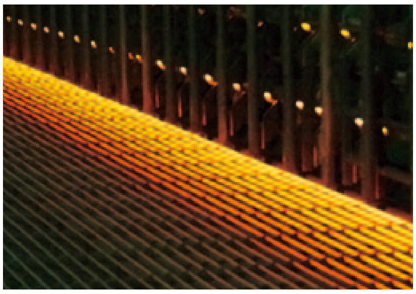
ANNUAL REPORT 2018

Year Ended March 31, 2018

Playing
a Primary Role
in Steel Resource
Recycling

2018



KYOEI STEEL

Management Principle

SPIRIT OF CHALLENGE

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

Action Guidelines

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

CONTENTS

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

BUSINESS SEGMENTS

Domestic Steel Business

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

Overseas Steel Business

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

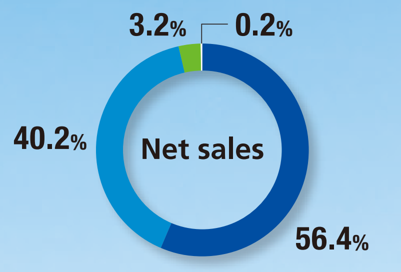
Material Recycling Business

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

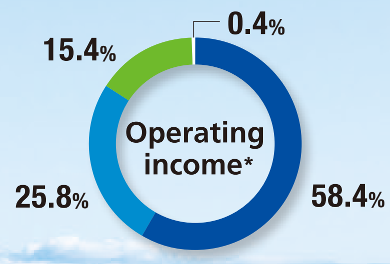
FY2018

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

¥191,254 million



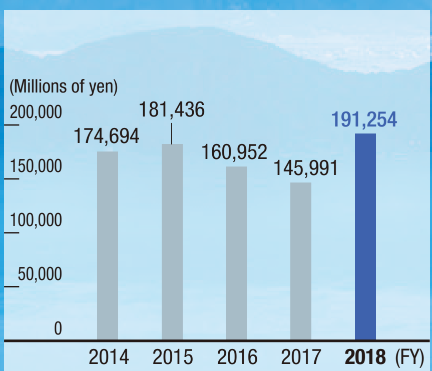
¥4,259 million



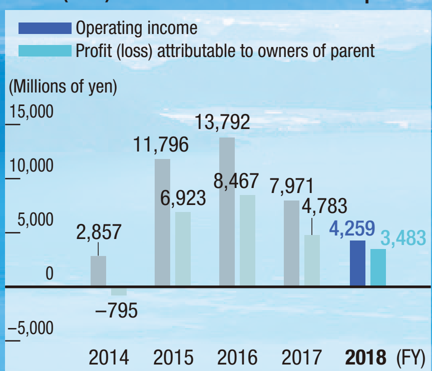
*Before the elimination of inter-segment transactions

FINANCIAL HIGHLIGHTS

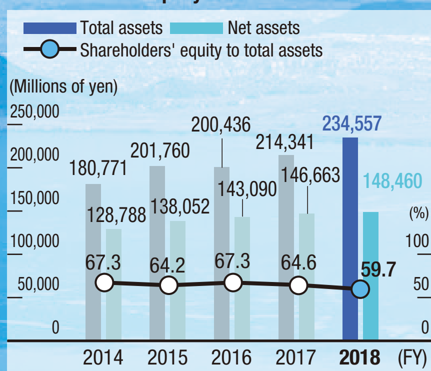
Net Sales



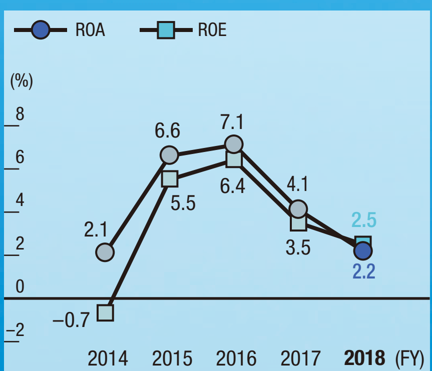
Operating income & Profit (loss) attributable to owners of parent



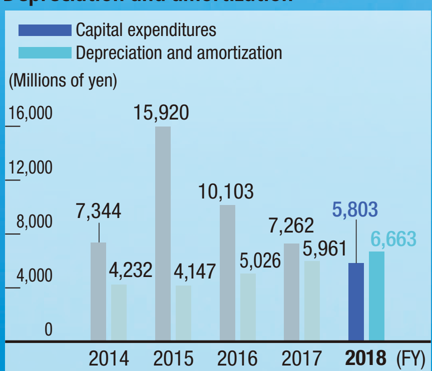
Total assets, Net assets & Shareholders' equity to total assets



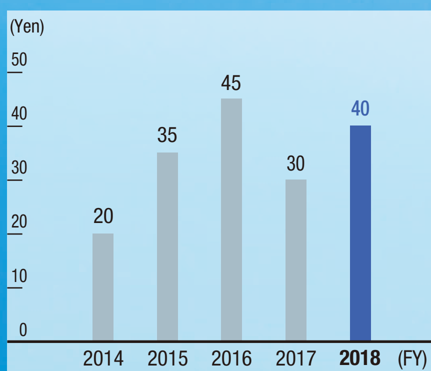
ROA & ROE



Capital expenditures & Depreciation and amortization



Cash dividends applicable to the year



Kyoei Steel contributes to the building

Strengths of Kyoei Steel

No. 1 market share for small rebar in Japan

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

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

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

Material recycling business with steel mills

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

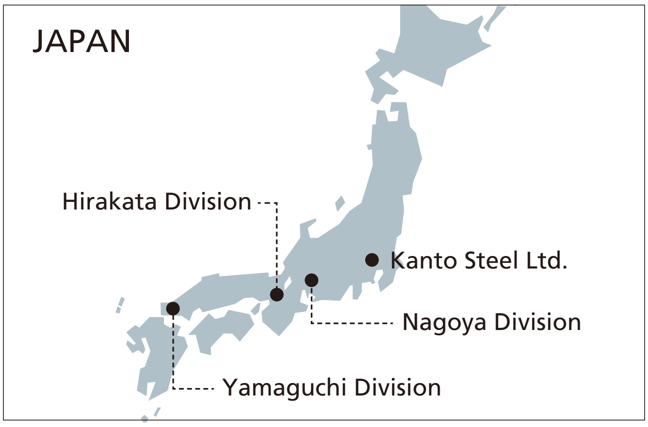
Aiming for growth through a tri-polar structure: Japan, Vietnam, and the United States

