issuing company. To manage this risk, the Group uses only short-term financial instruments issued by institutions of high credit rating. The risk associated with market price fluctuation of these financial instruments is extraordinarily low.

Investments in securities expose the Group to the risk of changes in market prices. However, the issuing companies are mostly related to the Group’s business, and the market price is reported to the Board of Directors’ periodically.
Almost all notes and accounts payable and electronically recorded obligations – operating are due within four months.

Short-term loans are used mainly to procure operating capital and long-term loans (mainly from eight to ten years) are used mainly to procure overseas investment. Foreign currency denominated trade assets and liabilities expose the Group to the risk associated with exchange rate fluctuation. To reduce the risk, the Group uses forward foreign exchange contracts and currency swaps as hedging instruments. Loans with variable rates expose the Group to the risk of interest rate fluctuation. The Group uses interest rate swaps for each business contract to hedge this risk.

Hedged instruments are recognized by individual contract. Hedge effectiveness is tested for each transaction, but not when the interest rate swap contract meets certain hedging criteria.

The Group enters into derivative transactions only with financial institutions of high credit rating. As a result, the Group believes there is almost no credit risk in connection with these transactions. Moreover, the derivative transactions are executed in accordance with internal management regulations.

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

(3) Supplemental information on fair values

The fair value of financial instruments is estimated by alternative methods when market prices are not available. To estimate the fair value, certain assumptions must be made. The fair value estimates, therefore, may be determined differently if other assumptions are made.

(b) Fair values of financial instruments

(1) Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2019 and 2018 were as follows:

Year ended March 31, 2019	Millions of yen			Thousands of U.S. dollars		
	Carrying amount shown in balance sheet	Fair value	Difference	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	**¥ 42,133**	**¥ 42,133**	**¥ –**	**$ 379,542**	**$ 379,542**	**$ –**
Notes and accounts receivable	**48,845**	**48,845**	**–**	**440,005**	**440,005**	**–**
Electronically recorded monetary claims - operating	**14,854**	**14,854**	**–**	**133,808**	**133,808**	**–**
Marketable securities	**4,400**	**4,400**	**–**	**39,636**	**39,636**	**–**
Investments in securities						
Available for sale securities	**3,630**	**3,630**	**–**	**32,700**	**32,700**	**–**
Investments in long-term loans receivable	**475**	**475**	**–**	**4,279**	**4,279**	**–**
Other noncurrent assets						
Long-term deposits	**203**	**203**	**0**	**1,829**	**1,829**	**0**
Notes and accounts payable	**(17,816)**	**(17,816)**	**–**	**(160,490)**	**(160,490)**	**–**
Electronically recorded obligations – operating	**(4,673)**	**(4,673)**	**–**	**(42,095)**	**(42,095)**	**–**
Short-term loans	**(40,857)**	**(40,857)**	**–**	**(368,048)**	**(368,048)**	**–**
Long-term debt						
Due within one year	**(3,861)**	**(3,874)**	**13**	**(34,781)**	**(34,898)**	**117**
Due after one year	**(24,069)**	**(24,152)**	**83**	**(216,818)**	**(217,566)**	**748**
Lease obligations	**(460)**	**(480)**	**20**	**(4,144)**	**(4,324)**	**180**
Derivatives	**239**	**239**	**–**	**2,153**	**2,153**	**–**

(Note) 1.“Electronically recorded obligations - operating,” which was included in “Notes and accounts payable-trade” under “in liabilities” in the previous fiscal year, is reclassified and presented as a separate item in the current fiscal year since it has increased monetary materiality in the context of the consolidated financial statements. To conform to this change, the consolidated financial statements for the previous fiscal year were reclassified.

2.The amount of “Lease obligations” shows the sum of lease obligation amounts included in other current liabilities and other long-term liabilities.

