KYOEI STEEL

Annual Report 2014

Year Ended March 31, 2014

Code Number: 5440

Profile

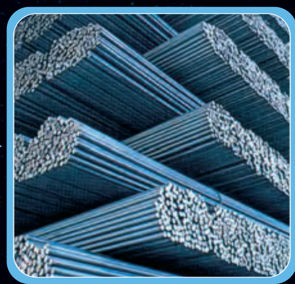
Centered on our core steel business, we meet the needs of the recycling-oriented society.

Kyoei Steel is a steel minimill company, which makes steel by melting scrap in electric arc furnaces. We provide support for the infrastructure of society as Japan's top producer of the concrete reinforcing rebar that is used in civil engineering and construction. Kyoei Steel also engages in overseas operations, having run a steel business in Vietnam since 1994. We are putting the steel melting technologies we have cultivated over many years to use in developing the material recycling business.

Development of a comprehensive recycling system with electric arc furnaces at the core

Steel Business

About 30% of Japan's crude steel production is generated using electric arc furnaces. Steel minimill business fulfills an important role in the recycling of steel materials by providing society with scrap metal reborn as new steel products.

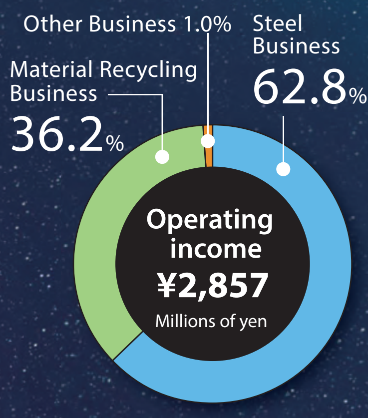


Material Recycling Business

We use the electric arc furnace technologies cultivated in the steel business in developing a melting business for safe and appropriate recycling that renders entirely non-toxic a variety of industrial waste, even difficult-to-process infectious medical waste.

Contents

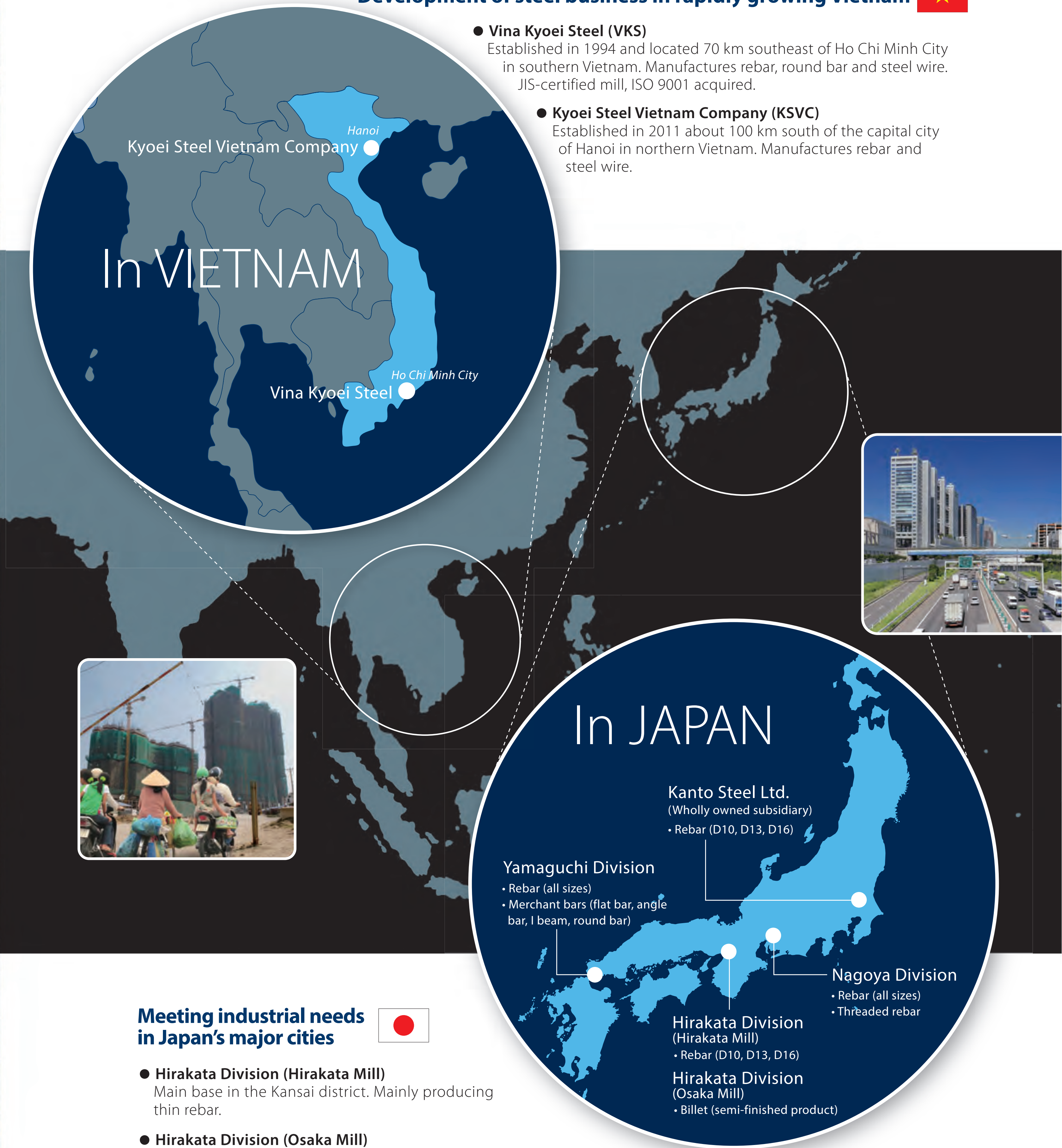
FY2014



FY2014

Development of steel business in rapidly growing Vietnam

- **Vina Kyoei Steel (VKS)**
  Established in 1994 and located 70 km southeast of Ho Chi Minh City in southern Vietnam. Manufactures rebar, round bar and steel wire. JIS-certified mill, ISO 9001 acquired.
- **Kyoei Steel Vietnam Company (KSVC)**
  Established in 2011 about 100 km south of the capital city of Hanoi in northern Vietnam. Manufactures rebar and steel wire.

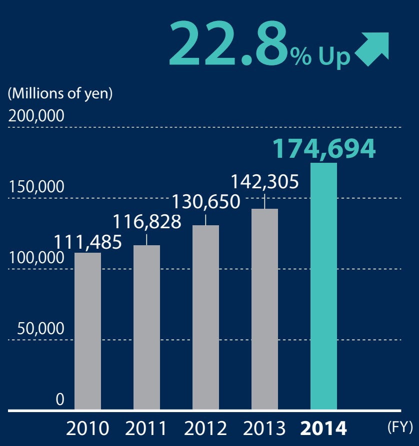


Meeting industrial needs in Japan's major cities

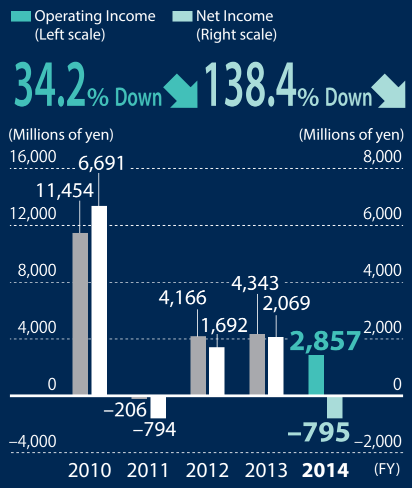
- **Hirakata Division (Hirakata Mill)**
  Main base in the Kansai district. Mainly producing thin rebar.
- **Hirakata Division (Osaka Mill)**
  The source of our steel technology, this mill produces billets.
- **Yamaguchi Division**
  This division produces rebar in a full range of sizes, round bar, flat bar, I beam, and equal angle bar, and also is the main base for industrial waste treatment.
- **Nagoya Division**
  This is our main base in the Chubu area, which in addition to full-sized rebar, produces threaded rebar, a high-value-added type of rebar.

Financial Highlights

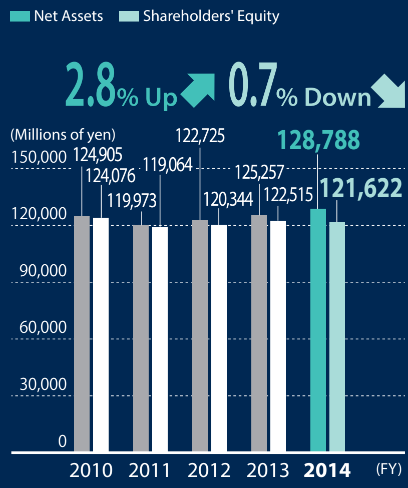
Net Sales



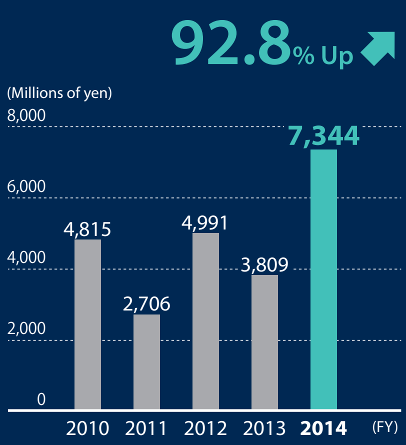
Operating Income & Net Income



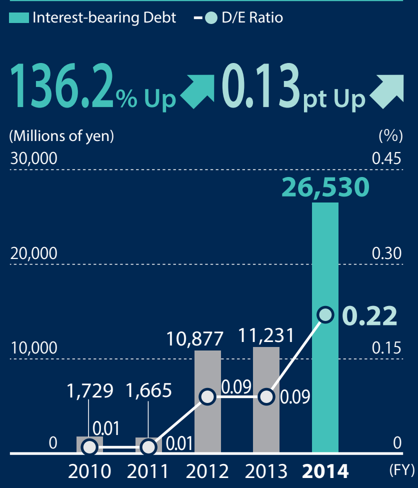
Net Assets & Shareholders' Equity



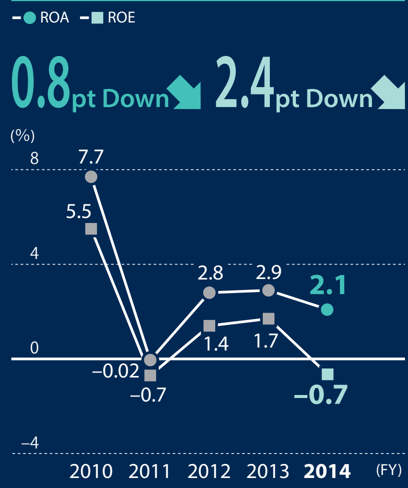
Capital Investment



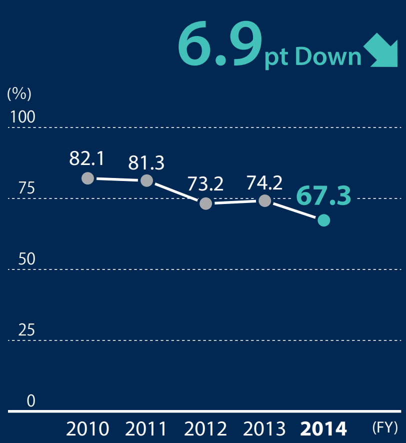
Interest-bearing Debt & D/E Ratio



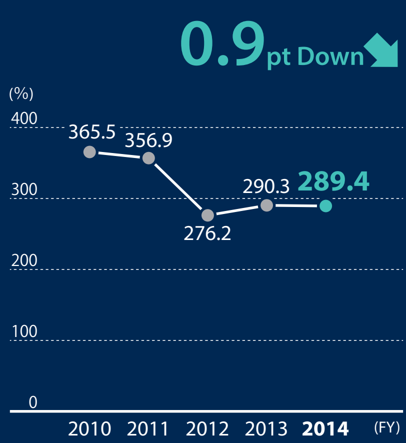
ROA & ROE



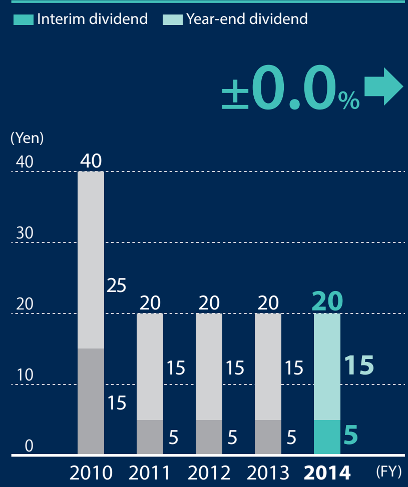
Shareholders' Equity to Total Assets

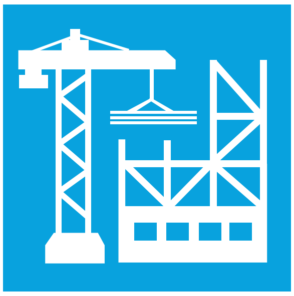


Current Ratio



Dividends

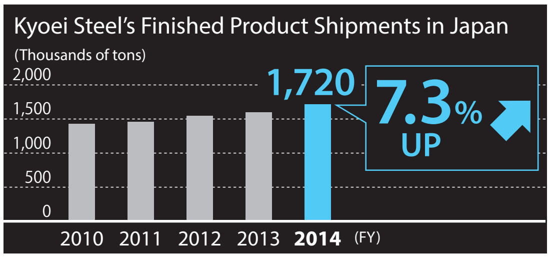


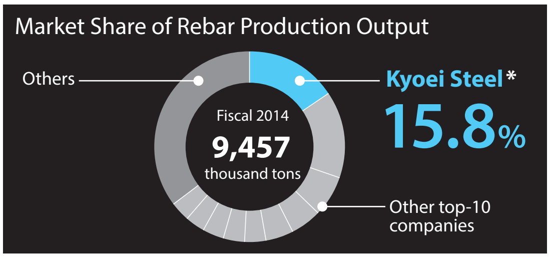


Steel Business

With production and sales bases in each major demand region Kyoei Steel has the top share of the Japanese rebar market.