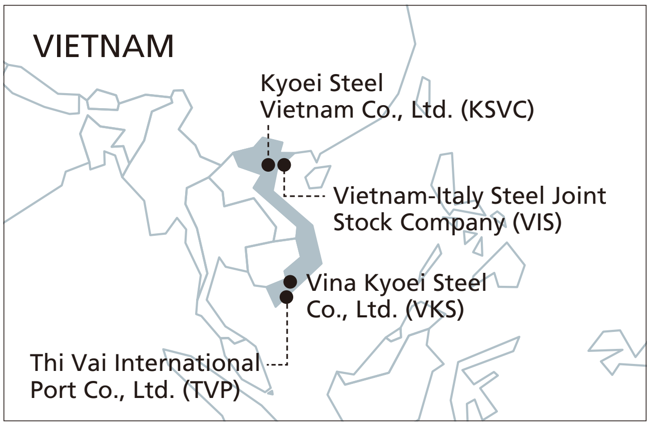
By acquiring a mill in the United States in 2016, we created a tri-polar structure, spanning Japan, Vietnam, and the United States. By developing our business in different countries—Japan, our mainstay market; Vietnam, which continues to develop; and the United States, an advanced country—we intend to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

Company Outline

Established	August 21, 1947
Head office	1-4-16 Dojimahama, Kita-ku, Osaka 530-0004 Japan
Capital	¥18,516 million
Employees	2,430 (as of March 31, 2018)

Production and Sales Bases





# of a recycling-oriented society

Yasuyuki Hirotomi

President and Representative Director

Y. Hirotomi

I will do my best to build management systems that respond to intensifying social change and to further improve corporate value.

I recently assumed the office of President of Kyoei Steel, Ltd.

Results for the Fiscal Year Ended March 31, 2018

Increased shipments of domestic and overseas businesses and the acquisition of overseas subsidiaries led to higher net sales.

In the fiscal year ended March 31, 2018, the Japanese economy slowly recovered but outlook for the global economy remained uncertain due to increased US trade protectionism and growing geopolitical tensions involving North Korea, among other reasons.

In the domestic steel business, the market for steel construction materials, the primary source of demand for our products, is recovering, and shipments increased for the fiscal year under review. Some progress was made in raising the prices of our products, but the price also rose for steel scrap, the main raw material. As a result, the metal spread (the difference between the prices of steel products and steel scrap), a major determiner of earnings, became smaller. At the same time, energy and manufacturing costs rose substantially. These factors resulted in increased sales and a decline in profits for the fiscal year.

For the overseas steel business, in Vietnam rising demand for steel is continuing, along with strong economic growth, and shipments increased for both of the Group's companies in the north and in the south. In particular, full-capacity operation of steelmaking at the southern company, Vina Kyoei Steel Ltd. (VKS), kept production and sales strong during the fiscal year. In the United States, earnings from Vinton Steel LLC, acquired in December 2016, were as planned. Both sales and profits rose for the overall overseas steel business.

In the material recycling business, heated competition caused both sales and profits to drop.

Due to these results, consolidated net sales were ¥191,254 million, up 31.0% year on year. Operating income was ¥4,259 million, down 46.6%, and profit attributable to owners of parent was ¥3,483 million, down 27.2%.

Forecasts for the Fiscal Year Ending March 31, 2019

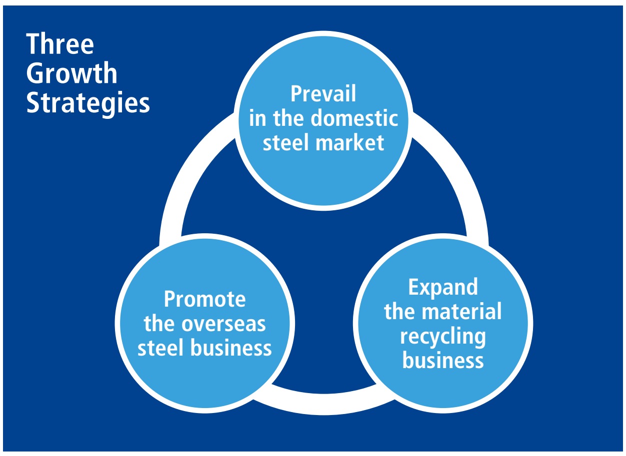
Significant increases in sales and profits; record sales of ¥235,000 million

The Company predicts growth in the domestic steel business as demand for steel products in Japan continues to recover. Although the price

Net sales ¥191,254 million

Operating income ¥4,259 million

Profit attributable to owners of parent ¥3,483 million



of steel scrap, the primary raw material, is expected to remain high, the difference between the prices of steel products and steel scrap will probably widen because customers are increasingly accepting product price increases. Higher prices are anticipated for electrodes, ferroalloys, and other secondary materials as well as the cost of shipping. Due to the outlook for a substantial increase in the cost of manufacturing, we will continue to reduce costs, aimed at raising efficiency, while reducing the need for labor and making other improvements.

In the overseas steel business, the Company forecasts increases in both sales and profits from every plant due to robust demand in both Vietnam and the United States. Results for the Vietnam-Italy Steel Joint Stock Company (VIS), which became a subsidiary in May 2018, will be recorded starting in the second half of the fiscal year.

For the material recycling business, we are forecasting earnings in line with those from the previous fiscal year.

Based on these predictions, in the fiscal year ending on March 31, 2019, the Group is forecasting consolidated net sales of ¥235,000 million, operating income of ¥6,500 million, and profit attributable to owners of parent of ¥4,000 million, with year-on-year increases in both sales and profits. Furthermore, consolidated net sales for the Group should exceed ¥200,000 million for the first time, and the Company predicts that we will finish at record-high levels.

Growth Initiatives

The Group is aiming for stable growth and to strengthen earnings capacity under the worldwide tri-polar structure.

The Group has formulated the three growth strategies: *prevail* in the domestic steel market, *promote* the overseas steel business, and *expand* the materials recycling business. Having received the baton as the new Company president, I will also conduct management based on this growth strategy.

In the domestic steel business, the Group will endeavor to firmly maintain the top market share for small rebar production, while continuing to strengthen cost competitiveness. The Company also intends to expand peripheral businesses associated with steel businesses. For one initiative in pursuit of this goal, the Group took over businesses from Yodoshi Corporation, a casting company, in February 2018 (see page 9). The wide-ranging products and manufacturing technologies from this company offer many new market possibilities in addition to synergy within the Group. In the future, the Company will continue to discover and nurture these “seeds” for growth.

Significant progress has been made in our overseas steel business over the last three years. In 2015, we strengthened VKS’s production capacity, and in 2016 we acquired Vinton Steel LLC in the United States. In January 2018, Thi

MARKET TRENDS

Domestic Steel Business

Small rebar demand: Signs of bottoming out, moving toward recovery

Demand in the Japanese steel market fell for three consecutive years starting in fiscal 2014 but is now on a trend toward recovery after bottoming out in the second half of fiscal 2016. In fiscal 2019, the Company expects steady domestic demand for small rebars, partly related to the 2020 Tokyo Olympic Games and infrastructure development and redevelopment.