Year ended March 31, 2018	Millions of yen		
	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	¥ 36,070	¥ 36,070	¥ –
Notes and accounts receivable	43,545	43,545	–
Electronically recorded monetary claims - operating	11,752	11,752	–
Marketable securities	5,400	5,400	–
Investments in securities			
Available for sale securities	4,557	4,557	–
Affiliated company	1,954	2,374	420
Investments in long-term loans receivable	506	506	–
Other noncurrent assets			
Long-term deposits	73	73	0
Notes and accounts payable	(21,251)	(21,251)	–
Electronically recorded obligations – operating	(431)	(431)	–
Short-term loans	(29,787)	(29,787)	–
Long-term debt			
Due within one year	(2,971)	(2,981)	10
Due after one year	(16,820)	(16,873)	53
Lease obligations	(510)	(547)	37
Derivatives	(11)	(11)	–

(2) Market values of financial instruments and securities

a. Cash and time deposits, Notes and accounts receivable, Electronically recorded monetary claims - operating and Marketable securities
These items are recorded using book values because market values approximate book values as a result of their short- term maturities.

b. Investments in securities
The fair values of securities are determined using the quoted price on the stock exchange.
Investments in securities are classified as available for sale securities, and information on securities classified by the purpose of holding are shown in Note 18, "Securities."

c. Investments in long-term loans receivable
The fair value of long-term loans receivable is calculated by discounting total principal and interest receivable to the present value using a discount rate equal to the rate that would be charged on a similar new loan.

d. Long-term deposits
The fair value of long-term deposits is calculated by discounting total principal and interest receivable to present value using a discount rate equal to the rate that would be charged if the deposits were newly placed.

e. Notes and accounts payable, Electronically recorded obligations – operating and Short-term loans
These items are recorded using book values because the market values approximate the book values as a result of their short- term maturities.

f. Long-term debt
The fair value of long-term debt is calculated by discounting the total principal and interest payments to the present value using a discount rate equal to the rate that would be charged on similar new loans. Some floating rate loans are subject to the exceptional method for interest rate swaps. Such interest rate swaps are handled together with the total principal and interest payments and are calculated to the present value using a reasonable estimate of the discount rate that would be applied for the same kind of loan.

g. Lease obligations
The fair value of lease obligations is determined by discounting the aggregated value of the principal and interest using an assumed interest rate for the same type of lease contracts newly made.

h. Derivative transactions
The fair value of a derivative is stated using the quoted price obtained from the relevant financial institution.

18 SECURITIES

(a) Available for sale securities with determinable market values

As of March 31, 2019	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	**¥ 874**	**¥ 2,453**	**¥ 1,579**	**$ 7,873**	**$ 22,097**	**$ 14,224**
Bonds	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Securities whose carrying value does not exceed acquisition costs:						
Stock	**1,565**	**1,177**	**(388)**	**14,098**	**10,603**	**(3,495)**
Bonds	**–**	**–**	**–**	**–**	**–**	**–**
Other	**4,400**	**4,400**	**–**	**39,636**	**39,636**	**–**
Total	**¥ 6,839**	**¥ 8,030**	**¥ 1,191**	**$ 61,607**	**$ 72,336**	**$ 10,729**

As of March 31, 2018	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥ 1,254	¥ 3,460	¥ 2,206
Bonds	–	–	–
Other	–	–	–
Securities whose carrying value does not exceed acquisition costs:			
Stock	1,183	1,097	(86)
Bonds	–	–	–
Other	–	–	–
Total	¥ 2,437	¥ 4,557	¥ 2,120

(b) Securities without determinable market values

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Investment in securities:			
Unlisted securities (available for sale securities)	**¥ 334**	¥ 691	**$ 3,009**
Unlisted securities (unconsolidated subsidiaries and affiliated companies)	**¥ 4,157**	¥ 4,029	**$ 37,447**
Investments in capital (unconsolidated subsidiaries and affiliated companies)	**¥ 495**	¥ 2,146	**$ 4,459**

(c) Derivative transactions

(1) Derivative transactions for which hedge accounting is not applied

Currency related

Year ended March 31, 2019

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Over one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)	Valuation gain (loss) (Thousands of U.S. dollars)
Nonmarket transactions	Foreign exchange forward contracts Buying U.S. dollars	**¥ 18,994**	**¥ 18,899**	**¥ 85**	**¥ 85**	**$ 171,102**	**$ 170,246**	**$ 766**	**$ 766**

* Fair values are based on quotes obtained from financial institutions, etc.

Year ended March 31, 2018

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)
Nonmarket transactions	Foreign exchange forward contracts Buying U.S. dollars	¥ 76	¥ –	¥ (1)	¥ (1)

* Fair values are based on quotes obtained from financial institutions, etc.

Commodity related

Year ended March 31, 2019

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Over one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)	Valuation gain(loss) (Thousands of U.S. dollars)
Nonmarket transactions	Forward contracts Buying natural gas	**¥ 118**	**¥ –**	**¥ (24)**	**¥ (24)**	**$ 1,063**	**$ –**	**$ (216)**	**$ (216)**

* Fair values are based on quotes obtained from financial institutions, etc.

