KYOEI STEEL

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KYOEI STEEL

KYOEI STEEL REPORT 2022

(INTEGRATED REPORT)

FINANCIAL SECTION

Year Ended March 31, 2022

FINANCIAL SECTION

FINANCIAL SECTION

Consolidated Ten-Year Summary

For the years ended March 31, 2013 through 2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Product shipments (Thousands of tonnes)**:**										
Finished products (total)	2,081	2,357	2,338	2,429	2,662	2,965	3,269	3,367	3,363	**3,318**
Domestic	1,603	1,720	1,680	1,641	1,662	1,682	1,747	1,645	1,573	**1,581**
Overseas	478	637	657	788	999	1,284	1,522	1,722	1,790	**1,737**
For the year (Millions of yen)**:**										
Net sales	¥ 142,305	¥ 174,694	¥ 181,436	¥ 160,952	¥ 145,991	¥ 191,254	¥ 242,257	¥ 239,343	¥ 226,371	**¥ 292,719**
Gross profit	13,256	12,293	21,900	23,889	18,726	16,472	23,474	34,743	28,258	**25,899**
Operating income	4,343	2,857	11,796	13,792	7,971	4,259	9,200	19,404	12,656	**8,819**
Income before income taxes	3,738	9	10,730	12,432	7,698	5,449	8,444	13,520	12,735	**10,081**
Profit (loss) attributable to owners of parent	2,069	(795)	6,923	8,467	4,783	3,483	6,505	7,978	8,788	**6,322**
Research and development expenses	95	188	231	104	119	177	169	180	231	**235**
Depreciation and amortization	4,254	4,232	4,147	5,026	5,961	6,663	7,476	7,719	8,402	**8,840**
Capital expenditures	3,809	7,344	15,920	10,103	7,262	5,803	5,507	8,894	10,863	**12,971**
Per share amounts (yen):										
Net income (loss), basic	47.59	(18.28)	159.30	194.94	110.41	80.31	149.78	183.56	202.22	**145.48**
Net income (loss), diluted	—	—	—	—	—	—	—	—	—	**—**
Cash dividends applicable to the year	20.00	20.00	35.00	45.00	30.00	40.00	40.00	75.00	60.00	**40.00**
At year-end:										
Total assets	¥ 165,129	¥ 180,771	¥ 201,760	¥ 200,436	¥ 214,341	¥ 234,220	¥ 261,590	¥ 269,145	¥ 282,282	**¥ 314,203**
Working capital	63,811	79,699	81,872	83,565	93,301	105,791	126,734	128,115	139,622	**160,441**
Interest bearing debt	11,231	26,530	32,810	33,149	41,414	50,088	69,247	72,407	79,272	**95,584**
Net assets	125,257	128,788	138,052	143,090	146,663	148,460	153,781	158,044	164,583	**175,689**
Shareholders' equity*	122,515	121,622	129,546	134,886	138,365	140,010	143,407	147,671	154,429	**162,955**
Net assets amount per share	2,819.07	2,798.53	2,980.84	3,115.86	3,192.02	3,225.85	3,299.82	3,397.93	3,553.45	**3,749.63**
Ratios:										
Return on sales (%)	3.1	1.6	6.5	8.6	5.5	2.2	3.8	8.1	5.6	**3.0**
Return on equity (%)	1.7	(0.7)	5.5	6.4	3.5	2.5	4.6	5.5	5.8	**4.0**
Return on total assets (%)	2.9	2.1	6.6	7.1	4.1	2.2	4.0	7.6	4.9	**3.3**
Net debt to equity ratio (times)	(0.15)	(0.07)	(0.06)	(0.09)	(0.05)	0.06	0.16	0.10	0.07	**0.27**
Shareholders' equity* to total assets (%)	74.2	67.3	64.2	67.3	64.6	59.8	54.8	54.9	54.7	**51.9**
Other statistics:										
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	44,899	44,899	44,899	44,899	44,899	**44,899**
Number of employees	1,327	1,611	1,741	1,806	2,341	2,430	3,200	3,605	3,985	**4,021**
Stock price (yen)**:**										
High	¥ 1,781	¥ 2,220	¥ 2,286	¥ 2,455	¥ 2,349	¥ 2,295	¥ 2,510	¥ 2,314	¥ 1,775	**¥ 1,712**
Low	¥ 1,105	¥ 1,372	¥ 1,618	¥ 1,584	¥ 1,387	¥ 1,594	¥ 1,473	¥ 1,161	¥ 1,153	**¥ 1,243**

*Shareholders' equity = Net assets – Non-controlling interests
Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations have been applied from the beginning of the current fiscal year, the figure for the current fiscal year is reflecting the relevant accounting standards, etc.

Financial Review (Consolidated)

1. Consolidated Operating Results

(1) Operating Results

During the fiscal year ended March 31, 2022, the Japanese economy showed signs of recovery from the prolonged impact of COVID-19, due partly to the spread of vaccinations and the effects of various government policies. However, the outlook remained uncertain due to accelerating worldwide inflation, including soaring oil prices following the Russian invasion of Ukraine, and fluctuations in financial and capital markets.

The market for steel construction materials in Japan was recovering from the previous fiscal year, but demand for concrete reinforcing steel bars, main product of KYOEI STEEL LTD. (the "Company") and its consolidated subsidiaries (the "Group"), remained weak and flat. In addition, prices of steel scrap, a raw material, rose sharply both in Japan and overseas. The Group made efforts to raise product prices to secure prices at which products could be reproduced, but since it takes a certain period of time for prices set at the time of contract to be reflected in shipping prices, the difference between sale and purchase prices (the difference between the prices of steel products and that for raw materials) shrank significantly.

As for the overseas steel business, it was difficult to forecast the business environment due to temporary restrictions on socio-economic activities and business operations at Group companies in Vietnam caused by the spread of COVID-19. At the companies in North America, on the other hand, the Biden administration's infrastructure investment policy and other factors supported steel demand and the rebar market remained firm throughout the year.

As a result for the year ended March 31, 2022, consolidated net sales of the Group increased by 66,349 million yen ($542,021 thousand) (29.3%) to 292,719 million yen ($2,391,298 thousand).

Results by business segment are as follows.

1) Domestic Steel Business

Product shipments, including exports, increased by 8,000 tonnes to 1,581,000 tonnes, and steel scrap prices increased 23,000 yen ($188) (77.2%). However, an increase in product prices was only 18,200 yen ($149) (28.3%) higher than the previous year. Therefore, the difference between sale and purchase prices narrowed by 4,800 yen ($39) (13.7%).

As a result, segment net sales increased by 17,819 million yen ($145,570 thousand) (16.0%) to 128,957 million yen ($1,053,485 thousand), and operating profit decreased by 10,390 million yen ($84,882 thousand) (79.9%) to 2,622 million yen ($21,416 thousand).

2) Overseas Steel Business

The Group operates steel businesses in Vietnam and North America (the United States and Canada), both of which have fiscal years that end on December 31. In Vietnam, while the first half of the fiscal year saw favorable results due to an increase in the difference between sale and purchase prices following a sharp rise in product prices, the second half of the fiscal year saw difficult business operations due to the impact of COVID-19. Nevertheless, for the full year, the Group companies in Vietnam achieved record profits, and in North America, strong demand continued throughout the year for both steel bars and other products for the mining industry. Product shipments also increased due to the refurbishment of production facilities, resulting in a significant improvement in business performance.

As a result, segment net sales increased by 47,023 million yen ($384,143 thousand) (44.8%) to 152,008 million yen ($1,241,796 thousand), and operating profit increased by 5,661 million yen ($46,245 thousand) to 5,233 million yen ($42,752 thousand), compared with an operating loss of 428 million yen in the previous fiscal year.

3) Material Recycling Business

In the Material Recycling segment performance was favorable due to a steady increase in orders for difficult-to-treat waste projects and the acquisition of medical waste treatment projects related to COVID-19. As a result, segment net sales increased by 583 million yen ($4,769 thousand) (8.7%) to 7,289 million yen ($59,540 thousand), and operating profit increased by 688 million yen ($5,624 thousand) (50.8%) to 2,044 million yen ($16,700 thousand).

4) Others

The others category includes harbor operations in Vietnam and the casting business in Japan and Vietnam, and net sales increased by 922 million yen ($7,539 thousand) (26.0%) to 4,465 million yen ($36,477 thousand), and operating profit increased by 107 million yen ($873 thousand) to 50 million yen ($407 thousand), compared with an operating loss of 57 million yen in the previous fiscal year.

(2) Financial Position

1) Assets, liabilities and net assets

(i) Assets

For the fiscal year ended March 31, 2022, current assets increased by 24,126 million yen ($197,088 thousand), or 14.2%, from the end of the previous fiscal year to 194,020 million yen ($1,584,996 thousand). This was attributable mainly to increases of 12,046 million yen ($98,405 thousand) in accounts receivable, 3,166 million yen ($25,863 thousand) in electronically recorded monetary claims - operating, 16,227 million yen ($132,566 thousand) in merchandise and finished goods, 5,311 million yen ($43,387 thousand) in raw materials and supplies and 3,095 million yen ($25,285 thousand) in other current assets, despite a decrease of 15,621 million yen ($127,610 thousand) in cash and time deposits.

Noncurrent assets increased by 7,795 million yen ($63,669 thousand), or 6.9%, from the end of the previous fiscal year to 120,183 million yen ($981,800 thousand). This was attributable mainly to increases of 2,285 million yen ($18,664 thousand) in buildings and structures, 2,706 million yen ($22,109 thousand) in machinery and equipment, 913 million yen ($7,457 thousand) in land, 674 million yen ($5,508 thousand) in other intangible assets and 1,632 million yen ($13,332 thousand) in net defined benefit asset, despite a decrease of 1,401 million yen ($11,444 thousand) in construction in progress.

As a result, total assets increased by 31,921 million yen ($260,760 thousand), or 11.3%, from the end of the previous fiscal year to 314,203 million yen ($2,566,796 thousand).

(ii) Liabilities

For the fiscal year ended March 31, 2022, current liabilities increased by 12,171 million yen ($99,431 thousand), or 15.1%, from the end of the previous fiscal year to 92,794 million yen ($758,046 thousand). This was attributable mainly to increases of 3,729 million yen ($30,460 thousand) in notes and accounts payable and 9,749 million yen ($79,638 thousand) in short-term loans, despite decreases of 883 million yen ($7,217 thousand) in long-term debt due within one year and 1,216 million yen ($9,932 thousand) in income taxes payable.

