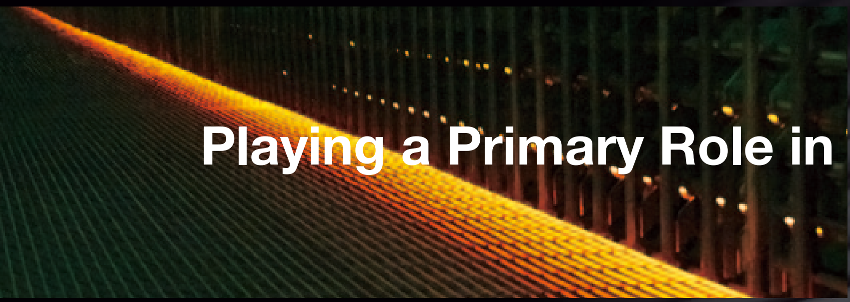
ANNUAL REPORT 2016

Year Ended March 31, 2016



Playing a Primary Role in Steel Resource Recycling

KYOEI STEEL

Management Principle

SPIRIT OF CHALLENGE

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

Action Guidelines

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

COMPANY OUTLINE

Established	August 21, 1947
Head Office	1-4-16 Dojimahama, Kita-ku, Osaka 530-0004 Japan
Capital	¥18,516 million
Employees	1,806 (as of March 31, 2016)

Production and Sales Bases

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 its technological capabilities nurtured for more than half a century since its founding. Our mainstay product, concrete reinforcing bar (including threaded rebar), accounts for 80% of production volume.

Overseas Steel Business

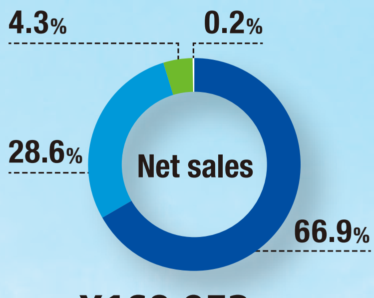
We are developing the overseas steel business at two locations in Vietnam: Vina Kyoei Steel Co., Ltd. (VKS) in southern Vietnam and Kyoei Steel Vietnam Company Limited (KSVC) in the north. We have earned the market's trust through high product quality and meticulous services, and are establishing the KYOEI brand in Vietnam. The 2015 completion of an integrated mill for steelmaking and rolling at VKS doubled the company's production capacity in response to growing demand for steel in Vietnam.

Material Recycling Business

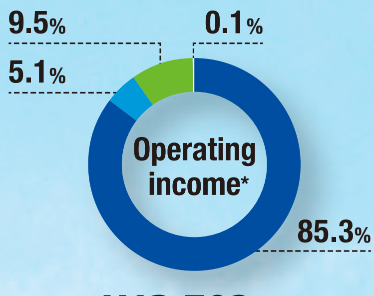
Kyoei Steel became the first Japanese minimill steel company to succeed in melting and detoxifying potentially infectious medical and industrial waste, using the heat from electric arc furnaces that reach thousands of degrees Celsius. We have been developing it as a business since then for more than 25 years. Our MESSCUD System for completely detoxifying and melting medical waste is an integrated collection, transport and disposal method developed nationwide.

Fiscal 2016

- Domestic Steel Business
- Overseas Steel Business
- Material Recycling Business
- Other Business



¥160,952 million

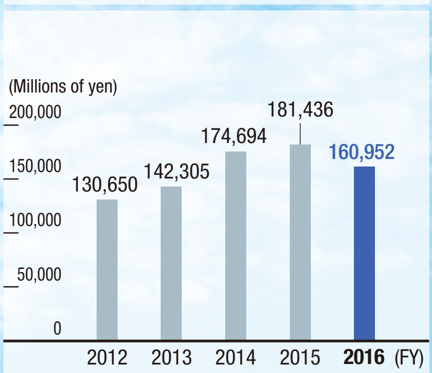


¥13,792 million

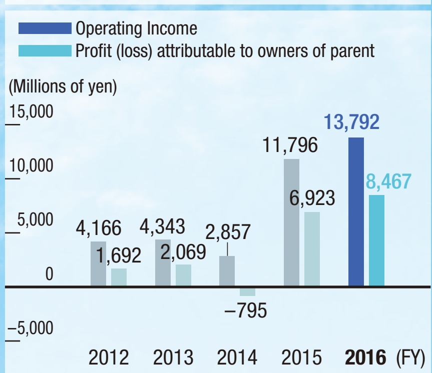
*Before the elimination of inter-segment transactions

FINANCIAL HIGHLIGHTS

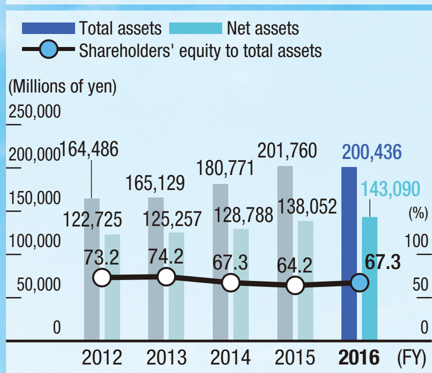
Net Sales



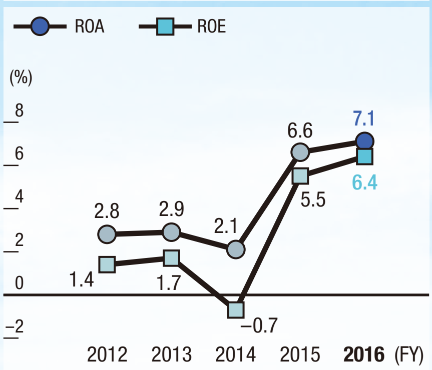
Operating income & Profit (loss) attributable to owners of parent



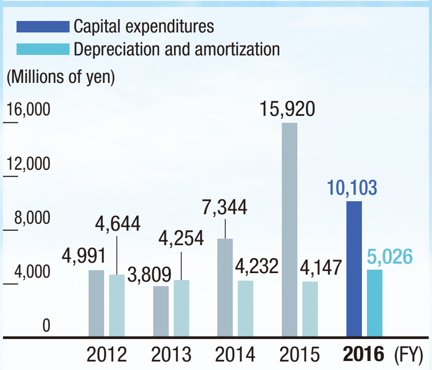
Total assets & Net assets & Shareholders' equity to total assets



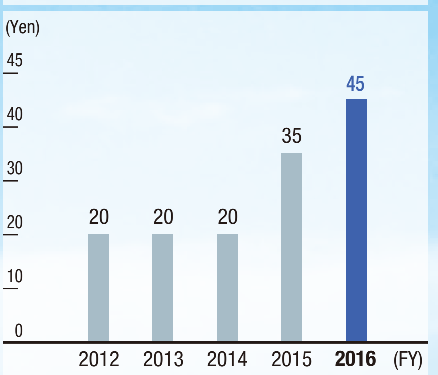
ROA & ROE



Capital expenditures & Depreciation and amortization



Cash dividends applicable to the year



Kyoei Steel contributes to the building of

Strength of Kyoei Steel

No. 1 market share of steel 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 each major demand region in Japan

The Kyoei Steel Group is the only steel minimill company with production and sales bases in Kanto, Chubu, Kansai and Kyushu; with these regions accounting for 70% of the rebar market.

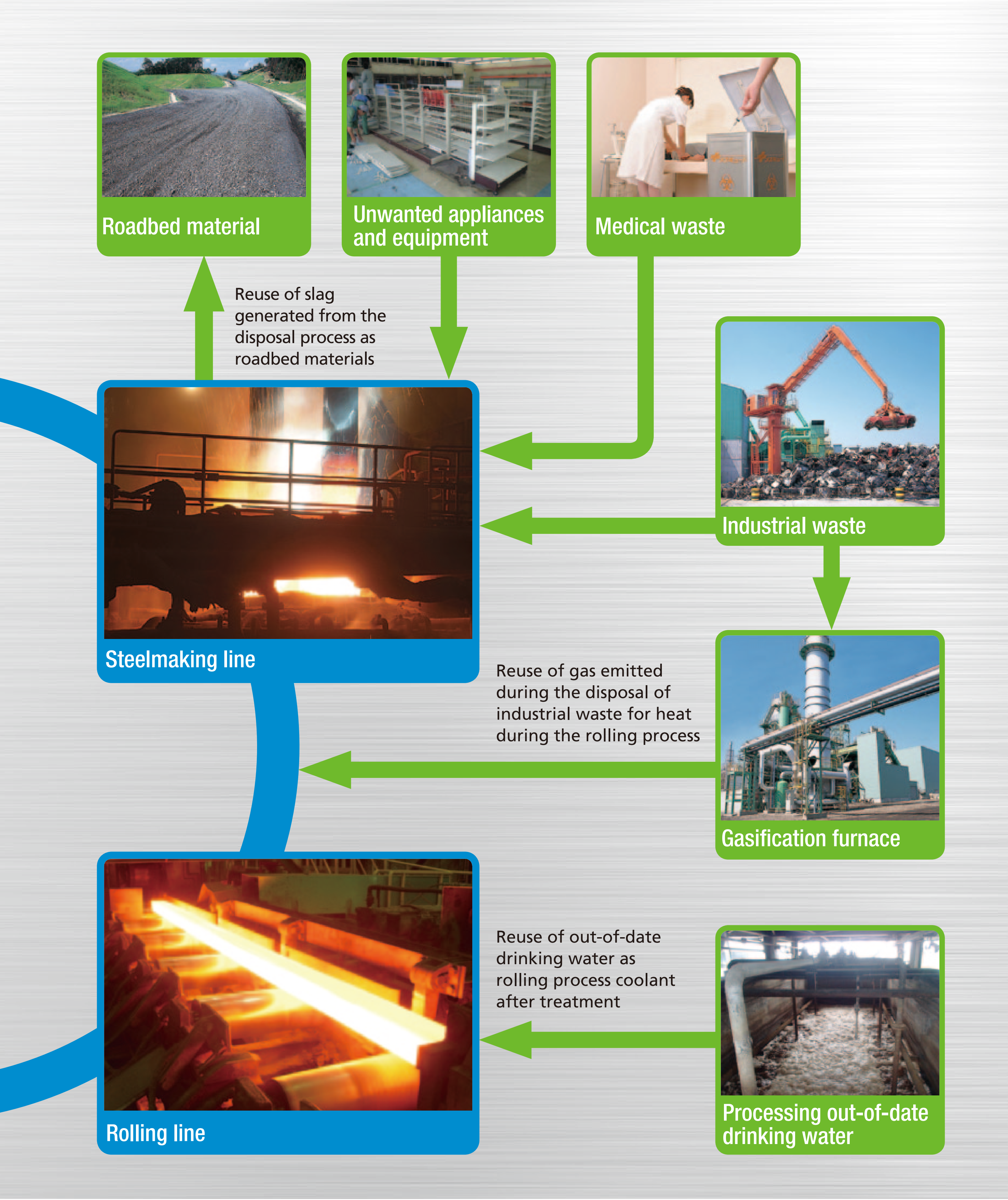
Conducting the material recycling business with steel business facilities

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

Using the Vietnam base to respond to expanding steel product demand in ASEAN countries

In 1994, Vina Kyoei Steel Co., Ltd. (VKS) was established outside Ho Chi Minh City in southern Vietnam. In 2011, Kyoei Steel Vietnam Company Limited (KSVC) was established in northern Vietnam. This two-base structure enables us to respond to robust demand for steel products for construction work in Vietnam.

a recycling-oriented society



Vina Kyoei Steel Co., Ltd.

Construction was completed on an integrated production line for steelmaking and rolling, with annual capacity of 500,000 tons. This facility has firmly established the Company's leading market position.

Vina Kyoei Steel Co., Ltd. (VKS), located in southern Vietnam, occupies a core position in the Kyoei Steel Group's overseas steel business.

Operations began in March 2015 at the company's No. 2 Rolling Mill, followed by the June commencement of operations at a new steel mill. These moves put into place the integrated steelmaking and rolling structure we had envisioned since the time of our establishment. It also marks the emergence of the Group's largest base for production and sales.

The New Production and Sales Base, the Group's Largest, Incorporates the Knowledge Amassed to Date by Kyoei Steel

We first entered Vietnam in 1994. Although long years of war had hampered the country's economic development, we decided to start operations in the country because we were convinced that demand for steel would eventually grow, spurred by the development of social infrastructure. At the time, annual demand for steel was around 500,000 tons. Rapid economic growth after that point prompted a rise in steel demand, which now amounts to approximately nine million tons (2015), exceeding Japanese demand (8.5 million tons in fiscal 2016).

VKS has earned a solid reputation for the high quality of the products it supplies, based on the technology amassed in Japan by Kyoei Steel. VKS's recently completed steelmaking factory and No. 2 Rolling Mill embody the overseas technical guidance and business management expertise that Kyoei Steel provided from early on, and VKS has now become the Group's largest production and sales base.

VKS boasts a 90-ton electric arc furnace—the largest for a Japanese company operating in Vietnam—as well as equipment that makes possible the direct rolling of billet (semi-finished products) produced through the steelmaking process without having to pass through a reheat furnace. This approach enables improved product quality and cost-competitiveness.

VKS has also boosted its annual production capacity substantially, from 450,000 tons to 900,000 tons. This expansion will allow the company to respond to customer requirements in a more precise and timely fashion. Operations at the No. 2 Rolling Mill, which opened ahead of the steelmaking factory, are proceeding steadily and production volume is being ramped up gradually. The steel mill, which commenced operations in June 2015, is slated to reach full production capacity in 2016.

Mill Overview

Location	Phu My 1 Industrial Zone, Tan Thanh District, Ba Ria-Vung Tau Province, Vietnam
Site Area	Approximately 170,000 m^2
Products	Rebars (D10-D51), wire materials, threaded rebar
Annual Production Capacity	500,000 tons at the steelmaking factory, 400,000 tons at the No. 1 Rolling Mill (existing line), 500,000 tons at the No. 2 Rolling Mill

- Acquired ISO 9001 certification
- Acquired ISO 14001 (environmental) certification

VKS Aims to Increase Its Product Offerings and Expand Sales to Neighboring Countries in Southeast Asia

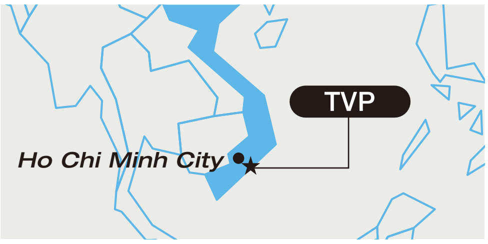
As infrastructure development progresses in tandem with economic growth in Vietnam, demand is expected to grow for a variety of steel products in addition to rebar, including merchant bar and high-tensile steel. Anticipating these changes, when ramping up production capacity at VKS we put in place a structure able to produce a broad range of products. In Japan, Kyoei Steel manufactures a number of products at different plants; one of VKS's strengths lies in its ability to produce a range of products at a single mill, from mainstay rebar to threaded rebar, wire materials, equal angle bar, flat bar and other products.

Based on the concept of a "one-stop mill" capable of supplying a host of long products, VKS will strive to expand its sales outside of Vietnam, into Cambodia and other Southeast Asian countries.