Overseas Steel Business

Bullish demand for long products in Vietnam and the US

Vietnam’s GDP growth rate was 6.8% in 2017 and forecasts are projecting a similar rate of expansion in 2018. Vietnamese demand for long products currently exceeds 10 million tonnes, and the Company anticipates continued steady growth, primarily in the North-Central region.

In the United States, the small rebar market is benefiting from tighter supply and demand due to favorable market trends and the current administration’s protectionist policies.

Vai International Port Co., Ltd. (TVP) opened up port operations. In May 2018, VIS in northern Vietnam became a Group subsidiary (see page 8). It is the view of the Company that these developments have set the stage for growth. Moving forward, the Company must raise the earning capacity of these companies and bring profits from the overseas steel business to a level even with those in the domestic steel business.

In Vietnam, the Group plans to steadily capture demand for steel in a continually growing market. Through collaboration between VIS and Kyoei Steel Vietnam Co., Ltd. (KSVC), the Company's presence will increase and the market share should grow in the North-Central region. VKS has completed building a full production and sales system, and the Group will strengthen VKS's earning power. Finally, the Company will also pursue a growth strategy through the early start-up of TVP, a company that builds harbor and wharf facilities. In the United States, the Group plans to expand Vinton Steel's steel production capacity and invest capital in rolling lines.

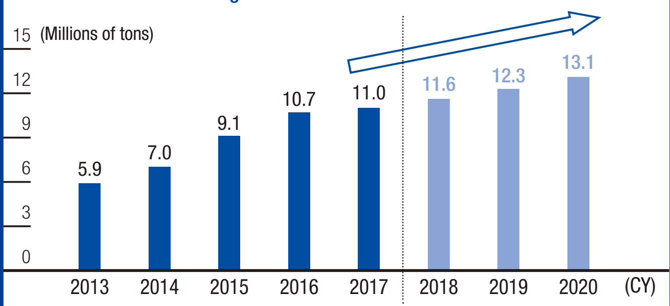
Through growth and expansion in our domestic and overseas businesses, the Group is aiming for stable overall growth. At the same time, the Company is conducting further maintenance on compliance systems and is working to cultivate the human capital that will lead the next generation. We will continue our efforts looking forward to 100 years of business since our Company's founding.

PROFILE

Yasuyuki Hirotomi, President

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

Trends in Demand for Long Products in Vietnam



Material Recycling Business

The volume of industrial waste processing is trending downward in Japan, but processing fees are going up. The reason is that emissions from difficult-to-process waste are rising, requiring increasingly sophisticated processing techniques. In recent years, the emergence of large companies able to provide this sophisticated level of processing has made the competitive environment increasingly difficult.

TOPICS 1

Developed Business in Vietnam

The Company has adopted the growth of overseas steel business as one of the three pillars of the growth strategy and is currently developing this business. Major progress in our Vietnam operations was made during the fiscal year.

Revised investment plan in northern Vietnam, acquired Vietnam-Italy Steel Joint Stock Company, and canceled our capital investment plans for Kyoei Steel Vietnam Co., Ltd.

The Company completed the acquisition of the publicly listed Vietnam-Italy Steel Joint Stock Company (VIS) in northern Vietnam in May 2018.

As Vietnam is experiencing strong economic growth as well as demand for steel, demand is expected to continue, particularly in connection with the social infrastructure. Total demand for long products for construction in Vietnam in 2017 was about 11 million tons. The North-Central region, where development has been slower than in the south, produced about 70% of this demand.

Under these circumstances, the Company made a 20% investment in VIS in November 2017 and in May of 2018, raised this to a controlling interest of 65%, effectively acquiring the company. VIS is a superior company with an established reputation for product quality among Vietnamese steel manufacturers. We made this acquisition to improve the Group's presence in the North-Central region of Vietnam; the Groups' total share of VIS and Kyoei Steel Vietnam Co., Ltd. (KSVC) in this market was about 9% in 2017, rising to third place out of all groups in the North-Central market. In addition to providing synergy for higher sales, the acquisition will further strengthen the relationship between KSVC and VIS. This is advantageous because KSVC does not have an electric furnace for upstream processes and procures billets as raw materials from VIS.

After investing in VIS, the Company discussed acquiring VIS and revising the capital investment plans for KSVC that existed since this company's inception. While discussing equipment specifications for KSVC'S integrated plant for steelmaking and rolling and our investment schedule for this plant, we carefully assessed VIS's plant locations, production capacity, relationships with trading regions, profitability, and investment scale. As a result, we decided that the best and most logical strategy for increasing our presence and to capture growth in the North-Central market, while expanding scale quickly, was to invest management resources in VIS, which already has a steelmaking and rolling plant in the area as well as an established business and operating foundation. With this decision, the Company decided to cancel capital investment plans for KSVC.

Share of the Vietnamese North-Central Market

1	Company A	32.0%
2	Company B	11.1%
	Vietnam-Italy Steel Joint Stock Company and Kyoei Steel Vietnam Co., Ltd.	**8.6%**
3	Company C	6.6%
4	Company D	6.0%
5	Company E	4.7%
6	Company F	4.7%
7	**Vietnam-Italy Steel Joint Stock Company**	**4.4%**
8	**Kyoei Steel Vietnam Co., Ltd.**	**4.2%**
⋮		⋮
21	Company G	0.7%

Moved up to third largest regional share

Note: Company estimate is based on data published in 2017 by the Vietnam Steel Association


Rolling mill (Hưng Yên)


Steelmaking plant (Hai Phong)

TOPICS
2

Completed Takeover of a Casting Manufacturer

Moving forward, KSVC will develop synergy with VIS and strengthen the earning capacity of the existing rolling factory. By improving the collaboration between the two companies, the Group will work to expand market share in North-Central Vietnam.

Began harbor works in southern Vietnam

Thi Vai International Port Co., Ltd. (TVP), which has been developing harbor facilities in southern Vietnam, completed construction of a port that had been continuing for some time and held a port opening ceremony on January 22, 2018. About 300 people related to Japan–Vietnam affairs attended the ceremony, including Vietnamese government officials, the Consulate-General of Japan in Ho Chi Minh City, and business partners.

TVP was established in 1997, just after Vina Kyoei Steel Ltd.'s (VKS) founding, based on the idea that possessing a port that would function as a distribution base was vital for VKS's future. We overcame many obstacles over the 20 years required to complete this facility, including difficulties in negotiations with the local government, and finally began port operations this year.

In the future, the Company plans to have TVP handle cargo other than steel stock, while primarily handling VKS's steel scrap and steel products as well as those from other nearby steel producers.