Long-term liabilities increased by 8,644 million yen ($70,617 thousand), or 23.3%, from the end of the previous fiscal year to 45,721 million yen ($373,512 thousand). This was attributable mainly to increases of 10,000 million yen ($81,693 thousand) in bonds, and 1,330 million yen ($10,866 thousand) in deferred tax liabilities, despite a decrease of 2,702 million yen ($22,072 thousand) in long-term debt. As a result, total liabilities increased by 20,816 million yen ($170,047 thousand), or 17.7%, from the end of the previous fiscal year to 138,515 million yen ($1,131,558 thousand).

Loans at the end of the current consolidated fiscal year for the Group increased by 6,163 million yen ($50,349 thousand) from the end of the previous fiscal year to 84,492 million yen ($690,236 thousand), and bonds increased by 10,000 million yen ($81,693 thousand) from the end of the previous fiscal year to 10,000 million yen ($81,693 thousand). The debt capital adequacy ratio (net DE ratio) was 0.27.

(iii) Net assets

For the fiscal year ended March 31, 2022, net assets increased by 11,106 million yen ($90,716 thousand), or 6.7%, from the end of the previous fiscal year to 175,689 million yen ($1,435,238 thousand). This was attributable mainly to the recording of profit to the owners of the parent of 6,322 million yen ($51,644 thousand), increases of 3,546 million yen ($28,972 thousand) in foreign currency translation adjustment, 1,297 million yen ($10,592 thousand) in remeasurements of defined benefit plans and 2,580 million yen ($21,076 thousand) in non-controlling interests, despite a decrease of 2,608 million yen ($21,302 thousand) due to dividends of surplus. As a result, net assets per share increased by 196.18 yen ($1.6) from the end of the previous fiscal year to 3,749.63 yen ($30.6). The equity-to-asset ratio decreased from 54.7% at the end of the previous fiscal year to 51.9%.

2) Cash flows

Cash and cash equivalents at the end of the current fiscal year increased by 1,859 million yen ($15,186 thousand) from the end of the previous fiscal year to 27,210 million yen ($222,277 thousand). The cash flow components during the current fiscal year and the main reasons for changes are as follows.

(i) Cash flows from operating activities

Net cash used in operating activities was 13,697 million yen ($111,903 thousand). Major components were income before income taxes of 10,081 million yen ($82,346 thousand), depreciation of 8,840 million yen ($72,214 thousand), interest and dividends received of 1,037 million yen ($8,468 thousand), expenditure of 28,305 million yen ($231,236 thousand) resulting in a working capital burden increase due to an increase in trade receivables and inventory at the end of the fiscal year, interest payments of 1,197 million yen ($9,782 thousand) and income tax payments of 3,686 million yen ($30,109 thousand).

(ii) Cash flows from investing activities

For the year ended March 31, 2022, net cash provided by investing activities was 6,933 million yen ($56,641 thousand). Major components of net cash were payments into time deposits of 54,262 million yen ($443,278 thousand), proceeds from the withdrawal of time deposits of 72,000 million yen ($588,191 thousand), purchases of property, plant and equipment for maintenance and renewal of existing steel manufacturing facilities, rationalization investments and the rationalization investments for production bases in North America of 10,883 million yen ($88,906 thousand).

(iii) Cash flows from financing activities

Net cash provided by financing activities was 7,339 million yen ($59,951 thousand). Major components of this amount included a net increase of 4,463 million yen ($36,461 thousand) in short-term loans, proceeds from long-term debt of 1,451 million yen ($11,849 thousand), repayments of long-term debt of 5,869 million yen ($47,948 thousand), proceeds from the issuance of bonds of 9,947 million yen ($81,261 thousand) and dividends paid of 2,603 million yen ($21,267 thousand).

(3) Dividends

Pursuant to our fundamental principle of rewarding our shareholders by increasing corporate value, we endeavor to distribute dividends while ensuring appropriate reserves for business growth and enhancing the corporate structure from a long-term perspective. Accordingly, we plan to pay a year-end dividend of 25 yen ($0.2) per share for the fiscal year ended March 31,2022. Including the interim dividend of 15 yen ($0.12), total dividends per share for the fiscal year will be 40 yen ($0.33).

2. Basic Approach to the Selection of Accounting Standards

The Group will continue to prepare the consolidated financial statements using generally accepted accounting principles in Japan, to permit comparisons with the Group's consolidated financial statements for prior years and with the financial data of other companies. When appropriate, we will take suitable actions with regard to the application of International Financial Reporting Standards (IFRS) by taking into account associated factors in Japan and other countries.

Consolidated Balance Sheets

KYOEI STEEL LTD. and Consolidated Subsidiaries Years Ended March 31, 2022 and 2021	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
ASSETS			
Current assets			
Cash and time deposits	¥ 51,338	¥ 66,959	$ 419,395
Notes and accounts receivable	—	40,341	—
Notes	669	—	5,465
Accounts receivable	51,680	—	422,186
Electronically recorded monetary claims – operating	15,399	12,233	125,799
Marketable securities (Note 16)	1,000	1,000	8,169
Inventories (Note 4)	68,379	46,840	558,604
Other current assets	6,110	3,015	49,916
Allowance for doubtful accounts	(555)	(494)	(4,538)
Total current assets	194,020	169,894	1,584,996
Property, plant and equipment			
Buildings and structures	60,672	55,550	495,645
Machinery and equipment	153,095	139,363	1,250,671
Land (Note 5)	30,674	29,761	250,586
Construction in progress	1,692	3,093	13,821
Other	4,471	3,732	36,528
Total	250,604	231,499	2,047,251
Accumulated depreciation	(151,403)	(137,122)	(1,236,854)
Net property, plant and equipment	99,201	94,377	810,397
Investments and other assets			
Investments in securities (Note 16)	2,432	4,199	19,866
Unconsolidated subsidiaries and affiliated companies (Note 16)	8,723	6,462	71,261
Investments in long-term loans receivable	392	460	3,197
Net defined benefit asset (Note 12)	3,546	1,914	28,968
Goodwill	856	978	6,992
Other intangible assets	3,310	2,636	27,044
Deferred tax assets (Note 9)	356	490	2,907
Other noncurrent assets	1,417	936	11,577
Allowance for doubtful accounts	(50)	(64)	(409)
Total investments and other assets	20,982	18,011	171,403
Total assets	¥ 314,203	¥ 282,282	$ 2,566,796

KYOEI STEEL LTD. and Consolidated Subsidiaries Years Ended March 31, 2022 and 2021	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
Liabilities and Net Assets			
Current liabilities			
Notes and accounts payable	¥ 18,692	¥ 14,963	$ 152,698
Electronically recorded obligations – operating	2,343	2,559	19,142
Short-term loans (Note 6)	54,393	44,645	444,351
Long-term debt due within one year (Note 6)	4,822	5,705	39,388
Income taxes payable	270	1,486	2,203
Accrued employee bonuses	969	856	7,915
Accrued director bonuses	—	25	—
Other current liabilities	11,305	10,383	92,349
Total current liabilities	92,794	80,622	758,046
Long-term liabilities			
Bonds	10,000	—	81,695
Long-term debt (Note 6)	25,277	27,979	206,497
Deferred tax liabilities (Note 9)	2,153	823	17,588
Deferred tax liabilities for revaluation (Note 5)	2,394	2,433	19,556
Net defined benefit liability (Note 12)	4,317	4,194	35,265
Other long-term liabilities	1,580	1,648	12,911
Total long-term liabilities	45,721	37,077	373,512
Total liabilities	138,515	117,699	1,131,558
Net assets (Note 10)			
Shareholders' equity			
Common stock	18,516	18,516	151,259
Authorized – 150,300,000 shares in 2022 and 150,300,000 shares in 2021			
Issued – 44,898,730 shares in 2022 and 44,898,730 shares in 2021			
Capital surplus	21,114	21,179	172,484
Retained earnings	114,129	110,324	932,344
Treasury stock	(1,700)	(1,700)	(13,888)
Total shareholders' equity	152,059	148,319	1,242,199
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	843	948	6,888
Deferred gains and losses on hedges	(186)	(323)	(1,517)
Revaluation reserve for land (Note 5)	4,536	4,625	37,053
Remeasurement of defined benefit plans	2,162	865	17,660
Foreign currency translation adjustments	3,541	(5)	28,930
Total accumulated other comprehensive income	10,896	6,110	89,014
Non-controlling interests	12,734	10,154	104,025
Total net assets	175,689	164,583	1,435,238
Total liabilities and net assets	¥ 314,203	¥ 282,282	$ 2,566,796

Consolidated Statements of Income

KYOEI STEEL LTD. and Consolidated Subsidiaries Years Ended March 31, 2022 and 2021	Millions of yen 2022	 2021	Thousands of U.S. dollars (Note 1) 2022
Net sales	¥ 292,719	¥ 226,371	$ 2,391,298
Cost of sales	266,820	198,113	2,179,722
Gross profit	25,899	28,258	211,576
Selling, general and administrative expenses	17,080	15,602	139,535
Operating income	8,819	12,656	72,041
Other income (expenses)			
Interest income	723	825	5,909
Dividend income	169	139	1,382
Interest expense	(1,217)	(1,310)	(9,945)
Share of profit of entities accounted for using equity method	1,419	763	11,591
Foreign exchange gains (losses)	289	(498)	2,359
Gain on sale and disposal of property, plant and equipment	33	21	266
Loss on sale and disposal of property, plant and equipment	(408)	(365)	(3,330)
Impairment loss on fixed assets (Note 18)	(155)	—	(1,263)
Insurance income	64	—	519
Subsidy income	24	148	193
Surrender value of insurance policies	—	76	—
Cash sales discounts	(9)	—	(77)
Other, net	330	280	2,701
Other income (expenses), net	1,262	79	10,305
Income before income taxes	10,081	12,735	82,346
Income taxes (Note 9)			
Current	1,398	3,714	11,420
Deferred	949	(248)	7,752
Total income taxes	2,347	3,466	19,172
Profit	7,734	9,269	63,174
Profit attributable to non-controlling interests	1,412	481	11,530
Profit attributable to owners of parent	¥ 6,322	¥ 8,788	$ 51,644