A Kyoei Steel Subsidiary Promotes a Port Project in Vietnam

Thi Vai International Port Co., Ltd. (TVP), a Kyoei Steel subsidiary, is working on a port construction project in southern Vietnam, in the Cai Mep-Thi Vai region of Ba Ria-Vung Tau Province. For this project, TVP has received joint capital participation from Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN)*1 and Tatsumi Shokai Co., Ltd., a leading Japanese port operator*2. This is JOIN's first investment project.

This port is expected to handle steel products, raw materials and other cargo for companies operating at the nearby Phu My Industrial Zone, including VKS and nearby steelmakers. Construction commenced in earnest in October 2015, with a view to opening the port in 2017 (the first phase), and is proceeding smoothly.



Notes:
*1 A fund established by the Japanese government to support efforts by Japanese companies to take part in overseas transportation, urban development and other infrastructure projects.
*2 The project is subject to approval by the competent authorities in Vietnam and other conditions.

Company Name	Thi Vai International Port Co., Ltd.
Representative	Katsuyuki Kinoshita President and representative director
Location	Phu My Town, Tan Thanh District,Ba Ria-Vung Tau Province, Vietnam
Established	May 1997
Business	Multipurpose port construction and operation
Stated Capital	US$39,852,000*1,2 (Of which, US$25,622,388 in stated capital provided by Kyoei Steel) Notes: *1 Capital amount approved by the competent authorities in Vietnam. *2 TVP's paid-in capital is expected to be increased as its business plans proceed.
Overview of Port (first phase)	Site area: 25.8 hectares (Total area: 42.2 hectares) Main wharf: 300 m (water depth: 14 m) Barge berth: 315 m

We will reinforce our management base, aiming at sustainable growth, by enhancing new product development in Japan and expanding production and sales overseas.

With the domestic steel business affected by lackluster demand, we sought to ensure profits by maintaining selling prices. To achieve this, we worked comprehensively to keep sales and production levels in line with demand. In the overseas steel business, sales expanded on the back of robust demand in Vietnam. As a result, on a consolidated basis we achieved net sales of ¥160,952 million, down 11.3% year on year. Operating income rose 16.9%, to ¥13,792 million; profit attributable to owners of parent increased 22.3%, to ¥8,467 million.

We awarded dividends for the year of ¥45 per share, including a year-end dividend of ¥35.

Mitsuhiro Mori
President and Representative Director

Operating Performance in the Fiscal Year Ended March 31, 2016

Profits in the Steel Business Were Up Both in Japan and Overseas, and Operating Income Remained above ¥10 Billion for the Second Consecutive Fiscal Year

In the Japanese construction steel market during the fiscal year, falling raw material prices led customers to postpone purchases, sapping vigor from product demand.

Against this backdrop, Kyoei Steel worked all-out to adjust its production and sales to match demand levels. Accordingly, product shipment volume fell 40,000 tons year on year, to 1.64 million tons. However, by maintaining selling prices we succeeded in securing a high metal spread (the difference between the product price and steel scrap price).

In addition to further reducing production costs, we benefited from lower energy costs, as fuel prices dropped in line with falling crude oil prices.

Our overseas steel business, which we are developing in Vietnam, experienced a sales increase thanks to robust gains in the demand for steel products in that country.

In the material recycling business, amid stiff ongoing competition, we focused on acquiring projects characterized by materials that are difficult to dispose of. However, with steel production volume down in response to lower demand for steel products, the amount of waste melted in our electric arc furnaces declined, leading to year-on-year decreases in both sales and income.

Consequently, during the year under review net sales fell, but operating income remained above the ¥10 billion mark for the second consecutive fiscal year, at ¥13,792 million. This figure corresponds to our highest level in the seven years since the fiscal year ended March 31, 2010, after the Lehman Brothers collapse in the fall of 2008. (Please refer to the 10-year summary in the Financial Section.)

Net sales	**¥160,952** million
Operating income	**¥13,792** million
Profit attributable to owners of parent	**¥8,467** million

Initiatives and Results during the Year

Completion of a New Mill in Vietnam
Organizational Adjustments Tailored to an Expanding Overseas Steel Business

In 2015, we completed construction of a new steelmaking factory and the No. 2 Rolling Mill at Vina Kyoei Steel Co., Ltd. (VKS), located in southern Vietnam.

Operations commenced at the No. 2 Rolling Mill in March 2015, leading to a year-on-year increase in VKS's shipment volume (rolling volume) of more than 25%. This volume amounted to 550,000 tons, including volume from the existing No. 1 Rolling Mill. The steelmaking factory was completed in June, and production volume is being gradually increased under the guidance of engineers dispatched from Japan. This mill supplies a wide variety of high-quality, semi-finished products to the No. 1 Rolling Mill and the No. 2 Rolling Mill. Demand for the steel products for construction produced and sold by VKS is expanding in tandem with economic growth in Vietnam. VKS provides a steady supply of highly reliable products for use in infrastructure and urban development projects that are underway at locations in Vietnam. Meanwhile, we have improved facilities and succeeded in reducing raw material procurement costs at Kyoei Steel Vietnam Company Limited (KSVC), which began operations in northern Vietnam in 2012. As a result, this company has now moved into the black on the basis of full-year income before tax.

In the domestic steel business, we closed the Hirakata Division Osaka Mill in March 2016. As our first mill employing electric arc furnaces, this facility was in operation for more than half a century. Nevertheless, we decided to close it due to the worsening business environment surrounding semi-finished products for export.

Amid falling shipment volumes for other products, during the year our shipment volume increased for threaded rebar, a strategic product.

In this area, we will continue developing our sales activities in response to a variety of needs, including the need to reduce manpower requirements on construction projects, to address the expected demand stemming from the construction of facilities for the 2020 Tokyo Olympic Games, the upgrading of deteriorating infrastructure, and national government policies to enhance the country's resilience. Aiming specifically to step up sales activities in the Kanto region, in November 2015 we relocated and expanded our Tokyo Office, increasing its number of personnel.

During the year, we became the first company in the electric arc furnace industry to succeed in the manufacture (commencement of mass production) of USD685B D51, an ultrahigh-tensile threaded rebar. Although this result was considered difficult for a steel minimill company to achieve, we succeeded after several years of efforts by our development center and the Nagoya Division. This product is being used in the support beams—Japan's tallest—for the phase II lane of the Washimi Bridge on the Tokai-Hokuriku Expressway (Gifu Prefecture). Kanto Steel Ltd., our subsidiary, also collaborated with customers on product development in an effort to develop new products offering high levels of processability.

Opening ceremony at the new VKS mill

Phase II lane of the Washimi Bridge on the Tokai-Hokuriku Expressway (architect's conception of the completed structure)

USD685B D51 ultrahigh-tensile threaded rebar

Medium- to Long-Term Business Vision

Increasing Comprehensive Group Strengths and Continuing to Achieve Sound Growth

The Kyoei Steel Group has formulated and is proceeding in accordance with three growth strategies outlined in its medium- to long-term business vision.

The first of these strategies is to "prevail in the domestic steel market." The Group is actively restructuring and consolidating the Japanese steel minimill industry to meet an expected contraction in the construction steel market from 2020 onward. At the same time, we are working to augment on-site capabilities and reinforce the cooperative framework comprising our divisions and affiliated companies to meet market needs for increasing diversity in terms of quality and functionality.

To "promote the overseas steel business," we are substantially expanding our production facilities in Vietnam. VKS has the capacity to produce just over 900,000 tons per year. This volume, plus capacity at KSVC, totals 1.2 million tons, nearly equivalent to the Group's scale of production in Japan.

VKS already manufactures and sells threaded rebar and steel products of general shapes to meet anticipated Vietnamese demand for steel products that are stronger and more and more diverse.

In response to increasingly diverse market needs, I expect VKS to expand exports to ASEAN countries, in addition to meeting domestic demand in Vietnam. We also aim to broaden our scope of business through its involvement in a port project underway in southern Vietnam, as well as new activities in regions outside the country.

With regard to "expand the material recycling business," we are pursuing the sophistication of detoxification melting and processing using electric arc furnaces. At the Yamaguchi Division, we have installed new equipment to raise our carbon fiber waste processing efficiency. Also, Kanto Steel Ltd. received license from municipalities enabling it to dispose of seven new types of industrial waste. The Hirakata Division and other divisions also continue to increase the number of items they process.

Concurrently, we are boosting our disposal capabilities through alliances with other companies, aiming to expand profitability in this business.

As a result of the measures outlined above, we are working toward our objectives: annual product shipment volume of three million tons in Japan and overseas, recurring income* of ¥20 billion, return on assets (ROA) of 10% and return on equity (ROE) of 8%.

*Recurring income = Operating income + Non operating income – Non operating expense

Three Growth Strategies

MARKET TRENDS

Domestic Steel Business

Demand for Rebar Trending Downward since Fiscal 2007

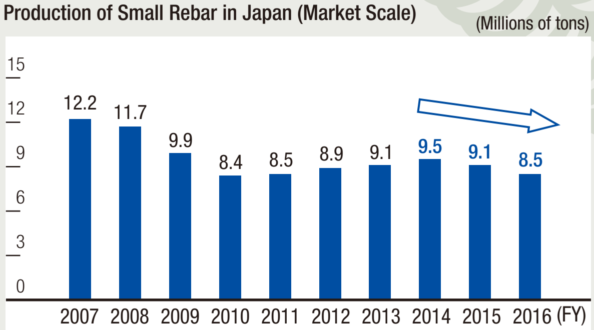
The Japanese steel market has been shrinking in recent years, falling from its peak in Fiscal 2007.

After demand related to the 2020 Tokyo Olympic Games ends, we anticipate a certain amount of demand for the renovation of infrastructure/aging buildings and construction work for disaster prevention and so on, but the market is likely to continue decreasing in scale.

Concurrently, oversupply in China is prompting an influx of inexpensive steel products into the Asian market, causing a major disruption in market conditions. Furthermore, manufacturers in South Korea and Asian emerging markets are progressing with the installation of steelmaking facilities.

Against this backdrop, nearly 30 steel minimills currently produce rebar in Japan, leaving the market in an ongoing state of oversupply.

Production of Small Rebar in Japan (Market Scale)



Source: Data from the Japan Iron and Steel Federation

Outlook for the Fiscal Year Ending March 31, 2017

In the Next Fiscal Year, Focusing on the Priority Issue of Cultivating Human Resources to Expand Our Future Scope of Business

In the fiscal year ending March 31, 2017, we forecast year-on-year decreases in consolidated net sales, to ¥145.0 billion, consolidated operating income of ¥10.4 billion, and profit attributable to owners of parent of ¥6.2 billion. The primary reason for these declines is the expectation that in our mainstay domestic steel business, rising prices of steel scrap will cause the metal spread to shrink, thereby lowering sales and income. In the overseas steel business, we anticipate continued robust demand in Vietnam. However, we expect profit levels to remain low, as some time will be required to establish a full-scale production structure at the VKS steelmaking factory.

We also view cultivating the next generation of human resources as an important management priority.

We will focus on improving our workplace environment so that employees can maximize their capabilities; holding practical training; conducting personnel rotations, including at overseas locations; and fostering an environment where women play an active role. We recognize that human resources are essential to our efforts to achieve sustainable growth.

Understanding this reality, we will vigorously undertake measures to cultivate the next generation of employees.

I thank you for your ongoing support and encouragement of the Kyoei Steel Group.

Mitsuhiro Mori
President and Representative Director

PROFILE

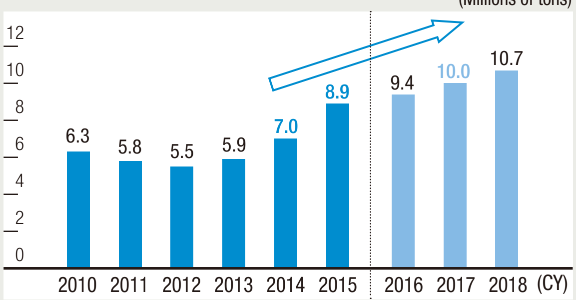
Joined Kyoei Steel in 1970. Appointed as the first President of Vina Kyoei Steel Co., Ltd. (VKS), established in southern Vietnam in 1994. In 2000, appointed as General Manager of the Overseas Business Department, then once again as president of VKS in 2010 after having been Deputy General Manager of the Hirakata Division, and others. In June 2015, appointed as President of Kyoei Steel, Ltd.

Overseas Steel Business

Ongoing Economic Development and Demand Growth Anticipated in Vietnam

Vietnam posted real GDP growth of 6.7% in 2015, and its economic expansion is accelerating. Steel demand is flourishing, thanks to ongoing infrastructure installation and development. In 2015, demand for long products expanded by approximately 30% year on year, to 8.9 million tons, outpacing Japanese demand. By 2017, this demand is forecast to exceed 10 million tons.

Trends in Demand for Long Products



Source: Data from the Asian Development Bank (March 2016)

Material Recycling Business

Increasing Competition in the Industrial Waste Processing Industry

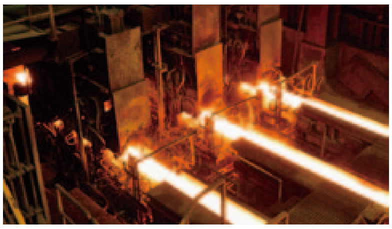
The amount of industrial waste Japan produces has fallen in recent years, but processing costs are rising. Underlying this situation is growth in the amount of difficult-to-process waste, requiring more advanced industrial waste processing. Kyoei Steel uses electric arc furnaces to melt these materials in a process that is recognized as effective in treating waste which is highly hazardous to humans, demonstrating our high capability to process industrial waste. In recent years, however, competition has become more stringent, owing to the emergence of large-scale operators capable of sophisticated processing.

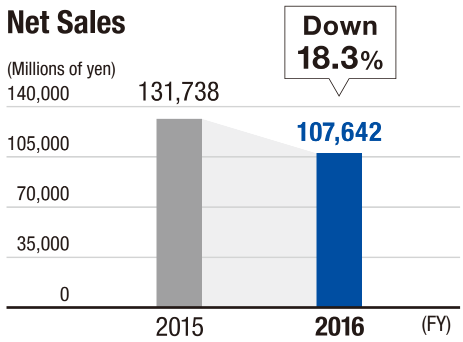
This Company is achieving income increases by making a thoroughgoing effort to adjust its production and sales levels to match market demand in Japan, while bolstering sales overseas in response to robust demand.

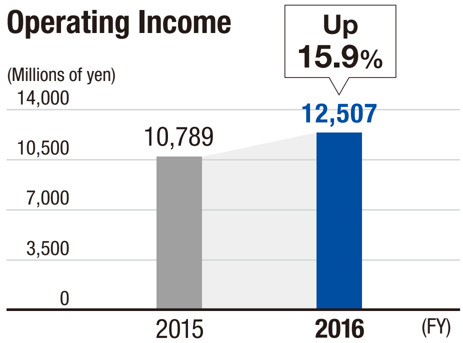
Domestic Steel Business

In this business, product shipment volume decreased 39,000 tons year on year, to 1,641 thousand tons. Of this amount, exports grew 35,000 tons, to 69,000 tons. Although product prices fell ¥9,900 per ton year on year, prices on steel scrap—our main raw material—declined further, by ¥10,300 per ton. The metal spread (the difference between these prices), which is the source of the Company's profits, therefore expanded by ¥400 per ton.