The Kyoei Steel Group holds a 15.8% share of the Japanese market for its mainstay concrete reinforcing rebar, making it the market leader. The four main regions for construction activity in Japan are Kanto, Chubu, Kansai and Kyushu, with these regions accounting for 70% of the rebar market. The Kyoei Steel Group is the only steel minimill company with production and sales bases in each of these regions. We understand the regional differences in demand and conduct our sales strategy accordingly. The sharing of technological data among our many bases enables prompt technological improvements.



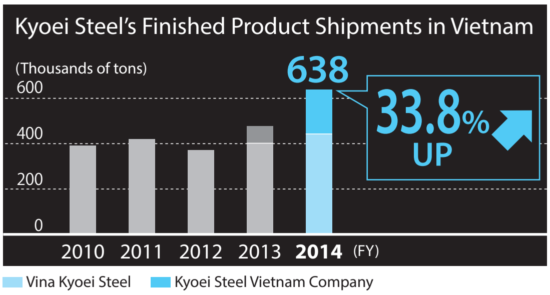


* Kyoei Steel includes Kanto Steel.

We are responding to increasing steel products demand in Southeast Asia at our Vietnam bases.

Our Group has been engaging overseas markets since the 1960s, accumulating results in technology sharing and technological guidance in more than 20 countries. In 1994, we became the first Japanese steel producer to launch production in Vietnam with our establishment of Vina Kyoei Steel (VKS) on the outskirts of Ho Chi Minh City in the southern part of Vietnam. The high-quality steel made there with Japanese management and technology is greatly trusted as a virtually "Made in Japan" product.

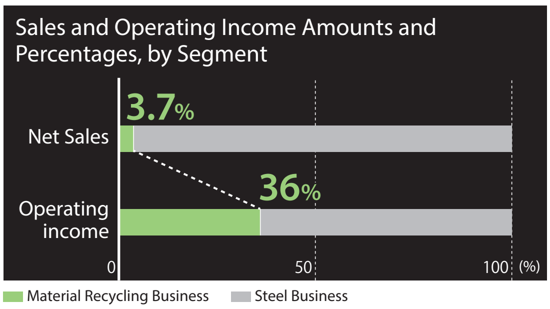
We also established Kyoei Steel Vietnam Company (KSVC) in the northern part of the country in 2011. This two-base structure enables us to respond to robust Southeast Asian demand for steel products for construction.



Material Recycling Business

The material recycling business using electric arc furnaces is contributing to our profit margin.

The Kyoei Steel Group is the first in Japan to use melting process technology to detoxify waste by using the heat of electric arc furnaces. Our more than 25 years of safe, sure processing results have earned us strong confidence among our clients. This business shares facilities with our steel business, which contributes to high margins and underpins stable results for the Group.



Investing in Management Resources in Markets Where We Can Thrive

Steel Business

1 Medium- to Long-term Business Plan

Prevail in the Japanese minimill market

Become a linchpin company for industry reorganization and consolidation

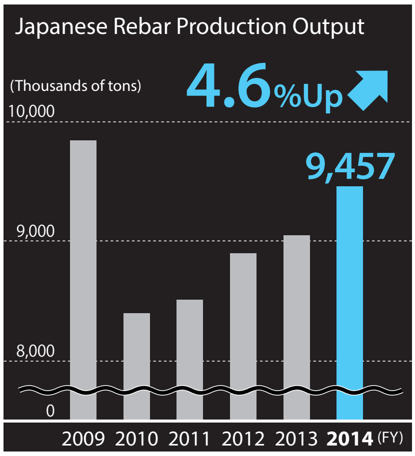
In JAPAN

We foresee steady market expansion in replacement demand for aging social infrastructure and special demand caused by the Tokyo Olympics.

Japan has experienced a period of slack production of carbon steel products since the 2009 financial crisis, sparked by the fall of Lehman Brothers, but from now on we predict growing demand for rebar.

One reason for this is replacement demand for superannuated social infrastructure. During the period of high economic growth from the 1950s, Japan focused on improving the nation's infrastructure, such as roads, ports and sewer lines. Some 30–50 years have passed since then, and now this infrastructure is rapidly deteriorating and replacement demand is seen everywhere. Around 53% of roadway bridges, 60% of river management facilities, such as drainage pump stations and floodgates, 19% of sewer lines, and 53% of harbor quay-wall reinforcing structures will be more than 50 years old by the 2030s, and these figures are predicted to increase.

In addition, special demand in conjunction with the 2020 Tokyo Olympics that were awarded last year will further increase the need for steel products. A number of large-scale redevelopment projects that will use tens of thousands of tons of steel products are already in planning.



Source: The Japan Iron and Steel Federation

Material Recycling Business

3 Medium- to Long-term Business Plan

Achieve steady growth in the material recycling business

We employ complete detoxification processing to meet increasing sophisticated and diverse waste processing needs.

In recent years, appropriate waste processing has become a topic of growing interest in Japan.

Waste processing needs have also become more sophisticated and diverse. In some instances, a greater degree of confidentiality is being called for. Meanwhile, demand is increasing for processing that is safe and certain in terms of environmental and human impact, as is waste processing

2 Medium- to Long-term Business Plan
Expand the overseas steel business

In addition to sustainable development, Japan's active ODA investment is a social infrastructure improvement driver.

In March 2014, the Japanese government promised Vietnam, where our local subsidiaries have built operational bases, a loan in the amount of ¥120 billion extending through 2020 for long-term social infrastructure improvement and industrialization/modernization. More such active investment by the Japanese government is anticipated. Demand for construction steel created by investment in Vietnam serves to drive large-scale project orders for local Japanese subsidiaries such as ours.

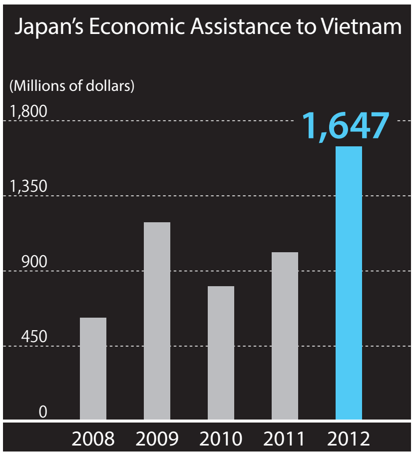
A young population with a median age of 29 is a driving force for growth.

In recent years, Southeast Asia has been the world's number-one growth region, with each country in the region proceeding rapidly with infrastructure construction plans for highways, ports, power plants and the like. Among these countries, Vietnam, with its young, hardworking population of more than 90 million people with a median age of 29 is the focus of attention as a country where further economic growth is foreseen.

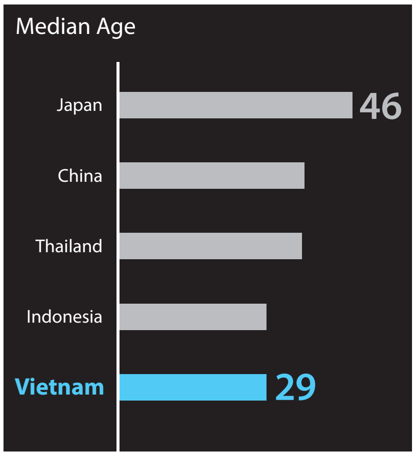
Improvements that will stabilize the power supply, which is vital to the operation of electric arc furnaces, are also underway.

Vina Kyoei Steel


Kyoei Steel Vietnam Company



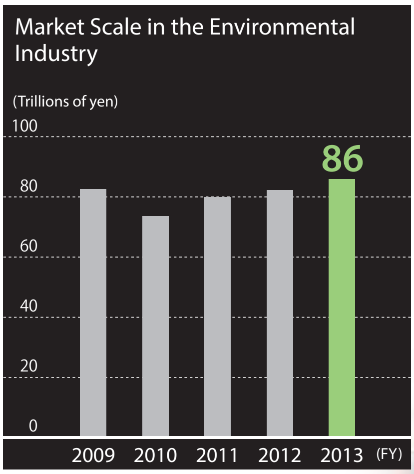
Source: OECD / DAC



Source: CIA (2013)

for new materials for which demand is expected to increase going forward.

The high temperatures at which electric arc furnaces operate perform complete detoxification processing. By taking an active approach toward the processing of waste that is difficult to treat, we are responding accurately to society's needs.



Source: Ministry of the Environment

As the top manufacturer of rebar, we seek continuous growth by responding flexibly to changes in the business environment.

Q | Please explain the results for the fiscal year ended March 31, 2014.

A | Sales increased, while income declined.

During this period (the fiscal year ended March 31, 2014), investment in construction increased in tandem with the recovery of the Japanese economy, causing greater demand in the market for steel products for construction. Under these circumstances, our company experienced an increase in product shipments, and product prices also grew.

Nonetheless, the rise in the cost of steel scrap—the raw material used to make new steel—exceeded the rise in the steel product price. This caused a contraction of what we call the "metal spread" (the difference between the steel product price and the materials price), which is the source of our profits. Electricity costs also rose, while the weaker yen made imported materials costs more expensive, causing higher production costs.

Management Principle

Spirit of Challenge

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

Action Guidelines

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

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

We are practical and realistic.

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

Koji Morita

President and Representative Director

Profile

Mr. Morita joined Sumitomo Metal Industries, Ltd. (currently Nippon Steel & Sumitomo Metal Corporation) in 1971, where, after serving as Leader of the Railway, Automotive & Machinery Parts Company, he became Executive Vice President at that company. In April 2009 he was appointed Corporate Advisor at Kyoei Steel, and later Board Director. After serving as Senior Vice President, he was appointed President in June 2010.

At the same time, KSVC, Ltd., which is located in northern Vietnam, became a consolidated subsidiary. This leaves us with two consolidated subsidiaries in Vietnam.

As a result, consolidated net sales during the fiscal year under review were ¥174,694 million, a 22.8% increase over the previous fiscal year. In terms of income, in steel business the contraction of the metal spread and rise in costs resulted in operating income of ¥2,857 million, a decrease of 34.2% compared to the previous fiscal year. In addition, net income results for the term were a net loss of ¥795 million (compared to net income of ¥2,069 million in the previous term) due to the booking of an impairment loss on fixed assets at the Osaka mill at the end of the fiscal year.

Q What were your main efforts during the term under review, and what is the status of your Medium-to Long-term Business Plan?

A We are continuing to introduce measures in line with our three growth strategies.

We continued to introduce measures in line with the three growth strategies outlined in our Medium- to Long-term Business Plan.

In regard to "Prevailing in the Japanese minimill market," we strove to maintain an appropriate metal spread, and sought to reduce power consumption in operations so as to keep reducing costs as well as proceed with development of new technologies. We were able to maintain our product prices when scrap prices fell in the fourth quarter by conducting production and sales that were carefully attuned to actual product demand trends. We will continue to see to improve the level of income by setting prices appropriately.

In regard to "Expanding the overseas steel business," we are proceeding with plans to increase capacity at VKS and KSVC so as to meet demand in Southeast Asia, which is increasing in tandem with economic growth in that region. Sales efforts by VKS, which is located in southern Vietnam, that were conducted during the term with a view toward future increased capacity proceeded as planned, while KSVC, which is located in the north of the country, became a consolidated subsidiary.

In regard to "Achieving steady growth in the material recycling business," we continue working to expand the scope of business. In addition to acquiring a permit for industrial waste disposal at our Hirakata mill, we established the Sakai Recycling Center, which commenced operations in April 2014. We will continue working to grow our material recycling business.

Q Please discuss the dividend for the fiscal year under review.

A We have awarded a full-year dividend of ¥20.

At Kyoei Steel, we believe that enhancement of corporate value maximizes returns to shareholders. Our dividend policy is to provide reasonable profit distribution while securing the internal reserves necessary to growing our business from a long-term perspective and improving the quality of our company.

Despite booking a loss for the fiscal year under review, the main cause of that was an impairment loss on fixed assets at the Osaka mill, and we recognize that as a temporary

development. As such, as forecast we have set the year-end dividend at ¥15, which combined with interim dividend of ¥5 results in a full-year dividend of ¥20. We are forecasting per-share dividends for the next fiscal year of ¥5 for the interim dividend and ¥15 at the end of the year, for a full-year dividend of ¥20.

Q Please outline your expectations for the business from the next year on.

A **We will seek to increase income by setting prices accordingly and thoroughly reducing costs.**

Although we predict that the market for steel products for construction will remain steady in the upcoming fiscal year (ending March 31, 2015), construction delays due to manpower shortages and higher consumption taxes will have an effect, so we predict that demand will be roughly the same as it was in the term under review. The price of steel scrap, the raw material for steel, is expected to rise due to robust demand in Japan, and if the yen weakens further import prices will also rise, so there is concern about domestic scrap prices also rising.