Amounts per share (Note 13)	Yen 2022	 2021	U.S. dollars (Note 1) 2022
Net income			
Basic	¥ 145.48	¥ 202.22	$ 1.19
Diluted*	—	—	—
Cash dividends applicable to the year	¥ 40.00	¥ 60.00	$ 0.33

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

Consolidated Statements of Comprehensive Income

KYOEI STEEL LTD. and Consolidated Subsidiaries Years Ended March 31, 2022 and 2021	Millions of yen 2022	 2021	Thousands of U.S. dollars (Note 1) 2022
Profit	¥ 7,734	¥ 9,269	$ 63,174
Other comprehensive income			
Valuation difference on available-for-sale securities	(104)	702	(854)
Deferred gains and losses on hedges	164	(201)	1,344
Remeasurement of defined benefit plans	1,297	949	10,592
Foreign currency translation adjustments	4,780	(745)	39,050
Other comprehensive income, net (Note 19)	6,137	705	50,132
Comprehensive income	¥ 13,871	¥ 9,974	$ 113,306
Comprehensive income attributable to:			
Owners of parent	¥ 11,198	¥ 10,036	$ 91,480
Non-controlling interests	¥ 2,673	¥ (62)	$ 21,826

Consolidated Statements of Changes in Net Assets

KYOEI STEEL LTD. and Consolidated Subsidiaries Years Ended March 31, 2022 and 2021	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
Shareholders' equity			
Common stock			
Balance at the beginning of current period	¥ **18,516**	¥ 18,516	$ **151,259**
Balance at the end of current period	**18,516**	18,516	**151,259**
Capital surplus			
Balance at the beginning of current period	**21,179**	21,141	**173,015**
Changes during the period			
Change in ownership interest of parent due to transactions with non–controlling interests	**(65)**	38	**(531)**
Total changes during the period	**(65)**	38	**(531)**
Balance at the end of current period	**21,114**	21,179	**172,484**
Retained earnings			
Balance at the beginning of current period	**110,324**	104,823	**901,270**
Changes during the period			
Change in scope of consolidation	**—**	190	**—**
Cash dividends	**(2,606)**	(3,477)	**(21,302)**
Profit attributable to owners of parent	**6,322**	8,788	**51,644**
Reversal of revaluation reserve for land	**89**	—	**732**
Total changes during the period	**3,805**	5,501	**31,074**
Balance at the end of current period	**114,129**	110,324	**932,344**
Treasury stock			
Balance at the beginning of current period	**(1,700)**	(1,700)	**(13,888)**
Changes during the period			
Purchase of treasury stock	**—**	—	**—**
Sale of treasury stock	**—**	—	**—**
Total changes during the period	**—**	—	**—**
Balance at the end of current period	**(1,700)**	(1,700)	**(13,888)**
Total shareholders' equity			
Balance at the beginning of current period	**148,319**	142,780	**1,211,656**
Changes during the period			
Cash dividends	**(2,606)**	(3,477)	**(21,302)**
Profit attributable to owners of parent	**6,322**	8,788	**51,644**
Purchase of treasury stock	**—**	—	**—**
Sale of treasury stock	**—**	—	**—**
Change in scope of consolidation	**—**	228	**—**
Reversal of revaluation reserve for land	**89**	—	**732**
Change in ownership interest of parent due to transactions with non–controlling interests	**(65)**	—	**(531)**
Total changes during the period	**3,740**	5,539	**30,543**
Balance at the end of current period	¥ **152,059**	¥ 148,319	$ **1,242,199**

KYOEI STEEL LTD. and Consolidated Subsidiaries Years Ended March 31, 2022 and 2021	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	¥ **948**	¥ 246	$ **7,742**
Changes during the period			
Net changes in items other than shareholders' equity	**(105)**	702	**(854)**
Total changes during the period	**(105)**	702	**(854)**
Balance at the end of current period	**843**	948	**6,888**
Deferred gains and losses on hedges			
Balance at the beginning of current period	**(323)**	(158)	**(2,637)**
Change during the period			
Net changes in items other than shareholders' equity	**137**	(165)	**1,120**
Total changes during the period	**137**	(165)	**1,120**
Balance at the end of current period	**(186)**	(323)	**(1,517)**
Revaluation reserve for land			
Balance at the beginning of current period	**4,625**	4,625	**37,785**
Changes during the period			
Net changes in items other than shareholders' equity	**(89)**	—	**(732)**
Total changes during the period	**(89)**	—	**(732)**
Balance at the end of current period	**4,536**	4,625	**37,053**
Remeasurement of defined benefit plans			
Balance at the beginning of current period	**865**	(83)	**7,068**
Changes during the period			
Net changes in items other than shareholders' equity	**1,297**	948	**10,592**
Total changes during the period	**1,297**	948	**10,592**
Balance at the end of current period	**2,162**	865	**17,660**
Foreign currency translation adjustments			
Balance at the beginning of current period	**(5)**	261	**(42)**
Changes during the period			
Net changes in items other than shareholders' equity	**3,546**	(266)	**28,972**
Total changes during the period	**3,546**	(266)	**28,972**
Balance at the end of current period	**3,541**	(5)	**28,930**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**6,110**	4,891	**49,916**
Changes during the period			
Net changes in items other than shareholders' equity	**4,786**	1,219	**39,098**
Total changes during the period	**4,786**	1,219	**39,098**
Balance at the end of current period	¥ **10,896**	¥ 6,110	$ **89,014**

Consolidated Statements of Changes in Net Assets

KYOEI STEEL LTD. and Consolidated Subsidiaries Years Ended March 31, 2022 and 2021	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
Non-controlling interests			
Balance at the beginning of current period	¥ **10,154**	¥ 10,373	$ **82,949**
Changes during the period			
Net changes in items other than shareholders' equity	**2,580**	(219)	**21,076**
Total changes during the period	**2,580**	(219)	**21,076**
Balance at the end of current period	**12,734**	10,154	**104,025**
Total net assets			
Balance at the beginning of current period	**164,583**	158,044	**1,344,521**
Changes during the period			
Change in scope of consolidation	**—**	228	**—**
Cash dividends	**(2,606)**	(3,477)	**(21,302)**
Net income	**6,322**	8,788	**51,644**
Purchase of treasury stock	**—**	—	**—**
Reversal of land revaluation	**89**	—	**732**
Change in ownership interest of parent due to transactions with non-controlling interests	**(65)**	—	**(531)**
Net changes in items other than shareholders' equity	**7,366**	1,000	**60,174**
Total changes during the period	**11,106**	6,539	**90,717**
Balance at the end of current period	¥ **175,689**	¥ 164,583	$ **1,435,238**

Consolidated Statements of Cash Flows

KYOEI STEEL LTD. and Consolidated Subsidiaries Years Ended March 31, 2022 and 2021	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
Cash flows from operating activities			
Income before income taxes	¥ **10,081**	¥ 12,735	$ **82,346**
Depreciation and amortization	**8,840**	8,402	**72,214**
Impairment loss on fixed assets	**155**	—	**1,260**
Amortization of goodwill	**224**	198	**1,834**
Increase (decrease) in provision	**79**	(37)	**642**
Increase (decrease) in net defined benefit liability	**87**	604	**707**
Share of profit of entities accounted for using equity method	**(1,419)**	(763)	**(11,591)**
Loss (gain) on sale and disposal of property, plant and equipment	**375**	345	**3,064**
Insurance income	**(64)**	(22)	**(519)**
Subsidy income	**(24)**	(148)	**(193)**
Interest and dividend income	**(893)**	(965)	**(7,291)**
Interest expense	**1,217**	1,310	**9,945**
Decrease (increase) in notes and accounts receivable	**(13,070)**	(1,431)	**(106,773)**
Decrease (increase) in inventories	**(18,081)**	261	**(147,711)**
Increase (decrease) in notes and accounts payable	**2,846**	4,064	**23,248**
Increase (decrease) in accrued consumption taxes	**(176)**	(1,218)	**(1,440)**
Decrease (increase) in net defined benefit asset	**(1,344)**	(1,377)	**(10,978)**
Other	**1,292**	(791)	**10,564**
Subtotal	**(9,875)**	21,167	**(80,672)**
Interest and dividends received	**1,037**	1,205	**8,468**
Interest paid	**(1,197)**	(1,353)	**(9,782)**
Proceeds from insurance income	**—**	22	**—**
Subsidy income	**24**	148	**192**
Income taxes paid	**(3,686)**	(5,998)	**(30,109)**
Net cash provided by (used in) operating activities	¥ **(13,697)**	¥ 15,191	$ **(111,903)**
Cash flows from investing activities			
Increase in time deposits	¥ **(54,262)**	¥ (58,658)	$ **(443,278)**
Decrease in time deposits	**72,000**	32,611	**588,191**
Payment for acquisition of marketable securities	**(1,000)**	(2,000)	**(8,169)**
Proceeds from sale of marketable securities	**2,000**	2,000	**16,339**
Payment for purchase of investments in securities	**(64)**	(4)	**(520)**
Proceeds from sale or redemption of investments in securities	**1**	—	**5**
Increase in money deposited	**—**	(1)	**—**
Decrease in money deposited	**0**	1	**3**
Payment for acquisition of investments of capital in subsidiaries	**—**	(101)	**—**
Investments in loans	**(5)**	(517)	**(38)**
Collection of loans	**310**	49	**2,532**
Payment for purchase of property, plant and equipment	**(10,883)**	(9,353)	**(88,906)**
Proceeds from sale of property, plant and equipment	**24**	14	**192**
Payment for purchase of intangibles	**(993)**	(732)	**(8,113)**
Other	**(195)**	(87)	**(1,597)**
Net cash provided by (used in) investing activities	**6,933**	(36,778)	**56,641**

Consolidated Statements of Cash Flows

KYOEI STEEL LTD. and Consolidated Subsidiaries Years Ended March 31, 2022 and 2021	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	**¥ 4,463**	¥ (33)	**$ 36,461**
Proceeds from long-term debt	**1,451**	15,000	**11,849**
Repayment of long-term debt	**(5,869)**	(5,714)	**(47,948)**
Repayment of installment payables	**(99)**	(88)	**(813)**
Proceeds from issuance of bonds	**9,947**	—	**81,261**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**—**	(238)	**—**
Cash dividends paid	**(2,603)**	(3,471)	**(21,267)**
Dividends paid to non-controlling shareholders	**(14)**	(320)	**(118)**
Other	**63**	—	**526**
Net cash provided by (used in) financing activities	**7,339**	5,136	**59,951**
Effect of exchange rate changes on cash and cash equivalents	**1,284**	(561)	**10,486**
Net increase (decrease) in cash and cash equivalents	**1,859**	(17,012)	**15,175**
Cash and cash equivalents at the beginning of the period	**25,351**	42,085	**207,102**
Increase in cash and cash equivalents from newly consolidated subsidiary	**—**	278	**—**
Cash and cash equivalents at the end of the period (Note 11)	**¥ 27,210**	¥ 25,351	**$ 222,277**