As a result, segment sales were ¥107,642 million, a year-on-year decrease of ¥24,097 million, or 18.3%, while operating income (before the elimination of inter–segment transactions) rose ¥1,718 million, or 15.9%, to ¥12,507 million.







TOPICS

The Osaka Mill: Concluding 54 Years of History

In March 2016, we discontinued operations at the Hirakata Division Osaka Mill, bringing down the curtain on 54 years of history.

Kyoei Steel's first steel minimill, the Osaka Mill, commenced operations in Nishiyodogawa-ku, Osaka, in February 1962. The mill served thereafter as a production and sales location for semi-finished products. Taking the industry lead by continuing to address new challenges, the mill contributed to the development of numerous engineers as well as electric arc furnace technology. The mill was a leader on the environmental protection front as well. In 1966, it imported a dust collector, something that had not yet been developed domestically. This measure enabled the plant to avoid being subject to the Nishiyodogawa Pollution Lawsuit. Although the mill continued to operate in harmony with the local community, large-scale imports of Chinese steel products caused prices of overseas semi-finished products to decline. Owing to changing business conditions such as these, we judged that the mill's mission was complete.

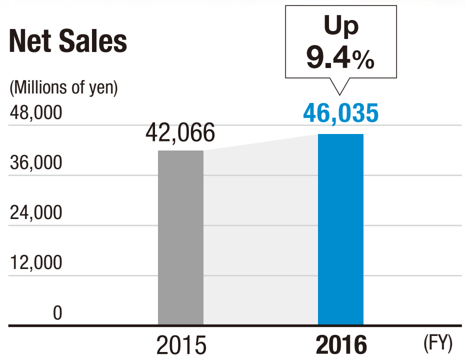
A closing ceremony was held on March 30, attended by the Company's management and employees from the Osaka Mill. The technologies and human resources cultivated at the mill will now play an important role in supporting the Company's business growth in Vietnam, as well as other locations in Japan and overseas. Thus, the spirit of the Osaka Mill will live on.

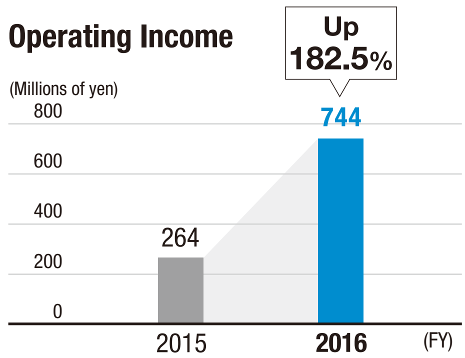
Overseas Steel Business

This business comprises two companies—Vina Kyoei Steel Co., Ltd (VKS), located in southern Vietnam, and Kyoei Steel Vietnam Company Limited (KSVC), which is in the north of the country. Although the Vietnamese economy is being affected by the Chinese economic slowdown, the country maintained strong real GDP growth in this fiscal year (January–December 2015), at 6.7%. During the year, demand for steel products grew by approximately 30%.

In this environment, an integrated steelmaking and rolling mill was completed at VKS, and production and sales were both firm, supported by the favorable demand environment. At the same time, costs rose in association with bringing the steel mill on line, resulting in low profits. Operating in these same favorable demand circumstances, KSVC continued to operate essentially at full production capacity and worked to reduce costs, resulting in improved operating performance.

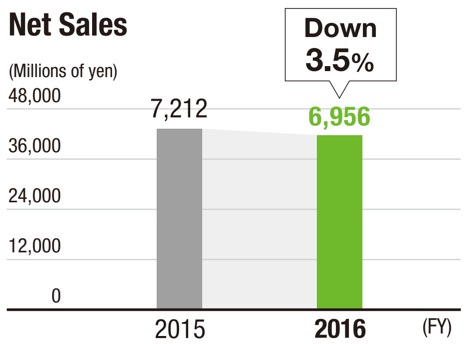
Segment sales consequently grew ¥3,969 million, or 9.4% year on year, to ¥46,035 million, and operating income surged ¥481 million, or 182.5%, to ¥744 million.

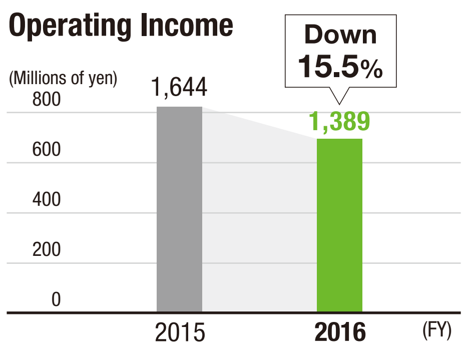




Material Recycling Business

In this business, the Company focused on acquiring projects with difficult-to-process items. But the amount of waste melted and processed in the Company's electric arc furnaces decreased as steel volumes declined in line with falling demand for steel, driving down segment sales ¥256 million, or 3.5% year on year, to ¥6,956 million. Operating income declined ¥255 million, or 15.5%, to ¥1,389 million.





BOARD DIRECTORS AND CORPORATE AUDITORS

From top left to bottom right: Haruo Hiraiwa, Toshimasa Zako, Naoyoshi Goroku, Yasuyuki Hirotomi, Koji Kawasaki, Kazuyoshi Ota, Shuji Ichihara, Hideichiro Takashima and Mitsuhiro Mori

Chairman and Representative Director

Hideichiro Takashima

President and Representative Director

Mitsuhiro Mori

Board Director & Senior Vice President	**Yasuyuki Hirotomi**	
Board Director & Senior Executive Managing Officer	**Naoyoshi Goroku**	Marketing Planning & Coordination
Board Directors & Executive Managing Officers	**Koji Kawasaki**	Accounting & Financing, Information Systems, Material Recycling
	Toshimasa Zako	Corporate Planning, Planning & Administration-Overseas Investment
	Kazuyoshi Ota	General Manager of Yamaguchi Division
	Haruo Hiraiwa	Production Plannning & Coordination General Manager of Nagoya Division
Board Directors & Executive Officers	**Kenji Ishihara**	Compliance, Human Resources & General Affairs
	Yoshio Hata	Deputy General Manager of Nagoya Division
	Osamu Narumi	General Manager of Hirakata Division
Board Directors (External Board Directors)	**Nobuhiko Arai**	Chairman of the Board of TOYO TEC CO., LTD.
	Tetsuya Yamao	Partner of UMEDA SHINMICHI LAW OFFICE External Auditor of CYPRESSCLUB CO., LTD.
Standing Corporate Auditor	**Shuji Ichihara**	
Corporate Auditors (External Auditors)	**Hiroshi Ito**	General Manager of Group Companies Planning Div. of Nippon Steel & Sumitomo Metal Corporation
	Akira Kotani	Vice Chairman of Shijonawate Gakuen

CORPORATE GOVERNANCE

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 put in place and are enhancing our corporate governance framework to achieve these goals systematically, 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 totals 13 members (with two external directors), including two representative directors and 11 board 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 executive managing officers, standing auditors, 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 is composed of one standing 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 in 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 Department 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 of its own products and product market conditions, the members propose business strategy plans. Exchanges of timely information concerning sales and purchasing are also efficiently conducted via the Company intranet.

Compliance Committee

The president serves as the committee chairman, with other members being the director in charge of compliance, the director in charge of the Human Resources & General Affairs Department, the standing auditor, the general managers of each headquarters department, and the general managers of the administration business departments of each division. The committee formulates the Compliance Manual, created to improve compliance within the Company, and seeks to gain the thorough awareness of each employee concerning compliance.

Company-Wide Risk Management Committee

The president serves as the committee chairman, with other members being the director in charge of Human Resources & General Affairs Department, the general managers of each division, and others. While the committee is tasked with building and promoting a risk management system covering the entire company, in case of emergency it is the organization in charge of prompt and appropriate emergency response throughout the Company.

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 Compliance Committee or internally to the Compliance Consultation Desk, which has been established for that purpose. A system has been established whereby the details and proposals for resolution are relayed via the Compliance Committee to the Board of Directors and the corporate auditors in the rare event that a compliance infraction has occurred.

Efforts Concerning Affiliates

Management structures are established for the administrative sections of each subsidiary and basic rules are formulated within regulations related to subsidiary management based upon the Kyoei Steel Group's management principle and action guidelines. In addition, corporate auditors are dispatched to affiliates for auditing of internal controls, with the Company's Internal Auditing Department also conducting regular internal audits.

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 two external board directors and two external auditors.

We are working to strengthen our management oversight functions, and have appointed an 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 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 director Tetsuya Yamao has significant experience 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 duties appropriately.

External auditor Hiroshi Ito has many years of experience in the steel industry, 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.

External auditor Akira Kotani has rich experience as a banker, 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

Executive compensation is within the remuneration range resolved at the General Meeting of Shareholders, and takes into consideration factors such as the management situation, the balance between executive compensation and employee salaries, and degree of responsibility. Based on these factors, the Company's policy is to pay amounts that are in line with its operating performance, as well as individual performance and achievement. The Company's executive compensation system and method of assessment of performance/determining executive compensation amounts employ a framework under which the Nomination and Remuneration Advisory Committee—composed of independent external directors and directors selected by resolution of the Board of Directors—deliberates these matters, which are then reviewed and resolved. In this manner, the Company employs a highly transparent remuneration system from the standpoint of objectivity.

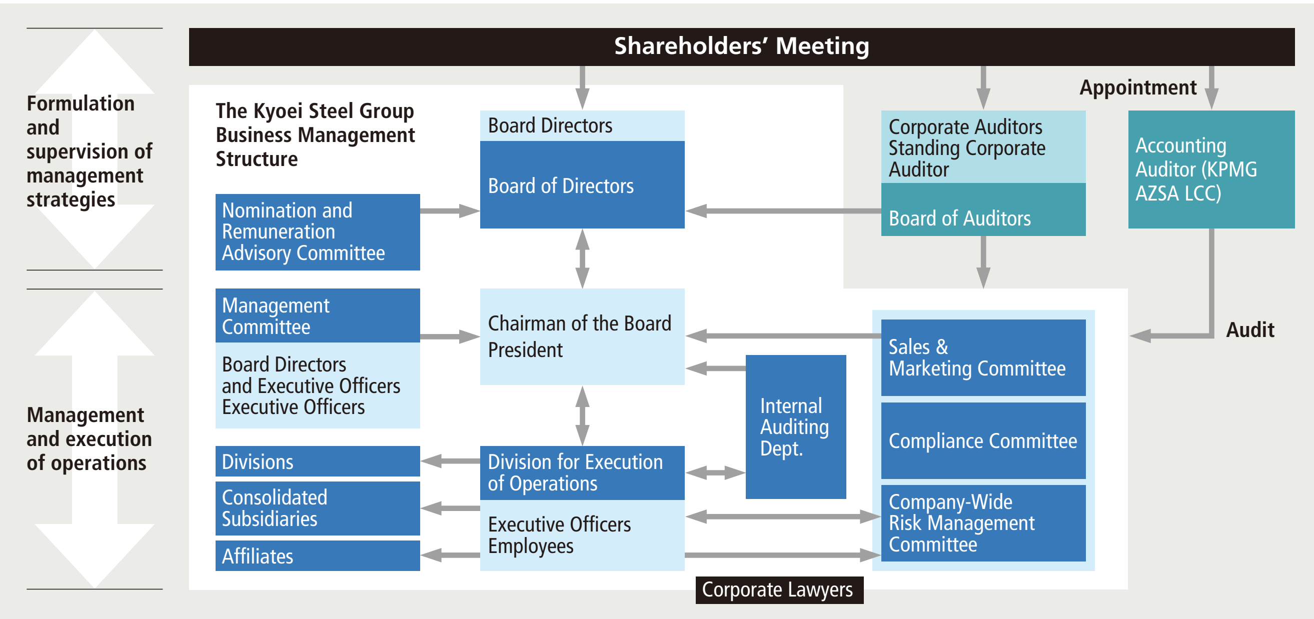
It has been resolved that compensation for all board directors shall not exceed ¥550 million annually, while compensation for all corporate auditors shall not exceed ¥60 million annually.

Risk Management

We classify potential risks as follows: (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 catastrophe.

Our executives are always examining and sharing measures for preventing and hedging each 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



BUSINESS AND OTHER RISKS

(1) Relationship with Nippon Steel & Sumitomo Metal Corporation

As of June 23, 2016, Nippon Steel & Sumitomo Metal Corporation (NSSMC) 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 NSSMC. 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, NSSMC is in a position to influence our operations by exercising its voting rights, and the interests of NSSMC 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 works, and excess production capacity is a structural issue 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 have experienced rapid economic growth in recent years, with consumption of steel scrap also trending upward. At the same time, semi-finished product exports from China to neighboring Asian countries have increased, significantly lowering steel scrap prices. These factors can cause the supply/demand environment for steel scrap, which is the principal raw material of our main products, to experience severe fluctuations in materials prices that may influence the results of our Group.

(4) Impact of the Downward Trend in Construction Demand

With the Japanese economy in a state of maturity, 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

Almost all nuclear power plants in Japan are currently out of operation. This has resulted in Tokyo Electric Power, Kansai Electric Power, Chubu Electric Power, and other power companies raising their rates, resulting in a significant expansion of the cost burden of electrical power. Despite a temporary drop in the unit price adjusted for fuel costs, which is determined by in response to the cost of thermal power plant fuel (liquefied natural gas [LNG] and crude oil), going forward fluctuations in energy prices and exchange rates may be associated with further rises in electricity rates.

Also, the cessation of nuclear power plant operations has been given as a reason for power shortages. Our Group mainly operates its plants at night, when power demand is low, so we believe there is little chance of power use limits being imposed directly, but broad limits imposed on power supplies in the future could make our operations difficult. As a result, electricity rates and the power supply situation may influence the results of our Group.

(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 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 a rise in 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 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. The results of those companies are influenced by the economic situation in Vietnam and its market for steel products, so if that country's economic situation or market for steel products deteriorates it may have an adverse influence on the results of those subsidiaries. In addition, sudden political instability, a natural disaster or an industrial accident in the country could lead to a cessation of operations or similar problems, and given that the economic conditions and trade customs differ from those in Japan, recovery in such cases is also assumed to take longer than expected. The above items may influence the results of our Group.

(8) Impact of Natural Disasters

If a large-scale 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 sited near seas or rivers are particularly susceptible to tsunamis, 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.