Year ended March 31, 2018

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)
Nonmarket transactions	Forward contracts Buying natural gas	**¥ 167**	**¥ –**	**¥ (36)**	**¥ (36)**

* Fair values are based on quotes obtained from financial institutions, etc.

(2) Derivative transactions for which hedge accounting is applied

Interest rate related

Year ended March 31, 2019

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Millions of yen)	Amount of contracts over 1 year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	**¥ 11,639**	**¥ 9,495**	**¥ 178**

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Thousands of U.S. dollars)	Amount of contracts over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S.dollars)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	**$ 104,846**	**$ 85,533**	**$ 1,603**

* The fair value of foreign currency forward exchange contracts is computed using the prices provided by counterparty financial institutions.

Year ended March 31, 2018

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Millions of yen)	Amount of contracts over 1 year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	¥ 13,473	¥ 11,289	¥ 27

* The fair value of foreign currency forward exchange contracts is computed using the prices provided by counterparty financial institutions.

19 IMPAIRMENT LOSS ON FIXED ASSETS

In the year ended March 31, 2019, the Group reported the following loss on impairment of fixed assets:

Use	Place	Type of asset	Millions of yen	Thousands of U.S. dollars
Plant of Overseas Steel Business	Ninh Binh Province, Vietnam	Buildings and structures	**¥ 118**	**$ 1,063**
		Machinery and equipment	**¥ 213**	**$ 1,919**
		Others	**¥ 2**	**$ 18**
Company Housing	Kukuchi-Nishimachi, Amagasaki-City, Hyogo	Buildings and structures	**¥ 8**	**$ 72**
		Land	**¥ 1**	**$ 9**
		Total	**¥ 342**	**$ 3,081**

The Group grouped their fixed assets based on division, and each idle asset was treated as separate property.
Regarding factories in the overseas steel business in Ninh Binh Province, Vietnam, the book value of the fixed assets owned by KSVC has been written down to its recoverable value due to a decline in profitability and recorded as loss on impairment of fixed assets.
The recoverable value for measuring impairment losses is determined by the net selling price based on the appraisal value.
For company housing in Kukuchi-Nishimachi, Amagasaki-City, Hyogo, the book value was written down to the recoverable value due to the decision to sell and recorded as loss on impairment of fixed assets.
The recoverable value for measuring impairment loss is determined by the net selling price based on the expected sale price.

20 STATEMENTS OF COMPREHENSIVE INCOME

Comprehensive income for the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S.dollars
	2019	2018	**2019**
Valuation difference on available for sale securities:			
Current accrual	**¥ (930)**	¥ 930	**$ (8,377)**
Reclassification adjustment	**–**	(1,690)	**–**
Before tax effect adjustment	**(930)**	(760)	**(8,377)**
Tax effect adjustment	**290**	233	**2,612**
Valuation difference on available for sale securities	**(640)**	(527)	**(5,765)**
Deferred gains and losses on hedges			
Current accrual	**49**	(61)	**441**
Reclassification adjustment	**–**	–	**–**
Before tax effect adjustment	**49**	(61)	**441**
Tax effect adjustment	**8**	(18)	**72**
Deferred gains and losses on hedges	**57**	(79)	**513**
Foreign currency translation adjustments:			
Current accrual	**(552)**	(444)	**(4,972)**
Reclassification adjustment	**–**	–	**–**
Before tax effect adjustment	**(552)**	(444)	**(4,972)**
Tax effect adjustment	**–**	–	**–**
Foreign currency translation adjustments:	**(552)**	(444)	**(4,972)**
Remeasurement of defined benefit plans:			
Current accrual	**0**	167	**0**
Reclassification adjustment	**8**	119	**72**
Before tax effect adjustment	**8**	286	**72**
Tax effect adjustment	**(2)**	(88)	**(18)**
Remeasurement of defined benefit plans	**6**	198	**54**
Total	**¥ (1,129)**	¥ (852)	**$ (10,170)**

21 Business combinations

1. (Business combination through acquisition)

The Company's Board of Directors approved a resolution on April 16, 2018 to purchase additional stocks of Vietnam Italy Steel Joint Stock Company (VIS), which operates in the production and sales of steel in the northern Vietnam. As a result, Kyoei Steel acquired the stock of VIS on May 14, 2018, and it became a subsidiary company.