Notes to Consolidated Financial Statements

KYOEI STEEL LTD. and Consolidated Subsidiaries Years Ended March 31, 2022 and 2021

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

(1) Goodwill not subject to amortization
(2) Actuarial gains and losses of defined benefit retirement plans recognized outside profit and loss
(3) Capitalized expenditures for research and development activities
(4) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
(5) Reclassification of accumulated other comprehensive income (AOCI) to profit or loss on disposal or recognition of impairment losses for equity instruments classified as fair value through other comprehensive income

The translations of the Japanese yen amount into U.S. dollar amount are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2022, which was ¥122.41 to US$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, 2022 and 2021 include the accounts of the Company and its 18 and 19 subsidiaries, respectively. On July 1, 2021, Kyoei Corporation, which had been a subsidiary of the Company, was combined into the Company through an absorption-type merger with the Company as the surviving entity. As the company was extinguished by the merger, it was from consolidation.
Several subsidiaries, included in consolidation have fiscal years that end on December 31. These subsidiaries do not prepare for consolidation purposes statements with periods that correspond to the fiscal year of the Company, which ends on March 31.
For these consolidated subsidiaries, if there were significant transactions between their fiscal year-end and the Company's year-end, necessary adjustments were made to reflect these transactions in the accompanying consolidated financial statements.

Investments in affiliates, other than the subsidiaries referred to above, are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

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

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

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

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

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

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

(g) Depreciation and amortization
(1) Property, plant and equipment (excluding lease assets)
Depreciation of property, plant and equipment is calculated principally by the straight-line method. For buildings and structures, the useful life is 31 years. For machinery and equipment, the useful life is 14 years.

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

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

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

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

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

(k) Accounting policies for severance and retirement benefits
(1) The method of attributing expected benefits to periods
In calculating retirement benefit obligation, estimated retirement benefits are attributed to the period up to the end of the consolidated fiscal year using a benefit formula basis. At some consolidated overseas subsidiaries, an estimated total amount of expenses for post-retirement benefits in addition to pensions is allotted based on the number of years of service provided by the employees.

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

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

(l) Method for recording revenues and expenses
The Company and its consolidated subsidiaries recognize revenue based on the following five-step approach.

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when or as the performance obligations are fulfilled

In the domestic steel business and overseas steel business, the primary performance obligation is to supply steel products to customers. In principle, revenue is recognized at the time of products shipment since control of the products is transferred to customers and the performance obligation is fulfilled at that time. In the material recycling business, the performance obligation is mainly to provide services, such as those related to medical waste treatment and industrial waste treatment, revenue is recognized at the time the provision of services is completed since the performance obligations are fulfilled at that time.

Transaction price is calculated by deducting any discounted amount from the consideration agreed in the contract with the customer.
The consideration for a transaction is received mainly within one year from the fulfillment of the performance obligations and includes no significant financial components. When the Group is engaged in transactions as an agent, revenue is recognized as the net amount received from customers less the amount paid to third parties.

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

(n) Significant hedge accounting
(1) Method of hedge accounting
The Company and its consolidated subsidiaries use mainly deferred hedging. Hedges that meet the conditions for the special treatment of interest rate swaps and the designation of forward exchange contracts and currency swaps are accounted for separately.

(2) Hedging instruments and hedged items
a. Hedging instruments: Interest rate swaps
Hedged items: Interest rates
b. Hedging instruments: Forward exchange contracts and currency swaps
Hedged items: Foreign monetary assets and liabilities

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

(a) Adoption of Accounting Standards for Revenue Recognition

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as the Accounting Standard for Revenue Recognition) and relevant ASBJ regulations have been adopted from the beginning of the current fiscal year. Pursuant to the new standard, at the time when control of the promised goods or services is transferred to customers, revenue is recognized by the amount expected to be received in exchange for the goods or services.
Prior to the application of the new standard for transactions in which the Group's role in providing products to customers was that of an agent, the total amount of consideration received from customers was recognized as revenue. With the change, however, the revenue is now recognized as the net amount received from customers after deducting the amount paid to third parties.

Regarding the adoption of the Accounting Standard for Revenue Recognition and the relevant ASBJ regulations, the transitional treatment stipulated in Paragraph 84 of the Accounting Standard for Revenue Recognition is followed, with no effect on at the beginning balance of retained earnings. In addition, "Notes and accounts receivable," which was indicated in "Current Assets" in the consolidated balance sheet in the previous fiscal year, is presented in "Notes" and "Accounts receivable" from the current consolidated fiscal year.

Although, the transitional treatment stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition is followed, amounts reported in the previous consolidated fiscal year were not reclassified using the new presentation method.

As a result, net sales and cost of sales each decreased by 13,298 million yen ($108,635 thousand) in the consolidated statements of income for the current fiscal year compared with amounts that would have been reported before the adoption of the Accounting Standard for Revenue Recognition and the relevant ASBJ regulations.

Furthermore, the information on the disaggregation of revenue from contracts with customers for the previous fiscal year is not provided as allowed by the transitional treatment provided for in Paragraph 89-3 of the Accounting Standard for Revenue Recognition.

(b) Adoption of Accounting Standards for Fair Value Measurement

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as the Accounting Standard for Fair Value Measurement) and relevant revised ASBJ regulations have been adopted from the beginning of the current fiscal year, and the new accounting policies prescribed by the Accounting Standard for Fair Value Measurement will be adopted prospectively in accordance with the transitional treatment prescribed in Paragraphs 19 of the Accounting Standard for Fair Value Measurement and 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). This change has had no impact on the consolidated financial statements.

Note 15 "Financial Instruments," provides information on matters related to the breakdown of financial instruments by market value level.
In accordance with 7-4 of the Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019), corresponding information and notes for the previous consolidated fiscal year have not been provided.

4. INVENTORIES

Inventories at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Merchandise	¥ 505	¥ 284	$ 4,128
Finished goods	26,701	15,487	218,124
Semi-finished goods	10,215	5,669	83,450
Work-in-process	2,969	10,187	24,257
Raw materials	14,251	2,722	116,418
Supplies	9,705	8,621	79,282
Steel rolls	4,033	3,870	32,945
Total	¥ 68,379	¥ 46,840	$558,604

5. APPLICATION OF LAND REVALUATION LAW

Land used for business purposes was revalued in accordance with the "Act on Revaluation of Land" (Law 34 of 1998, promulgated on March 31, 1998). The portion of the revaluation gain equivalent to the corporation tax and other taxes with tax bases linked to corporate profits has been presented under liabilities as "Deferred tax liabilities on revaluation," while the net sum after this transfer to the deferred tax liability account is presented under net assets as "Revaluation reserve for land."
Revaluation method
The land value has been calculated as stipulated in Article 2.4 of the "Regulations for Applying the Land Revaluation Law" (Government Ordinance No. 119 of 1998, promulgated on March 31, 1998) by making adjustments to the price determined by the method publicly announced for the calculation of the tax base under the Land Value Tax.

Revaluation date: March 31, 2000

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Difference between the market value at end of year and the book value after revaluation	¥ (5,116)	¥ (5,282)	$ (41,794)

6. BANK LOANS

Short-term loans consisted of unsecured loans payable from banks at the weighted average interest rate of 1.60% at March 31, 2022 and 1.40% at March 31, 2021.

Long-term debt from banks at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Long-term debt from banks at average interest rates of 0.6% and 0.9% for current and noncurrent portions, respectively	¥ 30,099	¥ 33,684	$245,885
Less current portion	(4,822)	(5,705)	(39,388)
Long-term debt from banks	¥ 25,277	¥ 27,979	$206,497

The assets pledged as collateral for short-term loans at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Cash and deposits*	¥ 598	¥ 588	$ 4,887
Land	1,121	1,121	9,160
Total	¥ 1,719	¥ 1,709	$ 14,047

* At the request of Alta Steel Inc., the Company provided collateral for a financial institution to issue a stand-by letter of credit.

Secured debt at March 31,2022 and 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Long-term debt due within one year	¥ 200	¥ 200	$ 1,634
Long-term debt	367	567	2,996
Total	¥ 567	¥ 767	$ 4,630

The annual maturities of long-term debt from banks as of March 31, 2022 are summarized as follows:

Year ended March 31	Millions of yen	Thousands of U.S. dollars
2023	¥ 4,822	$ 39,388
2024	4,012	32,773
2025	4,061	33,175
2026	3,815	31,170
2027	3,727	30,447
Thereafter	9,662	78,932
Total	¥ 30,099	$245,885

The annual maturities of long-term debt from banks as of March 31, 2021 are summarized as follows:

Year ended March 31	Millions of yen
2022	¥ 5,705
2023	4,444
2024	3,611
2025	3,656
2026	3,489
Thereafter	12,779
Total	¥ 33,684

7. R&D EXPENSES

R&D expenses included in selling, general and administrative expenses for the years ended March 31, 2022 and 2021 amounted to ¥235 million ($1,917 thousand) and ¥231 million, respectively.

8. 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, 2022, the Board approved cash dividends in the amount of ¥1,086 million ($8,876 thousand). The appropriation had not been accrued in the consolidated financial statements as of March 31, 2022. At the Board Directors' meeting held on April 30, 2021, the Board approved cash dividends in the amount of ¥1,956 million. The appropriation had not been accrued in the consolidated financial statements as of March 31, 2021.

9. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 30.6% for the year ended March 31, 2022 and 30.6% for the year ended March 31, 2021.