FINANCIAL SECTION

Consolidated 10-Year Summary

For the years ended March 31, 2007 through 2016

	2007	2008	2009	2010	2011
Products shipments (Thousands of tons)**:**					
Finished products	2,153	2,078	1,717	1,431	1,462
Billet (semi-finished products)	261	284	259	205	243
For the year (Millions of yen)**:**					
Net sales	¥ 158,873	¥ 181,576	¥ 194,345	¥ 111,485	¥ 116,828
Gross profit	31,688	27,456	36,672	19,999	8,124
Operating income (loss)	21,463	17,189	26,270	11,454	(206)
Income (loss) before income taxes	23,611	17,195	23,388	11,121	(386)
Profit (loss) attributable to owners of parent	15,630	11,070	14,009	6,691	(794)
Research and development expenses	79	26	152	44	43
Depreciation and amortization	4,647	4,738	4,869	4,992	4,806
Capital expenditures	6,699	5,550	5,173	4,815	2,706
Per share amounts (yen):					
Net income (loss), basic	414.23	253.66	318.72	152.23	(18.22)
Net income (loss), diluted	–	–	–	–	–
Cash dividends applicable to the year	30.00	30.00	40.00	40.00	20.00
At year-end:					
Total assets	¥ 168,897	¥ 166,572	¥ 153,711	¥ 151,125	¥ 146,453
Working capital	28,285	28,316	43,120	50,334	51,265
Interest-bearing debt	10,148	1,952	1,540	1,729	1,665
Net assets	98,899	107,846	119,154	124,905	119,973
Shareholders’ equity*	98,321	107,129	118,387	124,076	119,064
Ratios:					
Return on equity (%)	18.9	10.8	12.4	5.5	(0.7)
Return on total assets (%)	13.7	10.4	16.6	7.7	(0.0)
Debt to equity ratio (times)	0.10	0.02	0.01	0.01	0.01
Shareholders' equity to total assets (%)	58.2	64.3	77.0	82.1	81.3
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	44,899
Number of employees	1,047	1,049	1,045	1,061	1,077
Stock price (yen)**:**					
High	¥ 3,410	¥ 3,750	¥ 2,590	¥ 2,805	¥ 2,082
Low	¥ 2,605	¥ 1,532	¥ 911	¥ 1,544	¥ 876

2012	2013	2014	2015	2016	
					Products shipments (Thousands of tons)**:**
1,549	1,603	1,720	1,680	**1,641**	Finished products
297	303	247	280	**259**	Billet (semi-finished products)
					For the year (Millions of yen)**:**
¥ 130,650	¥ 142,305	¥ 174,694	¥ 181,436	**¥ 160,952**	Net sales
12,780	13,256	12,293	21,900	**23,889**	Gross profit
4,166	4,343	2,857	11,796	**13,792**	Operating income (loss)
3,151	3,738	9	10,730	**12,432**	Income (loss) before income taxes
1,692	2,069	(795)	6,923	**8,467**	Profit (loss) attributable to owners of parent
29	95	188	231	**104**	Research and development expenses
4,644	4,254	4,232	4,147	**5,026**	Depreciation and amortization
4,991	3,809	7,344	15,920	**10,103**	Capital expenditures
					Per share amounts (yen):
38.89	47.59	(18.28)	159.30	**194.94**	Net income (loss), basic
–	–	–	–	**–**	Net income (loss), diluted
20.00	20.00	20.00	35.00	**45.00**	Cash dividends applicable to the year
					At year-end:
¥ 164,486	¥ 165,129	¥ 180,771	¥ 201,760	**¥ 200,436**	Total assets
61,950	63,811	79,699	81,872	**83,565**	Working capital
10,877	11,231	26,530	32,810	**33,149**	Interest-bearing debt
122,725	125,257	128,788	138,052	**143,090**	Net assets
120,344	122,515	121,622	129,546	**134,886**	Shareholders' equity*
					Ratios:
1.4	1.7	(0.7)	5.5	**6.4**	Return on equity (%)
2.8	2.9	2.1	6.6	**7.1**	Return on total assets (%)
0.09	0.09	0.22	0.24	**0.23**	Debt to equity ratio (times)
73.2	74.2	67.3	64.2	**67.3**	Shareholders' equity to total assets (%)
					Other statistics:
44,899	44,899	44,899	44,899	**44,899**	Number of shares outstanding (thousands)
1,299	1,327	1,611	1,741	**1,806**	Number of employees
					Stock price (yen)**:**
¥ 1,692	¥ 1,781	¥ 2,220	¥ 2,286	**¥ 2,455**	High
¥ 1,011	¥ 1,105	¥ 1,372	¥ 1,618	**¥ 1,584**	Low

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

Financial Review (Consolidated)

1. Consolidated Operating Results

Analysis of Operating Results

In the fiscal year ended March 31, 2016, the Japanese economy recovered slowly overall as improvements in jobs and personal income continued. However, the economic outlook remained unclear because of the effects of economic downturns in China and other emerging countries in Asia as well as resource-rich countries.

In the market for steel construction materials, the primary source of demand for the products of the Kyoei Steel Group ("the Group"), demand was lackluster in both the building construction and civil engineering sectors. Steel product prices and the price of raw materials remained lower overseas as the excessive volume of steel exports from China continued. Lower prices overseas caused the price of steel scrap, the primary raw material, in Japan to fall. As a result, demand for steel products was sluggish as buyers of steel products pushed back their purchases. In this environment, the Group continued to cut the cost of manufacturing while keeping production and sales activities in line with demand. The goal was to maintain a suitable metal spread, which is the difference between the prices of steel products and steel scrap. In the Overseas Steel Business, the construction of a factory for increasing output capacity in southern Vietnam was completed, and production and sales volumes expanded while preserving a suitable metal spread in order to meet strong demand for steel.

As was announced on March 30, 2015, the Osaka Mill, Hirakata Division, which produced billets (a semi-finished steel product), ended its operations on March 31, 2016. We made this decision because of the challenging market environment for billets in Japan and other countries.

Consequently, consolidated sales decreased ¥20,484 million (US$181,773 thousand), or 11.3%, to ¥160,952 million (US$1,428,272 thousand). Operating income increased ¥1,996 million (US$17,712 thousand), or 16.9%, to ¥13,792 million (US$122,389 thousand). Although there was an impairment loss on fixed assets at Kyoei Steel Vietnam Company Limited (KSVC), which is located in northern Vietnam, profit attributable to owners of parent increased ¥1,544 million (US$13,701 thousand), or 22.3%, to ¥8,467 million (US$75,135 thousand).

Results by business segment are as follows.

Reporting segments have been revised beginning with the fiscal year that ended in March 2016. Comparisons and analysis of segment performance for the fiscal year are based on the revised segments.

1) Domestic Steel Business

Shipments decreased 39 thousand tons from one year earlier to 1,641 thousand tons, including a 35-thousand-ton increase in export shipments to 69 thousand tons. Product prices decreased by ¥9,900 (US$87.85) per ton but the price of steel scrap, the primary raw material, fell by ¥10,300 (US$91.40) per ton. Therefore, the metal spread, which is the difference between the prices of steel products and steel scrap and is the source of earnings in this segment, widened by ¥400 (US$3.55) per ton compared with one year earlier. Segment sales decreased ¥24,097 million (US$213,834 thousand), or 18.3%, to ¥107,642 million (US$955,205 thousand), and operating income was up ¥1,718 million (US$15,245 thousand), or 15.9%, to ¥12,507 million (US$110,986 thousand).

2) Overseas Steel Business

This segment includes the operations of two companies in Vietnam: Vina Kyoei Steel Co., Ltd. (VKS), which is located in southern Vietnam, and KSVC, which is located in northern Vietnam. In 2015, Vietnam's economy continued to post strong growth with a real GDP growth rate of 6.7%, despite the effects of slowing economic growth in China. Demand for steel was more than 30% higher than in 2014. VKS completed construction of an integrated steelmaking and rolling factory and, due to strong demand for steel, achieved growth in production and sales. However, earnings at VKS were held down by the high manufacturing expenses during the start-up phase of the new factory. The performance of KSVC has improved as this company operated at virtually full capacity because of the high level of demand while cutting costs. Segment sales increased by ¥3,969 million (US$35,221 thousand), or 9.4%, to ¥46,035 million (US$408,510 thousand), and operating income increased by ¥481 million (US$4,268 thousand), or 182.5%, to ¥744 million (US$6,602 thousand).

3) Material Recycling Business

Despite activities aimed at receiving orders for materials that are difficult to process, there was a decrease in the volume of waste materials melted in electric arc furnaces along with a decline in the volume of steel production to match lower demand. Segment sales decreased ¥256 million (US$2,272 thousand), or 3.5%, to ¥6,956 million (US$61,727 thousand), and operating income was down ¥255 million (US$2,263 thousand), or 15.5%, to ¥1,389 million (US$12,326 thousand).

4) Others

This category includes mainly sales of civil engineering materials by a subsidiary and an insurance agent business. Sales decreased by ¥101 million (US$896 thousand), or 24.1%, to ¥319 million (US$2,830 thousand), and operating income was up ¥2 million (US$18 thousand), or 13.4%, to ¥20 million (US$177 thousand).

2. Analysis of Financial Situation

i. Status of Consolidated Assets, Liabilities and Net Assets

(1) Assets

Current assets decreased by ¥3,986 million (US$35,371 thousand), or 3.7%, from the end of the previous fiscal year to ¥104,680 million (US$928,920 thousand). This was attributable mainly to increases of ¥10,400 million (US$92,289 thousand) in marketable securities and decreases of ¥6,440 million (US$57,148 thousand) in cash and time deposits, ¥5,914 million (US$52,480 thousand) in notes and accounts receivable and ¥2,088 million (US$18,529 thousand) in inventories. Noncurrent assets increased by ¥2,662 million (US$23,622 thousand), or 2.9%, from the end of the previous fiscal year to ¥95,756 million (US$849,730 thousand). This was mainly attributable to increases of ¥5,479 million (US$48,620 thousand) in buildings and structures and ¥17,607 million (US$156,243 thousand) in machinery and equipment and a decrease of ¥16,792 million (US$149,011 thousand) in construction in progress.

Total assets decreased by ¥1,324 million (US$11,749 thousand), or 0.7%, from the end of the previous fiscal year to ¥200,436 million (US$1,778,650 thousand).

(2) Liabilities

Total current liabilities decreased by ¥3,079 million (US$27,323 thousand), or 7.6%, from the end of the previous fiscal year to ¥37,225 million (US$330,331 thousand). This was attributable mainly to a decrease of ¥3,137 million (US$27,837 thousand) in notes and accounts payable.

Total long-term liabilities decreased by ¥3,283 million (US$29,133 thousand), or 14.0%, from the end of the previous fiscal year to ¥20,121 million (US$178,552 thousand). This was attributable mainly to decreases of ¥2,260 million (US$22,055 thousand) in long-term debt, ¥607 million (US$5,386 thousand) in deferred tax liabilities and ¥298 million (US$2,644 thousand) in provision for loss on business liquidation.

Total liabilities decreased by ¥6,362 million (US$56,456 thousand), or 10.0%, from the end of the previous fiscal year to ¥57,346 million (US$508,883 thousand).

(3) Net Assets

Total net assets increased by ¥5,037 million (US$44,698 thousand), or 3.6%, from the end of the previous fiscal year to ¥143,090 million (US$1,269,767 thousand). This was attributable mainly to profit attributable to owners of parent of ¥8,467 million (US$75,135 thousand), dividends of surplus of ¥1,520 million (US$ 13,488 thousand), decreases of ¥947 million (US$8,403 thousand) in valuation difference on available for sale securities and ¥541 million (US$4,801 thousand) in remeasurements of defined benefit plans. As a result, compared to the end of the previous fiscal year, net assets per share increased by ¥135.02 (US$1.20) to ¥3,115.86 (US$27.65), and the ratio of shareholders' equity to total assets increased from 64.2% to 67.3%.

ii. Cash Flow Status

Cash and cash equivalents at the end of the current fiscal year increased by ¥4,614 million (US$40,944 thousand) from the end of the previous fiscal year to ¥39,596 million (US$351,371 thousand). The cash flow components during the fiscal year and the main reasons for the changes are described below.

(1) Cash flows from operating activities

Net cash provided by operating activities was ¥17,227 million (US$152,871 thousand). The major components were income before income taxes of ¥12,432 million (US$110,320 thousand) and depreciation and amortization of ¥5,026 million (US$44,600 thousand).

(2) Cash flows from investing activities

Net cash used in investing activities was ¥10,791 million (US$95,759 thousand). The major components were payments of ¥9,346 million (US$82,935 thousand) for the purchase of property, plant and equipment and ¥1,216 million (US$10,791 thousand) for the acquisition of investments in capital in subsidiaries.

(3) Cash flows from financing activities

Net cash used in financing activities was ¥1,522 million (US$13,506 thousand). The major components included cash dividends paid of ¥1,520 million (US$13,488 thousand).

3. Dividends

It is our fundamental principle to reward our shareholders by increasing corporate value. Accordingly, we endeavor to distribute dividends rationally, while ensuring appropriate internal reserves for business growth and enhancing the corporate structure from a long-term perspective. Accordingly, we plan to pay a year-end dividend of ¥35 (US$0.3) per share, which has been initially planned for the fiscal year ended March 31, 2016. Including the interim dividend of ¥10 (US$0.1), this will result in a total dividend of ¥45 (US$0.4) per share for this fiscal year.

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 As of March 31, 2016 and 2015	**2016**	2015	**2016**
ASSETS			
Current assets:			
Cash and time deposits	¥ **14,739**	¥ 21,179	$ **130,792**
Notes and accounts receivable	**31,934**	37,848	**283,379**
Marketable securities	**30,000**	19,600	**266,217**
Inventories (Note 6)	**24,619**	26,707	**218,467**
Deferred tax assets (Note 11)	**538**	752	**4,774**
Other current assets	**3,028**	2,724	**26,871**
Allowance for doubtful accounts	**(178)**	(144)	**(1,580)**
Total current assets	**104,680**	108,666	**928,920**
Property, plant and equipment:			
Buildings and structures (Note 8)	**44,381**	38,902	**393,833**
Machinery and equipment (Note 8)	**110,591**	92,984	**981,374**
Land (Note 7 and 8)	**25,120**	25,186	**222,912**
Construction in progress	**708**	17,500	**6,283**
Other (Note 8)	**2,373**	2,274	**21,059**
Total	**183,173**	176,846	**1,625,461**
Accumulated depreciation	**(103,517)**	(100,213)	**(918,600)**
Net property, plant and equipment	**79,656**	76,633	**706,861**
Investments and other assets:			
Investments in securities (Note 18)	**5,897**	7,337	**52,329**
Unconsolidated subsidiaries and affiliated companies (Note 18)	**4,772**	4,356	**42,346**
Investments in long-term loans receivable	**398**	503	**3,532**
Net defined benefit asset (Note 14)	**108**	967	**958**
Intangible assets, net	**1,214**	1,153	**10,773**
Deferred tax assets (Note 11)	**615**	699	**5,457**
Other noncurrent assets (Note 18)	**3,160**	1,517	**28,042**
Allowance for doubtful accounts	**(64)**	(71)	**(568)**
Total investments and other assets	**16,100**	16,461	**142,869**
Total assets	¥ **200,436**	¥ 201,760	$ **1,778,650**