Given such circumstances, in the next fiscal year we will continue working to remain unaffected by shifts in material scrap price fluctuation, setting product prices that achieve a good match between supply and demand and thereby achieving appropriate and stable levels of income. Also, we will respond to higher electricity rates with thorough cost-cutting efforts aimed at ensuring stable profits.

Any increased burden that cannot be covered by cost reductions will be shifted to the sales price, in which case we will seek the understanding of our customers.

Moreover, overseas we expect a turn toward increased steel demand in Vietnam, and we are aiming to increase revenues at both VKS and KSVC.

Based upon the above, we expect results for the next fiscal year to be positive in terms of both sales and income, with forecast net sales of ¥188.0 billion, operating income of ¥7.2 billion, and net income of ¥4.6 billion. (On July 31, 2014, these figures were revised upward from our initial forecast.)

Given factors such as long-term, continuous oversupply and production cost increases such as rising costs of electrical power, the steel minimill business structure makes it difficult to turn a profit in Japan, so the domestic industry is expected to be heavily thinned out or restructured.

Our Group will continue to work to improve revenues in our domestic steel business against this backdrop, so as to remain undefeated and continue to grow. In addition, we will expand our business overseas, in Vietnam and elsewhere, and work to grow our material recycling business, with the goal of becoming known as "the company that is linchpin of the restructuring of the industry."

July 2014

Koji Morita
President and Representative Director

Progress of Medium- to Long-term Business Plan

1 Prevail in the Japanese minimill market

We will work to set appropriate steel product prices based on our sales power and expand the "metal spread," which is the source of our profits, so as to remain undefeated in the Japanese minimill market, which is expected to contract. We will strengthen our business platform by reducing costs and increasing productivity, as well as developing high-value-added products that meet client needs. At the same time, as the "linchpin company" in industry restructuring and consolidation, we will create the alliances that strengthen competitiveness.

2 Expand the overseas steel business

In contrast to the maturation of Japanese industry and onset of population decline, overseas markets, especially in Southeast Asian nations such as Vietnam, are entering a period of growth.

The Kyoei Steel Group, with a focus on the production bases it is developing in Vietnam, is putting to use the technical prowess it has honed in Japan and the business experience gained worldwide to supply the steel products for construction that is indispensable the growing need for social infrastructure in such nations, including housing, building construction, ports, railways and highways.

Our Group will seek to grow in tandem with the economic growth of the nations of Southeast Asia.

3 Achieve steady growth in the material recycling business

The industrial waste emitted by businesses and local governments has become increasingly diversified in recent years, with the social need for proper disposal also greatly increasing. We are strengthening our efforts in this field because we believe that the material recycling business is an important segment that will provide stable revenues and make an important contribution to the growth of the Group.

- The Hirakata Division's Hirakata Mill acquired an industrial waste disposal permit in March 2014. (Please refer to Topics on p. 12.)
- The Sakai Recycling Center has commenced operations. (See Topics to the right.)

Topics

VKS products used in large civil engineering projects in Vietnam

VKS threaded rebar and mechanical joints are being chosen over and over for use in Subway Line No. 1 in Ho Chi Minh City, which is currently under construction, and in building the North-South Highway that connects Danang and Quảng Ngãi in central Vietnam. Both are large projects using tens of thousands of tons of rebar.

VKS began making and selling threaded rebar in 2011, and had already filled orders for threaded rebar for use in the ODA project in Cambodia for construction of the Neak Loeung Bridge. The order for the subway construction project is our first in Vietnam.

New production line construction underway at VKS

Construction of a new production line that will consolidate the melting and rolling processes, with production capacity of 500 thousand tons/year, is underway at VKS with completion scheduled for autumn 2014. Completion of this new line will bring the company's annual capacity to 1 million tons/year, making VKS a prominent steel producer in Vietnam.

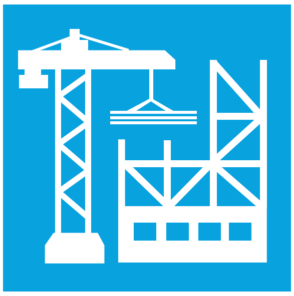
Up to now, VKS had mainly focused on small products for general housing, but construction of the new line will enable the company to efficiently manufacture large products for high-rise buildings and large-scale civil projects. This will in turn enable the company to respond to steel products demand in Vietnam and neighboring countries, which is expected to rise in tandem with growth in infrastructure improvement projects.

Topics

Establishment of the Sakai Recycling Center and commencement of operations

In March 2014, Kyoei Steel took over a scrap yard in the city of Sakai, Osaka Prefecture, from Mitsui Bussan Metals Co., Ltd., and established the Sakai Recycling Center. The center commenced operations in April 2014.

We intend to use the roughly 17,000 square meter site to develop new material recycling business, with the center also being used to stabilize supplies of raw materials for our steel business.



Steel Business

Line of Business

The steel business, which melts steel scrap in electric arc furnaces and brings it back to life as new steel, is the core business of Kyoei Steel. The Company provides a stable supply of high-quality steel products by utilizing its technological capabilities nurtured for over half a century since its founding. Main products are rebar, threaded rebar, round bars, flat bars, angle bars, I beams and billets (semi-finished products). The Company has the leading market share in Japan for rebar, which is indispensable for construction and civil engineering for high-rise buildings and condominiums, roads and other social infrastructure. Deploying its advanced technological capabilities, the Company is addressing the diverse needs of the construction industry by offering stronger and more durable steel products, for which demand has increased in recent years, and developing high-value-added products.

Performance by Segment

In the domestic steel business, demand rebounded from the second quarter on, resulting in a year-on-year increase of 116,000 tons, or 7.3%, in domestic shipment volume. Product prices were up ¥4,700 per ton, but the average consumption price over the full year for steel scrap, our main raw material, also rose ¥5,600 over the previous year, resulting in a decrease in the metal spread (the difference between the steel product price and the scrap price) of ¥900 per ton. In addition, the cost of electricity rose, and imported materials prices were also higher due to the weaker yen, resulting in higher costs. Despite repeated efforts to reduce costs, we were not able to cover the rise in costs entirely.

In our overseas steel business, we are seeking greater production capacity at our Vietnam operations bases (VKS, Ltd. and KSVC, Ltd.) At VKS, which is scheduled to completed its new production line in autumn of 2014, efforts to expand sales channels were made in anticipation of completion of the new production line. KSVC has been consolidated due to its increase in materiality.

As a result of the above, due to the conversion of KSVC to a consolidated subsidiary, segment net sales for the term were ¥167,792 million, a year-on-year increase of ¥32,509 million, or 24%. At the same time, operating income decreased ¥1,223 million, or 34.5%, year on year, to ¥2,319 million.

Material Recycling Business

Line of Business

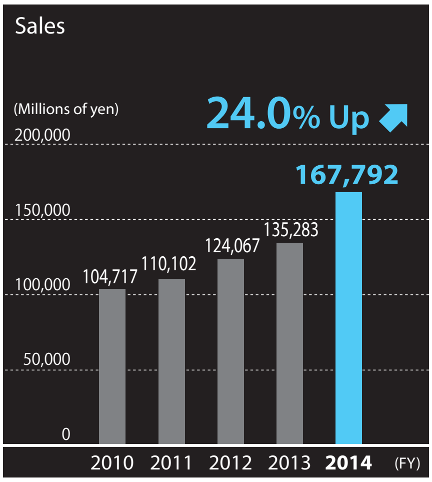
The Company's material recycling business, which utilizes the heat from the electric arc furnaces reaching thousands of degrees Celsius to melt and render potentially infectious medical waste and industrial waste harmless, was the first commercially successful business of that kind established by a Japanese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

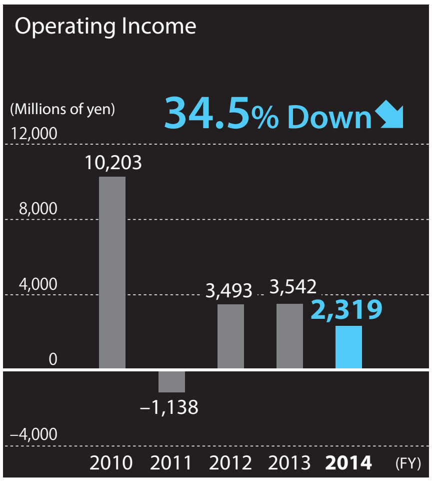
◀ Gasification furnace

Performance by Segment

Great effort was made in this segment to expand processing of high-value-added waste and gain new customers, but due to ever fiercer competition net sales decreased ¥133 million, or 2.0%, year on year, to ¥6,511 million, while operating income declined ¥162 million, or 10.8%, to ¥1,339 million.

Steel Business Results





Topics

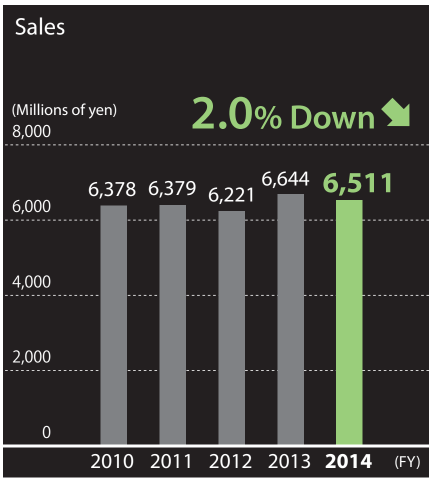
The Yamaguchi Division achieves total shipments of 20 million tons.

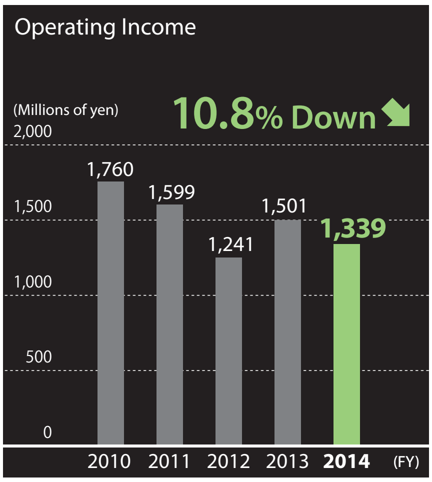
In June 2013, the Kyoei Steel Yamaguchi Division achieved a cumulative shipment volume of 20 million tons in the 39 years since operations began in June 1974.

The Yamaguchi Division is unusual in the steel minimill industry because it operates fully around the clock, with many operations performed at night, to produce rebar (concrete reinforcing bar), round bar, equal angle bar, flat bar and I beam in a full range of sizes, providing high-quality products in a stable manner. The division's sales force links customer needs to the production unit, and its technical prowess in producing a wide range of products and surefire delivery have resulted in the accumulation of a large store of client confidence. This has led to the achievement of 20 million tons in total shipments.

The division is now aiming to produce even greater customer satisfaction to reach 30 million tons.

Material Recycling Business Results





Topics

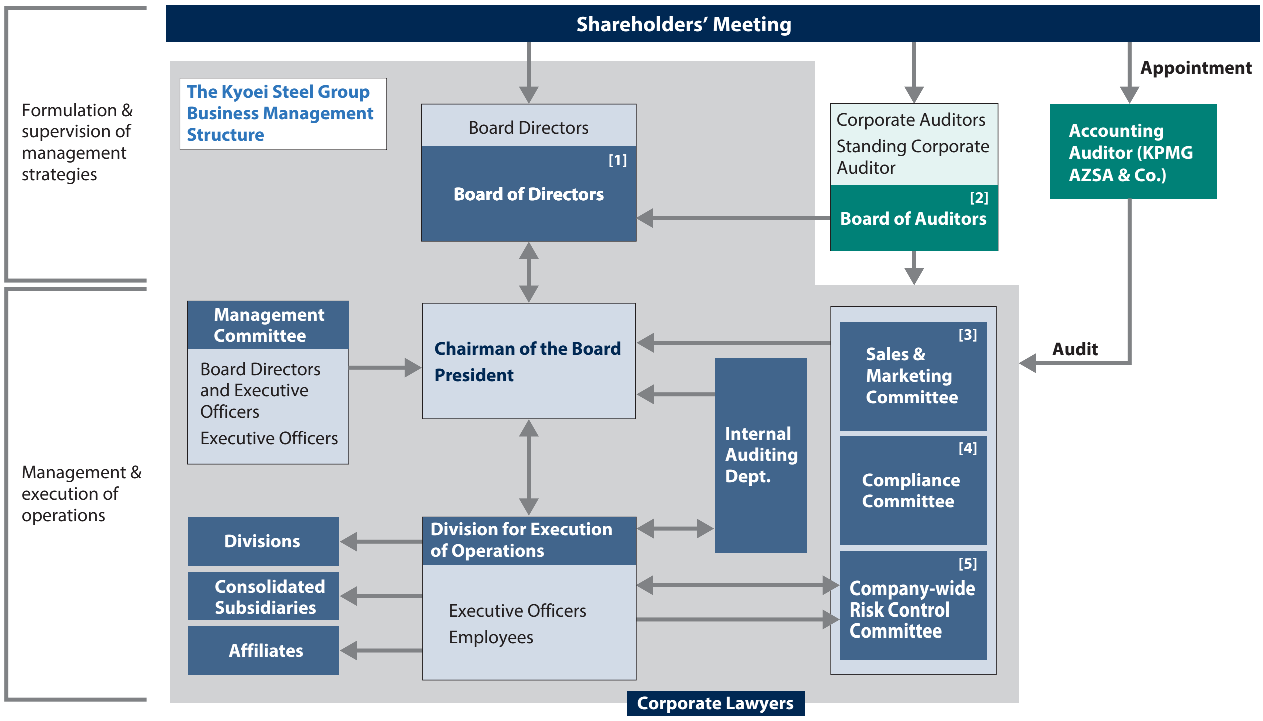
Hirakata Division's Hirakata Mill acquires industrial waste processing permit.