The major components of deferred tax assets and liabilities as of March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Deferred tax assets:			
Impairment loss	¥ 352	¥ 365	$ 2,872
Inventories	150	151	1,223
Accrued enterprise taxes	28	180	230
Allowance for doubtful accounts	35	34	283
Accrued bonuses	259	236	2,115
Net defined benefit liability	355	606	2,903
Accrued director retirement benefits	28	28	227
Tax loss carryforwards	1,213	1,203	9,913
Other	952	1,043	7,780
Gross deferred tax assets	3,372	3,846	27,546
Valuation allowance	(1,245)	(1,041)	(10,173)
Total deferred tax assets	2,127	2,805	17,373
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(464)	(462)	(3,791)
Net defined benefit asset	(259)	(143)	(2,113)
Reserve for special depreciation for tax purposes	(14)	(16)	(116)
Depreciation of consolidated overseas subsidiaries	(2,291)	(1,909)	(18,719)
Valuation difference on assets	(321)	(261)	(2,621)
Other	(575)	(347)	(4,694)
Total deferred tax liabilities	(3,924)	(3,138)	(32,054)
Net deferred tax assets	¥ (1,797)	¥ (333)	$ (14,681)

The major components of the reconciliation between the statutory tax rate and the effective tax rate as of March 31, 2022 and 2021 were as follows:

	2022	2021
Statutory tax rate	**30.6%**	30.6%
Disallowed expenses, including entertainment expenses	**0.3**	0.2
Dividends and other income deductible for income tax purposes	**(0.2)**	(0.1)
Inhabitants per capita taxes	**0.3**	0.2
Increase in valuation allowance	**2.0**	(0.9)
Prior year's taxes, other	**(0.2)**	(0.2)
Equity gains of affiliates	**(4.3)**	(1.8)
Amortization of goodwill	**0.7**	0.5
Subsidiary tax rate difference	**(7.6)**	0.1
Other	**1.7**	(1.4)
Effective tax rates	**23.3%**	27.2%

(Changes in presentation method)
The "Amortization of goodwill" and "Subsidiary tax rate difference," which had been included in "Other," were presented separately from the fiscal year as their importance increased. To reflect this change in the presentation method, the reclassifications were also made in the notes for the previous fiscal year. As a result, (0.8%) included in "Other" for the previous fiscal year was reclassified as 0.5% in "Amortization of goodwill," 0.1% in "Subsidiary tax rate difference" and (1.4%) in "Other."

10. CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

The following tables present information related to the consolidated statements of changes in net assets for the years ended March 31, 2022 and 2021:

(a) Number of shares issued

For the year ended March 31, 2022

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

For the year ended March 31, 2021

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

(b) Treasury stock

For the year ended March 31, 2022

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	**1,439,755**	**—**	**—**	**1,439,755**

For the year ended March 31, 2021

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	1,439,755	—	—	1,439,755

(c) Cash dividends

Amount of dividend payments
For the year ended March 31, 2022

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, 2021 (Board of Directors)	**Common stock**	**¥ 1,955**	**$ 15,976**	**¥ 45**	**$ 0.4**	**March 31, 2021**	**June 10, 2021**

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 29, 2021 (Board of Directors)	**Common stock**	**¥ 651**	**$ 5,325**	**¥ 15**	**$ 0.1**	**September 30, 2021**	**December 7, 2021**

For the year ended March 31, 2021

Date of approval	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
May 12, 2020 (Board of Directors)	Common stock	¥ 2,825	¥ 65	March 31, 2020	June 11, 2020

Date of approval	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
October 30, 2020 (Board of Directors)	Common stock	¥ 652	¥ 15	September 30, 2020	December 8, 2020

11. SUPPLEMENTARY CASH FLOW INFORMATION

Reconciliation of cash and cash equivalents
The following table represents a reconciliation of cash and cash equivalents at March 31, 2022 and 2021:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Cash and time deposits	**¥ 51,338**	¥ 66,959	**$ 419,395**
Time deposits with a maturity of more than three months	**(25,128)**	(41,608)	**(205,284)**
Negotiable certificates of deposit with maturities of three months or less from the acquisition date	**1,000**	—	**8,166**
Cash and cash equivalents	**¥ 27,210**	¥ 25,351	**$ 222,277**

12. SEVERANCE AND RETIREMENT BENEFITS

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

Some of the Company's subsidiaries have instituted defined benefit plans or lump-sum benefit plans and calculate defined benefit liabilities and periodic pension cost by the simplified method. Certain consolidated overseas subsidiaries, in addition to the above, provide post-retirement healthcare, etc.

(b) Defined benefit plan

The provisional accounting treatment for the business combination applied in the previous consolidated fiscal year was finalized in the current fiscal year. The comparison of figures reflects a significant revision of the initial allocation of the acquisition cost for the business combination resulting from the finalization of the provisional accounting treatment.

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Balance at April 1	¥ **23,539**	¥ 21,066	$ **192,298**
Service cost	**631**	513	**5,158**
Interest cost	**510**	446	**4,169**
Actuarial loss	**(1,440)**	1,646	**(11,762)**
Benefits paid	**(1,145)**	(807)	**(9,353)**
Increase due to joining of consolidated group of subsidiaries	**375**	—	**3,061**
Others*	**1,883**	675	**15,379**
Balance at March 31	¥ **24,353**	¥ 23,539	$ **198,950**

*Others represents the translation adjustments arising from liability for retirement benefits of overseas subsidiaries.

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Balance at April 1	¥ **21,237**	¥ 17,667	$ **173,491**
Expected return on plan assets	**762**	540	**6,224**
Actuarial gain (loss)	**710**	2,928	**5,800**
Contributions paid by the employer	**237**	377	**1,935**
Benefits paid	**(991)**	(807)	**(8,097)**
Others*	**1,498**	532	**12,238**
Balance at March 31	¥ **23,453**	¥ 21,237	$ **191,591**

*Others represents the translation adjustments arising from liability for retirement benefits of overseas subsidiaries.

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Balance at April 1	¥ **(21)**	¥ 109	$ **(175)**
Retirement benefit cost	**24**	(13)	**194**
Benefits paid	**(19)**	(14)	**(158)**
Contributions to benefit plans	**(119)**	(112)	**(969)**
Increase due to joining of consolidated group of subsidiaries	**—**	11	**—**
Others*	**6**	(2)	**52**
Balance at March 31	¥ **(129)**	¥ (21)	$ **(1,056)**

*Others represents the translation adjustments arising from liability for retirement benefits of overseas subsidiaries.

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Funded retirement benefit obligations	¥ **21,351**	¥ 20,694	$ **174,423**
Plan assets	**(25,053)**	(22,736)	**(204,667)**
Subtotal	**(3,702)**	(2,042)	**(30,244)**
Unfunded retirement benefit obligations	**4,473**	4,322	**36,539**
Total net liability (asset) for retirement benefits at March 31	¥ **771**	¥ 2,280	$ **6,295**

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Net defined benefit asset	¥ **(3,546)**	¥ (1,914)	$ **(28,968)**
Net defined benefit liability	**4,317**	4,194	**35,263**
Total net liability (asset) for retirement benefits at March 31	¥ **771**	¥ 2,280	$ **6,295**

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Service cost	¥ **631**	¥ 513	$ **5,158**
Interest cost	**510**	446	**4,169**
Expected return on plan assets	**(762)**	(540)	**(6,224)**
Net actuarial loss (gain) amortization	**(63)**	(6)	**(516)**
Prior service cost	**(3)**	—	**(28)**
Retirement benefit cost applying the simplified method	**24**	(13)	**194**
Total retirement benefit costs for the year ended March 31	¥ **337**	¥ 400	$ **2,753**

(6) Remeasurement of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Prior Service cost	¥ **(378)**	¥ —	$ **(3,089)**
Actuarial gain or loss	**2,086**	1,277	**17,044**
Total balance at March 31	¥ **1,708**	¥ 1,277	$ **13,955**

(7) Accumulated adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Unrecognized Prior Service cost	¥ **(378)**	¥ —	$ **(3,089)**
Unrecognized actuarial gain or loss	**3,243**	1,157	**26,494**
Total balance at March 31	¥ **2,865**	¥ 1,157	$ **23,405**

(8) Plan assets

a. Plan assets comprise:

	2022	2021
Bonds	**54%**	54%
Stock	**39**	39
Life insurance company general accounts	**4**	5
Other	**3**	2
Total	**100%**	100%

b. Long-term expected rate of return

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

(9) Actuarial assumptions

The principal actuarial assumptions were as follows:

	2022	2021
Discount rate	**0.7%–3.2%**	0.4%–2.6%
Expected long-term rate of return	**1.5%–5.0%**	1.5%–5.5%
Salary increase rate	**2.2%–3.0%**	2.3%–3.0%

(c) Defined contribution scheme

The required contribution to the Company's defined contribution plan was ¥197 million ($1,611 thousand) for the year ended March 31, 2022 and ¥148 million for the year ended March 31, 2021.

13. AMOUNTS PER SHARE

	yen		U.S. dollars
Years ended March 31	2022	2021	2022
Net income	**¥ 145.48**	¥ 202.22	**$ 1.19**
	yen		U.S. dollars
As of March 31	2022	2021	2022
Net assets	**¥ 3,749.63**	¥ 3,553.45	**$ 30.63**

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

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

Basic net assets per share were as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	2022	2021	2022
Basic net assets per share:			
Total net assets on the balance sheets	**¥ 175,688**	¥ 164,583	**$ 1,435,238**
Deduction from total net assets	**(12,734)**	(10,154)	**(104,025)**
Non-controlling interests	**(12,734)**	(10,154)	**(104,025)**
Amount attributable to shareholders of common stock	**¥ 162,954**	¥ 154,429	**$ 1,331,213**
Number of shares outstanding	**44,899**	44,899	**—**
Number of treasury shares	**(1,440)**	(1,440)	**—**
Number of shares at fiscal year-end used in calculation of net assets per share	**43,459 thousand shares**	43,459 thousand shares	**—**

Basic net income per share was as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	2022	2021	2022
Basic net income per share:			
Profit attributable to owners of parents	**¥ 6,322**	¥ 8,788	**$ 51,644**
Amount attributable to shareholders of common stock	**¥ 6,322**	¥ 8,788	**$ 51,644**
Weighted average number of shares outstanding	**43,459 thousand shares**	43,459 thousand shares	**—**

14. LEASES

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

The Group also has entered into noncancellable operating lease contracts. Future lease payments subsequent to March 31, 2022 and 2021 under noncancellable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	2021	2022
Due within one year	¥ 145	¥ 165	$ 1,188
Due after one year	402	169	3,283
Total	¥ 547	¥ 334	$ 4,471

15. FINANCIAL INSTRUMENTS

Additional information – Disclosure of fair value of financial instruments

(a) Qualitative information on financial instruments

(1) Policies for using financial instruments

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

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

Notes and accounts receivable and electronically recorded monetary claims - operating expose the Group to customer credit risk. To manage this risk, the Group has established internal procedures for receivables, manages the amounts and settlement dates and monitors the financial condition of the counterparties.