The Cai Mep-Thi Vai port district in Phú Mỹ, Ba Ria-Vung Tau Province, where TVP is located, is a gateway to the Southern Economic Corridor that is connected to other parts of Southeast Asia and is therefore important for the support of growth not only in Vietnam but in the entire region. As this port's cargo volume continues to increase, TVP will aim to contribute to the development of Vietnam and the ASEAN region as a primary distribution hub in southern Vietnam.

On February 1, 2018, the Company completed the takeover of the businesses of Yodoshi Corporation, which has begun operating as a new member of the Group. Yodoshi is a casting manufacturer with a 300-year history, as it was founded in 1718, in the middle of Japan's Edo period (1603 to 1868). The company manufactures the parts that the Group uses, such as threaded rebar couplers, and universal couplers for plumbing applications. Also, the company produces specialized parts for industrial machinery, automobiles, and railway vehicles. Yodoshi's wide-ranging product manufacturing technology and its production system, which is able to handle small lot production of many products, are their strengths that will be assets for the Group.

Overview of Acquired Company

Name	Yodoshi Corporation
Location	Kawachinagano City, Osaka
Capital stock	¥150 million
Description of business	Casting production

Various Yodoshi products

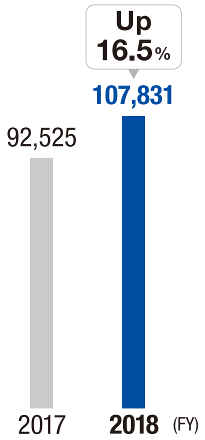
In the domestic steel business, demand from the construction and civil engineering sectors trended upward. Against this backdrop, product shipment volume and product prices both increased. However, profits declined due to increased manufacturing costs, the result of higher prices for steel scrap and secondary materials, as well as a rise in energy costs. In the overseas steel business, profits rose steadily thanks to robust demand for steel products in Vietnam and the United States.

Domestic Steel Business

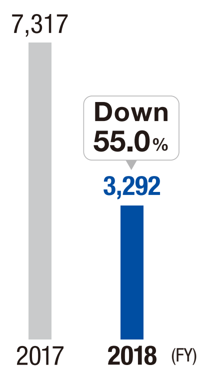
Shipments increased by 20,000 tons over the previous year to 1.68 million tons. Product prices rose by ¥8,000 per ton due to price hikes, but the price of steel scrap, our primary raw material, rose (starting in July) due to higher demand for steel in China, and it increased by ¥8,800 per ton year on year. Therefore, the difference between the prices of steel products and steel scrap, a major source of earnings, narrowed by ¥800 per ton compared with one year earlier. In addition, the cost of manufacturing increased significantly because of the higher cost of electricity and other forms of energy and of secondary materials such as electrodes, refractory materials, and ferroalloys.

As a result, segment sales were ¥107,831 million, a year-on-year increase of ¥15,305 million, or 16.5%, while operating income fell ¥4,025 million, or 55.0%, to ¥3,292 million.

Net Sales
(Millions of yen)



Operating Income
(Millions of yen)

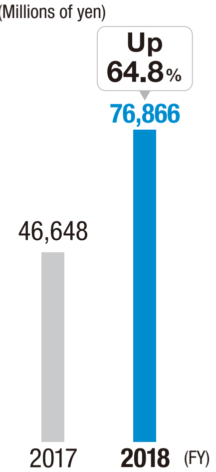


Overseas Steel Business

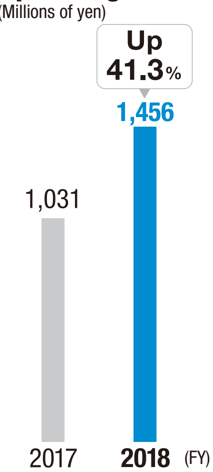
In Vietnam, the combined product shipment volume for Vina Kyoei Steel Ltd. in the south and Kyoei Steel Vietnam Co., Ltd. in the north increased by 90,000 tons compared with one year earlier to 1.09 million tons. This increase was fueled by brisk economic growth and robust demand for steel. In the United States, Vinton Steel LLC, which was acquired in December 2016, achieved a product shipment volume of 200,000 tons in the midst of strong demand for steel and recorded earnings in line with forecasts, after being in the red before the acquisition.

As a result, segment sales were ¥76,866 million, a year-on-year increase of ¥30,218 million, or 64.8%, while operating income surged ¥425 million, or 41.3%, to ¥1,456 million.

Net Sales
(Millions of yen)



Operating Income
(Millions of yen)

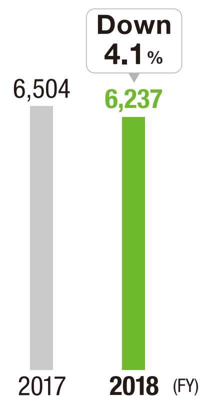


Material Recycling Business

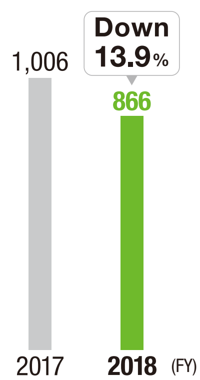
Competition became increasingly heated, despite activities aimed at securing orders for difficult-to-process waste that has higher unit prices.

As a result, segment sales fell ¥267 million, or 4.1%, to ¥6,237 million, and operating income declined ¥140 million, or 13.9%, to ¥866 million.

Net Sales
(Millions of yen)



Operating Income
(Millions of yen)



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

Board of Directors

Our Board of Directors has 10 members (with two external directors), including two representative directors and eight board directors. The Board executes important decisions and oversees the execution of business by the board directors and executive officers. In addition to regular monthly meetings, extraordinary meetings of the board are convened when necessary.

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

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

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

Board of Auditors

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

Sales & Marketing Committee

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

Corporate Risk Management Committee

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

Compliance System

The Internal Auditing Department has been established as a department to which the president is directly attached, and in addition to conducting regular business audits, it also audits the execution of work by the executive officers and employees. Also, when questions arise concerning compliance, executive officers and employees can report to the Risk and Compliance Committee or internally to the Compliance Consultation Desk, which has been established for that purpose. A system has been established whereby the details and proposals for resolution are relayed via the Risk and Compliance Committee to the Board of Directors and the corporate auditors, in the rare event that a compliance infraction has occurred.

Initiatives Targeting Affiliated Companies

Based on the Kyoei Steel Group's management philosophy and code of conduct, we formulated basic rules concerning regulations for managing subsidiaries. We have also formulated a management structure by department for subsidiaries. By dispatching corporate auditors to affiliated companies, we audit their internal control systems, and the Company's Internal Auditing Department performs regular internal audits. We also call on individual subsidiaries to establish compliance programs based on the Company's programs, depending on the type and scale of their operations.

Elimination of Antisocial Forces

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

External Directors / External Auditors

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

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

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

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

External Auditor Hiroshi Tsuga has many years of experience in the steel industry, and we have appointed him based upon our judgment that as a specialist his auditing will strengthen and improve our corporate group's auditing structure.