In March 2014, the Hirakata Mill acquired an industrial waste disposal permit from the Osaka prefectural government. (In line with the relocation to Hirakata as the core city, permit administration has been handled by Hirakata since April 2014.)

This move will enable the Hirakata Mill to serve as a disposal point and work with the Osaka Mill in pursuing the material recycling business in the Kansai region.

Corporate Governance

Corporate Governance Structure



Highly transparent management is necessary to coexist with and contribute to society as a corporate group, and therefore Kyoei Steel's management goals are as follows: (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) Disclose information promptly and appropriately to stakeholders; and (4) Seek to pursue sound ethics not only from a legal perspective but also more broadly in accordance with social norms. We believe that one of the important challenges of management is to strengthen and shore up corporate governance so as to realize these goals and make them the focus of our organizational behavior, and we seek to create organizational structures and drive our management measures accordingly.

Board of Directors [1]

Our Board of Directors totals 14 members (with one external director), including two representative directors and 12 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 directors, standing auditors, executive officers, and the president of Kanto Steel, as well as others designated by the chairman or president. In addition to being held monthly, extraordinary Management Conferences may be convened when necessary.

Board of Auditors [2]

The Board of Auditors is composed of one standing auditor and three corporate auditors for a total of four members (three of whom are external auditors), each thoroughly versed in the business of our company and in the industry, with one corporate auditor who is an independent executive posing no possible conflict of interest with general shareholders.

The corporate auditors attend Meetings of the Board of Directors, which functions as the deliberative body for management decisions, and offer opinions when and as appropriate. The standing auditor also attends Management Conferences and other important meetings when necessary.

Sales & Marketing Committee [3]

The president serves as the committee chairman, with other members being the director in charge of the Marketing Planning & Coordination Dept., the general managers of the Sales & Marketing Dept. 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 [4]

The president serves as the committee chairman, with other members being the director in charge of compliance, the director in charge of Human Resources & General Affairs Dept., 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 [5]

The president serves as the committee chairman, with other members being the director in charge of Human Resources & General Affairs Dept., 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

– Compliance System

The Internal Auditing Dept. 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

Thorough legal compliance and respect for corporate ethics are conducted based upon the Kyoei Group's management philosophy and action guidelines at our affiliates, and items that affiliates are required to discuss and report to our company in accordance with fixed standards are stipulated. In addition, corporate auditors are dispatched to affiliates for auditing of internal controls, with the Company's Internal Auditing Dept. 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 one External Board Director and two External Auditors. We are working to strengthen our management oversight functions, and have appointed an external board director and external auditors with assured independence for more sound, fair, and transparent management as well as to ensure fulfillment of our duty of accountability.

Our external board director, Yasuo Imai, is a veteran of the Ministry of Economy, Trade and Industry and was the Commissioner of the Patent Office. We can expect him to employ his rich experience and knowledge in providing objective management oversight and advice, and have appointed him based upon our judgment that he will improve the accuracy of our corporate group's management decisions.

External auditor Makoto Nakaoka 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

Officer compensation is within the remuneration range resolved at the General Meeting of Shareholders, and takes into consideration factors such as the balance between the management situation and employee salaries, degree of responsibility, etc. Board director compensation is determined by the president and representative director who has been authorized by the board directors, while corporate auditor compensation is determined through deliberations with the corporate auditors.

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 measure 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 Dept., whereupon the Headquarters Human Resources and General Affairs Dept. transmits the information via the prescribed network.

Business and Other Risks

(1) Relationship with Nippon Steel & Sumitomo Metal Corporation

As of June 25, 2014, 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. Our 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, including China and South Korea, which have experienced rapid economic growth in recent years, with consumption of steel scrap also trending upward. Japanese integrated steel producers also use steel scrap in their production processes, so steel scrap purchasing volumes have risen along with the increase in demand for steel products. These factors can cause tightness in the supply of steel scrap, which is the principal raw material of our main products, and jumps in materials prices may influence the results of our Group.

(4) Effects of power supply issues

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, and the rise in tandem of the prices of liquefied natural gas (LNG) and oil, which fuel the thermal power plants, has caused the unit price adjusted for fuel costs (for electric power) to rise, resulting in turn in a significant expansion of the cost burden of electrical power. The unit price adjusted for fuel costs in particular is susceptible to fluctuations in energy prices and exchange rates, and can be associated with higher 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.

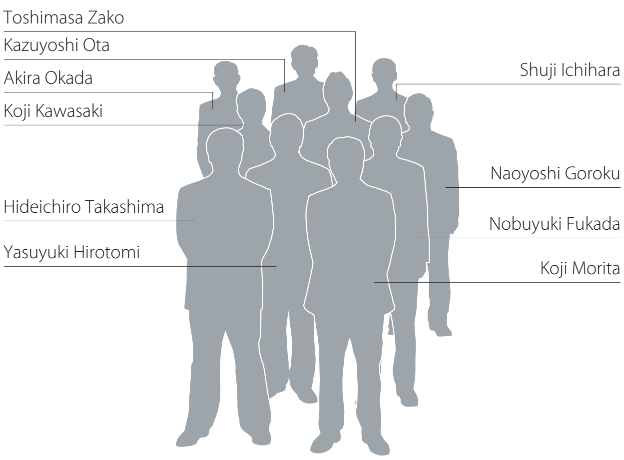
(5) Effects of sharply higher energy prices

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 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 freight costs to rise. An increase in energy prices that continues over the long term could indirectly cause a slowdown in the rate of Japanese economic growth, which may cause a contraction in construction demand. The above items may influence the results of our Group.

(6) 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.

Board Directors, Corporate Auditors and Executive Officers



Chairman and Representative Director

Hideichiro Takashima

President and Representative Director

Koji Morita

Board Directors

Yasuyuki Hirotomi
Senior Vice President

Nobuyuki Fukada
Senior Executive Managing Officer
Planning & Administration–Overseas Investment

Koji Kawasaki
Executive Managing Officer
Accounting & Financing Information Systems

Toshimasa Zako
Executive Managing Officer
General Manager of Hirakata Division

Naoyoshi Goroku
Executive Managing Officer
Marketing Planning & Coordination

Akira Okada
Executive Managing Officer
General Manager of Nagoya Division

Kazuyoshi Ota
Executive Managing Officer
General Manager of Yamaguchi Division

Haruo Hiraiwa
Executive Officer
Production Planning & Coordination,
Research & Development Center,
Executive Construction Officer of Vietnam New Mill Project

Kenji Ishihara
Executive Officer
Compliance, Human Resources & General Affairs

Kotaro Katsurada
Executive Officer
Corporate Planning, Material Recycling

Yasuo Imai (External Director)
AIR WATER INC. President & COO

Standing Corporate Auditor

Shuji Ichihara

Corporate Auditors

Makoto Nakaoka (External Auditor)
Akira Kotani (External Auditor)

FINANCIAL SECTION

Consolidated Five-Year Summary

For the years ended March 31, 2010, 2011, 2012, 2013 and 2014

	2010	2011	2012	2013	**2014**
Product shipments			Thousands of tons		
Finished products	1,431	1,462	1,549	1,603	**1,720**
Billet (semi-finished products)	205	243	297	303	**247**
For the year:			Millions of yen		
Net sales	¥111,485	¥116,828	¥130,650	¥142,305	**¥174,694**
Gross profit	19,999	8,124	12,780	13,256	**12,293**
Operating income (loss)	11,454	(206)	4,166	4,343	**2,857**
Net income (loss) before income taxes	11,121	(386)	3,151	3,738	**9**
Net income (loss)	6,691	(794)	1,692	2,069	**(795)**
Research and development expenses	44	43	29	95	**188**
Depreciation and amortization	4,992	4,806	4,644	4,254	**4,232**
Capital expenditures	4,815	2,706	4,991	3,809	**7,344**
Per share amounts (yen):					
Net income (loss) - basic	152.23	(18.22)	38.89	47.59	**(18.28)**
Net income (loss) - diluted	–	–	–	–	**–**
Cash dividends applicable to the year	40.00	20.00	20.00	20.00	**20.00**
At year-end:					
Total assets	¥151,125	¥146,453	¥164,486	¥165,129	**¥180,771**
Working capital	50,334	51,265	61,950	63,811	**79,699**
Interest bearing debt	1,729	1,665	10,877	11,231	**26,530**
Net assets	124,905	119,973	122,725	125,257	**128,788**
Shareholders' equity*	124,076	119,064	120,344	122,515	**121,622**
Ratios:					
Return on equity (%)	5.5	(0.7)	1.4	1.7	**(0.7)**
Return on total assets (%)	7.7	(0.0)	2.8	2.9	**2.1**
Debt to equity ratio (times)	0.01	0.01	0.09	0.09	**0.22**
Shareholders' equity* to total assets (%)	82.1	81.3	73.2	74.2	**67.3**
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	**44,899**
Number of employees	1,061	1,077	1,299	1,327	**1,611**
Stock price (yen):					
High	¥2,805	¥2,082	¥1,692	¥1,781	**¥2,220**
Low	¥1,544	¥876	¥1,011	¥1,105	**¥1,372**

*Shareholders' equity = Net assets – Minority interests

Financial Review (Consolidated)

1. Consolidated Operating Results

Analysis of Operating Results

The Japanese economy during the consolidated fiscal year, from April 1, 2013 to March 31, 2014 overall remained a course of modest recovery buoyed by the effect of various government-implemented policies.

In the construction steel market, the main demand sector for KYOEI STEEL, LTD. ("the Company") and its consolidated subsidiaries ("the Group"), product demand remained sluggish due to delays, for example, in construction and civil engineering works caused by labor shortages and due to buyers delaying steel purchases as a direct result of the drop in the price of steel scrap, the main raw material, through to the middle of the second quarter. Although the price of steel scrap rebounded and product demand started to recover from the middle of the second quarter, the price of steel scrap plummeted in the fourth quarter, and buyers once again showed signs of delaying purchases of steel.

Confronted by these circumstances, the Group continued its commitment to reduce manufacturing costs, and further brought production and sales in line with demand to raise and maintain product prices in a concerted effort to secure earnings.
In addition, Kyoei Steel Vietnam Co., Ltd (KSVC), North Vietnam, which has been consolidated since 2014 due to increase of materiality.

As a result, partially due to the conversion of KSVC into a consolidated subsidiary, the consolidated sales of the Group totaled ¥174,694 million (U.S.$1,697,542 thousand), an increase of 22.8% or ¥32,390 million (U.S.$314,741 thousand) over the previous term. In terms of income, consolidated operating income decreased by 34.2% or ¥1,485 million (U.S.$14,430 thousand) from the previous term to ¥2,857 million (U.S.$27,762 thousand) due to the closing of the metal spread (price difference between product price and steel scrap price) in the Company's steel business and cost increases, for example, arising from the hike in electricity rates and other factors. Due to an impairment loss on fixed assets being posted at the Company's Osaka Mill, consolidated net income as of March 31, 2014 decreased by ¥2,864 million (U.S.$27,830 thousand) from the previous term's posting of ¥2,069 million (U.S.$20,105 thousand) to post a net loss of ¥795 million (U.S.$7,725 thousand).

Performance results by business segment are as follows.

(1) Steel Business

In the steel business, domestic product shipments, were spurred on by a healthier demand that began in the second quarter, increased by approximately 7.3% or 116,000 tons over the previous fiscal year. Although product prices rose ¥4.7 thousand (U.S.$45.7) per ton, the annual average consumption unit price for the scrap steel, the main raw material, also rose by ¥5.6 thousand (U.S.$54.4) per ton over the previous term, which resulted in the metal spread closing by ¥0.9 thousand (U.S.$8.7) per ton. Despite repeated efforts implemented to cut costs in response to cost increases caused by hikes in electricity costs and the rising price of imported materials resulting from a weak yen, we were unable to completely cover rising costs.
As a result of the above, net sales for the segment were ¥167,792 million (U.S.$1,630,473 thousand), a 24.0% or ¥32,509 million (U.S.$315,897 thousand) increase over the previous year, and operating income was ¥2,319 million (U.S.$22,534 thousand), a 34.5% or ¥1,223 million (U.S.$11,884 thousand) decrease.

(2) Material Recycling Business

In the material recycling business segment, we acquired high value-added waste processing and developed new customers. However, sales were impacted by intensified market competition. This resulted in segment net sales totaling ¥6,511 million (U.S.$63,269 thousand), a 2.0% or ¥133 million (U.S.$1,292 thousand) decrease from the previous fiscal year and operating income of ¥1,339 million (U.S.$13,011 thousand), a year-on-year decrease of 10.8% or ¥162 million (U.S.$1,574 thousand).