a. Outline of the business combination

Name and business of combined entities
Name: Vietnam Italy Steel Joint Stock Company (VIS)
Business activities: Manufacture and sale of finished steel products (steel bars and wire rods) and semi-finished products

b. Outline and purpose of the transaction

"More progress in the overseas steel business" is one of the main elements of Kyoei Steel's growth strategy. Vietnam is one of our important bases for this business. On November 6, 2017, Kyoei Steel announced an equity investment in VIS. Subsequently, the decision was made to increase this investment for the purpose of making the Kyoei Steel Group even more competitive in the steel market of northern Vietnam.

c. Date of acquisition of stock

June 30, 2018(The deemed acquisition date)

d. Form of reorganization

Equity acquisition for cash consideration

e. Name of the entity after the reorganization

No change

f. Number of shares acquired

Percent of shares held before investment	20.0%
Percent of shares acquired	45.0%
Percent of shares held after investment	65.0%

g. Main reason to decide the acquiring company

The Company acquired 45% of the shares and voting rights of VIS giving the Company a total of 65% of the shares of VIS.

h. Period for which the business results of the acquired company are included in the consolidated financial statements of the Company

The deemed acquisition date is June 30, 2018. In addition, since the acquired company was an equity method affiliate, the date of the fiscal-year-end is different from the consolidated closing date by three months. Operational results of the acquired company from January 1, 2018 to March 31, 2018 were recorded as equity in earnings of affiliates as the transaction was deemed to have been completed on June 30, 2018.

i. The breakdown of acquisition cost for the acquired company

Fair value of stock held by Kyoei Steel Cash at the date of acquisition	¥2,455 million yen	($22,115 thousand)
Consideration for the acquisition	¥5,523 million yen	($49,752 thousand)
Acquisition cost	¥7,978 million yen	($71,867 thousand)

j. The excess of the cost of acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition

Gain on step acquisitions of ¥549 million yen ($4,946 thousand).

k. Details and amounts of acquisition related cost

Advisory fees, others 78 million yen ($702 thousand).

l. Goodwill recognized, method of amortization and period of amortization

(1)Amount of goodwill
¥3,683 million ($33,177 thousand)
(2)Reason for recognition of goodwill
Expected excess earning power from future business development
(3)Period and method of amortization of goodwill
15 years using the straight-line method

m. Assets acquired and liabilities assumed as of the acquisition date

	Millions of yen	Thousands of U.S.dollars
Current assets	¥ 9,214	$ 83,002
Noncurrent assets	¥ 4,818	$ 43,401
Total assets	**¥ 14,032**	**$ 126,403**
Current liabilities	¥ 7,040	$ 63,417
Noncurrent liabilities	¥ 395	$ 3,558
Total liabilities	**¥ 7,435**	**$ 66,975**

n. Approximate impact on the consolidated statement of income and calculation methods, assuming that the business combination was completed on the first day of the current fiscal year,

Net sales	11,778 million yen	($106,098 thousand)
Operating Income	(364) million yen	($(3,278) thousand)
Net income attributable to owners of the parent	(333) million yen	($(2,999) thousand)

(Calculation methods for approximate impact)
These amounts of approximate impact represent the difference between the hypothetical amounts of net sales, operating income and net income attributable to owners of the parent calculated assuming that the business combination was completed at the beginning of the current fiscal year and their corresponding amounts on the consolidated statement of income of the Company for the current fiscal year.

These notes have been unaudited.

2. (Transactions conducted by commonly controlled entities)

a. Overview of business combination

(1) Name and business of the Target Company
Vietnam Italy Steel Joint Stock Company (VIS)
Business: Manufacture and sale of finished steel products (steel bars and wire rods) and semi-finished products

(2) Date of business combination
July 6, 2018 (2 million shares)
July 19, 2018 (2 million shares)
August 6, 2018 (1 million shares)
December 18, 2018 (1.5 million shares)

(3) Legal form of business combination
Acquisition of shares from noncontrolling shareholders