External Auditor Mikio Konishi has deep experience as a certified public accountant, and we have appointed him based upon our judgment that as a specialist his auditing will strengthen and improve our corporate group's auditing structure.

Method for Deciding Executive Pay and Executive Pay Amounts

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

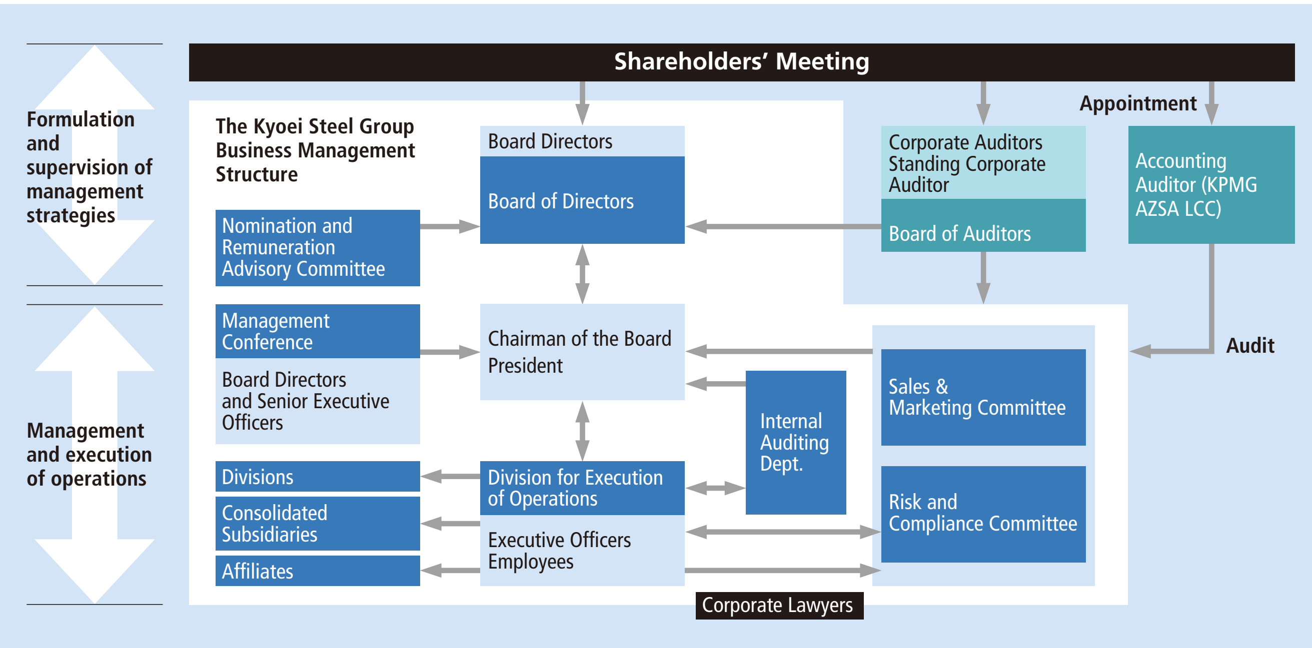
It has been resolved that compensation for all board directors will not exceed ¥550 million annually, while compensation for all corporate auditors will not exceed ¥60 million annually.

Risk Management

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

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

Corporate Governance Structure



(1) Relationship with Nippon Steel & Sumitomo Metal Corporation

As of June 27, 2018, Nippon Steel & Sumitomo Metal Corporation (NSSMC) owned 25.8% of the outstanding shares in Kyoei Steel (26.7% of the voting rights) and is the Company's largest shareholder. Kyoei Steel is an equity-method affiliate of NSSMC. The Company operates autonomously and conducts business independently, and intends to continue doing so in the future; provided, however, that as the top shareholder in our company, NSSMC is in a position to influence our operations by exercising its voting rights, and the interests of NSSMC may not necessarily coincide with those of the Company's other shareholders.

(2) Selling Price Fluctuations Caused by Competition

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

(3) Fluctuations in Raw Materials Prices

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

(4) Impact of the Downward Trend in Construction Demand

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

(5) Effects of Power Supply Issues

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

(6) Effects of Sharply Higher Energy Prices

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

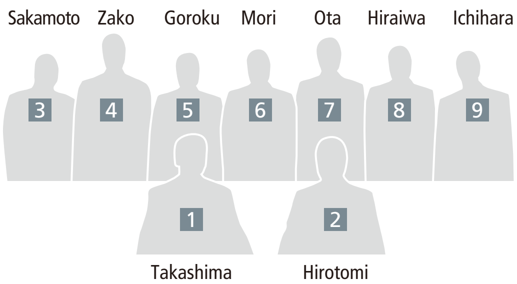
(7) Country Risk Regarding Our Subsidiaries

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

(8) Impact of Natural Disasters

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

BOARD DIRECTORS AND CORPORATE AUDITORS



Chairman and Representative Director	**Hideichiro Takashima**
President and Representative Director	**Yasuyuki Hirotomi**
Board Director & Senior Executive Managing Officer	**Naoyoshi Goroku**
	Kazuyoshi Ota
Board Director & Executive Managing Officer	**Toshimasa Zako**
	Haruo Hiraiwa
	Shogo Sakamoto
Board Director	**Mitsuhiro Mori**
Board Director (External Board Director)	**Nobuhiko Arai**
	Tetsuya Yamao
Standing Corporate Auditor	**Shuji Ichihara**
Corporate Auditor	**Hiroshi Tsuga**
	Mikio Konishi

Board of Directors

Hideichiro Takashima 1

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

Yasuyuki Hirotomi 2

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

Naoyoshi Goroku 5

March 1971	Joined the Company
June 1994	General Manager of Sales & Marketing Dept. of Yamaguchi Division
July 1997	General Manager of Sales Administration Dept., head office and General Manager of Sales & Marketing Dept. of Yamaguchi Division
June 1999	Board Director
June 2003	Board Director and Executive Officer
April 2005	President and Representative Director of Kyoei Processing and Distribution Co., Ltd. (current position)
June 2008	Board Director and Executive Managing Officer of the Company
June 2011	Board Director and Executive Managing Officer, in charge of Corporate Planning Dept., head office
October 2015	Board Director and Senior Executive Managing Officer, in charge of Corporate Planning Dept., head office
April 2016	Board Director and Senior Executive Managing Officer, in charge of Corporate Planning Dept., and General Manager of Marketing Planning & Coordination Dept., head office
January 2018	Board Director and Senior Executive Managing Officer, in charge of Corporate Planning Dept., head office (current position)