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

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

Almost all notes and accounts payable and electronically recorded obligations – operating are due within four months.

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

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

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

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

(3) Supplemental information on fair values

To estimate the fair value, certain assumptions must be made. The fair value estimates, therefore, may vary depending on what assumptions are made.

(b) Fair values of financial instruments

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2022 and 2021 were as follows:

Year ended March 31, 2022	Millions of yen			Thousands of U.S. dollars		
	Carrying amount shown in balance sheet	Fair value	Difference	Carrying amount shown in balance sheet	Fair value	Difference
Investments in securities						
Other securities	¥ 3,728	¥ 3,728	¥ —	$ 30,459	$ 30,459	$ —
Investments in long-term loans receivable	391	391	—	3,197	3,197	—
Bond	(10,000)	(9,928)	(72)	(81,693)	(81,104)	(589)
Long-term debt						
Due within one year	(4,822)	(4,813)	(9)	(39,388)	(39,319)	(69)
Due after one year	(25,277)	(25,056)	(221)	(206,497)	(204,690)	(1,807)
Lease obligations	(1,092)	(1,169)	77	(8,919)	(9,553)	634
Derivatives	¥ (420)	¥ (420)	¥ —	$ (3,432)	$ (3,432)	$ —

(Note) 1. "Cash and time deposits," "Notes and accounts receivable," "Electronically recorded monetary claims - operating," "Securities," "Notes and accounts payable," "Electronically recorded obligations – operating" and "Short-term loans" are not included in the table above because they are settled in a short term since the market value is close to the book value.
2. The following financial instruments are not included in the above table because market prices were not available.
The amounts recorded in the consolidated balance sheet of the relevant financial instruments are as follows.

Year ended March 31, 2022	Millions of yen
Investments in securities	
Unlisted securities	¥ 7,427
Investments and other assets	
Investments in capital	¥ 658

3. The amount for "Lease obligations" represents the sum of the lease obligation amounts included in other current liabilities and other long-term liabilities.
4. Receivables and payables incurred by derivative transactions are presented as a net amount.

Year ended March 31, 2022	Millions of yen		
	Carrying amount shown in balance sheet	Fair value	Difference
Investments in securities			
Other securities	¥ 3,868	¥ 3,868	¥ —
Investments in long-term loans receivable	460	460	—
Long-term debt			
Due within one year	(5,705)	(5,700)	(5)
Due after one year	(27,979)	(27,831)	(148)
Lease obligations	(944)	(1,139)	195
Derivatives	¥ (673)	¥ (673)	¥ —

(Note) 1. "Cash and time deposits," "Notes and accounts receivable," "Electronically recorded monetary claims - operating," "Securities," "Notes and accounts payable," "Electronically recorded obligations – operating" and "Short-term loans" are not included in the table above because they are settled in a short term since the market value is close to the book value.
2. The following financial instruments are not included in the above table because market prices were not available.
The amounts recorded in the consolidated balance sheet for the relevant financial instruments are as follows.

Year ended March 31, 2021	Millions of yen
Investments in securities	
Unlisted securities	¥ 6,792
Investments and other assets	
Investments in capital	¥ 101

3. The amount of "Lease obligations" shows the sum of the lease obligation amounts included in other current liabilities and other long-term liabilities.
4. Receivables and payables incurred by derivative transactions are presented as a net amount.

(1) Amount to be redeemed after the consolidated closing date of monetary asset and securities with maturity

Year ended March 31, 2022	Millions of yen			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits	**¥ 51,338**	**¥ —**	**¥ —**	**¥ —**
Notes	**669**	**—**	**—**	**—**
Accounts receivable	**51,680**	**—**	**—**	**—**
Electronically recorded monetary claims-operating	**15,399**	**—**	**—**	**—**
Marketable securities	**1,000**	**—**	**—**	**—**
Investments in long-term loans receivable	**—**	**386**	**6**	**—**
Total	**¥ 120,086**	**¥ 386**	**¥ 6**	**¥ —**

Year ended March 31, 2022	Thousands of U.S. dollars			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits	**$ 419,395**	**$ —**	**$ —**	**$ —**
Notes	**5,465**	**—**	**—**	**—**
Accounts receivable	**422,186**	**—**	**—**	**—**
Electronically recorded monetary claims-operating	**125,799**	**—**	**—**	**—**
Marketable securities	**8,169**	**—**	**—**	**—**
Investments in long-term loans receivable	**—**	**3,153**	**44**	**—**
Total	**$ 981,014**	**$ 3,153**	**$ 44**	**$ —**

Year ended March 31, 2021	Millions of yen			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits	¥ 66,959	¥ —	¥ —	¥ —
Notes and accounts receivable	40,341	—	—	—
Electronically recorded monetary claims-operating	12,233	—	—	—
Marketable securities	1,000	—	—	—
Investments in long-term loans receivable	—	438	22	—
Long-term deposits	—	138	—	—
Total	¥ 120,533	¥ 576	¥ 22	¥ —

(2) Expected repayment amount of short-term loan, bond, long-term debts and lease debts after the consolidated closing date

Year ended March 31, 2022	Millions of yen					
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Short-term loans	**¥ 54,393**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Bond	**—**	**—**	**—**	**—**	**10,000**	**—**
Long-term debt	**4,822**	**4,012**	**4,061**	**3,815**	**3,727**	**9,662**
Lease debt	**214**	**177**	**147**	**111**	**82**	**360**
Total	**¥ 59,429**	**¥ 4,189**	**¥ 4,208**	**¥ 3,926**	**¥ 13,809**	**¥ 10,022**

Year ended March 31, 2022	Thousands of U.S. dollars					
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Short-term loans	**$ 444,351**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Bond	**—**	**—**	**—**	**—**	**81,695**	**—**
Long-term debt	**39,388**	**32,773**	**33,175**	**31,170**	**30,447**	**78,932**
Lease debt	**1,747**	**1,450**	**1,202**	**907**	**670**	**2,943**
Total	**$ 485,486**	**$ 34,223**	**$ 34,377**	**$ 32,077**	**$ 112,812**	**$ 81,875**

Year ended March 31, 2021	Millions of yen					
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Short-term loans	¥ 44,645	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	5,705	4,444	3,612	3,656	3,489	12,779
Lease debt	132	105	95	94	86	431
Total	¥ 50,482	¥ 4,549	¥ 3,707	¥ 3,750	¥ 3,575	¥ 13,210

(c) Matters concerning the breakdown of financial instruments by fair value level

The Company classifies the fair value of financial instruments into the following three levels according to the observability and significance of the inputs used to calculate the fair value.

Level 1: Fair value measured by quoted market prices for identical assets or liabilities in an active market
Level 2: Fair value measured using observable inputs other than Level 1 inputs
Level 3: Fair value measured using significant unobservable inputs

When multiple inputs that have a significant impact on the measuring fair value are used, the fair value is classified by the level from which the lowest inputs ware used.

(1) Financial instruments recorded on the consolidated balance sheet at fair value

Year ended March 31, 2022	Millions of yen			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Other securities	**¥ 3,728**	**¥ —**	**¥ —**	**¥ 3,728**
Total assets	**3,728**	**—**	**—**	**3,728**
Derivatives	**—**	**(420)**	**—**	**(420)**
Total Liabilities	**¥ —**	**¥ (420)**	**¥ —**	**¥ (420)**

Year ended March 31, 2022	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Other securities	**$ 30,459**	**$ —**	**$ —**	**$ 30,459**
Total assets	**30,459**	**—**	**—**	**30,459**
Derivatives	**—**	**(3,432)**	**—**	**(3,432)**
Total Liabilities	**$ —**	**$ (3,432)**	**$ —**	**$ (3,432)**

(2) Financial instruments other than those recorded on the consolidated balance sheet at market value

Year ended March 31, 2022	Millions of yen			
	Level 1	Level 2	Level 3	Total
Investments in long-term loans receivable	**¥ —**	**¥ 392**	**¥ —**	**¥ 392**
Total assets	**—**	**392**	**—**	**392**
Bond	**—**	**9,928**	**—**	**9,928**
Long-term debt				
Due within 1 year	**—**	**4,813**	**—**	**4,813**
Due over 1 year	**—**	**25,056**	**—**	**25,056**
Lease debt	**—**	**1,169**	**—**	**1,169**
Total Liabilities	**¥ —**	**¥ 40,966**	**¥ —**	**¥ 40,966**

Year ended March 31, 2022	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Investments in long-term loans receivable	**$ —**	**$ 3,197**	**$ —**	**$ 3,197**
Total assets	**—**	**3,197**	**—**	**3,197**
Bond	**—**	**81,104**	**—**	**81,104**
Long-term debt				
Due within 1 year	**—**	**39,319**	**—**	**39,319**
Due over 1 year	**—**	**204,690**	**—**	**204,690**
Lease debt	**—**	**9,553**	**—**	**9,553**
Total Liabilities	**$ —**	**$ 334,666**	**$ —**	**$ 334,666**

(Note) Valuation methods and inputs used to calculate to fair value.

(Investment in securities)
The fair values of listed securities are based on the quoted market price. Since listed securities are traded in an active market, the fair value is classified as Level 1.

(Investments in long-term loans receivable)
The fair value of investments in long-term loans receivable is classified as Level 2 because the loans are classified by a certain period and the values measured by the discounted present value method based on future cash flows and interest rates obtained by adding the credit spread to appropriate indicators such as government bond yields.

(Bonds)
The fair value of bonds issued by the Company is classified as Level 2 because the value is measured by using the discounted present value method based on the total amount of principal and interest and the remaining term of the bond using an interest rate that reflects credit risk to appropriate indicators such as the yield on government bonds.

(Long-term debt and lease debt)
The fair value is classified as Level 2 because it is measured by using the discounted present value method based on the total amount of principal and interest and the remaining term of the debt using an interest rate that reflects credit risk to appropriate indicators such as the yield on government bonds.

(Derivative)
The fair value of derivatives is classified as Level 2 because it is determined based on the price offered by the counterparty financial institution.