(4) Name of the Target Company after the combination
No change

(5) Other matters concerning business combination
After we made a capital participation in VIS in November 2017, Kyoei steel increased its investment ratio to 65% by an additional acquisition of shares in May 2018, making VIS, one of our subsidiary companies. As part of Kyoei Steel Group's business strategy, we acquired an additional 650 million shares in the current consolidated fiscal year and increased our investment ratio in VIS to 73.8%. By this means, Kyoei Steel group has enhanced the synergy with KSVC located in Ninh Binh Province, Vietnam, another of our consolidated subsidiaries, which operates in northern Vietnam like VIS. In this way, Kyoei Steel Group has increased the presence of our business in the steel market of northern Vietnam.

b. Overview of accounting treatments
The transaction is treated as a common control transaction pursuant to the Accounting Standard for Business Combinations (ASBJ Statement No. 21. September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10. September 13, 2013)

c. Acquisition cost and consideration paid

	Millions of yen	Thousands of U.S.dollars
Consideration for acquisition: Cash	¥ 893	$ 8,044
Acquisition cost	¥ 893	$ 8,044

d. Changes in shares arising from transactions with noncontrolling shareholders

(1)Main cause of changes in capital surplus

Additional acquisition of shares in subsidiary

(2)Decrease in capital surplus arising from transactions with noncontrolling shareholders

¥318 million ($2,865 thousand)

22 SEGMENT INFORMATION

(a) Overview of Reporting Segments

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

The Group's organization is based on the products and services dealt with and constitute three business segments: Domestic Steel Business, Overseas Steel Business and Material Recycling Business. Based on these business segments, the Group formulates comprehensive domestic and overseas strategies and carries out business activities. Accordingly, the Group has made these three segments — Domestic Steel Business, Overseas Steel Business and Material Recycling Business — its reporting segments.

The Domestic Steel Business is involved in the production, sale and transport of steel products primarily for domestic civil engineering and construction. The Overseas Steel Business is involved in the production, sale and transport of steel products primarily for overseas civil engineering and construction. The Material Recycling Business is involved in the intermediate and final processing of medical waste and industrial waste and gravel recycling.

(b) Accounting methods Net sales, profit or loss, assets and amounts for other items for each reporting segment

The accounting methods used for the reporting business segments are the same as those in "Significant Accounting Policies." Reporting segment income is operating income. Intersegment transactions and transfers are based on market prices, etc.

(c) Net sales, profit or loss, assets and amounts for other items for each reporting segment

Segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2019 and 2018 is outlined as follows:

Millions of yen

Year ended March 31, 2019	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 131,252	¥ 103,879	¥ 6,683	¥ 241,814	¥ 443	¥ –	¥ 242,257
Intersegment sales and transfers	53	–	1,116	1,169	348	(1,517)	–
Total	131,305	103,879	7,799	242,983	791	(1,517)	242,257
Segment income	¥ 9,644	¥ (291)	¥ 1,190	¥ 10,543	¥ (40)	¥ (1,303)	¥ 9,200
Segment assets	¥ 127,639	¥ 85,771	¥ 6,518	¥ 219,928	¥ 6,813	¥ 34,849	¥ 261,590
Other							
Depreciation and amortization	3,577	3,225	288	7,090	193	193	7,476
Amortization of goodwill	–	257	–	257	–	–	257
Impairment loss on fixed assets	–	333	–	333	–	9	342
Increase in property, plant, equipment and intangible assets	3,311	1,573	239	5,123	188	196	5,507

Thousands of U.S. dollars

Year ended March 31, 2019	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	**$ 1,182,341**	**$ 935,766**	**$ 60,200**	**$ 2,178,307**	**$ 3,992**	**$ –**	**$ 2,182,299**
Intersegment sales and transfers	**480**	**–**	**10,053**	**10,533**	**3,139**	**(13,672)**	**–**
Total	**1,182,821**	**935,766**	**70,253**	**2,188,840**	**7,131**	**(13,672)**	**2,182,299**
Segment income	**$ 86,874**	**$ (2,621)**	**$ 10,720**	**$ 94,973**	**$ (364)**	**$ (11,734)**	**$ 82,875**
Segment assets	**$ 1,149,797**	**$ 772,642**	**$ 58,715**	**$ 1,981,154**	**$ 61,373**	**$ 313,927**	**$ 2,356,454**
Other							
Depreciation and amortization	**32,222**	**29,051**	**2,594**	**63,867**	**1,739**	**1,739**	**67,345**
Amortization of goodwill	**–**	**2,315**	**–**	**2,315**	**–**	**–**	**2,315**
Impairment loss on fixed assets	**–**	**3,000**	**–**	**3,000**	**–**	**81**	**3,081**
Increase in property, plant, equipment and intangible assets	**29,826**	**14,170**	**2,153**	**46,149**	**1,694**	**1,766**	**49,609**