Kazuyoshi Ota 7

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

Toshimasa Zako 4

May 1996	Joined the Company
June 1997	Board Director of Kanto Steel Ltd.
June 1998	Managing Director of Kanto Steel Ltd.
June 1999	Senior Managing Director of Kanto Steel Ltd.
July 1999	Senior Managing Director and Representative Director of Kanto Steel Ltd.
July 2000	President and Representative Director of Kanto Steel Ltd.
June 2003	Board Director of the Company
April 2004	Board Director and Executive Managing Officer
April 2010	Board Director and Executive Managing Officer, in charge of compliance, Internal Auditing Dept.
June 2013	Board Director and Executive Managing Officer, General Manager of Hirakata Division
June 2015	Board Director and Executive Managing Officer, in charge of Corporate Planning Dept. and Material Recycling Business Dept. of head office, General Manager of Hirakata Division
June 2016	Board Director and Executive Managing Officer, in charge of Corporate Planning Dept. and Overseas Investment Dept., head office
January 2017	Board Director and Executive Managing Officer, in charge of Corporate Planning Dept., Overseas Investment Dept. and Project Planning & Development Dept., head office
October 2017	Board Director and Executive Managing Officer, in charge of Overseas Investment Dept., Project Planning & Development Dept. head office and Headquarters for New Mill Construction in North Vietnam
May 2018	Board Director and Executive Managing Officer, in charge of Overseas Investment Dept. and Project Planning & Development Dept. (current position)

Haruo Hiraiwa 8

March 1974	Joined the Company
August 1996	General Manager, Production Dept. of Nagoya Division
April 2004	Executive Officer
March 2012	Executive Officer, General Manager of Production Planning & Coordination Dept., head office and Deputy General Manager of Headquarters for New Mill Construction in Vietnam
June 2012	Board Director and Executive Officer, General Manager of Production Planning & Coordination Dept., head office, and Deputy General Manager of Headquarters for New Mill Construction in Vietnam
October 2012	Board Director and Executive Officer, General Manager of Production Planning & Coordination Dept., head office, Head of Development Center and Deputy General Manager of Headquarters for New Mill Construction in Vietnam
June 2013	Board Director and Executive Officer, in charge of Production Planning & Coordination Dept., General Manager of Production Planning & Coordination Dept., Head of Development Center, head office and Deputy General Manager of Headquarters for New Mill Construction in Vietnam
January 2015	Board Director and Executive Officer, in charge of Production Planning & Coordination Dept., head office, and Deputy General Manager of Headquarters for New Mill Construction in Vietnam
June 2015	Board Director and Executive Managing Officer and General Manager of Nagoya Division
June 2016	Board Director and Executive Managing Officer, in charge of Production Planning & Coordination Dept. of head office, and General Manager of Nagoya Division
April 2018	Board Director and Executive Managing Officer, in charge of Production Planning & Coordination Dept., head office
June 2018	Board Director and Executive Managing Officer, in charge of Production Planning & Coordination Dept., Material Recycling Dept. (current position)

Shogo Sakamoto 3

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

Mitsuhiro Mori 6

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

Nobuhiko Arai

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

Tetsuya Yamao

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

Auditors

Shuji Ichihara 9

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

Hiroshi Tsuga

April 1986	Joined Sumitomo Metal Industries, Ltd. (currently Nippon Steel & Sumitomo Metal Corporation)
July 2009	Deputy General Manager of Personnel & Industrial Relations Dept. of Nippon Steel & Sumitomo Metal Corporation
October 2012	General Manager of General Administration Division of Wakayama Works of Nippon Steel & Sumitomo Metal Corporation
April 2014	General Manager of General Administration Division of Oita Works of Nippon Steel & Sumitomo Metal Corporation
April 2016	General Manager of Affiliated Companies Division of Nippon Steel & Sumitomo Metal Corporation (current position)
June 2016	Auditor of Godo Steel Ltd. (current position)
June 2016	Audit & Supervisory Board Member of Osaka Steel Co., Ltd.
June 2018	Auditor of the Company (current position)

Mikio Konishi

November 1981	Joined Showa Audit Corporation (currently Ernst & Young ShinNihon LLC)
March 1985	Registered as a Certified Public Accountant
May 2003	Senior Partner of Ernst & Young ShinNihon LLC
July 2008	Managing Director of Ernst & Young ShinNihon LLC
March 2016	Senior Partner of Audit Division of Osaka Office of Ernst & Young ShinNihon LLC
June 2018	External Auditor of Daibiru Corporation (current position)
June 2018	Auditor of the Company (current position)

FINANCIAL SECTION

DATA SECTION

Consolidated Ten-Year Summary

For the years ended March 31, 2009 through 2018

	2009	2010	2011	2012	2013
Product shipments (Thousands of tons):					
Finished products	1,717	1,431	1,462	1,549	1,603
Billet (semi-finished products)	259	205	243	297	303
For the year (Millions of yen):					
Net sales	¥ 194,345	¥ 111,485	¥ 116,828	¥ 130,650	¥ 142,305
Gross profit	36,672	19,999	8,124	12,780	13,256
Operating income (loss)	26,270	11,454	(206)	4,166	4,343
Income (loss) before income taxes	23,388	11,121	(386)	3,151	3,738
Profit (loss) attributable to owners of parent	14,009	6,691	(794)	1,692	2,069
Research and development expenses	152	44	43	29	95
Depreciation and amortization	4,869	4,992	4,806	4,644	4,254
Capital expenditures	5,173	4,815	2,706	4,991	3,809
Per share amounts (yen):					
Net income (loss), basic	318.72	152.23	(18.22)	38.89	47.59
Net income (loss), diluted	–	–	–	–	–
Cash dividends applicable to the year	40.00	40.00	20.00	20.00	20.00
At year-end:					
Total assets	¥ 153,711	¥ 151,125	¥ 146,453	¥ 164,486	¥ 165,129
Working capital	43,120	50,334	51,265	61,950	63,811
Interest bearing debt	1,540	1,729	1,665	10,877	11,231
Net assets	119,154	124,905	119,973	122,725	125,257
Shareholders' equity*	118,387	124,076	119,064	120,344	122,515
Ratios:					
Return on equity (%)	12.4	5.5	(0.7)	1.4	1.7
Return on total assets (%)	16.6	7.7	(0.0)	2.8	2.9
Debt to equity ratio (times)	0.01	0.01	0.01	0.09	0.09
Shareholders' equity* to total assets (%)	77.0	82.1	81.3	73.2	74.2
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	44,899
Number of employees	1,045	1,061	1,077	1,299	1,327
Stock price (yen):					
High	¥ 2,590	¥ 2,805	¥ 2,082	¥ 1,692	¥ 1,781
Low	¥ 911	¥ 1,544	¥ 876	¥ 1,011	¥ 1,105