16. SECURITIES

(a) Available-for-sale securities with determinable market values

As of March 31, 2022	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	**¥ 1,018**	**¥ 2,869**	**¥ 1,851**	**$ 8,317**	**$ 23,441**	**$ 15,124**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Securities whose carrying value does not exceed acquisition costs:						
Stock	**1,430**	**859**	**(571)**	**11,686**	**7,017**	**(4,669)**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**1,000**	**1,000**	**—**	**8,169**	**8,169**	**—**
Total	**¥ 3,448**	**¥ 4,728**	**¥ 1,280**	**$ 28,172**	**$ 38,627**	**$ 10,455**

As of March 31, 2021	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥ 880	¥ 2,388	¥ 1,508
Bonds	—	—	—
Other	—	—	—
Securities whose carrying value does not exceed acquisition costs:			
Stock	1,565	1,480	(85)
Bonds	—	—	—
Other	1,000	1,000	—
Total	¥ 3,445	¥ 4,868	¥ 1,423

(b) Securities without determinable market values

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Investment in securities:			
Unlisted securities (available-for-sale securities)	**¥ 330**	¥ 331	**$ 2,693**
Unlisted securities (unconsolidated subsidiaries and affiliated companies)	**7,097**	6,462	**57,975**
Investments in capital (unconsolidated subsidiaries and affiliated companies)	**¥ 658**	¥ 101	**$ 5,373**

17. DERIVATIVE TRANSACTIONS

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

Currency related

Year ended March 31, 2022

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Over one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)	Valuation gain (loss) (Thousands of U.S. dollars)
Nonmarket transactions	Foreign exchange forward contracts Buying U.S. dollars	**¥ 24,508**	**¥ —**	**¥ (196)**	**¥ (196)**	**$200,209**	**$ —**	**$ (1,598)**	**$ (1,598)**

Year ended March 31, 2021

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)
Nonmarket transactions	Foreign exchange forward contracts Buying U.S. dollars	¥ 15,634	¥ —	¥ (214)	¥ (214)

Commodity related

Year ended March 31, 2022

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Over one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)	Valuation gain (loss) (Thousands of U.S. dollars)
Nonmarket transactions	Forward contracts Buying natural gas	**¥ 134**	**¥ —**	**¥ 31**	**¥ 31**	**$ 1,097**	**$ —**	**$ 252**	**$ 252**

(2) Derivative transactions for which hedge accounting is applied

Interest rate related

Year ended March 31, 2022

Hedge accounting method	Transaction type	Main hedged item	Contract amount (Millions of yen)	Amount of contracts over 1 year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	**¥ 5,211**	**¥ 3,879**	**¥ (246)**

Hedge accounting method	Transaction type	Main hedged item	Contract amount (Thousands of U.S. dollars)	Amount of contracts over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	**$ 42,573**	**$ 31,686**	**$ (2,006)**

Year ended March 31, 2021

Hedge accounting method	Transaction type	Main hedged item	Contract amount (Millions of yen)	Amount of contracts over 1 year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	¥ 6,859	¥ 4,698	¥ (460)

Currency related

Year ended March 31, 2022

Hedge accounting method	Transaction type	Main hedged item	Contract amount (Millions of yen)	Amount of contracts over 1 year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge treatment	Foreign exchange forward contracts Selling U.S. dollars	Accounts receivable	**¥ 1,797**	**¥ —**	**¥ (10)**

Hedge accounting method	Transaction type	Main hedged item	Contract amount (Thousands of U.S. dollars)	Amount of contracts over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferred hedge treatment	Foreign exchange forward contracts Selling U.S. dollars	Accounts receivable	**$ 14,679**	**$ —**	**$ (80)**

18. IMPAIRMENT LOSS ON FIXED ASSETS

In the year ended March 31, 2022, the Group reported the following loss on impairment of fixed assets:

Use	Place	Type of asset	Millions of yen	Thousands of U.S. dollars
Company housing	Hirakata City, Osaka Prefecture	Buildings and structures	¥ 8	$ 58
		Land	147	1,202
		Total	¥ 155	$ 1,260

Fixed assets were grouped based on division, and each idle asset was treated as separate property. Due to the decision to sell, the book values of the above assets were reduced to the recoverable values and recorded as other expenses. The recoverable value for measuring impairment loss is determined by the net selling price based on the transfer price from the relevant contract.

19. STATEMENTS OF COMPREHENSIVE INCOME

Comprehensive income for the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Valuation difference on available-for-sale securities:			
Current accrual	¥ **(144)**	¥ 1,036	$ **(1,178)**
Reclassification adjustment	**—**	—	**—**
Before tax effect adjustment	**(144)**	1,036	**(1,178)**
Tax effect adjustment	**40**	(334)	**324**
Valuation difference on available-for-sale securities	**(104)**	702	**(854)**
Deferred gains and losses on hedges			
Current accrual	**209**	(254)	**1,708**
Reclassification adjustment	**—**	—	**—**
Before tax effect adjustment	**209**	(254)	**1,708**
Tax effect adjustment	**(45)**	53	**(364)**
Deferred gains and losses on hedges	**164**	(201)	**1,344**
Foreign currency translation adjustments:			
Current accrual	**4,780**	(745)	**39,050**
Reclassification adjustment	**—**	—	**—**
Before tax effect adjustment	**4,780**	(745)	**39,050**
Tax effect adjustment	**—**	—	**—**
Foreign currency translation adjustments:	**4,780**	(745)	**39,050**
Remeasurement of defined benefit plans:			
Current accrual	**1,771**	1,282	**14,468**
Reclassification adjustment	**(62)**	(5)	**(510)**
Before tax effect adjustment	**1,709**	1,277	**13,958**
Tax effect adjustment	**(412)**	(328)	**(3,366)**
Remeasurement of defined benefit plans	**1,297**	949	**10,592**
Total	¥ **6,137**	¥ 705	$ **50,132**

20. BUSINESS COMBINATIONS

Year ended March 31, 2021
(Business combination through acquisition)

(a) Finalization of provisional accounting treatment for business combinations

The Company had applied the provisional accounting treatments for the business combination based on available information considered to be reasonable on the date with AltaSteel Inc. and its consolidated subsidiary executed on March 16, 2020 (local time) in the previous fiscal year. At the date of the business combination, the specification of identifiable assets and liabilities and calculation of their fair values as of the acquisition date and the purchase price allocation had not been completed.

In the process of finalizing of this provisional accounting treatments, the Company restated related previous year figures in the consolidated financial statement in the current fiscal year. Despite the gain on bargain purchase of 3,512 million yen ($31,719 thousand) was recognized in the previous fiscal year, goodwill of 883 million yen ($7,975 thousand) was recognized in the current fiscal year as a result of the finalization of accounting treatment. This resulted mainly from a decrease in property, plant and equipment, in which machinery, equipment and vehicles decreased by 3,269 million yen ($29,525 thousand) and land decreased by 2,000 million yen ($18,063 thousand) and long-term liabilities in which deferred tax liabilities decreased by 1,110 million yen ($10,025 thousand) respectively. Income before income taxes and profit attributable to the owners of the parent in the consolidated statements of income in the previous fiscal year also decreased 3,512 million yen ($31,719 thousand).

(b) Goodwill resulting from the acquisition

(1) Amount of goodwill

883 million yen ($7,975 thousand)

(2) Reason for recognition of goodwill

Expected excess earning power from future business development

(3) Period and method of amortization of goodwill

11 years using the straight-line method

21. REVENUE RECOGNITION

(a) Disaggregation of revenue from contracts with customers

Disaggregation of revenue from contracts with customers is as described in Note 22, "Segment information."

(b) Revenue from contracts with customers

Revenue from contracts with customers is as described in Note 2 (l), "Significant Accounting Policies - Method for recording revenues and expenses."

(c) Fulfillment of performance obligations under contracts with a customer and cash flows arising from the contracts and the amount and timing of revenue expected to be recognized on or after the next consolidated fiscal year from contracts with customers that existed at the end of the current consolidated fiscal year

(1) Contract assets and contract liabilities

	Millions of yen	Thousands of U.S. dollars
	2022	**2022**
Receivables from contracts with customers (beginning balance)	¥ **52,574**	$ **429,491**
Receivables from contracts with customers (ending balance)	**67,748**	**553,452**
Contract assets (beginning balance)	**—**	**—**
Contract assets (ending balance)	**—**	**—**
Contract liabilities (beginning balance)	**—**	**—**
Contract liabilities (ending balance)	¥ **—**	$ **—**

(2) Transaction price allocated to residual performance obligations

In the Group, there are no significant transactions with contract terms exceeding one year. There are also no significant amounts of consideration not included in the transaction price in contracts with customers.

22. SEGMENT INFORMATION

(a) Overview of reporting segments

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

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

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

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

The accounting methods used for the reporting business segments are the same as those in Note 2, "Significant Accounting Policies." Reporting segment income is operating income. Intersegment transactions and transfers are based on market prices, etc. Segment information for the previous fiscal year reflects a significant revision of the initial allocation of the acquisition cost for the business combination resulting from the finalization of provisional accounting treatment was described in Note 20, "Business Combinations."

Application of Accounting Standards for Fair Value Measurement

As described in Changes in Accounting Policy, the Accounting Standard for Revenue Recognition and relevant ASBJ regulations have been applied from the beginning of the current fiscal year, resulting in changes in the accounting treatment for revenue recognition. Accordingly, the Company has changed the methods used to measure profit and loss in the operating segments. As a result of these changes, net sales in the "Domestic Steel Business" decreased by 11,979 million yen ($97,860 thousand), and net sales in the "Material Recycling Business" decreased by 2,730 million yen ($22,302 thousand) for the current fiscal year compared with the amounts that would have been reported without the change.