(Note)
1. Others represents the businesses which are not included in any of the reporting segments and consists mainly of the civil engineering materials sales business and the insurance agent business.
2. Intersegment eliminations of ¥19 million ($171 thousand) and corporate expenses of ¥(1,322) million ($(11,909) thousand) not allocated to the reporting segments were included in the ¥(1,303) million ($(11,734) thousand) adjustment for "Segment income (operating income)." Corporate expenses are related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
3. The adjustment amount of segment assets was ¥34,849 million ($313,927 thousand) and related mainly to the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
4. The adjustment amount of depreciation and amortization was ¥193 million ($1,739 thousand) and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
5. The adjustment amount of impairment loss on fixed assets was ¥9 million ($81 thousand) and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
6. The adjustment amount of expenditure for addition to tangible and intangible assets was ¥196 million ($1,766 thousand) and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
7. Segment income was adjusted against operating income of the consolidated statement of income.

Millions of yen

Year ended March 31, 2018	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 107,831	¥ 76,866	¥ 6,237	¥ 190,934	¥ 320	¥ –	¥ 191,254
Intersegment sales and transfers	115	–	1,066	1,181	–	(1,181)	–
Total	107,946	76,866	7,303	192,115	320	(1,181)	191,254
Segment income	¥ 3,292	¥ 1,456	¥ 866	¥ 5,614	¥ 24	¥ (1,379)	¥ 4,259
Segment assets	¥ 119,613	¥ 69,179	¥ 6,761	¥ 195,553	¥ 2,537	¥ 36,130	¥ 234,220
Other							
Depreciation and amortization	3,459	2,876	226	6,561	10	92	6,663
Amortization of goodwill	–	136	–	136	–	–	136
Increase in property, plant, equipment and intangible assets	3,048	1,635	585	5,268	50	485	5,803

(Note)
1. Others represents the businesses which are not included in any of the reporting segments and consists mainly of the civil engineering materials sales business and the insurance agent business.
2. Intersegment eliminations of ¥18 million and corporate expenses of ¥(1,397) million not allocated to the reporting segments were included in the ¥(1,379) million adjustment for "Segment income (operating income)." Corporate expenses are related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
3. The adjustment amount of segment assets was ¥36,130 million and related mainly to the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
4. The adjustment amount of depreciation and amortization was ¥92 million and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
5. The adjustment amount of expenditure for addition to tangible and intangible assets was ¥485 million and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
6. Segment income was adjusted against operating income of the consolidated statement of income.
7. "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, revised on February 16, 2018)," was adopted from the beginning of FY2019, accordingly amounts of previous FY are shown as amendments reflected amounts.

(d) Information related to geographic areas
Information for the geographic areas for the years ended March 31, 2019 and 2018 are outlined as follows:

(1) Net sales

Year ended March 31, 2019 — Millions of yen

Japan	Overseas	Vietnam	America	Others	Total
¥ 137,253	**¥ 105,004**	**¥ 76,399**	**¥ 16,871**	**¥ 11,734**	**¥ 242,257**

Year ended March 31, 2019 — Thousands of U.S. dollars

Japan	Overseas	Vietnam	America	Others	Total
$ 1,236,402	**$ 945,897**	**$ 688,217**	**$ 151,977**	**$ 105,703**	**$ 2,182,299**

Year ended March 31, 2018 — Millions of yen

Japan	Overseas	Vietnam	America	Others	Total
¥ 113,184	¥ 78,070	¥ 59,464	¥ 11,294	¥ 7,312	¥ 191,254

(2) Property, plant and equipment

Year ended March 31, 2019 — Millions of yen

Japan	Vietnam	America	Total
¥53,899	**¥24,586**	**¥3,132**	**¥81,617**

Year ended March 31, 2019 — Thousands of U.S. dollars

Japan	Vietnam	America	Total
$485,532	**$221,475**	**$28,215**	**$735,222**

Year ended March 31, 2018 — Millions of yen

Japan	Vietnam	America	Total
¥54,414	¥20,014	¥3,000	¥77,428

(3) Information about principal customers

Year ended March 31, 2019 — Millions of yen

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	**¥26,664**	**Domestic Steel Business**
MM&KENZAI Corporation	**¥24,375**	**Domestic Steel Business**