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

KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2016 and 2015	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	**¥ 9,251**	¥ 12,388	**$ 82,092**
Short-term loans (Note 8)	**13,525**	11,439	**120,020**
Long-term debt due within one year (Note 8)	**2,585**	2,071	**22,939**
Income taxes payable	**1,975**	4,051	**17,526**
Deferred tax liabilities (Note 11)	**3**	–	**27**
Accrued employees' bonuses	**714**	698	**6,336**
Accrued directors' bonuses	**179**	139	**1,588**
Provision for loss on business liquidation	**110**	–	**976**
Other current liabilities	**8,883**	9,518	**78,827**
Total current liabilities	**37,225**	40,304	**330,331**
Long-term liabilities:			
Long-term debt (Note 8)	**17,036**	19,296	**151,176**
Deferred tax liabilities (Note 11)	**82**	689	**728**
Deferred tax liabilities for revaluation (Note 7)	**2,592**	2,731	**23,001**
Accrued directors' severance and retirement benefits	**8**	21	**71**
Provision for loss on business liquidation (Note 20)	**–**	298	**–**
Net defined benefit liability (Note 14)	**88**	57	**781**
Other long-term liabilities	**315**	312	**2,795**
Total long-term liabilities	**20,121**	23,404	**178,552**
Total liabilities:	**57,346**	63,708	**508,883**
Net assets (Note 10)			
Shareholders' equity			
Common stock	**18,516**	18,516	**164,309**
Authorized – 150,300,000 shares in 2016			
150,300,000 shares in 2015			
Issued – 44,898,730 shares in 2016			
44,898,730 shares in 2015			
Capital surplus	**21,493**	21,493	**190,727**
Retained earnings	**88,546**	81,599	**785,749**
Treasury stock	**(2,025)**	(1,699)	**(17,970)**
Total shareholders' equity	**126,530**	119,909	**1,122,815**
Accumulated other comprehensive income			
Valuation difference on available for sale securities	**1,312**	2,259	**11,643**
Revaluation reserve for land (Note 7)	**4,974**	4,835	**44,139**
Foreign currency translation adjustments	**2,229**	2,161	**19,780**
Remeasurement of defined benefit plans	**(159)**	382	**(1,411)**
Total accumulated other comprehensive income	**8,356**	9,637	**74,151**
Non-controlling interests	**8,204**	8,506	**72,801**
Total net assets	**143,090**	138,052	**1,269,767**
Total liabilities and net assets	**¥ 200,436**	¥ 201,760	**$ 1,778,650**

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, 2016 and 2015	**2016**	2015	**2016**
Net sales	**¥ 160,952**	¥ 181,436	**$ 1,428,272**
Cost of sales	**137,063**	159,536	**1,216,284**
Gross profit	**23,889**	21,900	**211,988**
Selling, general and administrative expenses (Note 9)	**10,097**	10,104	**89,599**
Operating income	**13,792**	11,796	**122,389**
Other income (expenses):			
Interest income	**297**	641	**2,636**
Dividend income	**222**	176	**1,970**
Interest expense	**(578)**	(429)	**(5,129)**
Share of profit of entities accounted for using equity method	**468**	417	**4,153**
Foreign exchange losses	**(161)**	(203)	**(1,429)**
Gain on sale and disposal of property, plant and equipment	**18**	32	**160**
Loss on sale and disposal of property, plant and equipment	**(435)**	(891)	**(3,860)**
Impairment loss on fixed assets (Note 19)	**(1,401)**	(96)	**(12,432)**
Gain on sale of investments in securities (Note 18)	**–**	247	**–**
Reversal of provision for loss on business liquidation	**231**	–	**2,050**
Loss on liquidation of business (Note 20)	**(122)**	(901)	**(1,083)**
Cash sales discount	**(36)**	(52)	**(319)**
Other, net	**137**	(7)	**1,214**
Other expenses, net	**(1,360)**	(1,066)	**(12,069)**
Income before income taxes	**12,432**	10,730	**110,320**
Income taxes (Note 11)			
Current	**3,850**	4,565	**34,165**
Deferred	**440**	(819)	**3,904**
Total income taxes	**4,290**	3,746	**38,069**
Profit	**8,142**	6,984	**72,251**
Profit (loss) attributable to non-controlling interests	**(325)**	61	**(2,884)**
Profit attributable to owners of parent	**¥ 8,467**	¥ 6,923	**$ 75,135**

	Yen		U.S. dollars (Note 1)
Amounts per share (Note 15)	**2016**	2015	**2016**
Net income			
Basic	**¥ 194.94**	¥ 159.30	**$ 1.73**
Diluted*	**–**	–	**–**
Cash dividends applicable to the year	**¥ 45.00**	¥ 35.00	**$ 0.40**

* 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, 2016 and 2015	**2016**	2015	**2016**
Profit	**¥ 8,142**	¥ 6,984	**$ 72,251**
Other comprehensive income			
Valuation difference on available for sale securities	**(947)**	559	**(8,403)**
Revaluation reserve for land	**139**	286	**1,233**
Foreign currency translation adjustments	**113**	1,961	**1,003**
Remeasurement of defined benefit plans	**(541)**	383	**(4,801)**
Other comprehensive income, net (Note 21)	**(1,236)**	3,189	**(10,968)**
Comprehensive income	**¥ 6,906**	¥ 10,173	**$ 61,283**
Breakdown of comprehensive income:			
Comprehensive income attributable to owners of parent	**¥ 7,186**	¥ 9,106	**$ 63,768**
Comprehensive income (loss) attributable to non-controlling interests	**¥ (280)**	¥ 1,067	**$ (2,485)**

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, 2016 and 2015	**2016**	2015	**2016**
Shareholders' equity			
Common stock			
Balance at the beginning of current period	**¥ 18,516**	¥ 18,516	**$ 164,309**
Balance at the end of current period	**18,516**	18,516	**164,309**
Capital surplus			
Balance at the beginning of current period	**21,493**	21,493	**190,727**
Balance at the end of current period	**21,493**	21,493	**190,727**
Retained earnings			
Balance at the beginning of current period	**81,599**	75,673	**724,102**
Cumulative effects of changes in accounting policies	**–**	(96)	**–**
Restated balance at the beginning of current period	**81,599**	75,577	**724,102**
Changes during the period			
Cash dividends	**(1,520)**	(1,086)	**(13,488)**
Profit attributable to owners of parent	**8,467**	6,923	**75,135**
Reversal of revaluation reserve for land	**–**	185	**–**
Total changes during the period	**6,947**	6,022	**61,647**
Balance at the end of current period	**88,546**	81,599	**785,749**
Treasury stock			
Balance at the beginning of current period	**(1,699)**	(1,699)	**(15,077)**
Changes during the period			
Purchase of treasury stock	**(339)**	(0)	**(3,008)**
Sale of treasury stock	**13**	–	**115**
Total changes during the period	**(326)**	(0)	**(2,893)**
Balance at the end of current period	**(2,025)**	(1,699)	**(17,970)**
Total shareholders' equity			
Balance at the beginning of current period	**119,909**	113,983	**1,064,061**
Cumulative effects of changes in accounting policies	**–**	(96)	**–**
Restated balance at the beginning of current period	**119,909**	113,887	**1,064,061**
Changes during the period			
Cash dividends	**(1,520)**	(1,086)	**(13,488)**
Profit attributable to owners of parent	**8,467**	6,923	**75,135**
Reversal of revaluation reserve for land	**–**	185	**–**
Purchase of treasury stock	**(339)**	(0)	**(3,008)**
Sale of treasury stock	**13**	–	**115**
Total changes during the period	**6,621**	6,022	**58,754**
Balance at the end of current period	**¥ 126,530**	¥ 119,909	**$ 1,122,815**

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, 2016 and 2015	**2016**	2015	**2016**
Accumulated other comprehensive income			
Valuation difference on available for sale securities			
Balance at the beginning of current period	**¥ 2,259**	¥ 1,700	**$ 20,046**
Changes during the period			
Net changes in items other than shareholders' equity	**(947)**	559	**(8,403)**
Total changes during the period	**(947)**	559	**(8,403)**
Balance at the end of current period	**1,312**	2,259	**11,643**
Revaluation reserve for land			
Balance at the beginning of current period	**4,835**	4,735	**42,906**
Changes during the period			
Net changes in items other than shareholders' equity	**139**	100	**1,233**
Total changes during the period	**139**	100	**1,233**
Balance at the end of current period	**4,974**	4,835	**44,139**
Foreign currency translation adjustments			
Balance at the beginning of current period	**2,161**	1,205	**19,177**
Changes during the period			
Net changes in items other than shareholders' equity	**68**	956	**603**
Total changes during the period	**68**	956	**603**
Balance at the end of current period	**2,229**	2,161	**19,780**
Remeasurement of defined benefit plans			
Balance at the beginning of current period	**382**	(1)	**3,390**
Changes during the period			
Net changes in items other than shareholders' equity	**(541)**	383	**(4,801)**
Total changes during the period	**(541)**	383	**(4,801)**
Balance at the end of current period	**(159)**	382	**(1,411)**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**9,637**	7,639	**85,518**
Changes during the period			
Net changes in items other than shareholders' equity	**(1,281)**	1,998	**(11,367)**
Total changes during the period	**(1,281)**	1,998	**(11,367)**
Balance at the end of current period	**¥ 8,356**	¥ 9,637	**$ 74,151**

(continued)

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, 2016 and 2015	**2016**	2015	**2016**
Non-controlling interests			
Balance at the beginning of current period	**¥ 8,506**	¥ 7,166	**$ 75,481**
Changes during the period			
Net changes in items other than shareholders' equity	**(302)**	1,340	**(2,680)**
Total changes during the period	**(302)**	1,340	**(2,680)**
Balance at the end of current period	**8,204**	8,506	**72,801**
Total net assets			
Balance at the beginning of current period	**138,052**	128,788	**1,225,060**
Cumulative effects of changes in accounting policies	**–**	(96)	**–**
Restated balance at the beginning of current period	**138,052**	128,692	**1,225,060**
Changes during the period			
Cash dividends	**(1,520)**	(1,086)	**(13,488)**
Profit attributable to owners of parent	**8,467**	6,923	**75,135**
Reversal of revaluation reserve for land	**–**	185	**–**
Purchase of treasury stock	**(339)**	(0)	**(3,008)**
Sale of treasury stock	**13**	–	**115**
Net changes in items other than shareholders' equity	**(1,583)**	3,338	**(14,047)**
Total changes during the period	**5,038**	9,360	**44,707**
Balance at the end of current period	**¥ 143,090**	¥ 138,052	**$ 1,269,767**

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, 2016 and 2015	**2016**	2015	**2016**
Cash flows from operating activities:			
Income before income taxes	**¥ 12,432**	¥ 10,730	**$ 110,320**
Depreciation and amortization	**5,026**	4,147	**44,600**
Impairment loss on fixed assets	**1,401**	649	**12,432**
Increase (decrease) in provision	**71**	490	**630**
Increase (decrease) in net defined benefit liability	**31**	(11)	**275**
Share of profit of entities accounted for using equity method	**(468)**	(417)	**(4,153)**
Gain on sales of investments in securities	**–**	(247)	**–**
Loss on sale and disposal of property, plant and equipment	**417**	859	**3,700**
Interest and dividend income	**(519)**	(817)	**(4,606)**
Interest expense	**578**	429	**5,129**
Decrease (increase) in notes and accounts receivable	**5,912**	2	**52,463**
Decrease (increase) in inventories	**2,079**	785	**18,449**
Increase (decrease) in trade notes and accounts payable	**(3,140)**	(1,071)	**(27,864)**
Increase (decrease) in accrued consumption taxes	**(832)**	1,433	**(7,383)**
Decrease (increase) in net defined benefit asset	**66**	(114)	**586**
Other	**82**	684	**729**
Subtotal	**23,136**	17,531	**205,307**
Interest and dividends received	**621**	773	**5,511**
Interest paid	**(595)**	(375)	**(5,280)**
Compensation for damages	**–**	(88)	**–**
Income taxes paid	**(5,935)**	(1,176)	**(52,667)**
Net cash provided by operating activities	**17,227**	16,665	**152,871**
Cash flows from investing activities:			
Increase in time deposits	**(660)**	(901)	**(5,857)**
Decrease in time deposits	**925**	900	**8,208**
Payment for acquisition of marketable securities	**(9,100)**	(5,000)	**(80,753)**
Proceeds from sale of marketable securities	**9,300**	–	**82,527**
Payment for purchase of investments in securities	**(2)**	(8)	**(18)**
Proceeds from sale or redemption of investments in securities	**1**	641	**9**
Increase in money deposited	**(1,001)**	(1)	**(8,883)**
Decrease in money deposited	**901**	1	**7,995**
Payment for acquisition of investment securities in subsidiaries	**–**	(376)	**–**
Payment for acquisition of investments of capital in subsidiaries	**(1,216)**	–	**(10,791)**
Investments in loans	**(53)**	(323)	**(470)**
Collection of loans	**83**	81	**737**
Payment for purchase of property, plant and equipment	**(9,346)**	(13,654)	**(82,935)**
Proceeds from sale of property, plant and equipment	**23**	24	**204**
Payment for purchase of intangibles	**(216)**	(129)	**(1,917)**
Other	**(430)**	(189)	**(3,815)**
Net cash used in by investing activities	**(10,791)**	(18,934)	**(95,759)**

(continued)

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, 2016 and 2015	**2016**	2015	**2016**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**2,096**	(3,014)	**18,600**
Proceeds from long-term debt	**339**	6,415	**3,008**
Repayment of long-term debt	**(2,086)**	(977)	**(18,511)**
Repayment of installment payables	**(2)**	(2)	**(18)**
Payment for purchase of treasury stock	**(339)**	(0)	**(3,008)**
Proceeds from sale of treasury stock	**13**	–	**115**
Cash dividends paid	**(1,520)**	(1,086)	**(13,488)**
Dividends paid to non-controlling shareholders	**(23)**	(228)	**(204)**
Proceeds from stock issuance to non-controlling shareholders	**–**	877	**–**
Net cash provided (used in) by financing activities	**¥ (1,522)**	¥ 1,985	**$ (13,506)**
Effect of exchange rate changes on cash and cash equivalents	**¥ (300)**	¥ 1,395	**$ (2,662)**
Net increase in cash and cash equivalents	**4,614**	1,111	**40,944**
Cash and cash equivalents at the beginning of the period	**34,982**	33,871	**310,427**
Cash and cash equivalents at the end of the period (Note 13)	**¥ 39,596**	¥ 34,982	**$ 351,371**

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.
(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit and loss
(c) Capitalized expenditures for research and development activities
(d) 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, 2016, which was ¥112.69 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, 2016 and 2015 included the accounts of the Company and its 9 subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

VKS and KSVC 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 (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 as 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 non-controlling interests in the consolidated financial statements.

(c) Cash and cash equivalents
Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of 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. Regarding balance sheet values, this method is designed to reduce book value when the contribution of 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. Estimated useful lives of the property, plant and equipment are summarized as follows:

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

(2) Intangible assets (excluding lease assets)

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

(3) Lease assets

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

(h) Allowance for doubtful accounts

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

(i) Accrued employees' bonuses

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

(j) Accrued directors' bonuses

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

(k) Accrued directors' severance and retirement benefits

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) Provision for loss on business liquidation

Provision for loss on business liquidation is provided for estimated losses arising from the business liquidation.

(m) 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 fiscal year-end is considered to be equal to the retirement benefit obligation for the 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.

(n) Income taxes

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

(o) Significant hedge accounting

(1) Method of hedge accounting

The Company and its consolidated subsidiaries use mainly deferred hedging. Hedges that meet conditions for the special treatment of interest rate swaps and 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 reduce risks associated with interest rate fluctuations on borrowings. Also, 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) Method for evaluating hedge effectiveness
Hedge effectiveness is evaluated by comparing the hedge instrument transaction value with the hedged item transaction value for each transaction. However, in the case of interest rate swaps that meet the conditions for special treatment, 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.