	2014	2015	2016	2017	2018
Products shipment (Thousands of tons):					
Finished products	1,720	1,680	1,641	1,662	**1,682**
Billet (semi-finished products)	247	280	259	18	**31**
For the year (Millions of yen):					
Net sales	¥ 174,694	¥ 181,436	¥ 160,952	¥ 145,991	**¥ 191,254**
Gross profit	12,293	21,900	23,889	18,726	**16,472**
Operating income	2,857	11,796	13,792	7,971	**4,259**
Income before income taxes	9	10,730	12,432	7,698	**5,449**
Profit (loss) attributable to owners of parent	(795)	6,923	8,467	4,783	**3,483**
Research and development expenses	188	231	104	119	**177**
Depreciation and amortization	4,232	4,147	5,026	5,961	**6,663**
Capital expenditures	7,344	15,920	10,103	7,262	**5,803**
Per share amounts (yen):					
Net income (loss), basic	(18.28)	159.30	194.94	110.41	**80.31**
Net income (loss), diluted	–	–	–	–	**–**
Cash dividends applicable to the year	20.00	35.00	45.00	30.00	**40.00**
At year-end:					
Total assets	¥ 180,771	¥ 201,760	¥ 200,436	¥ 214,341	**¥ 234,557**
Working capital	79,699	81,872	83,565	93,301	**106,231**
Interest bearing debt	26,530	32,810	33,149	41,414	**50,088**
Net assets	128,788	138,052	143,090	146,663	**148,460**
Shareholders' equity*	121,622	129,546	134,886	138,365	**140,010**
Ratios:					
Return on equity (%)	(0.7)	5.5	6.4	3.5	**2.5**
Return on total assets (%)	2.1	6.6	7.1	4.1	**2.2**
Debt to equity ratio (times)	0.22	0.24	0.23	0.28	**0.34**
Shareholders' equity* to total assets (%)	67.3	64.2	67.3	64.6	**59.7**
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	**44,899**
Number of employees	1,611	1,741	1,806	2,341	**2,430**
Stock price (yen):					
High	¥ 2,220	¥ 2,286	¥ 2,455	¥ 2,349	**¥ 2,295**
Low	¥ 1,372	¥ 1,618	¥ 1,584	¥ 1,387	**¥ 1,594**

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

Financial Review (Consolidated)

1 Consolidated Operating Results

(1) Operating Results

In the fiscal year ended March 31, 2018, the Japanese economy as a whole recovered slowly as improvements in corporate earnings and employment continued. However, the outlook for the global economy remained uncertain because of U.S. trade protectionism and the increasing geopolitical risk involving North Korea and other reasons.

In the market for steel construction materials in Japan, the primary source of demand for the products of Kyoei Steel Group (“the Group”), demand is recovering in the building construction and civil engineering markets and there was progress with raising prices of products. But the price of steel scrap, the main material for the Group’s products, was consistently high. As a result, the metal spread (the difference between the prices of steel products and steel scrap), which is a major source of earnings, became smaller. Furthermore, there was a big increase in the cost of manufacturing products because of the higher cost of energy and rising prices of secondary raw materials and other items.

In the Overseas Steel Business in the United States, demand for steel was firm due to the healthy economy. In Vietnam, as demand for steel was supported by the country’s rapid economic growth. In November 2017,Kyoei Steel purchased 20% of the stock of Vietnam Italy Steel Joint Stock Company (VIS) in the northern part of the country (Hun-Yen), and in May 2018, Kyoei Steel purchase an addition 45% of the shares to increase its share holdings to 65% and making it a subsidiary.

Overall for the year ended March 31, 2018, consolidated net sales increased 45,264 million yen ($425,774 thousand), or 31.0%, to 191,254 million yen ($1,799,022 thousand). Operating profit decreased 3,712 million yen ($34,917 thousand), or 46.6%, to 4,259 million yen ($40,062 thousand), and profit attributable to owners of parent decreased 1,300 million yen ($12,228 thousand), or 27.2%, to 3,483 million yen ($32,763 thousand).
Results by business segment are as follows.

1) Domestic Steel Business

In the Domestic Steel Business segment, shipments increased 20,000 tons from one year earlier to 1.68 million tons because of a recovery in demand for steel construction materials in Japan. Although product prices rose by 8,000 yen ($75.25) per ton because of price hikes, the price of steel scrap increased by 8,800 yen ($82.78) per ton. Therefore, the difference between the prices of steel products and steel scrap, narrowed by 800 yen ($7.53) per ton compared with one year earlier. In addition, the cost of manufacturing increased significantly because of the higher cost of electricity and other forms of energy and of secondary materials such as electrodes, refractory materials and ferroalloys.

Segment sales increased 15,305 million yen ($143,966 thousand), or 16.5%, to 107,831 million yen ($1,014,306 thousand), and operating profit decreased 4,025 million yen ($37,861 thousand), or 55.0%, to 3,292 million yen ($30,966 thousand).

2) Overseas Steel Business

In the Overseas Steel Business segment, Kyoei Steel has operations in both Vietnam and the U.S. In Vietnam, strong growth in the demand for steel continued along with the country’s economic growth. The combined sales of the two companies in Vietnam, Vina Kyoei Steel Ltd. (VKS) in southern Vietnam and Kyoei Steel Vietnam Co., Ltd. (KSVC) in northern Vietnam, increased by 90,000 tons from the previous fiscal year to 1.09 million tons for the year ended March 31, 2018. A major reason for this growth was the full-capacity operation of steelmaking (upstream processes) activities at VKS. In the United States, the sales volume at Vinton Steel LLC was 200,000 tons and earnings were as planned.
Segment sales increased 30,218 million yen ($284,244 thousand), or 64.8%, to 76,866 million yen ($723,034 thousand), and operating profit increased 425 million yen ($3,998 thousand), or 41.3%, to 1,456 million yen ($13,695 thousand).

3) Material Recycling Business

In the Materials Recycling Business segment, despite activities aimed at receiving higher unit price orders for difficult-to-process waste, increasingly heated competition caused segment sales to decrease 267 million yen ($2,512 thousand), or 4.1%, to 6,237 million yen ($58,666 thousand), and operating profit to fall 140 million yen ($1,317 thousand), or 13.9%, to 866 million yen ($8,145 thousand).

4) Others

This category includes mainly sales of civil engineering materials and the insurance agent business of a subsidiary. Sales increased 7 million yen ($66 thousand), or 2.1%, to 320 million yen ($3,016 thousand), and operating profit increased 35 million yen ($329 thousand), (compared from an operating loss of 10 million yen ($94 thousand), one year earlier) to 25 million yen ($230 thousand).

(2) Financial Position

1) Assets, liabilities and net assets

(i) Assets

Current assets increased by 22,652 million yen ($213,075 thousand), or 19.5%, from the end of the previous fiscal year to 138,702 million yen ($1,304,695 thousand). This increase was attributable mainly to increases of 15,520 million yen ($145,988 thousand) in notes and accounts receivable, 4,193 million yen ($39,441 thousand) in electronically recorded monetary claims - operating and 8,495 million yen ($79,908 thousand) in inventories, despite a decrease of 3,376 million yen ($31,756 thousand) in cash and deposits.