(3) Other Business

The other business segment consists of sales of civil engineering materials through a subsidiary and the operation of insurance dealers. Net sales for this segment were ¥391 million (U.S.$3,800 thousand), an increase of 3.7% or ¥14 million (U.S.$136 thousand) from the previous year, and operating income was ¥37 million (U.S.$360 thousand), a decrease of 2.8% or ¥1 million (U.S.$9.7 thousand) from the previous year.

2. Analysis of Financial Situation

i. Status of Consolidated Assets, Liabilities and Net Assets

(1) Assets

Total current assets increased by 14.8% or ¥13,035 million (U.S.$126,664 thousand) from ¥87,933 million (U.S.$854,465 thousand) as of March 31, 2013 to ¥100,968 million (U.S.$981,129 thousand) as of March 31, 2014. This increase in total current assets was mainly due to an increase in cash and time deposits of ¥12,101 million (U.S.$117,588 thousand) and goods and products of ¥5,243 million (U.S.$50,947 thousand), and a decrease in marketable securities of ¥7,400 million (U.S.$71,907 thousand).

Noncurrent assets increased by 3.4% or ¥2,607 million (U.S.$25,333 thousand) from ¥77,196 million (U.S.$750,131 thousand) as of March 31, 2013 to ¥79,802 million (U.S.$775,454 thousand) as of March 31, 2014. This increase in noncurrent assets was mainly due to an increase in construction in progress of ¥4,725 million (U.S.$45,914 thousand) and a decrease in investment in securities of ¥2,273 million (U.S.$22,087 thousand).

As a result, total assets increased by 9.5% or ¥15,642 million (U.S.$151,997 thousand) from ¥165,129 million (U.S.$1,604,596 thousand) as of March 31, 2013 to ¥180,771 million (U.S.$1,756,593 thousand) as of March 31, 2014.

(2) Liabilities

Total current liabilities increased by 15.2% or ¥4,598 million (U.S.$44,680 thousand) from ¥30,293 (U.S.$294,364 thousand) as of March 31, 2013 to ¥34,891 million (U.S.$339,044 thousand) as of March 31, 2014. This increase in total current liabilities was mainly the result of an increase in bank loans of ¥6,640 million (U.S.$64,522 thousand) and long-term debt due within one year of ¥810 million (U.S.$7,871 thousand) and a decrease in notes and accounts payable of ¥3,029 million (U.S.$29,433 thousand).

Total long-term liabilities increased by 78.4% or ¥7,513 million (U.S.$73,006 thousand) from ¥9,579 million (U.S.$93,081 thousand) as of March 31, 2013 to ¥17,092 million (U.S.$166,087 thousand) as of March 31, 2014. This was due to an increase in long-term debt of ¥7,854 million (U.S.$76,319 thousand).

As a result, total liabilities increased by 30.4% or ¥12,112 million (U.S.$117,695 thousand) from ¥39,872 million (U.S.$387,445 thousand) as of March 31, 2013 to ¥51,983 million (U.S.$505,131 thousand) as of March 31, 2014.

(3) Net Assets

Total net assets increased by 2.8% or ¥3,530 million (U.S.$34,302 thousand) or from ¥125,257 million (U.S.$1,217,151 thousand) as of March 31, 2013 to ¥128,788 million (U.S.$1,251,462 thousand) as of March 31, 2014 due mainly to cash dividends paid of ¥869 million (U.S.$8,444 thousand), an increase in foreign currency translation adjustment of ¥1,070 million (U.S.$10,397 thousand) and an increase in minority interests of ¥4,424 million (U.S.$42,989 thousand).

As a result, net assets per share decreased by ¥20.54 (U.S.$0.20) from ¥2,819.07 (U.S.$27.39) at the previous fiscal year-end to ¥2,798.53 (U.S.$27.19). The ratio of shareholders' equity to total assets also decreased to 67.3% from 74.2% at the previous fiscal year-end.

ii. Cash Flow Status

The ending balance for cash and cash equivalents as of March 31, 2014 increased by ¥4,654 million (U.S.$45,224 thousand) from ¥29,216 (U.S.$283,899 thousand) as of March 31, 2013 to ¥33,871 million (U.S.$329,132 thousand). Below is a summary of the cash flows for the current consolidated fiscal year.

(1) Cash Flows from Operating Activities

Net cash provided by operating activities was an outflow of ¥2,117 million (U.S.$20,571 thousand). The major components of cash flows from operating activities were depreciation and amortization of ¥4,232 million (U.S.$41,123 thousand), an impairment loss on fixed assets of ¥2,651 million (U.S.$25,760 thousand), an increase in inventories of ¥3,528 million (U.S.$34,282 thousand), a decrease in trade notes and accounts payable of ¥3,899 million (U.S.$37,887 thousand), and income taxes paid of ¥1,103 million (U.S.$10,718 thousand).

(2) Cash Flows from Investing Activities

Net cash used in investing activities was an outflow of ¥6,979 million (U.S.$67,817 thousand). The major components of cash flows from investing activities were an increase in time deposits of ¥1,221 million (U.S.$11,865 thousand), a decrease in time deposits of ¥1,192 million (U.S.$11,583 thousand), and payment for purchase of property, plant and equipment of ¥6,611 million (U.S.$64,241 thousand).

(3) Cash Flows from Financing Activities

Net cash provided by financing activities was an inflow of ¥11,647 million (U.S.$113,177 thousand). The major components of cash flows from financing activities were a net increase in short-term loans payable of ¥2,930 million (U.S.$28,471 thousand), proceeds from long-term debt of ¥8,144 million (U.S.$79,137 thousand), and cash dividends paid of ¥870 million (U.S.$8,454 thousand).

3. Dividends

It is our fundamental principle to reward our shareholders by increasing corporate value. Therefore, we aim to ensure the necessary cash reserve for such important business activities as growth-driven investment in mergers and capital expenditures.

Although we finished the year with a net loss, this was chiefly due to an impairment loss on fixed assets at the Company's Osaka Mill, the net loss that we perceive is only temporary. Therefore, management decided to pay a year-end dividend of 15 yen per share as we had originally anticipated. Together with the 5 yen per share interim dividend that we implemented during the term, this amounted to payment of an annual dividend of 20 yen per share.

Consolidated Balance Sheets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
ASSETS			
Current assets:			
Cash and time deposits	**¥ 28,024**	¥ 15,923	**$ 272,316**
Notes and accounts receivable	**37,153**	35,695	**361,024**
Marketable securities (Note 16 and 17)	**6,600**	14,000	**64,134**
Inventories (Note 5)	**26,498**	20,393	**257,487**
Deferred tax assets (Note 10)	**432**	381	**4,198**
Other current assets	**2,382**	1,589	**23,136**
Allowance for doubtful accounts	**(121)**	(48)	**(1,176)**
Total current assets	**100,968**	87,933	**981,129**
Property, plant and equipment:			
Buildings and structures (Note 7)	**38,010**	36,002	**369,352**
Machinery and equipment (Note 7)	**90,963**	87,157	**883,908**
Land (Note 7)	**25,431**	26,748	**247,119**
Construction in progress	**5,464**	739	**53,095**
Other (Note 7)	**2,157**	2,059	**20,960**
Total	**162,025**	152,705	**1,574,434**
Accumulated depreciation	**(96,971)**	(92,175)	**(942,289)**
Net property, plant and equipment	**65,054**	60,530	**632,145**
Investments and other assets:			
Investments in securities (Note 16 and 17)	**7,021**	6,437	**68,225**
Unconsolidated subsidiaries and affiliated companies (Note 17)	**3,933**	6,790	**38,218**
Investments in long-term loans receivable	**190**	258	**1,846**
Net defined benefit asset (Note 13)	**444**	—	**4,314**
Intangible assets, net	**1,167**	1,258	**11,340**
Deferred tax assets (Note 10)	**502**	213	**4,878**
Other noncurrent assets	**1,567**	1,792	**15,227**
Allowance for doubtful accounts	**(75)**	(82)	**(729)**
Total investments and other assets	**14,749**	16,666	**143,319**
Total assets	**¥180,771**	¥165,129	**$1,756,593**

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)
	2014	2013	**2014**
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	**¥ 13,122**	¥ 16,151	**$ 127,509**
Bank loans (Note 7)	**12,681**	6,041	**123,224**
Long-term debt due within one year (Note 7)	**941**	130	**9,144**
Income taxes payable	**628**	736	**6,102**
Accrued employees' bonuses	**645**	636	**6,268**
Accrued directors' bonuses	**9**	42	**87**
Other current liabilities	**6,865**	6,557	**66,710**
Total current liabilities	**34,891**	30,293	**339,044**
Long-term liabilities:			
Long-term debt (Note 7)	**12,901**	5,047	**125,362**
Deferred tax liabilities (Note10)	**649**	548	**6,306**
Deferred tax liabilities for revaluation	**3,119**	3,492	**30,308**
Accrued employees' severance and retirement benefits (Note 13)	**—**	127	**—**
Accrued directors' severance and retirement benefits	**19**	16	**185**
Net defined benefit liability (Note 13)	**64**	—	**622**
Other long-term liabilities	**340**	349	**3,304**
Total long-term liabilities	**17,092**	9,579	**166,087**
Total liabilities:	**51,983**	39,872	**505,131**
Contingent liabilities (Note 6)			
Net assets (Note 9)			
Shareholders' equity			
Common stock	**18,516**	18,516	**179,924**
Authorized – 150,300,000 shares in 2014			
150,300,000 shares in 2013			
Issued – 44,898,730 shares in 2014			
44,898,730 shares in 2013			
Capital surplus	**21,493**	21,493	**208,852**
Retained earnings	**75,673**	77,300	**735,333**
Treasury stock	**(1,699)**	(1,699)	**(16,510)**
Total shareholders' equity	**113,983**	115,610	**1,107,599**
Accumulated other comprehensive income			
Valuation difference on available for sales securities	**1,700**	1,324	**16,519**
Deferred gains and losses on hedges	**—**	117	**—**
Revaluation reserve for land	**4,735**	5,329	**46,012**
Foreign currency translation adjustments	**1,205**	135	**11,709**
Remeasurement of defined benefit plans	**(1)**	—	**(10)**
Total accumulated other comprehensive income	**7,639**	6,905	**74,230**
Minority interests	**7,166**	2,742	**69,633**
Total net assets	**128,788**	125,257	**1,251,462**
Total liabilities and net assets	**¥180,771**	¥165,129	**$1,756,593**

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

Consolidated Statements of Operations

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net sales	**¥174,694**	¥142,305	**$1,697,542**
Cost of sales	**162,401**	129,049	**1,578,088**
Gross profit	**12,293**	13,256	**119,454**
Selling, general and administrative expenses (Note 8)	**9,436**	8,913	**91,692**
Operating income	**2,857**	4,343	**27,762**
Other income (expenses):			
Interest income	**558**	338	**5,422**
Dividend income	**176**	117	**1,710**
Interest expense	**(461)**	(410)	**(4,480)**
Equity in net income (loss) of unconsolidated subsidiaries and affiliates	**(301)**	2	**(2,925)**
Foreign exchange gains	**112**	79	**1,088**
Gain on sale and disposal of property, plant and equipment	**35**	21	**340**
Gain on sale of scrap	**82**	123	**797**
Loss on sale and disposal of property, plant and equipment	**(476)**	(284)	**(4,625)**
Loss on sale of investments in securities	—	(185)	—
Impairment loss on fixed assets (Note 18)	**(2,651)**	—	**(25,760)**
Loss on step acquisitions	—	(417)	—
Cash sales discount	**(44)**	(38)	**(428)**
Other, net	**122**	49	**1,186**
Other income (expenses), net	**(2,848)**	(605)	**(27,675)**
Net income before income taxes	**9**	3,738	**87**
Income taxes (Note 10)			
Current	**997**	1,413	**9,688**
Deferred	**(577)**	43	**(5,607)**
Total income taxes	**420**	1,456	**4,081**
Income (loss) before minority interests	**(411)**	2,282	**(3,994)**
Minority interests in net income of consolidated subsidiaries	**384**	213	**3,731**
Net income (loss)	**¥ (795)**	¥ 2,069	**$ (7,725)**

	yen		U.S. dollars (Note 1)
Amounts per share (Note 14)	**2014**	2013	**2014**
Net income (loss)			
Basic	**¥ (18.28)**	¥ 47.59	**$ (0.18)**
Diluted	—	—	—
Cash dividends applicable to the year	**¥ 20.00**	¥ 20.00	**$ 0.19**

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

Consolidated Statements of Comprehensive Income

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Income (loss) before minority interests	**¥ (411)**	¥2,282	**$ (3,994)**
Other comprehensive income			
Valuation difference on available for sales securities	**376**	359	**3,654**
Deferred gains and losses on hedges	**(117)**	116	**(1,137)**
Foreign currency translation adjustments	**1,875**	737	**18,220**
Share of other comprehensive income of affiliates accounted for using equity method	**—**	(0)	**—**
Other comprehensive income, net (Note 19)	**2,134**	1,212	**20,737**
Comprehensive income	**¥1,723**	¥3,494	**16,743**
Breakdown of comprehensive income:			
Comprehensive income attributable to owners of the parent	**¥ 426**	¥3,105	**$ 4,140**
Comprehensive income attributable to minority interests	**¥1,297**	¥ 389	**$12,603**