(p) Goodwill
Goodwill is depreciated by the straight-line method within 20 years. However, goodwill is amortized in a lump sum when incurred in cases in which the value is immaterial.

(q) Scope of funds in consolidated statements of cash flows
Funds in 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 a minor risk of fluctuations in value.

3. CHANGES IN METHODS OF ACCOUNTING

Application of the Revised Accounting Standard for Business Combinations, Etc.
Effective the year ended March 31, 2016, the Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan [ASBJ] Statement No. 21 of September 13, 2013, hereinafter referred to as the Business Combinations Accounting Standard), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 of September 13, 2013, hereinafter referred to as the Consolidated Financial Statements Accounting Standard), and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of September 13, 2013, hereinafter referred to as the Business Divestitures Accounting Standard). As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income, and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in the prior year comparative information were reclassified to conform to the changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in Article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning of the current fiscal year prospectively.

These changes had no effect on the consolidated financial statements of the current fiscal year.

Application of Accounting Standards for Retirement Benefits
Effective from the year ended March 31, 2015, the Company and its consolidated domestic subsidiaries adopted Article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, "Guidance No. 25")), and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefits to periods from a straight-line basis to a benefit formula basis along with changing the method of determining the discount rate to a method that uses a single weighted average discount rate reflecting the estimated timing and amount of benefit payment rather than a discount rate based on the expected average remaining service years of employees. In accordance with Article 37 of Statement No. 26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of year ended March 31, 2015.

As a result of the application, net defined benefit assets decreased by ¥149 million and retained earnings decreased by ¥96 million at the beginning of year ended March 31, 2015. The effect of this change on the operating income, ordinary income and income before income taxes for the year ended March 31, 2015 was immaterial. The effect on the earnings per share was immaterial.

4. CHANGES IN PRESENTATION METHODS OF ACCOUNTING

Change in Method of Presentation
(a) Consolidated Statements of Operations
Effective from the year ended March 31, 2015, "Gain on sale of scrap," which had been disclosed separately in the "Other

income" is included in "Other, net" of "Other income" due to its decrease in materiality. As a result, the ¥82 million presented in "Gain on sale of scrap" of "Other income" has been reclassified to "Other, net" of "Other income."

(b) Consolidated Statements of Cash Flows
Effective from the year ended March 31, 2015, "Increase (decrease) in accrued consumption taxes," which had been included in "Other" in "Operating activities," has been categorized separately due to its increase in materiality. The consolidated financial statements from the previous consolidated fiscal year have been revised to reflect this change in presentation method. As a result, the ¥(804) million presented in "Other" of "Operating income" has been reclassified as "Increase (decrease) in accrued consumption taxes" of ¥(516) million and "Other" of ¥(288) million.

5. ADDITIONAL INFORMATION

Employee stock ownership plan (ESOP) by using a trust
(1) Summary
The Group is introducing an Employee Stock Ownership Support Trust ESOP (hereinafter referred to as the "ESOP Trust"), an employee incentive plan which aims to encourage improvements to morale by giving Group employees incentives to improve the mid- to long-term corporate value and promotes the revitalization of employee stock ownership and stable property accumulation.

The ESOP Trust is a scheme based on US ESOP (Employee Stock Ownership Plans) to encourage employee equity holding that is designed to conform to the Laws of Japan. By combining employee stock ownership with a trust it will be possible for the trust fund to collectively secure stock to be purchased by the employee stock ownership in the future. Moreover, the scheme enables aims such as the expansion of the employee benefits system and increasing employee motivation to be realized.

The Company will establish a trust in which employees that join the Kyoei Steel Group employee stock ownership (hereinafter referred to as the "Stock Ownership Association") and who satisfy certain requirements are beneficiaries. The Trust will acquire during a predetermined acquisition period the quantity of company stock the Stock Ownership Association is expected to acquire during the trust period. Subsequently, the Trust will sell company stock to the Stock Ownership Association on a fixed day each month. If there is any trust income due to a stock price increase at the time the trust terminates, such money will be divided among beneficiary employees according to the quantity of stock acquired during the term. The Company will collectively settle with financial institutions based on guarantee provisions provided for in loan agreements with liability property limitation riders, which means there will be no additional burden on employees if a transfer loss arises due to a stock price decrease resulting in trust property debts.

(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 169 thousand shares of the Company stock with a book value of 326 million yen ($2,893 thousand) as of the end of the current fiscal year.

(3) Book value of loans recorded due to use of the gross price method
The book value of loans was 328 million yen ($2,911 thousand) as of the end of the current fiscal year.

6. INVENTORIES

Inventories at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Merchandise	**¥ 86**	¥ 72	**$ 764**
Finished goods	**8,895**	9,672	**78,933**
Semi-finished goods	**5,192**	7,438	**46,073**
Work-in-process	**755**	905	**6,700**
Raw materials	**2,158**	2,236	**19,150**
Supplies	**4,597**	3,892	**40,793**
Rolls	**2,936**	2,492	**26,054**
Total	**¥ 24,619**	¥ 26,707	**$ 218,467**

7. APPLICATION OF THE LAND REVALUATION LAW

Land used for business purposes has been 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 March 31, 1998), by making rational adjustments to the price calculated by the method publicly announced for calculation of the tax base under the Land Value Tax.

Revaluation date: March 31, 2000

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Difference between the market value at end of year and the book value after revaluation of the land revalued	**¥ (5,851)**	¥ (5,823)	**$ (51,921)**

8. BANK LOANS

Short-term loans consisted of unsecured loans payable from banks at the weighted average interest rate of 3.49% at March 31, 2016 and 3.10% at March 31, 2015.
Long-term debt from banks at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Long-term debt from banks at average rates of 1.44% and 1.38% for current and noncurrent portions, respectively	**¥19,621**	¥21,367	**$174,115**
Less current portion	**(2,585)**	(2,071)	**(22,939)**
Long-term debt from banks	**¥17,036**	¥19,296	**$151,176**

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Buildings and structures	**¥ –**	¥ 8,903	**$ –**
Machinery and equipment	**–**	16,698	**–**
Land	**–**	15,721	**–**
Other	**–**	155	**–**
Total	**¥ –**	¥41,477	**$ –**

There is no obligation corresponding to the above pledged assets.
The annual maturities of long-term debt from banks as of March 31, 2016 are summarized as follows:

Year ended March 31,	Millions of yen	Thousands of U.S.dollars
2017	**¥ 2,585**	**$ 22,939**
2018	**3,122**	**27,704**
2019	**3,450**	**30,615**
2020	**3,122**	**27,704**
2021	**3,122**	**27,704**
Thereafter	**4,220**	**37,449**
Total	**¥ 19,621**	**$ 174,115**

The annual maturities of long-term debt from banks as of March 31, 2015 are summarized as follows:

Year ended March 31,	Millions of yen
2016	¥ 2,071
2017	2,585
2018	3,122
2019	3,122
2020	3,122
Thereafter	7,345
Total	¥ 21,367

9. R&D EXPENSES

R&D expenses included in selling, general and administrative expenses for the years ended March 31, 2016 and 2015 amounted to ¥104 million ($923 thousand) and ¥231 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 28, 2016, the Board approved cash dividends amounting to ¥1,521 million ($13,497 thousand). The appropriation had not been accrued in the consolidated financial statements as of March 31, 2016. At the Board Directors’ meeting held on May 19, 2015, the Board approved cash dividends amounting to ¥1,086 million. The appropriation had not been accrued in the consolidated financial statements as of March 31, 2015.

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 33.0% for the year ended March 31, 2016 and 35.6% for the year ended March 31, 2015. The major components of deferred tax assets and liabilities as of March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Deferred tax assets:			
Impairment loss	**¥ 1,137**	¥ 991	**$ 10,090**
Accrued enterprise taxes	**124**	281	**1,100**
Allowance for doubtful accounts	**54**	41	**479**
Accrued bonuses	**220**	231	**1,952**
Provision for loss on business liquidation	**34**	96	**302**
Accrued directors' retirement benefits	**52**	58	**461**
Tax carry forward	**386**	505	**3,425**
Other	**989**	948	**8,776**
Gross deferred tax assets	**2,996**	3,151	**26,585**
Valuation allowance	**(1,204)**	(890)	**(10,685)**
Total deferred tax assets	**1,792**	2,261	**15,900**
Deferred tax liabilities:			
Valuation difference on available for sale securities	**(631)**	(1,126)	**(5,599)**
Retained earnings appropriated for tax deductible reserves	**(26)**	(29)	**(231)**
Reserve for special depreciation for tax purposes	**(4)**	(4)	**(35)**
Net defined benefit assets	**(39)**	(312)	**(346)**
Other	**(24)**	(28)	**(213)**
Total deferred tax liabilities	**¥ (724)**	¥ (1,499)	**$ (6,424)**
Net deferred tax assets	**¥ 1,068**	¥ 762	**$ 9,476**

Net deferred tax liabilities at March 31, 2016 and 2015 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Deferred tax assets (current)	**¥ 538**	¥ 752	**$ 4,774**
Deferred tax assets (noncurrent)	**615**	699	**5,457**
Deferred tax liabilities (current)	**(3)**	–	**(27)**
Deferred tax liabilities (noncurrent)	**(82)**	(689)	**(728)**
Net deferred tax assets	**¥ 1,068**	¥ 762	**$ 9,476**

The note was omitted because the difference between the statutory tax rate and the effective tax rate was equal to or less than 5% of the statutory tax rate as of March 31, 2016 and 2015.

On March 29, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 are changed from 32.2% to 30.8% and 30.6%, respectively, as of March 31, 2016. Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥31 million (U.S.$ 275 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥55 million (U.S.$ 488 thousand), valuation difference on available for sale securities increased by ¥21 million (U.S.$ 186 thousand) and remeasurement of defined benefit plans increased by ¥4 million (U.S.$ 35 thousand). In addition, deferred tax liabilities for revaluation as of March 31, 2016 decreased by ¥138 million (U.S.$ 1,225 thousand) and revaluation reserve for land increased by the same amount.

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 are changed from 35.6% for the fiscal year ended March 31, 2015 to 33.0% and 32.2%, respectively, as of March 31, 2015. Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥64 million as of March 31, 2015, deferred income tax expense recognized for the fiscal year ended March 31, 2015 increased by ¥185 million, evaluation differences of other securities increased by ¥101 million and accumulated adjustments for employee retirement benefits increased by ¥19 million. In addition, deferred tax liabilities for revaluation as of March 31, 2015 decreased by ¥286 million and revaluation reserve for land increased by the same amount.

12. INFORMATION FOR CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

The following tables present information related to the consolidated statements of changes in net assets for the year ended March 31, 2016 and March 31, 2015 respectively:

(a) Number of shares issued

For the year ended March 31, 2016

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, 2015

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 31, 2016

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	**1,439,389**	**176,066**	**6,600**	**1,608,855**

1. Treasury stock increased by 66 shares due to the repurchase of shares less than one unit.
2. Treasury stock increased by 176,000 shares due to the purchase by the ESOP Trust.
3. Treasury stock decreased by 6,600 due to the sale by the ESOP Trust.
4. Treasury stock include 169,400 shares of the Company owned by the ESOP Trust as of March 31, 2016.

For the year ended March 31, 2015

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	1,439,311	78	–	1,439,389

(c) Cash dividends

Amount of dividend payments

For the year ended March 31, 2016

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
May 19, 2015 (Board of Directors)	**Common stock**	**¥ 1,086**	**$ 9,637**	**¥ 25**	**$ 0.2**	**March 31, 2015**	**June 8, 2015**
October 30, 2015 (Board of Directors)	**Common stock**	**¥ 435**	**$ 3,860**	**¥ 10**	**$ 0.1**	**September 30, 2015**	**December 8 2015**

For the year ended March 31, 2015

Date of approval	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
April 30, 2014 (Board of Directors)	Common stock	¥ 652	¥ 15	March 31, 2014	June 6, 2014
October 30, 2014 (Board of Directors)	Common stock	¥ 435	¥ 10	September 30, 2014	December 9, 2014

13. SUPPLEMENTARY CASH FLOW INFORMATION

Reconciliation of cash and cash equivalents

The following table represents a reconciliation of cash and cash equivalents at March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Cash and time deposits	**¥ 14,739**	¥ 21,179	**$ 130,792**
Time deposits with a maturity of more than three months	**(343)**	(797)	**(3,044)**
Negotiable certificates of deposit with maturities of within three months from the acquisition date	**25,200**	14,600	**223,623**
Cash and cash equivalents	**¥ 39,596**	¥ 34,982	**$ 351,371**

14. SEVERANCE AND RETIREMENT BENEFITS

(1) The Company and its consolidated subsidiaries have defined benefit plans and lump-sum benefit plans and defined contribution pension 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.

(2) Defined benefit plan

(a) Movement in retirement benefit obligations, except those described in (c)

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Balance at April 1	**¥ 4,071**	¥ 3,767	**$ 36,126**
Cumulative effects of changes in accounting policies	**–**	149	**–**
Restated balance at the beginning of current period	**4,071**	3,916	**36,126**
Service cost	**254**	230	**2,254**
Interest cost	**41**	52	**364**
Actuarial loss	**593**	23	**5,262**
Benefits paid	**(222)**	(150)	**(1,970)**
Balance at March 31	**¥ 4,737**	¥ 4,071	**$ 42,036**

(b) Movements in plan assets, except those described in (c)

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Balance at April 1	**¥ 4,922**	¥ 4,154	**$ 43,676**
Expected return on plan assets	**74**	62	**657**
Actuarial gain(loss)	**(188)**	536	**(1,668)**
Contributions paid by the employer	**186**	320	**1,651**
Benefits paid	**(222)**	(150)	**(1,970)**
Balance at March 31	**¥ 4,772**	¥ 4,922	**$ 42,346**

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

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Balance at April 1	**¥ (59)**	¥ 7	**$ (524)**
Retirement benefit cost	**169**	17	**1,500**
Benefits paid	**(18)**	(20)	**(160)**
Other	**0**	3	**0**
Contributions to benefit plans	**(76)**	(66)	**(674)**
Balance at March 31	**¥ 16**	¥ (59)	**$ 142**

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

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Funded retirement benefit obligations	**¥ 5,769**	¥ 5,027	**$ 51,194**
Plan assets	**(5,960)**	(6,100)	**(52,888)**
	(191)	(1,073)	**(1,694)**
Unfunded retirement benefit obligations	**171**	163	**1,517**
Total net liability (asset) for retirement benefits at March 31	**¥ (20)**	¥ (910)	**$ (177)**

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Net defined benefit asset	**¥ (108)**	¥ (967)	**$ (958)**
Net defined benefit liability	**88**	57	**781**
Total net liability (asset) for retirement benefits at March 31	**¥ (20)**	¥ (910)	**$ (177)**

(e) Retirement benefit costs

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Service cost	**¥ 254**	¥ 230	**$ 2,254**
Interest cost	**41**	52	**364**
Expected return on plan assets	**(74)**	(62)	**(657)**
Net actuarial loss (gain) amortization	**(45)**	5	**(399)**
Past service costs amortization	**34**	46	**302**
Retirement benefit cost by applying the simplified method	**169**	17	**1,499**
Total retirement benefit costs for the year ended March 31	**¥ 379**	¥ 288	**$ 3,363**

(f) Remeasurement of defined benefit plans

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Prior service cost	**¥ 33**	¥ 46	**$ 293**
Actuarial gain or loss	**(826)**	519	**(7,330)**
Total balance at March 31	**¥ (793)**	¥ 565	**$ (7,037)**

(g) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Unrecognized prior service cost	**¥ (33)**	¥ (66)	**$ (293)**
Unrecognized actuarial gain or loss	**(196)**	629	**(1,739)**
Total balance at March 31	**¥ (229)**	¥ 563	**$ (2,032)**

(h) Plan assets

❶ Plan assets comprise:

	2016	2015
Bonds	**42%**	36%
Stock	**39**	45
Life insurance company general accounts	**16**	16
Other	**3**	3
Total	**100%**	100%

❷ 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.