Year ended March 31, 2019 — Thousands of U.S. dollars

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	**$240,194**	**Domestic Steel Business**
MM&KENZAI Corporation	**$219,574**	**Domestic Steel Business**

Year ended March 31, 2018 — Millions of yen

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	¥22,066	Domestic Steel Business
MM&KENZAI Corporation	¥19,535	Domestic Steel Business

(4) Information Concerning Impairment Loss on Fixed Assets by Reportable Segment

Year ended March 31, 2019 — Millions of yen

	Reporting segment			Others	Company wide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Impairment loss on fixed assets	¥ –	¥ 333	¥ –	¥ –	¥ 9	¥ 342

Year ended March 31, 2019 — Thousands of U.S. dollars

	Reporting segment			Others	Company wide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Impairment loss on fixed assets	$ –	$ 3,000	$ –	$ –	$ 81	$ 3,081

(Note) ¥9 million ($81 thousand) in the Companywide and elimination of "Impairment loss on fixed assets" relates to corporate assets that are not attributed to each reporting segment.

Year ended March 31, 2018

Not applicable

(5) Information about amortization of goodwill and balance of unamortized goodwill by reportable segment

Year ended March 31, 2019 — Millions of yen

	Reporting segment			Others	Company wide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Amortization of goodwill	¥ –	¥ 257	¥ –	¥ –	¥ –	¥ 257
Balance at the end of the term	–	3,944	–	–	–	3,944

Year ended March 31, 2019 — Thousands of U.S. dollars

	Reporting segment			Others	Company wide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Amortization of goodwill	$ –	$ 2,315	$ –	$ –	$ –	$ 2,315
Balance at the end of the term	–	35,528	–	–	–	35,528

Year ended March 31, 2018 — Millions of yen

	Reporting segment			Others	Company wide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Amortization of goodwill	¥ –	¥ 136	¥ –	¥ –	¥ –	¥ 136
Balance at the end of the term	–	547	–	–	–	547

23 SUBSEQUENT EVENTS

(a) Dividend distribution of surplus

On April 26, 2019, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥1,304	**$11,746**

Cash dividends: ¥30 ($0.27) per share.

KPMG

Independent Auditor's Report

To the Board of Directors of KYOEI STEEL, LTD.:

We have audited the accompanying consolidated financial statements of KYOEI STEEL, LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KYOEI STEEL, LTD. and its consolidated subsidiaries as at March 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

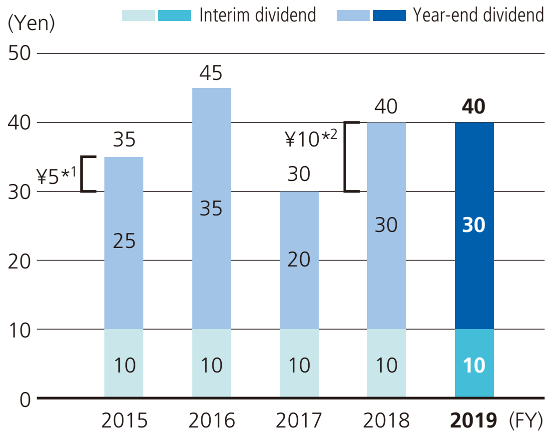
KPMG AZSA LLC

July 31, 2019
Osaka, Japan

Investor Information As of March 31, 2019

Date of Establishment	August 21, 1947
Common Stock	¥18,516 million
Number of Shares	Authorized: 150,300,000 Issued: 44,898,730
Number of Shareholders	4,905
Number of Employees	3,200 (Consolidated: regular employees)
Stock Listing	Tokyo
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233 Japan

Dividends per Share



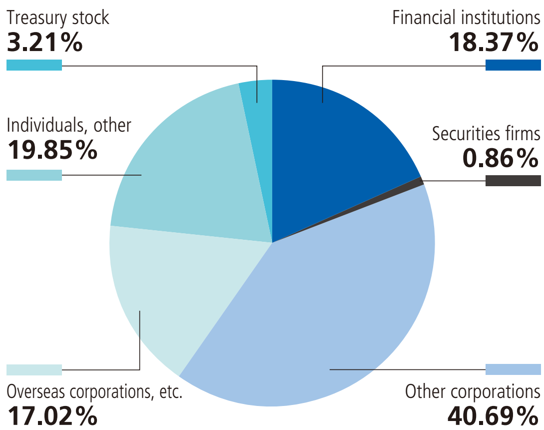
*1 Including a bonus dividend of ¥5 per share
*2 Including a bonus dividend of ¥10 per share