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

Consolidated Statements of Changes in Net Assets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Shareholders' equity			
Common stock			
Balance at the beginning of current period	**¥ 18,516**	¥ 18,516	**$ 179,924**
Balance at the end of current period	**18,516**	18,516	**179,924**
Capital surplus			
Balance at the beginning of current period	**21,493**	21,493	**208,852**
Balance at the end of current period	**21,493**	21,493	**208,852**
Retained earnings			
Balance at the beginning of current period	**77,300**	76,101	**751,142**
Changes during the period			
Cash dividends	**(869)**	(870)	**(8,444)**
Net income (loss)	**(795)**	2,069	**(7,725)**
Reversal of revaluation reserve for land	**594**	—	**5,772**
Change of scope of consolidation	**(557)**	—	**(5,412)**
Total changes during the period	**(1,627)**	1,199	**(15,809)**
Balance at the end of current period	**75,673**	77,300	**735,333**
Treasury stock			
Balance at the beginning of current period	**(1,699)**	(1,635)	**(16,510)**
Changes during the period			
Purchase of treasury stock	**(0)**	(64)	**(0)**
Total changes during the period	**(0)**	(64)	**(0)**
Balance at the end of current period	**(1,699)**	(1,699)	**(16,510)**
Total shareholders' equity			
Balance at the beginning of current period	**115,610**	114,475	**1,123,408**
Changes during the period			
Cash dividends	**(869)**	(870)	**(8,444)**
Net income	**(795)**	2,069	**(7,725)**
Reversal of revaluation reserve for land	**594**	—	**5,772**
Purchase of treasury stock	**(0)**	(64)	**(0)**
Change of scope of consolidation	**(557)**	—	**(5,412)**
Total changes during the period	**(1,627)**	1,135	**(15,809)**
Balance at the end of current period	**¥113,983**	¥115,610	**$1,107,599**

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)
	2014	2013	**2014**
Accumulated other comprehensive income			
Valuation difference on available for sales securities			
Balance at the beginning of current period	**¥ 1,324**	¥ 965	**$ 12,866**
Changes during the period			
Net changes in items other than shareholders' equity	**376**	359	**3,653**
Total changes during the period	**376**	359	**3,653**
Balance at the end of current period	**1,700**	1,324	**16,519**
Deferred gains and losses on hedges			
Balance at the beginning of current period	**117**	1	**1,137**
Change during the period			
Net changes in items other than shareholders' equity	**(117)**	116	**(1,137)**
Total changes during the period	**(117)**	116	**(1,137)**
Balance at the end of current period	**—**	117	**—**
Revaluation reserve for land			
Balance at the beginning of current period	**5,329**	5,329	**51,784**
Changes during the period			
Net changes in items other than shareholders' equity	**(594)**	—	**(5,772)**
Total changes during the period	**(594)**	—	**(5,772)**
Balance at the end of current period	**4,735**	5,329	**46,012**
Foreign currency translation adjustments			
Balance at the beginning of current period	**135**	(426)	**1,312**
Changes during the period			
Net changes in items other than shareholders' equity	**1,070**	561	**10,397**
Total changes during the period	**1,070**	561	**10,397**
Balance at the end of current period	**1,205**	135	**11,709**
Remeasurements of defined benefit plans			
Balance at the beginning of current period	**—**	—	**—**
Changes during the period			
Net changes in items other than shareholders' equity	**(1)**	—	**(10)**
Total changes during the period	**(1)**	—	**(10)**
Balance at the end of current period	**(1)**	—	**(10)**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**6,905**	5,869	**67,098**
Changes during the period			
Net changes in items other than shareholders' equity	**734**	1,036	**7,132**
Total changes during the period	**734**	1,036	**7,132**
Balance at the end of current period	**7,639**	6,905	**74,230**
Minority interests			
Balance at the beginning of current period	**2,742**	2,381	**26,645**
Changes during the period			
Net changes in items other than shareholders' equity	**4,424**	361	**42,988**
Total changes during the period	**4,424**	361	**42,988**
Balance at the end of current period	**¥ 7,166**	¥ 2,742	**$ 69,633**

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

Consolidated Statements of Changes in Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Total net assets			
Balance at the beginning of current period	**¥125,257**	¥122,725	**$1,217,152**
Changes during the period			
Cash dividends	**(869)**	(870)	**(8,444)**
Net income (loss)	**(795)**	2,069	**(7,725)**
Reversal of revaluation reserve for land	**594**	—	**5,772**
Purchase of treasury stock	**(0)**	(64)	**(0)**
Change of scope of consolidation	**(557)**	—	**(5,412)**
Net changes in items other than shareholders' equity	**5,158**	1,397	**50,119**
Total changes during the period	**3,531**	2,532	**34,310**
Balance at the end of current period	**¥128,788**	¥125,257	**$1,251,462**

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

Consolidated Statements of Cash Flows

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash flows from operating activities:			
Net income before income taxes	**¥ 9**	¥ 3,738	**$ 87**
Depreciation and amortization	**4,232**	4,254	**41,123**
Impairment loss on fixed assets	**2,651**	—	**25,760**
Increase (decrease) in provision	**37**	(60)	**360**
Increase in net defined benefit liability	**(68)**	—	**(661)**
Equity in net loss(income) of unconsolidated subsidiaries and affiliates	**301**	(2)	**2,925**
Loss on sale of investments in securities	—	185	—
Loss on devaluation of investments in securities	—	29	—
Loss on sale and disposal of property, plant and equipment	**441**	263	**4,285**
Interest and dividend income	**(735)**	(455)	**(7,142)**
Interest expense	**461**	410	**4,480**
Decrease (increase) in notes and accounts receivable	**(305)**	3,489	**(2,964)**
Decrease (increase) in inventories	**(3,528)**	1,016	**(34,282)**
Increase (decrease) in trade notes and accounts payable	**(3,899)**	(796)	**(37,887)**
Decrease in net defined benefit asset	**(90)**	—	**(875)**
Other	**(804)**	55	**(7,812)**
Subtotal	**(1,297)**	12,126	**(12,603)**
Interest and dividends received	**736**	470	**7,152**
Interest paid	**(453)**	(405)	**(4,402)**
Income taxes paid	**(1,103)**	(2,352)	**(10,718)**
Net cash provided (used in) by operating activities	**(2,117)**	9,839	**(20,571)**
Cash flows from investing activities:			
Increase in time deposits	**(1,221)**	(1,211)	**(11,865)**
Decrease in time deposits	**1,192**	2,282	**11,583**
Payment for acquisition of marketable securities	—	(1,800)	—
Proceeds from sale and redemption of marketable securities	—	2,600	—
Payment for purchase of investments in securities	**(92)**	(1,351)	**(894)**
Proceeds from sale of marketable securities and investments	—	167	—
Increase in money deposited	**(1)**	(100)	**(10)**
Decrease in money deposited	**100**	—	**972**
Investments in loans	**(18)**	(60)	**(175)**
Collection of loans	**100**	811	**972**
Payment for purchase of property, plant and equipment	**(6,611)**	(4,420)	**(64,241)**
Proceeds from sale of property, plant and equipment	**53**	31	**515**
Payment for purchase of intangibles	**(70)**	(99)	**(680)**
Other	**(411)**	(84)	**(3,994)**
Net cash used in by investing activities	**¥ (6,979)**	¥(3,234)	**$(67,817)**

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

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**¥ 2,930**	¥ (130)	**$ 28,471**
Proceeds from long-term debt	**8,144**	—	**79,137**
Repayment of long-term debt	**(131)**	(138)	**(1,273)**
Repayment of installment payables	**(4)**	(6)	**(39)**
Payment for payback of treasury stock	**(0)**	—	**(0)**
Cash dividends paid	**(870)**	(870)	**(8,454)**
Dividends paid to minority shareholders	**(35)**	(28)	**(340)**
Proceeds from stock issuance to minority shareholders	**1,615**	—	**15,693**
Other	**(2)**	(2)	**(18)**
Net cash provided (used in) by financing activities	**11,647**	(1,174)	**113,177**
Effect of exchange rate changes on cash and cash equivalents	**1,983**	565	**19,269**
Net increase in cash and cash equivalents	**4,534**	5,996	**44,058**
Cash and cash equivalents at the beginning of the period	**29,216**	23,220	**283,898**
Increase in cash and cash equivalents from newly consolidated subsidiary (Note 12)	**121**	—	**1,176**
Cash and cash equivalents at the end of the period (Note 12)	**¥33,871**	¥29,216	**$329,132**

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

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.91 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, 2014 and 2013 included the accounts of the Company and its 9 and 8 subsidiaries, respectively. All significant intercompany balances and transactions have been eliminated in consolidation.
Kyoei Steel Vietnam Co., Ltd has been consolidated since 2014 due to increase of materiality.
Kyoei Steel Vietnam Co., Ltd and Vina Kyoei Steel Co., Ltd 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 if not hedged by forward foreign exchange contracts or at the contracted rates of exchange when hedged by forward foreign exchange contracts. The resulting gain or loss is recognized as other income or expense.
Assets and liabilities of the overseas consolidated subsidiaries are translated at the exchange rates in effect at each balance sheet date, and revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation adjustments are presented as a component of net assets and minority interests in the consolidated financial statements.

(c) Cash and cash equivalents
Cash 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, all of which mature or become due within three months from the date of acquisition.

(d) Securities
Marketable securities classified as available for sales 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 sales securities are carried at cost determined by the moving average method.
If the market value of marketable securities classified as available for sales securities declines significantly, the securities are written down to fair value, thus establishing a new cost basis.

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

(f) Inventories
Rolls are stated at cost determined by the specific identification method. Other inventories are mainly stated at cost determined by the average method. 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 (except that certain consolidated subsidiaries employ the declining balance method).
Estimated useful lives of the property, plant and equipment are summarized as follows:

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

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

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

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

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

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

(k) 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 straight-line attribution.

(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 in which retirement benefit obligation is equal to benefits payable assuming voluntary retirement at the end of the balance sheet date.

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

(m) Significant hedge accounting

(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 are accounted for separately.

(2) Hedging instruments and hedged items

・Hedge instruments: Interest-rate swaps, Forward exchange contracts
・Hedge items: Interest-rate, Foreign monetary assets and liabilities

(3) Hedging policy

Forward foreign exchange contracts are entered into in order to reduce risks associated with exchange rate fluctuations for transactions denominated in foreign currencies. Also, interest rate swap agreements are entered into to reduce risks associated with interest rate fluctuations on borrowings. 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 that meet conditions for appropriation treatment, important terms, etc., related to the hedge instrument and hedged item are the same and cash flow is fixed, so an assessment of effectiveness is omitted.

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

(o) Scope of funds in consolidated statements of cash flows
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.

(p) Unapplied accounting standards
"Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 May 17, 2012)
"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 May 17, 2012)
(Please also refer to the ASBJ homepage , which has a summary in English of the accounting standards.)

(1) Summary

Revisions have been made regarding accounting procedures for unrecognized actuarial differences and unrecognized past service costs, calculation methods for retirement benefit obligation and service costs, and enhancement of disclosure, etc.

(2) Scheduled application date

The revisions to calculation methods for retirement benefit obligation and service costs will be applied from the beginning of the fiscal year ending March 31, 2015. Transitional treatment is stipulated in the accounting standards, etc., so the revisions will not be retroactively applied to past years' consolidated financial statements.

(3) Impact of application of accounting standard

The impact on consolidated financial statements caused by revisions to calculation methods for retirement benefit obligation and service costs is currently being assessed.

3. CHANGES IN METHODS OF ACCOUNTING

Application of Accounting Standards for Retirement Benefits

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No.26, May 17, 2012 (hereinafter, the "Statement No.26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No.25, May 17, 2012 (hereinafter, the "Guidance No.25")) except the article 35 of the Statement No.26 and the article 67 of the Guidance No.25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as net defined benefit liability (or net defined benefit asset).

In accordance with the article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, net defined benefit assets in the amount of ¥444 million and net defined liability in the amount of ¥64 million have been recognized, accumulated other comprehensive income has decreased by ¥1 million and net assets per share reduced by ¥0.03, at the end of the current fiscal year.

4. CHANGES IN PRESENTATION METHODS OF ACCOUNTING

Change in Method of Presentation

Foreign exchange gains, which had been included in "Other" of "Non-operating income", exceeded one-tenth of total non-operating income, so it has been categorized separately in the current consolidated fiscal year. The consolidated financial statements from the previous consolidated fiscal year have been revised to reflect this change in presentation method. As a result, the ¥235 million presented in "Other" of "Non-operating income" has been reclassified as "Foreign exchange gains" of ¥79 million and "Other" of ¥156 million.

5. INVENTORIES

Inventories at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Merchandise	**¥ 53**	¥ 40	**$ 515**
Finished goods	**10,418**	7,343	**101,234**
Semi-finished goods	**6,433**	4,371	**62,511**
Work-in-process	**903**	810	**8,775**
Raw materials	**2,491**	2,105	**24,205**
Supplies	**3,799**	3,554	**36,916**
Rolls	**2,401**	2,170	**23,331**
Total	**¥26,498**	¥20,393	**$257,487**

6. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
As endorser of notes discounted	**¥410**	¥ 800	**$3,984**
As guarantor of indebtedness			
Kyoei Steel Vietnam Co., Ltd.	—	¥2,454	—

7. BANK LOANS

Bank loans consisted of unsecured loans payable from banks at the weighted average interest rate of 3.42% at March 31, 2014.