(i) Actuarial assumptions

The principal actuarial assumptions were as follows:

	2016	2015
Discount rate	**0.3%**	1.3%
Expected long-term rate of return	**1.5%**	1.5%
Salary increase rate	**2.3%**	2.3%

(3) Defined contribution scheme

The required contribution to the Company's defined contribution scheme was ¥24 million (U.S.$ 213 thousand) for the year ended March 31, 2016 and ¥24 million for the year ended March 31, 2015.

15. AMOUNTS PER SHARE

	yen		U.S.dollars
Years ended March 31	**2016**	2015	**2016**
Net income	**¥ 194.94**	¥ 159.30	**$ 1.73**
As of March 31	**2016**	2015	**2016**
Net assets	**¥ 3,115.86**	¥ 2,980.84	**$ 27.65**

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

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

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

	Millions of yen		Thousands of U.S.dollars
Year ended March 31	**2016**	2015	**2016**
Basic net assets per share:			
Total net assets on the balance sheets	**¥ 143,090**	¥ 138,052	**$ 1,269,767**
Deduction on total net assets	**¥ (8,204)**	¥ (8,507)	**$ (72,801)**
Non-controlling interests	**¥ (8,204)**	¥ (8,507)	**$ (72,801)**
Amount attributable to shareholders of common stock	**¥ 134,886**	¥ 129,546	**$ 1,196,966**
Number of shares outstanding	**44,899**	44,899	**–**
Number of treasury shares	**(1,609)**	(1,439)	**–**
Number of shares at fiscal year end used in calculation of net assets per share	**43,290 thousand shares**	43,459 thousand shares	**–**

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

	Millions of yen		Thousands of U.S.dollars
Year ended March 31	**2016**	2015	**2016**
Basic net income per share:			
Profit attributable to owners of parents	**¥ 8,467**	¥ 6,923	**$ 75,135**
Amount attributable to shareholders of common stock	**¥ 8,467**	¥ 6,923	**$ 75,135**
Weighted average number of shares outstanding	**43,435 thousand shares**	43,459 thousand shares	**–**

Company stock held by the ESOP Trust that is included in treasury stock in shareholders' equity is treated as treasury stock and is thus excluded from the average number of shares used to calculate net income per share. In addition, for the calculation of net assets per share, this 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 that was held by the ESOP Trust and therefore excluded was 24 thousand for the current fiscal year. For the calculation of net assets per share, the number of shares of treasury stock that was held by the ESOP Trust and therefore excluded was 169 thousand for the current fiscal year.

16. LEASES

The Group has entered into finance lease contracts which do not transfer the ownership of the leased assets. The main components of such finance leases are optical instruments used for the steel business and classified as tools, furniture and fixtures.
The Group also has entered into non-cancellable operating lease contracts. Future lease payments subsequent to March 31, 2016 and 2015 under non-cancellable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
As of March 31	**2016**	2015	**2016**
Due within one year	**¥ 7**	¥ 1	**$ 62**
Due after one year	**470**	2	**4,171**
Total	**¥ 477**	¥ 3	**$ 4,233**

17. FINANCIAL INSTRUMENTS

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

1. Qualitative information on financial instruments

(a) Policies for using financial instruments

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

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

Notes and accounts receivable 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 by the counterparty and monitors the financial condition of counterparties.

Bonds and negotiable deposits expose the Group to the credit risk of the issuing company. To manage this risk, the 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. Moreover, the market price is reported to the Board of Directors' periodically.

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

Short-term loans are procured mainly for operating capital and long-term loans (mainly ten years) are procured mainly for foreign capital investment. Foreign currency denominated trade assets and liabilities expose the Group to the risks associated with exchange rate fluctuations. To reduce the risks, the Group uses forward foreign exchange contracts and currency swaps for each contract as hedge instruments. Regarding loans with variable rates, they expose the Group to the risk of interest rate fluctuations. To avoid the risk of interest rate fluctuations, the Group uses interest rate swaps for each business contract to hedge interest rate fluctuation.

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

The Group enters into derivative transactions only with financial institutions of high credit rating and with respect to which the Group believes there is almost no credit risk. 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.

(c) Supplemental information on fair values

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

2. Fair values of financial instruments

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2016 and 2015 were as follows:

Year ended March 31, 2016	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	**¥ 14,739**	**¥ 14,739**	**¥ –**	**$ 130,792**	**$ 130,792**	**$ –**
Notes and accounts receivable	**31,934**	**31,934**	**–**	**283,379**	**283,379**	**–**
Marketable securities	**30,000**	**30,000**	**–**	**266,217**	**266,217**	**–**
Investments in securities						
Available for sale securities	**5,567**	**5,567**	**–**	**49,401**	**49,401**	**–**
Investments in long-term loans receivable	**398**	**398**	**–**	**3,532**	**3,532**	**–**
Other noncurrent assets						
Long-term deposits	**190**	**190**	**0**	**1,686**	**1,686**	**0**
Notes and accounts payable	**(9,251)**	**(9,251)**	**–**	**(82,092)**	**(82,092)**	**–**
Short-term loans	**(13,525)**	**(13,525)**	**–**	**(120,020)**	**(120,020)**	**–**
Long-term debt						
Due within one year	**(2,585)**	**(2,631)**	**46**	**(22,939)**	**(23,347)**	**408**
Due after one year	**(17,036)**	**(17,339)**	**303**	**(151,176)**	**(153,865)**	**2,689**
Derivatives	**(26)**	**(26)**	**–**	**(231)**	**(231)**	**–**

Year ended March 31, 2015	Millions of yen		
	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	¥ 21,179	¥ 21,179	¥ –
Notes and accounts receivable	37,848	37,848	–
Marketable securities	19,600	19,600	–
Investments in securities			
Available for sale securities	6,006	6,006	–
Investments in long-term loans receivable	503	503	–
Other noncurrent assets			
Long-term deposits	–	–	–
Notes and accounts payable	(12,388)	(12,388)	–
Short-term loans	(11,439)	(11,439)	–
Long-term debt			
Due within one year	(2,071)	(2,112)	41
Due after one year	(19,296)	(19,680)	384
Derivatives	(53)	(53)	–

Calculation method for market values of financial instruments and securities

(a) Cash and time deposits, Notes and accounts receivable 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 these securities are determined using the quoted price at the stock exchange.
Investments in securities are classified as available for sale securities and information on securities classified by 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 present value using a discount rate equal to the rate that would be charged if the loan was newly lent.

(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 and Short-term loans

These items are recorded using book values because market values approximate 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 total principal and interest payments to present value using a discount rate equal to the rate that would be charged if the loans were newly borrowed. Some floating rate loans are subject to the exceptional method for interest rate swaps. Such interest rate swaps are handled together with total principal and interest payments and are calculated to present value using a reasonable estimate of the discount rate that would be applied for the same kind of loans.

(g) Derivative transactions

The fair value of derivatives is stated using the quoted prices obtained from financial institutions.

18. SECURITIES

(a) Available for sale securities with determinable market values

As of March 31, 2016	Millions of yen			Thousands of U.S.dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	**¥ 1,292**	**¥ 3,889**	**¥ 2,597**	**$ 11,465**	**$ 34,511**	**$ 23,046**
Bonds	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Securities whose carrying value does not exceed acquisition costs:						
Stock	**2,317**	**1,678**	**(639)**	**20,561**	**14,890**	**(5,671)**
Bonds	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Total	**¥ 3,609**	**¥ 5,567**	**¥ 1,958**	**$ 32,026**	**$ 49,401**	**$ 17,375**

As of March 31, 2015	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥ 1,424	¥ 5,080	¥ 3,656
Bonds	–	–	–
Other	–	–	–
Securities whose carrying value does not exceed acquisition costs:			
Stock	1,183	926	(257)
Bonds	–	–	–
Other	–	–	–
Total	¥ 2,607	¥ 6,006	¥ 3,399

(b) Available for sale securities sold during the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Sales of available for sale securities	**¥ –**	¥ 641	**$ –**
Profit on sales	**¥ –**	¥ 247	**$ –**

(c) Securities without determinable market values

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Investment in securities:			
Unlisted securities (available for sale securities)	**¥ 331**	¥ 1,331	**$ 2,937**
Unlisted securities (unconsolidated subsidiary and affiliated company)	**¥ 4,772**	¥ 4,356	**$ 42,346**
Investments in capital (unconsolidated subsidiaries and affiliated company)	**¥ 2,162**	¥ 946	**$ 19,185**

(d) Derivative transactions

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

Currency related

Year ended March 31, 2016

	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 loss (Thousands of U.S. dollars)
Non-market transactions	**Foreign exchange forward contracts Buying U.S. dollars**	**¥ 245**	**¥ –**	**¥ (8)**	**¥ (8)**	**$ 2,174**	**$ –**	**$ (71)**	**$ (71)**
Non-market transactions	**Foreign exchange forward contracts Selling U.S. dollars**	**1,650**	**–**	**(18)**	**(18)**	**14,642**	**–**	**(160)**	**(160)**

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

Year ended March 31, 2015

	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)
Non-market transactions	Foreign exchange forward contracts Buying U.S. dollars	¥ 94	¥ –	¥ 2	¥ 2
Non-market transactions	Foreign exchange forward contracts Selling U.S. dollars	886	–	(11)	(11)
Non-market transactions	Currency swaps Receiving Japanese yen Paying U.S. dollars	891	–	(11)	(11)
Non-market transactions	Currency swaps Receiving U.S. dollars Paying Vietnamese dong	13,290	–	(33)	(33)

* 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, 2016

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)
Special treatment of interest rate swaps	**Interest rate swap transaction receive floating, pay fixed**	**Long-term debt**	**¥ 8,172**	**¥ 6,915**	*****

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)
Special treatment of interest rate swaps	**Interest rate swap transaction receive floating, pay fixed**	**Long-term debt**	**$ 72,517**	**$ 61,363**	*****

* Fair values of interest rate swaps to which exceptional accounting is applied are included in those of the corresponding long-term loans payable. As such, values are accounted for together with hedged long-term loans payable.

Year ended March 31, 2015

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)
Special treatment of interest rate swaps	Interest rate swap transaction receive floating, pay fixed	Long-term debt	¥ 9,431	¥ 8,174	*

* Fair values of interest rate swaps to which exceptional accounting is applied are included in those of the corresponding long-term loans payable. As such, values are accounted for together with hedged long-term loans payable.

19. IMPAIRMENT LOSS ON FIXED ASSETS

In the year ended March 31, 2016, the Group reported the following loss on impairment of fixed assets;

Use	Place	Type of asset	Millions of yen	Thousands of U.S. dollars
Idle properties (Site for the new plant)	Ninh Binh Province,Vietnamese	Construction in progress	¥ 1,392	$ 12,352
Idle properties	Daisen Town Saihaku County,Tottori	Buildings	9	80
		Intangible assets	0	0
Total			¥ 1,401	$ 12,432

The Group grouped their fixed assets based on division, and each idle asset was treated as separate property.
KSVC has temporarily suspended its plan to construct an integrated steelmaking and rolling factory. Initially, operations at this new factory were to begin in early 2016. Although the construction of this factory is still under consideration, the current uncertainty of the business environment makes it difficult to reach a decision to start construction. Consequently, the carrying amount of the fixed assets associated with the plan for this new factory were written down to the recoverable value and the amount of the decline recorded as an impairment loss.

The company-owned houses for its employees located in Daisen Town Saihaku County, Tottori are not expected to be used in the future and classified as idle properties. Therefore, the carrying amounts were written down to the recoverable value and the amount of the decline recorded as impairment loss.

Recoverable value is principally measured at the net sales value, while the value of the idle properties in Ninh Binh Province, Vietnam is measured as ¥0 because of the difficulties for sale, and the idle properties in Daisen Town Saihaku County, Tottori are measured based on neighborhood sales cases.

In the year ended March 31, 2015, the Group reported the following loss on impairment of fixed assets;

Use	Place	Type of asset	Millions of yen
Idle properties	Sanyo Onoda City, Yamaguchi	Buildings and structures	¥ 37
		Land	59
Total			¥ 96

The Group grouped their fixed assets based on division, and each idle asset was treated as separate property.
Regarding company-owned houses for its employees, some are not expected to be used in the future and classified as idle properties. Carrying amounts were written down to the recoverable value and the amount of the decline stated in other income (expenses) as impairment loss (¥96 million).

Recoverable value when determining impairment loss was determined based on the net sales value. For net sales values, appraised values, etc., provided by real estate appraisers were used.

20. LOSS ON LIQUIDATION OF BUSINESS

In the year ended March 31, 2016, according to the closing of the Hirakata Division (Osaka Mill), the Company recorded a loss on liquidation of business resulting in valuation loss of inventories (¥29 million ($257 thousand)), removable cost of rental assets (¥17 million ($151 thousand)) and extra payment for early retirement (¥16 million ($142 thousand)).

In the year ended March 31, 2015, the loss on liquidation of business recorded in the consolidated statement of operations stems from the decision to close the Hirakata Division (Osaka

Mill) by the Board of Directors' meeting held on March 30, 2015. The closing resulted in impairment loss on fixed assets (¥553 million), removal cost of fixed assets (¥210 million), soil contamination countermeasures cost (¥88 million) and valuation loss of inventories (¥50 million).

The removal cost of fixed assets (¥210 million) and soil contamination countermeasures cost (¥88 million) included above have been set aside as provision for loss on business liquidation.

The followings are the details of the impairment loss on fixed assets.

Use	Place	Type of asset	Millions of yen
Steel business plant	Osaka City	Buildings and structures	¥ 13
		Machinery and equipment	296
		Land	238
		Other	6
Total			¥ 553

The Group grouped their fixed assets based on division, and each idle asset was treated as separate property.
The Company has made the decision to suspend the operations of Hirakata Division (Osaka Mill) from the end of March 2016 and close the plant. The carrying amount of the fixed assets possessed by the Hirakata Division (Osaka Mill) was written down to recoverable values and the amount of the decline stated in other income (expenses).

Recoverable value when determining impairment loss was measured based on the value in use. Value in use was calculated by discounting the estimation of future cash flows using the discount rate of 4.9%.