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

Segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2022 and 2021 is outlined as follows:

Year ended March 31, 2022 Millions of yen

	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 128,957	¥ 152,008	¥ 7,289	¥ 288,254	¥ 4,465	¥ —	¥ 292,719
Intersegment sales and transfers	2	—	351	353	903	(1,256)	—
Total	128,959	152,008	7,640	288,607	5,368	(1,256)	292,719
Segment income	2,622	5,233	2,044	9,899	50	(1,130)	8,819
Segment assets	135,455	123,259	7,052	265,766	11,866	36,571	314,203
Other							
Depreciation and amortization	3,654	4,355	242	8,251	344	245	8,840
Amortization of goodwill	—	224	—	224	—	—	224
Impairment loss of fixed assets	150	—	4	154	—	—	154
Increase in property, plant, equipment and intangible assets	¥ 7,738	¥ 3,639	¥ 140	¥ 11,517	¥ 712	¥ 742	¥ 12,971

Year ended March 31, 2022 Thousands of U.S. dollars

	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	$1,053,485	$1,241,796	$ 59,540	$2,354,821	$ 36,477	$ —	$2,391,298
Intersegment sales and transfers	16	—	2,867	2,883	7,378	(10,261)	—
Total	1,053,501	1,241,796	62,407	2,357,704	43,855	(10,261)	2,391,298
Segment income	21,416	42,752	16,700	80,868	407	(9,234)	72,041
Segment assets	1,106,564	1,006,936	57,609	2,171,109	96,935	298,752	2,566,796
Other							
Depreciation and amortization	29,848	35,578	1,976	67,402	2,808	2,004	72,214
Amortization of goodwill	—	1,834	—	1,834	—	—	1,834
Impairment loss of fixed assets	1,225	—	35	1,260	—	—	1,260
Increase in property, plant, equipment and intangible assets	$ 63,215	$ 29,728	$ 1,140	$ 94,083	$ 5,817	$ 6,061	$ 105,961

(Note) 1 Other represents the businesses which were not included in any of the reporting segments and consisted mainly of the civil engineering materials sales business and the insurance agent business.
2 Intersegment eliminations of ¥(1,130) million ($(9,234) thousand) and corporate expenses of ¥10 million ($85 thousand) not allocated to the reporting segments were included in the ¥(1,141) million ($(9,319) thousand) adjustment for "Segment income (Operating income)." Corporate expenses related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
3 The adjustment of segment assets of ¥36,570 million ($298,752 thousand) related mainly to the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
4 The adjustment of depreciation and amortization of ¥245 million ($2,004 thousand) related mainly to the general affairs department and other management departments of the submitting company's head office and was not attributable to a reporting segment.
5 The adjustment of expenditure for additions to tangible and intangible assets of ¥742 million ($6,061 thousand) related mainly to the general affairs department and other management departments of the submitting company's head office and was not attributable to a reporting segment.
6 Segment income was adjusted against operating income of the consolidated statement of income.

Year ended March 31, 2021 Millions of yen

	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 111,138	¥ 104,985	¥ 6,705	¥ 222,828	¥ 3,543	¥ —	¥ 226,371
Intersegment sales and transfers	32	—	1,243	1,275	1,056	(2,331)	—
Total	111,170	104,985	7,948	224,103	4,599	(2,331)	226,371
Segment income	13,012	(428)	1,356	13,940	(57)	(1,227)	12,656
Segment assets	119,928	99,374	6,809	226,111	10,903	45,268	282,282
Other							
Depreciation and amortization	3,637	3,914	251	7,802	348	252	8,402
Amortization of goodwill	—	198	—	198	—	—	198
Increase in property, plant, equipment and intangible assets	¥ 5,687	¥ 3,038	¥ 198	¥ 8,923	¥ 1,303	¥ 637	¥ 10,863

(Note) 1 Other represents the businesses which were not included in any of the reporting segments and consisted mainly of the civil engineering materials sales business and the insurance agent business.
2 Intersegment eliminations of ¥(1,227) million and corporate expenses of ¥11 million not allocated to the reporting segments were included in the ¥(1,238) million adjustment for "Segment income (Operating income)." Corporate expenses related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
3 The adjustment of segment assets of ¥45,268 million related mainly to the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
4 The adjustment of depreciation and amortization of ¥252 million related mainly to the general affairs department and other management departments of the submitting company's head office and was not attributable to a reporting segment.
5 The adjustment amount of expenditure for additions to tangible and intangible assets of ¥637 million related mainly to the general affairs department and other management departments of the submitting company's head office and was not attributable to a reporting segment.
6 Segment income was adjusted against operating income of the consolidated statement of income.

(d) Information related to geographic areas

Information for the geographic areas for the years ended March 31, 2022 and 2021 is outlined as follows:

(1) Net sales

Year ended March 31, 2022 — Millions of yen

Japan	Overseas	Vietnam	Canada	United States	Others	Total
¥ 136,323	**¥ 156,396**	**¥ 93,743**	**¥ 31,827**	**¥ 21,044**	**¥ 9,782**	**¥ 292,719**

Year ended March 31, 2022 — Thousands of U.S. dollars

Japan	Overseas	Vietnam	Canada	United States	Others	Total
$ 1,113,657	**$ 1,277,641**	**$ 765,810**	**$ 260,006**	**$ 171,913**	**$ 79,912**	**$ 2,391,298**

Changes in presentation method

"Canada" and "United States," which were included in "North America" are presented separately from the fiscal year under review, as their importance have increased. To reflect this change in the presentation method, the reclassification is made in "Subsection (d) (1) above, Information related to geographic areas-Net sales," for the previous fiscal year. As a result, 26,045 million yen in "North America" for the previous fiscal year has been reclassified as 13,921 million yen in "Canada" and 12,124 million yen in "United States."

Year ended March 31, 2021 — Millions of yen

Japan	Overseas	Vietnam	Canada	United States	Others	Total
¥ 119,492	¥ 106,879	¥ 71,360	¥ 13,921	¥ 12,124	¥ 9,474	¥ 226,371

(2) Property, plant and equipment

Year ended March 31, 2022 — Millions of yen

Japan	Vietnam	Canada	United States	Total
¥ 59,128	**¥ 20,082**	**¥ 14,610**	**¥ 5,381**	**¥ 99,201**

Year ended March 31, 2022 — Thousands of U.S. dollars

Japan	Vietnam	Canada	United States	Total
$ 483,030	**$ 164,050**	**$ 119,355**	**$ 43,962**	**$ 810,397**

Year ended March 31, 2021 — Millions of yen

Japan	Vietnam	Canada	United States	Total
¥ 57,911	¥ 19,460	¥ 11,873	¥ 5,133	¥ 94,377

(3) Impairment loss on fixed assets by reportable segment

Year ended March 31, 2022 — Millions of yen

	Reporting segment			Others	Companywide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Impairment loss on fixed assets	**¥ 150**	**¥ —**	**¥ 4**	**¥ —**	**¥ —**	**¥ 154**

	Reporting segment			Others	Companywide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Impairment loss on fixed assets	**$ 1,225**	**$ —**	**$ 35**	**$ —**	**$ —**	**$ 1,260**

(4) Amortization of goodwill and balance of unamortized goodwill by reportable segment

Year ended March 31, 2022 — Millions of yen

	Reporting segment			Others	Companywide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Amortization of goodwill	**¥ —**	**¥ 224**	**¥ —**	**¥ —**	**¥ —**	**¥ 224**
Balance at the end of the term	**¥ —**	**¥ 856**	**¥ —**	**¥ —**	**¥ —**	**¥ 856**

Year ended March 31, 2022 — Thousands of U.S. dollars

	Reporting segment			Others	Companywide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Amortization of goodwill	**$ —**	**$ 1,834**	**$ —**	**$ —**	**$ —**	**$ 1,834**
Balance at the end of the term	**$ —**	**$ 6,992**	**$ —**	**$ —**	**$ —**	**$ 6,992**

Year ended March 31, 2021 — Millions of yen

	Reporting segment			Others	Companywide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Amortization of goodwill	¥ —	¥ 198	¥ —	¥ —	¥ —	¥ 198
Balance at the end of the term	¥ —	¥ 978	¥ —	¥ —	¥ —	¥ 978

23. SUBSEQUENT EVENTS

Dividend distribution of surplus

On April 28, 2022, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥ 1,086	$ 8,876

Cash dividends: ¥25 ($0.2) per share.

Independent auditor's report

To the Board of Directors of KYOEI STEEL LTD.:

Opinion

We have audited the accompanying consolidated financial statements of KYOEI STEEL LTD. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2022 and 2021, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accuracy of net sales related to domestic steel products

The key audit matter	How the matter was addressed in our audit
As described in Note 22, "Segment Information," the Group is mainly engaged in the Domestic Steel Business, Overseas Steel Business and Material Recycling Business. The Domestic Steel Business is primarily operated by the Company and its consolidated subsidiary, KANTO STEEL Ltd. Net sales of the Domestic Steel Business amounted to ¥128,957 million for the current fiscal year, representing approximately 44.1% of net sales in the consolidated financial statements. As described in Note 2, "Significant Accounting Policies", net sales of domestic steel products are recognized at the time of products shipment. The sales transactions of domestic steel products have the following features. ● Selling prices vary depending on type and quantity of steel sold, and the delivery method. ● Selling prices fluctuate throughout the year as they are affected by market conditions. ● Even if the type and quantity of steel sold and the delivery method are identical, there would be multiple sales agreements with customers that stipulate different selling prices. With these features, there is a risk that net sales are inaccurately recognized due to input errors with respect to unit selling prices. We, therefore, determined that our assessment of the accuracy of net sales related to domestic steel products was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	The primary procedures we performed for the Company and KANTO STEEL Ltd. to assess the accuracy of net sales related to domestic steel products included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company and KANTO STEEL Ltd.'s internal controls relevant to the process of recognizing net sales related to domestic steel products. In this assessment, we focused our testing on the following controls: ● Controls in which a person other than the data input operator checks the transaction-related data that are input in the sales system ● Controls designed to check modifications made to unit selling prices **(2) Assessment of the accuracy of net sales related to domestic steel products** In order to assess whether the net sales related to domestic steel products were accurately recognized, we: ● Selected the transactions with major customers from net sales for the current fiscal year and compared them with the amount of cash receipt; ● Obtained accounts receivable confirmations directly from customers and compared them with the book balances; and ● Categorized unit selling prices by office, product type and contract month and year using sales data and identified the transactions that deviated from the average unit selling price in each category beyond a certain degree. We then inquired of the personnel responsible for sales about the reasons for the deviation and compared the unit selling prices for the transactions identified with the relevant documents, including purchase orders issued by customers.

Other Information

The other information comprises the information included in the the disclosure documents that contain or accompany the audited consolidated financial statements, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon.

We do not perform any work on the other information as we determine such information does not exist.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Takahide Nakahata

Designated Engagement Partner

Certified Public Accountant

Naoki Sugita

Designated Other Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

November 4, 2022

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.