Long-term debt from banks at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Long-term debt from banks at average rates of 1.51% and 1.55% for current and noncurrent portions, respectively	**¥13,842**	¥5,177	**$134,506**
Less current portion	**(941)**	(130)	**(9,144)**
Long-term debt from banks	**¥12,901**	¥5,047	**$125,362**

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Buildings and structures	**¥ 9,368**	¥10,238	**$ 91,031**
Machinery and equipment	**16,944**	17,923	**164,649**
Land	**15,959**	16,984	**155,077**
Other	**149**	160	**1,448**
Total	**¥42,420**	¥45,305	**$412,205**

There is no obligation corresponding to the above pledged assets.

The annual maturities of long-term debt from banks as of March 31, 2014 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	**¥ 941**	**$ 9,144**
2016	**1,833**	**17,812**
2017	**1,815**	**17,637**
2018	**1,815**	**17,637**
2019	**1,815**	**17,637**
Thereafter	**5,623**	**54,639**
Total	**¥13,842**	**$134,506**

8. R&D EXPENSES

R&D expenses, included in selling, general and administrative expenses for the years ended March 31, 2014 and 2013, amounted to ¥188 million ($1,827 thousand) and ¥95 million, respectively.

9. NET ASSETS

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

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

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law and regulations. At the Board Directors' meeting held on April 30, 2014, the Board approved cash dividends amounting to ¥652 million ($6,336 thousand). The appropriation had not been accrued in the consolidated financial statements as of March 31, 2014.

10. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 38.0% for the years ended March 31, 2014 and 2013.

The major components of deferred tax assets and liabilities as of March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Impairment losses	**¥ 1,028**	¥ 441	**$ 9,989**
Accrued enterprise taxes	**49**	65	**476**
Allowance for doubtful accounts	**490**	494	**4,761**
Accrued bonuses	**233**	246	**2,264**
Accrued directors' retirement benefits	**64**	80	**622**
Tax carry forward	**489**	174	**4,752**
Other	**342**	419	**3,324**
Gross deferred tax assets	**2,695**	1,919	**26,188**
Valuation allowance	**(1,156)**	(854)	**(11,233)**
Total deferred tax assets	**1,539**	1,065	**14,955**
Net deferred tax assets	**¥ 285**	¥ 46	**$ 2,770**
Deferred tax liabilities:			
Net unrealized gains/losses on other securities	**(977)**	(771)	**(9,494)**
Retained earnings appropriated for tax deductible reserves	**(34)**	(37)	**(330)**
Deferred gains and losses on hedges	**—**	(72)	**—**
Reserve for special depreciation for tax purposes	**(6)**	(7)	**(58)**
Prepaid pension expenses	**—**	(126)	**—**
Net defined benefit assets	**(159)**	—	**(1,545)**
Other	**(78)**	(6)	**(758)**
Total deferred tax liabilities	**¥(1,254)**	¥(1,019)	**$(12,185)**

Net deferred tax liabilities at March 31, 2014 and 2013 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets (current)	**¥432**	¥381	**$4,198**
Deferred tax assets (noncurrent)	**502**	213	**4,878**
Deferred tax liabilities (noncurrent)	**(649)**	(548)	**(6,306)**
Net deferred tax assets	**¥285**	¥ 46	**$2,770**

The major components of a reconciliation between the statutory tax rate and the effective tax rate as of March 31, 2014 is as follows:

	2014
Statutory tax rate	**38.0%**
Increase in valuation reserve	**4,145.0**
Dividend income and other excluded from gross revenue	**(1,275.8)**
Entertainment expenses not qualifying for deduction	**284.5**
Consolidated adjustment	**2,189.2**
Inhabitants tax on per capital basis	**381.6**
Decrease in deferred tax assets due to changes in tax rate	**356.8**
Difference in effective tax rate of consolidated subsidiaries	**(1,405.8)**
Other	**207.1**
Effective tax rate	**4,920.6%**

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

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates
Following the promulgation on March 31, 2014 of the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 10, 2014), from consolidated fiscal years beginning April 1, 2014, the special corporate tax for reconstruction is no longer levied. Statutory effective tax rates therefore used in calculations of deferred tax assets and deferred tax liabilities have been changed from the previous 38.0% to 35.6% on a portion of the differences for which eliminations are projected for the consolidated fiscal year beginning April 1, 2014.
The tax rate change has reduced deferred tax assets (net of deferred tax liabilities) by ¥30 million ($292 thousand), and increased income taxes-deferred by the same amount.

11. INFORMATION FOR CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

The following tables present information related to the consolidated statements of changes in net assets for the year ended March 31, 2014:

(a) Number of shares issued

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

(b) Treasury stock

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	1,439,242	69	—	1,439,311

(c) Cash dividends

Amount of dividend payments

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
April 30, 2013 (Board of Directors)	Common stock	¥652	$6,336	¥15	$0.1	March 31, 2013	June 10, 2013

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
October 31, 2013 (Board of Directors)	Common stock	¥217	$2,109	¥5	$0.0	September 30, 2013	December 10, 2013

12. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Reconciliation of cash and cash equivalents

The following table represents a reconciliation of cash and cash equivalents at March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and time deposits	**¥28,024**	¥15,923	**$272,316**
Time deposits with a maturity of more than three months	**(753)**	(707)	**(7,318)**
Negotiable certificates of deposit with maturities of three months	**6,600**	14,000	**64,134**
Cash and cash equivalents	**¥33,871**	¥29,216	**$329,132**

(b) Principal assets and liabilities of the company that became a consolidated subsidiary

Kyoei Steel Vietnam Co., Ltd, has been consolidated since 2014 due to increase of materiality.
Consequently, assets and liabilities of the company that became a consolidated subsidiary are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥2,529**	**$24,575**
Fixed assets	**3,446**	**33,485**
Total assets	**¥5,975**	**$58,060**

	Millions of yen	Thousands of U.S. dollars
Current liabilities	**¥2,249**	**$21,854**
Long-term liabilities	—	—
Total liabilities	**¥2,249**	**$21,854**

13. SEVERANCE AND RETIREMENT BENEFITS

Severance and retirement benefits as of March 31, 2014

(1) The Company and its consolidated subsidiaries have defined benefit plans and lump-sum benefit plans, and defined contribution pension plans for the year ended March 31, 2014.

Some of the Company's subsidiaries have instituted defined benefit plans, and they 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
	2014	**2014**
Balance at April 1, 2013	**¥3,857**	**$ 37,479**
Service cost	**218**	**2,118**
Interest cost	**58**	**564**
Actuarial loss	**14**	**137**
Benefit paid	**(380)**	**(3,693)**
Balance at March 31,2014	**¥3,767**	**$(36,605)**

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

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥3,758**	**$36,517**
Expected return on plan assets	**56**	**544**
Actuarial gain	**365**	**3,547**
Contributions paid by the employer	**355**	**3,450**
Benefit paid	**(380)**	**(3,693)**
Balance at March 31, 2014	**¥4,154**	**$40,365**

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

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥ 66**	**$ 641**
Retirement benefit cost	**59**	**573**
Benefit paid	**(8)**	**(77)**
Contributions to defined benefit plans	**(138)**	**(1,341)**
Balance at March 31, 2014	**¥ (21)**	**$(204)**

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

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Funded retirement benefit obligations	**¥4,792**	**$46,565**
Plan assets	**(5,195)**	**(50,481)**
	(403)	**(3,916)**
Unfunded retirement benefit obligations	**23**	**224**
Total net liability (asset) for retirement benefits at March 31, 2014	**¥ (380)**	**$(3,692)**

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Net defined benefit asset	**¥(444)**	**$(4,314)**
Net defined benefit liability	**64**	**622**
Total net liability (asset) for retirement benefits at March 31, 2014	**¥(380)**	**$(3,692)**

(e) Retirement benefit costs

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Service cost	**¥218**	**$2,118**
Interest cost	**58**	**564**
Expected return on plan assets	**(56)**	**(544)**
Net actuarial loss amortization	**18**	**175**
Past service costs amortization	**45**	**437**
Other	**59**	**573**
Total retirement benefit costs for the year ended March 31, 2014	**¥342**	**$3,323**

(f) Accumulated adjustments for retirement benefit

	Millions of yen	Thousands of U.S. dollars
		2014
Unrecognized prior service cost		**$(1,088)**
Unrecognized actuarial gain or loss		**1,069**
Total balance at March 31, 2014		**$ (19)**

(g) Plan assets

(1) Plan assets comprise:

Bonds	37%
Stock	41
Life insurance company general accounts	17
Other	5
Total	100%

(2) 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.

(h) Actuarial assumptions

The principal actuarial assumptions at March 31, 2014 were as follows:

Discount rate 1.5%

Expected long-term rate of return 1.5%

(3) Defined contribution scheme

The required contribution to the Company's defined contribution scheme is ¥23 million.

Severance and retirement benefits as of March 31, 2013

The Company and its consolidated subsidiaries have defined benefit plans and lump-sum benefit plans, and defined contribution pension plans for the year ended March 31, 2013.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2013 for the Company's and its consolidated subsidiaries' defined benefit plans:

	Millions of yen
	2013
Severance and retirement benefit obligation	¥(4,823)
Plan assets at fair value	4,635
Unfunded retirement benefit obligation	(188)
Unrecognized actuarial gain or loss	258
Unrecognized past service cost	158
Net severance and retirement benefit obligation	228
Prepaid pension expenses	355
Accrued employees' severance and retirement benefits	¥ (127)

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

	Millions of yen
	2013
Service cost	¥247
Interest cost	60
Expected return on plan assets	(50)
Amortization of past service cost	104
Amortization of actuarial gain or loss	46
Additional retirement benefit expense	23
Total	¥430

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

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

14. AMOUNTS PER SHARE

	Yen		U.S. dollars
Years ended March 31	**2014**	2013	**2014**
Net income (loss)	**¥(18.28)**	¥47.59	**$(0.18)**

	Yen		U.S. dollars
As of March 31	**2014**	2013	**2014**
Net assets	**¥2,798.53**	¥2,819.07	**$27.19**

Net income (loss) per share is computed based on the net income (loss) available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year.
Net assets per share is based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the balance sheet date.

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

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	**2014**	2013	**2014**
Basic net income (loss) per share:			
Net income (loss)	**¥ (795)**	¥ 2,069	**$(7,725)**
Amount attributable to shareholders of common stock	**¥ (795)**	¥ 2,069	**$(7,725)**
Weighted average number of shares outstanding	**¥43,459 thousand share**	¥43,482 thousand share	—

15. LEASES

(a) Accounting as lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2014 and 2013 which would have been reflected in the consolidated balance sheets if the finance leases currently accounted for as operating leases had been capitalized:

	Millions of yen		Thousands of U.S. dollars	
As of March 31, 2014	Tools and equipment	Total	Tools and equipment	Total
Acquisition costs	**¥ 8**	**¥ 8**	**$ 78**	**$ 78**
Accumulated depreciation	**8**	**8**	**78**	**78**
Net book value	**¥ —**	**¥ —**	**$ —**	**$ —**

	Millions of yen	
As of March 31, 2013	Tools and equipment	Total
Acquisition costs	¥ 8	¥ 8
Accumulated depreciation	7	7
Net book value	¥ 1	¥ 1

Future minimum lease payments subsequent to March 31, 2014 and 2013 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2014**	2013	**2014**
Due within one year	**¥ —**	¥ 1	**$ —**
Due after one year	—	—	—
Total	**¥ —**	¥ 1	**$ —**

(b) Operating leases

Operating leases at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2014**	2013	**2014**
Due within one year	**¥ 1**	¥ 1	**$10**
Due after one year	**3**	1	**29**
Total	**¥ 4**	¥ 2	**$39**

16. FINANCIAL INSTRUMENTS

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

1. Qualitative information on financial instruments

(a) Policies for using financial instruments

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

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

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

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

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

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

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

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

(c) Policies and processes for managing the risk
The Group enters into derivative transactions only with counterparties of high credit rating and with respect to which the Company believes there is almost no credit risk. The derivative transactions are executed in accordance with internal management regulations. The Company and its subsidiaries have not entered into any such derivatives transactions as of March 31, 2014.

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.