21. INFORMATION FOR STATEMENTS OF COMPREHENSIVE INCOME

Comprehensive income for the years ended March 31, 2016 and 2015 is outlined as follows:

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Valuation difference on available for sale securities:			
Current accrual	**¥ (1,442)**	¥ 956	**$ (12,796)**
Reclassification adjustment	**–**	(247)	**–**
Before tax effect adjustment	**(1,442)**	709	**(12,796)**
Tax effect adjustment	**495**	(150)	**4,393**
Valuation difference on available for sale securities	**(947)**	559	**(8,403)**
Revaluation reserve for land:			
Tax effect adjustment	**139**	286	**1,233**
Revaluation reserve for land	**139**	286	**1,233**
Foreign currency translation adjustments:			
Current accrual	**113**	1,961	**1,003**
Reclassification adjustment	**–**	–	**–**
Before tax effect adjustment	**113**	1,961	**1,003**
Tax effect adjustment	**–**	–	**–**
Foreign currency translation adjustments:	**113**	1,961	**1,003**
Remeasurement of defined benefit plans:			
Current accrual	**(781)**	513	**(6,931)**
Reclassification adjustment	**(12)**	52	**(106)**
Before tax effect adjustment	**(793)**	565	**(7,037)**
Tax effect adjustment	**252**	(182)	**2,236**
Remeasurement of defined benefit plans	**(541)**	383	**(4,801)**
Total	**¥ (1,236)**	¥ 3,189	**$ (10,968)**

22. SEGMENT INFORMATION

(a) Overview of Reporting Segments

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

The Group's organization is, based on the products or services dealt with, made up of three business segments: Domestic Steel Business, Overseas Steel Business and Material Recycling Business. Based on these business units, the Group formulates comprehensive domestic and overseas strategies and carries out business activities.

Accordingly, the Group has made these three segments—Domestic Steel Business, Overseas Steel Business, 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 intermediate and final processing of medical waste and industrial waste and gravel recycling.

Reporting segments have been revised from the beginning of the current fiscal year.
In prior fiscal years, the Group had three reporting segments: Steel Business, Material Recycling Business and Other Business. Beginning with the current fiscal year, the Steel Business is divided into Domestic Steel Business and Overseas Steel Business because of the change of management classification based on outlook for growth in the scale of operations in Vietnam following the start of operations in this fiscal year in the melting and the second rolling line at VKS. Also, in prior fiscal years, the Steel Business included recycling operations that involved sorting and other processing of waste materials that included materials with value such as steel scrap used to make steel products and non-ferrous scrap containing copper and other materials that are used by companies outside the Group. Due to the similarity of these recycling operations and the operations included in the Material Recycling Business, the recycling operations previously in the Steel Bussiness have been moved to the Material Recycling Business.
In addition, Other Business is no longer a reporting segment because its sales and earnings are not significant. The results are included in "Others" which is not a reporting segment. Segment information for the prior fiscal year have been prepared using the revised reporting segments.

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

The accounting methods of reporting business segments are the same as mentioned in "Significant Accounting Policies." Reporting segment income is operating income. Inter-segment transactions and transfers are based on market prices, etc.

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

Comprehensive income for the years ended March 31, 2016 and 2015 is outlined as follows:

Millions of yen

Year ended March 31, 2016	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 107,642	¥ 46,035	¥ 6,956	¥ 160,633	¥ 319	¥ –	¥ 160,952
Intersegment sales and transfers	2,221	–	1,821	4,042	–	(4,042)	–
Total	109,863	46,035	8,777	164,675	319	(4,042)	160,952
Segment income	¥ 12,507	¥ 744	¥ 1,389	¥ 14,640	¥ 20	¥ (868)	¥ 13,792
Segment assets	¥ 97,414	¥ 47,951	¥ 6,363	¥ 151,728	¥ 3,428	¥ 45,280	¥ 200,436
Other							
Depreciation and amortization	3,289	1,426	224	4,939	15	72	5,026
Impairment loss on fixed assets	–	1,392	–	1,392	–	9	1,401
Increase in property, plant, equipment and intangible assets	3,421	6,177	410	10,008	9	86	10,103

Thousands of U.S. dollars

Year ended March 31, 2016	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	**$ 955,205**	**$ 408,510**	**$ 61,727**	**$ 1,425,442**	**$ 2,830**	**$ –**	**$ 1,428,272**
Intersegment sales and transfers	**19,709**	**–**	**16,159**	**35,868**	**–**	**(35,868)**	**–**
Total	**974,914**	**408,510**	**77,886**	**1,461,310**	**2,830**	**(35,868)**	**1,428,272**
Segment income	**$ 110,986**	**$ 6,602**	**$ 12,326**	**$ 129,914**	**$ 177**	**$ (7,702)**	**$ 122,389**
Segment assets	**$ 864,442**	**$ 425,512**	**$ 56,465**	**$ 1,346,419**	**$ 30,420**	**$ 401,811**	**$ 1,778,650**
Other							
Depreciation and amortization	**29,186**	**12,654**	**1,988**	**43,828**	**133**	**639**	**44,600**
Impairment loss on fixed assets	**–**	**12,352**	**–**	**12,352**	**–**	**80**	**12,432**
Increase in property, plant, equipment and intangible assets	**30,358**	**54,814**	**3,638**	**88,810**	**80**	**763**	**89,653**

(Note) 1 Others represent the businesses which are not included in any of the reporting segments and mainly consist of civil engineering materials sales business and insurance agent business.

2 Intersegment eliminations of ¥183 million ($1,624 thousand) and corporate expenses of ¥(1,052) million ($(9,335) thousand) not allocated to the reporting segments are included in the ¥(868) million ($(7,702) 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 is not attributable to a reporting segment.

3 The adjustment amount of segment assets was ¥45,280 million ($401,811 thousand), 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 ¥72 million ($639 thousand), 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.

5 The adjustment amount of impairment loss on fixed assets was ¥9 million ($80 thousand), related mainly to the corporate assets not allocated to reporting segments.

6 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥86 million ($763 thousand), 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.

7 Segment income was adjusted against operating income of the consolidated statement of income.

Millions of yen

Year ended March 31, 2015	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 131,738	¥ 42,066	¥ 7,212	¥ 181,016	¥ 420	¥ –	¥ 181,436
Intersegment sales and transfers	2,959	–	2,146	5,105	–	(5,105)	–
Total	134,697	42,066	9,358	186,121	420	(5,105)	181,436
Segment income	¥ 10,789	¥ 264	¥ 1,644	¥ 12,697	¥ 18	¥ (919)	¥ 11,796
Segment assets	¥ 106,199	¥ 50,325	¥ 6,247	¥ 162,771	¥ 4,144	¥ 34,845	¥ 201,760
Other							
Depreciation and amortization	3,402	471	203	4,076	12	59	4,147
Impairment loss on fixed assets	–	–	–	–	–	96	96
Increase in property, plant, equipment and intangible assets	3,262	12,370	185	15,817	–	103	15,920

(Note) 1 Others represent the businesses which are not included in any of the reporting segments and mainly consist of civil engineering materials sales business and insurance agent business.
2 Intersegment eliminations of ¥26 million and corporate expenses of ¥(946) million not allocated to the reporting segments are included in the ¥(919) 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 is not attributable to a reporting segment.
3 The adjustment amount of segment assets was ¥34,845 million, 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 ¥59 million, 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.
5 The adjustment amount of impairment loss on fixed assets was ¥96 million, related mainly to the corporate assets not allocated to reporting segments.
6 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥103 million, 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.
7 Segment income was adjusted against operating income of the consolidated statement of income.
8 In addition to the above, impairment loss on fixed assets of ¥553 million was accrued from the assets in the domestic steel segment and recorded as a part of loss on liquidation of business in the consolidated statement of operations.

(d) Information related to geographic areas

Information of the geographic areas for the years ended March 31, 2016 and 2015 are outlined as follows:

❶ Net sales

Year ended March 31, 2016 — Millions of yen

Japan	Overseas			Total
		Vietnam	Others	
¥106,433	**¥54,519**	**¥49,556**	**¥4,963**	**¥160,952**

Year ended March 31, 2016 — Thousands of U.S. dollars

Japan	Overseas			Total
		Vietnam	Others	
$944,476	**$483,796**	**$439,755**	**$44,041**	**$1,428,272**

Year ended March 31, 2015 — Millions of yen

Japan	Overseas			Total
		Vietnam	Others	
¥130,796	¥50,640	¥43,580	¥7,060	¥181,436

❷ Property, plant and equipment

Year ended March 31, 2016 — Millions of yen

Japan	Vietnam	Total
¥55,172	**¥24,484**	**¥79,656**

Year ended March 31, 2016 — Thousands of U.S. dollars

Japan	Vietnam	Total
$489,591	**$217,269**	**$706,860**

Year ended March 31, 2015 — Millions of yen

Japan	Vietnam	Total
¥55,155	¥21,478	¥76,633

❸ Information about principal customers

Year ended March 31, 2016 — Millions of yen

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	**¥ 19,023**	**Domestic steel business**
MM & KENZAI Corporation	**¥ 18,577**	**Domestic steel business**

Year ended March 31, 2016 — Thousands of U.S. dollars

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	**$ 168,808**	**Domestic steel business**
MM & KENZAI Corporation	**$ 164,850**	**Domestic steel business**

Year ended March 31, 2015 — Millions of yen

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	¥ 22,957	Domestic steel business

23. SUBSEQUENT EVENTS

Dividend distribution of surplus
On April 28, 2016, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥ 1,521	**$13,497**

(Note) Total amount of dividends include ¥6 million for the treasury stock owned by the ESOP Trust.

Cash dividends : ¥35 ($0.3) per share.

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of KYOEI STEEL, LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KYOEI STEEL, LTD. and its consolidated subsidiaries as at March 31, 2016 and 2015, 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, 2016 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 15, 2016
Osaka, Japan

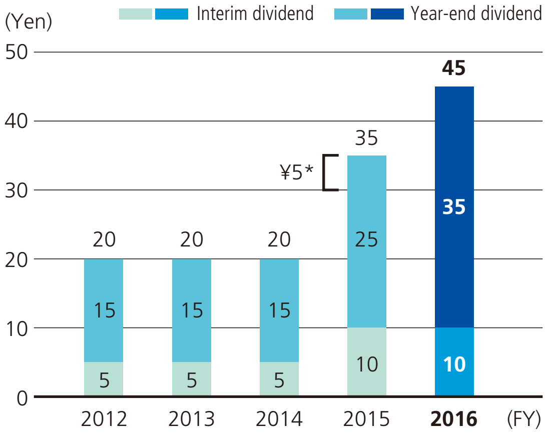
Date of Establishment	August 21, 1947
Common Stock	¥18,516 million
Number of Shares	Authorized: 150,300,000 Issued: 44,898,730
Number of Shareholders	3,584
Number of Employees	1,806 (Consolidated: regular employees)
Stock Listing	Tokyo
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233Japan

Major Shareholders (As of March 31, 2016)

Name of shareholder	Number of shares owned (thousand)	Voting rights ratio
Nippon Steel & Sumitomo Metal Corporation	11,593	26.7
Hideichiro Takashima	4,347	10.0
Japan Trustee Services Bank, Ltd. (Air Water Inc. retirement benefit trust account)	2,600	6.0
Narumitsu Takashima	2,233	5.1
Mitsui & Co., Ltd.	1,470	3.4
Godo Steel, Ltd.	1,347	3.1
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,181	2.7
Japan Trustee Services Bank, Ltd. (Trust Account)	994	2.3
Japan Trustee Services Bank, Ltd. (Trust Account 9)	826	1.9
Japan Trustee Services Bank, Ltd. (Air Water Safety Service Inc. retirement benefit trust account)	692	1.6

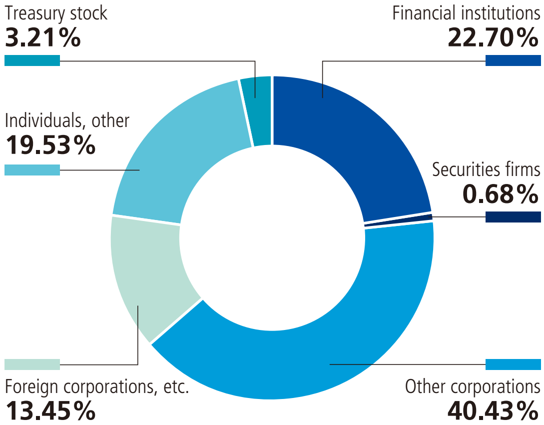
Note: Calculations of share ownership ratios exclude treasury stock (1,439,455 shares). This treasury stock does not include 169,400 shares in the Company held by the Company's employee stock ownership plan.

Dividends per Share

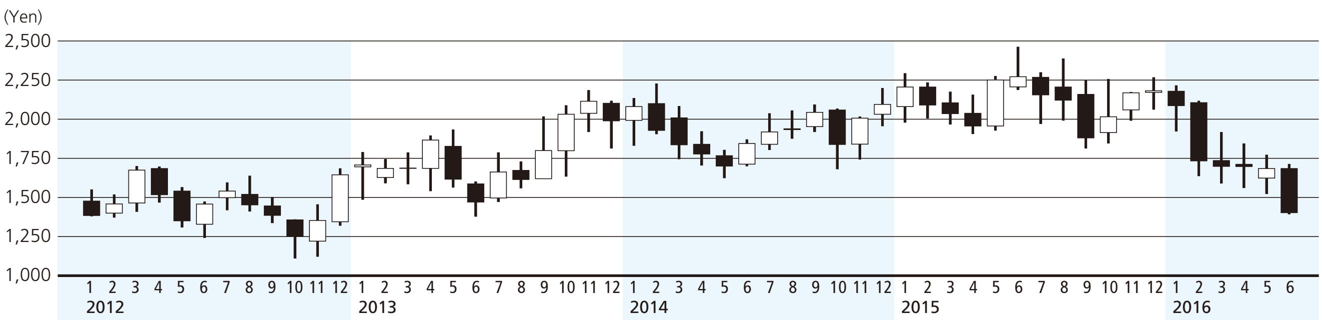


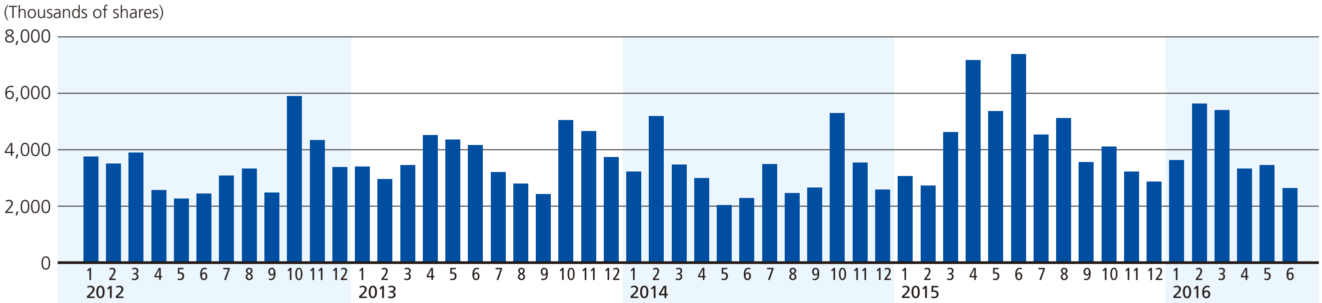
* Including a bonus dividend of ¥5 per share

Composition of Shareholders by Type



Stock Price Movement and Trading Volume





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