Major Shareholders (As of March 31, 2019)

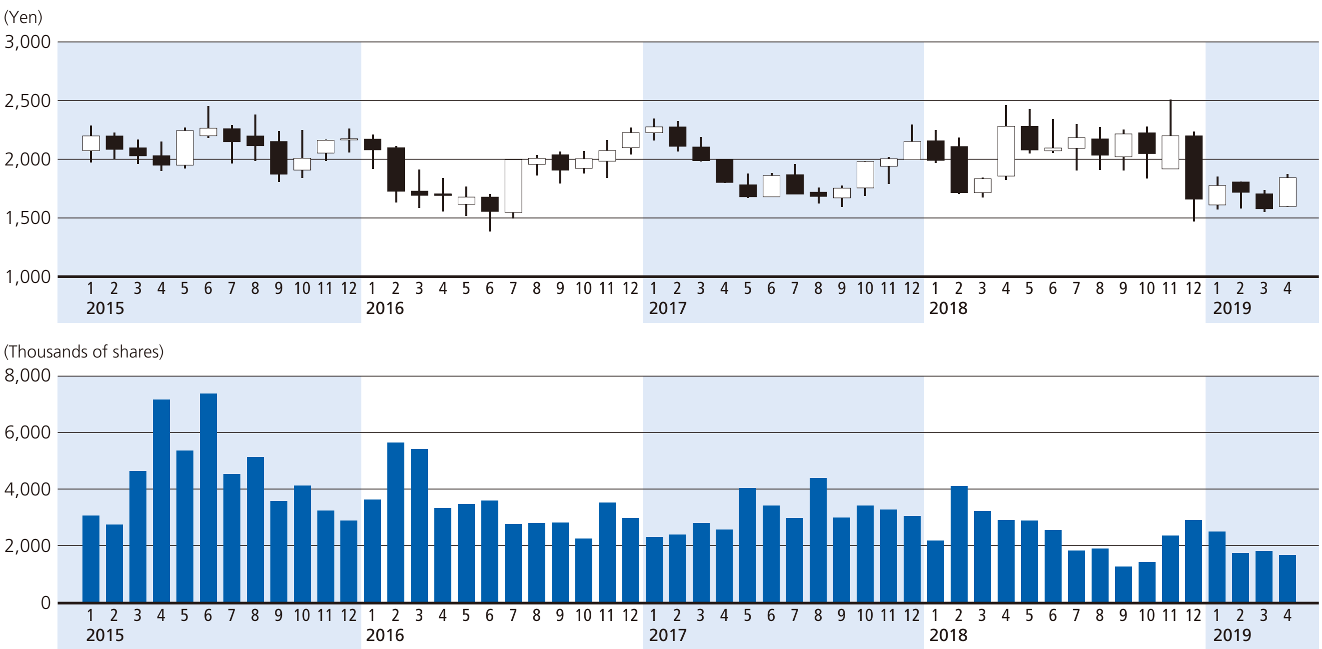
Name	Number of shares owned	Voting rights ratio*1
Nippon Steel & Sumitomo Metal Corporation*2	11,592,932	26.68%
Hideichiro Takashima	4,347,460	10.00%
Japan Trustee Services Bank, Ltd. (Air Water Inc. retirement benefit trust account)	2,600,400	5.98%
Akihiko Takashima	2,233,000	5.14%
Mitsui & Co., Ltd.	1,470,000	3.38%
Godo Steel, Ltd.	1,347,000	3.10%
SSBTC CLIENT OMNIBUS ACCOUNT	1,262,711	2.91%
The Master Trust Bank of Japan, Ltd. (Trust Account)	955,300	2.20%
Japan Trustee Services Bank, Ltd. (Air Water Safety Service Inc. retirement benefit trust account)	692,000	1.59%
Japan Trustee Services Bank, Ltd. (Trust Account)	659,100	1.52%

Note: *1 Calculations of share ownership ratios exclude treasury stock (1,439,682 shares).
*2 Nippon Steel & Sumitomo Metal Corporation changed its trading name to Nippon Steel Corporation on April 1, 2019.

Shareholders by Type



Stock Price and Trading Volume



KYOEI STEEL

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