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

2. Fair values of financial instruments
Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2014 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars		
Year ended March 31, 2014	Carrying amount shown in balance sheet	Fair value	Difference	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	**¥28,024**	**¥28,024**	¥ —	**$272,316**	**$272,316**	$ —
Notes and accounts receivable	**37,153**	**37,153**	—	**361,024**	**361,024**	—
Marketable securities	**6,600**	**6,600**	—	**64,134**	**64,134**	—
Investments in securities						
Available for sales securities	**5,690**	**5,690**	—	**55,291**	**55,291**	—
Notes and accounts payable	**(13,122)**	**(13,122)**	—	**(127,509)**	**(127,509)**	—
Bank loans	**(12,681)**	**(12,681)**	—	**(123,224)**	**(123,224)**	—
Long-term debt						
Due within one year	**(941)**	**(959)**	**18**	**(9,144)**	**(9,319)**	**175**
Due after one year	**(12,901)**	**(13,154)**	**253**	**(125,362)**	**(127,820)**	**2,458**

	Millions of yen		
Year ended March 31, 2013	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	¥15,923	¥15,923	¥ —
Notes and accounts receivable	35,695	35,695	—
Marketable securities	14,000	14,000	—
Investments in securities			
Available for sales securities	5,107	5,107	—
Notes and accounts payable	(16,151)	(16,151)	—
Bank loans	(6,041)	(6,041)	—
Long-term debt			
Due within one year	(130)	(134)	4
Due after one year	(5,047)	(5,172)	125

17. SECURITIES

(a) Available for sales securities with determinable market values

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2014	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	**¥1,817**	**¥4,944**	**¥3,127**	**$17,656**	**$48,042**	**$30,386**
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Securities whose carrying value does not exceed acquisition costs:						
Stock	**1,182**	**746**	**(436)**	**11,486**	**7,249**	**(4,237)**
Bonds	—	—	—			
Other	—	—	—			
Total	**¥2,999**	**¥5,690**	**¥2,691**	**$29,142**	**$55,291**	**$26,149**

	Millions of yen		
As of March 31, 2013	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥1,815	¥4,253	¥2,438
Bonds	—	—	—
Other	—	—	—
Securities whose carrying value does not exceed acquisition costs:			
Stock	1,183	854	(329)
Bonds	—	—	—
Other	—	—	—
Total	¥2,998	¥5,107	¥2,109

(b) Available for sales securities sold during the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Sales of other securities	**¥ —**	¥ 167	**$ —**
Profit (Loss) on sales	**¥ —**	¥ (185)	**$ —**

(c) Securities without determinable market values

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Other securities:			
Unlisted securities	**¥1,331**	¥1,331	**$12,934**
Bonds	**¥ —**	¥ —	**$ —**
Unconsolidated subsidiary and affiliated company:			
Unlisted securities	**¥3,933**	¥6,790	**$38,218**

(d) Derivative transactions

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

Nothing to report

(2) Derivative transactions for which hedge accounting is applied

Interest rate related

Year ended March 31, 2014

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Millions of yen)	Amount of contracts amount 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	¥8,790	¥8,241	*

* 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.

18. IMPAIRMENT LOSS ON FIXED ASSETS

In the year ended March 31, 2014, the Company reported the following loss on impairment of fixed assets;

Use	Place	Type of asset	Millions of yen	Thousands of U.S. dollars
Steel business plant	Osaka	Buildings and structures	¥654	$6,355
		Machinery and equipment	913	8,872
		Land	1,073	10,427
		Other	11	107

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

(Impairment Loss on Consolidated Statements of Operation)
Regarding fixed assets possessed by the Hirakata Division (Osaka Mill), book values have declined to recoverable values due to lower profitability and the amount of the decline is stated in other income (expenses) as an impairment loss (¥2,651 million).
Recoverable value when determining impairment losses is determined based on the net sales value, and for net sales values, appraised values, etc., provided by real estate appraisers are used.

19. STATEMENTS OF COMPREHENSIVE INCOME

Comprehensive income for the years ended March 31, 2014 and 2013 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Valuation difference on available for sales securities:			
Current accrual	**¥ 581**	¥ 346	**$5,646**
Reclassification adjustment	—	214	—
Before tax effect adjustment	**581**	560	**5,646**
Tax effect adjustment	**(205)**	(201)	**(1,992)**
Valuation difference on available for sales securities	**376**	359	**3,654**
Deferred gains and losses on hedges:			
Current accrual	**13**	188	**126**
Reclassification adjustment	**(202)**	(0)	**(1,963)**
Before tax effect adjustment	**(189)**	188	**(1,837)**
Tax effect adjustment	**72**	(72)	**700**
Deferred gains and losses on hedges	**(117)**	116	**(1,137)**
Foreign currency translation adjustments:			
Current accrual	**1,875**	320	**18,220**
Reclassification adjustment	—	417	—
Before tax effect adjustment	**1,875**	737	**18,220**
Tax effect adjustment	—	—	—
Foreign currency translation adjustments:	**1,875**	737	**18,220**
Share of other comprehensive income of associates accounted for using equity method:			
Current accrual	—	(0)	—
Reclassification adjustment	—	(0)	—
Share of other comprehensive income of associates accounted for using equity method	—	(0)	—
Total	**¥2,134**	¥1,212	**$20,737**

20. SEGMENT INFORMATION

(a) Overview of Reporting Segments

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

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

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

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

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

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

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

The accounting methods of reportable business segments are the same as mentioned in "Significant Accounting Policies for the Preparation of the Consolidated Financial Statements."

Reporting segment profit or loss is operating income or operating loss. Inter-segment transactions are transactions between companies and are based on market prices, etc.

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

Segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2014 and 2013 is outlined as follows:

Millions of yen

Year ended March 31, 2014	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
Sales						
Sales to external customers	**¥167,792**	**¥6,511**	**¥ 391**	**¥174,694**	**¥ —**	**¥174,694**
Intersegment sales and transfers	**255**	**2,089**	**—**	**2,344**	**(2,344)**	**—**
Total	**168,047**	**8,600**	**391**	**177,038**	**(2,344)**	**174,694**
Segment income	**¥ 2,319**	**¥1,339**	**¥ 37**	**¥ 3,695**	**¥ (838)**	**¥ 2,857**
Segment assets	**¥147,464**	**¥5,928**	**¥3,794**	**¥157,186**	**¥23,585**	**¥180,771**
Other						
Depreciation and amortization	**3,954**	**203**	**13**	**4,170**	**62**	**4,232**
Impairment loss on fixed assets	**2,651**	**—**	**—**	**2,651**	**—**	**2,651**
Increase in property, plant, equipment and intangible assets	**7,059**	**183**	**17**	**7,259**	**85**	**7,344**

(Note) 1 Inter-segment eliminations of ¥20 million and corporate expenses of ¥(858) million not allocated to the reporting segments are included in the ¥(838) million adjustment for "Segment profit (operating income)". Corporation expenses are mainly related to the general affairs department and other management departments of the submitting company's head office that is not attributable to a reporting segment.

2 The adjustment amount of segment assets was ¥23,585 million, mainly related to included the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.

3 The adjustment amount of depreciation and amortization was ¥62 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.

4 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥85 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.

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

Thousands of U.S. dollars

Year ended March 31, 2014	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
Sales						
Sales to external customers	**$1,630,473**	**$63,269**	**$ 3,800**	**$ 1,697,542**	**$ —**	**$1,697,542**
Intersegment sales and transfers	**2,478**	**20,299**	**—**	**22,777**	**(22,777)**	**—**
Total	**1,632,951**	**83,568**	**3,800**	**1,720,319**	**(22,777)**	**1,697,542**
Segment income	**$ 22,534**	**$13,011**	**$ 360**	**$ 35,905**	**$ (8,143)**	**$ 27,762**
Segment assets	**$1,432,941**	**$57,604**	**$36,867**	**$ 1,527,412**	**$229,181**	**$1,756,593**
Other						
Depreciation and amortization	**38,422**	**1,973**	**126**	**40,521**	**602**	**41,123**
Impairment loss of fixed assets	**25,760**	**—**	**—**	**25,760**	**—**	**25,760**
Increase in property, plant, equipment and intangible assets	**68,594**	**1,778**	**165**	**70,537**	**826**	**71,363**

Millions of yen

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

(Note)
1 Inter-segment eliminations of ¥20 million and corporate expenses of ¥(759) million not allocated to the reporting segments are included in the ¥(739) million adjustment for "Segment profit (operating income)". Corporation expenses are mainly related to the general affairs department and other management departments of the submitting company's head office that is not attributable to a reporting segment.
2 The adjustment amount of segment assets was ¥35,290 million, mainly related to included the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
3 The adjustment amount of depreciation and amortization was ¥69 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
4 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥39 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
5 Segment income was adjusted against operating income of the consolidated statement of income.

(d) Related Party Transaction

In the year ended March 31, 2013, related party transactions were as follows:

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

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

21. SUBSEQUENT EVENTS

Dividend distribution of surplus

On April 30, 2014, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥652	**$6,336**

Cash dividends: ¥15 (U.S. $0.15) per share.

KPMG

Independent Auditor's Report

To the Board of Directors of KYOEI STEEL, LTD.

We have audited the accompanying consolidated financial statements of KYOEI STEEL, LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, 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, 2014 and 2013, 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, 2014 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 22, 2014
Osaka, Japan

Investor Information

(As of March 31, 2014)

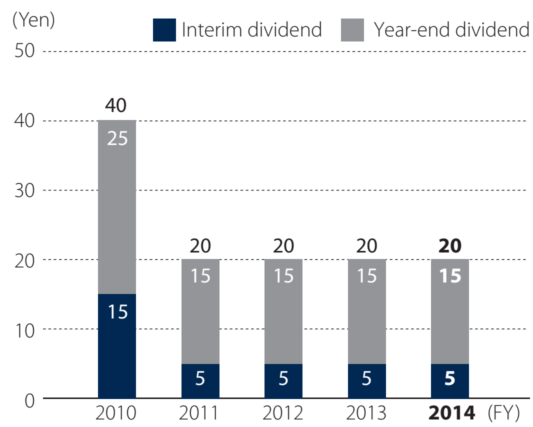
Date of Establishment	August 21, 1947
Common Stock	¥18,516 million
Number of Shares	Authorized : 150,300,000 Issued : 44,898,730
Number of Shareholders	2,656
Number of Employees	1,611 (Consolidated: regular employees)
Stock Listings	Tokyo
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan

Major Shareholders (As of March 31, 2014)

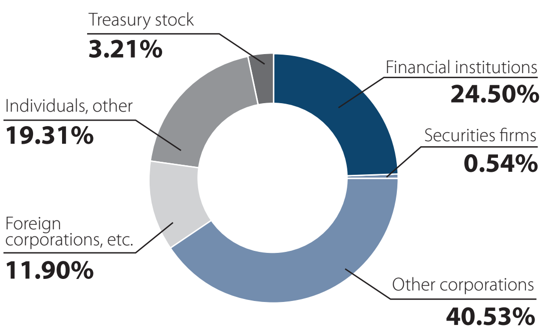
Name of shareholder	Number of shares owned	% of total shares Issued
Nippon Steel & Sumitomo Metal Corporation	11,592,932	25.82
Hideichiro Takashima	4,347,460	9.68
Japan Trustee Services Bank, Ltd. (Air Water Inc. retirement benefit trust account)*	2,600,400	5.79
NORTHERN TRUST CO. (AVFC) RE 15PCT TREATY ACCOUNT	2,319,200	5.17
Akihiko Takashima	2,233,000	4.97
Japan Trustee Services Bank, Ltd. (Trust Account)	1,689,900	3.76
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,548,200	3.45
Mitsui & Co., Ltd.	1,470,000	3.27
Kyoei Steel, Ltd. (Treasury stock)	1,439,311	3.21
Godo Steel, Ltd.	1,347,000	3.00

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

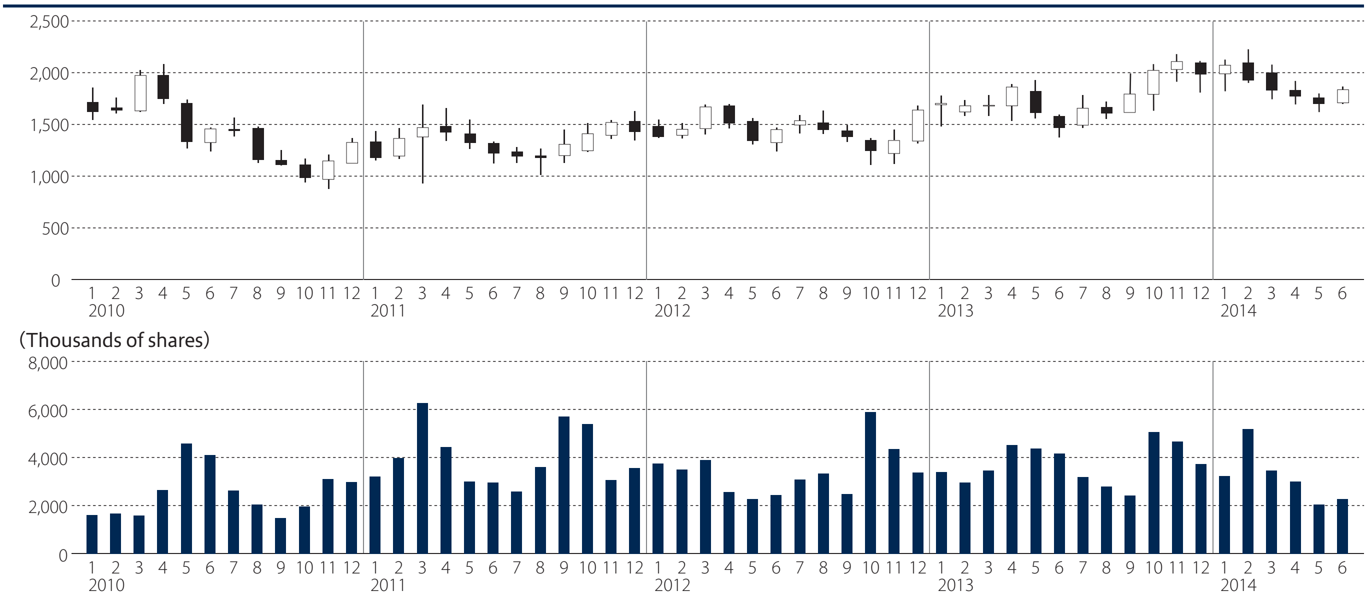
Dividends per Share



Composition of Shareholders by Type



Stock Price Movement and Trading Volume



KYOEI STEEL

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