Long-term assets decreased by 2,436 million yen ($22,914 thousand), or 2.5%, from the end of the previous fiscal year to 95,855 million yen ($901,655 thousand). This decrease was attributable mainly to an increase of 4,688 million yen ($44,097 thousand) in accumulated depreciation and increase of 2,300 million yen ($21,634 thousand) in unconsolidated subsidiaries and affiliated companies.

Total assets increased by 20,216 million yen ($190,161 thousand), or 9.4%, from the end of the previous fiscal year to 234,557 million yen ($2,206,350 thousand).

(ii) Liabilities

Current liabilities increased by 15,195 million yen ($142,931 thousand), or 30.4%, from the end of the previous fiscal year to 65,229 million yen ($613,574 thousand). This increase was attributable mainly to increases of 9,715 million yen ($91,384 thousand) in notes and accounts payable and 5,399 million yen ($50,785 thousand) in short-term loans.

Long-term liabilities increased by 3,224 million yen ($30,326 thousand), or 18.3%, from the end of the previous fiscal year to 20,868 million yen ($196,294 thousand). This increase was attributable mainly to an increase of 3,393 million yen ($31,916 thousand) in long-term debt and a decrease of 126 million yen ($1,185 thousand) in deferred tax liabilities.

Total liabilities increased by 18,419 million yen ($173,257 thousand), or 27.2%, from the end of the previous fiscal year to 86,097 million yen ($809,868 thousand).

(iii) Net assets

Net assets increased by 1,797 million yen ($16,903 thousand), or 1.2%, from the end of the previous fiscal year to 148,460 million yen ($1,396,482 thousand). This increase was attributable mainly to profit attributable to owners of parent of 3,483 million yen ($32,763 thousand), dividends of surplus of 1,304 million yen ($12,266 thousand) and a decrease of 527 million yen ($4,957 thousand) in valuation difference on available for sale securities. As a result, from the end of the previous fiscal year, net assets per share increased by 33.83 yen ($0.32) to 3,225.85 yen ($30.34), and equity to total assets declined from 64.6% to 59.7%.

2) Cash flows

Cash and cash equivalents at the end of the current fiscal year decreased by 7,441 million yen ($69,993 thousand) from the end of the previous fiscal year to 29,299 million yen ($275,600 thousand). The cash flow components during the fiscal year and the main reasons for the changes are described below.

(i) Cash flows from operating activities

Net cash used in operating activities was 8,634 million yen ($81,215 thousand). The major components were income before income taxes of 5,449 million yen ($51,256 thousand) and depreciation and amortization of 6,663 million yen ($62,675 thousand), increases of 19,892 million yen ($187,113 thousand) in notes and accounts receivable, 9,753 million yen ($91,741 thousand) in notes and accounts payable, 8,829 million yen ($83,050 thousand) in inventories and 126 million yen ($1,185 thousand) in accrued consumption taxes and income taxes paid of 1,626 million yen ($15,295 thousand).

(ii) Cash flows from investing activities

Net cash used in investing activities was 7,270 million yen ($68,385 thousand). The major components were an increase in time deposits of 18,929 million yen ($178,055 thousand), a decrease in time deposits of 15,675 million yen ($147,446 thousand), payment for purchase of investments securities of 1,957 million yen ($18,408 thousand), proceeds from sale or redemption of investment securities of 3,114 million yen ($29,292 thousand) and payment for purchase of property, plant and equipment of 5,282 million yen ($49,685 thousand).

(iii) Cash flows from financing activities

Net cash provided by financing activities was 8,527 million yen ($80,209 thousand). The major components included a net increase of 6,080 million yen ($57,191 thousand) in net increase in short-term loans payable, proceeds from long-term debt of 6,760 million yen ($63,588 thousand), repayments of long-term debt of 3,060 million yen ($28,784thousand) and cash dividends paid of 1,305 million yen ($12,276 thousand).

(3) Dividends

It is our fundamental principle to reward our shareholders by increasing corporate value. Accordingly, we endeavor to distribute dividends rationally, while ensuring appropriate initial reserves for business growth and enhancing the corporation structure. From a long-term dividend of 20 yen ($0.19) per share, initially planned, we plan to pay a year-end dividend of 30 yen ($0.28) per share, the sum of a 20 yen ($0.19) ordinary dividend and a 10 yen ($0.09) commemorative dividend for the 70th anniversary of our establishment. Including an interim dividend of 10 yen ($0.09), resulting in a dividend of 40 yen ($0.38) per share for the fiscal year.

Consolidated Balance Sheets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2018 and 2017	**2018**	2017	**2018**
ASSETS			
Current assets:			
Cash and time deposits (Note 13)	**¥ 36,070**	¥ 39,446	**$ 339,291**
Notes and accounts receivable	**43,545**	28,025	**409,604**
Electronically recorded monetary claims - operating	**11,752**	7,559	**110,545**
Marketable securities	**5,400**	8,400	**50,795**
Inventories (Note 6)	**37,720**	29,225	**354,811**
Deferred tax assets (Note 11)	**440**	410	**4,139**
Other current assets	**3,914**	3,100	**36,817**
Allowance for doubtful accounts	**(139)**	(115)	**(1,307)**
Total current assets	**138,702**	116,050	**1,304,695**
Property, plant and equipment:			
Buildings and structures	**43,287**	43,014	**407,177**
Machinery and equipment	**111,332**	110,229	**1,047,239**
Land (Note 7)	**24,122**	23,993	**226,902**
Construction in progress	**295**	773	**2,775**
Other	**2,536**	2,349	**23,855**
Total	**181,572**	180,358	**1,707,948**
Accumulated depreciation	**(104,145)**	(99,457)	**(979,635)**
Net property, plant and equipment	**77,427**	80,901	**728,313**
Investments and other assets:			
Investments in securities (Note 18)	**5,248**	7,433	**49,365**
Unconsolidated subsidiaries and affiliated companies (Note 17 and 18)	**5,983**	3,683	**56,279**
Investments in long-term loans receivable	**506**	407	**4,760**
Net defined benefit asset (Note 14)	**304**	176	**2,860**
Intangible assets, net	**2,480**	1,989	**23,328**
Deferred tax assets (Note 11)	**298**	323	**2,803**
Other noncurrent assets (Note 18)	**3,675**	3,443	**34,568**
Allowance for doubtful accounts	**(66)**	(64)	**(621)**
Total investments and other assets	**18,428**	17,390	**173,342**
Total assets	**¥ 234,557**	¥ 214,341	**$ 2,206,350**

KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2018 and 2017	Millions of yen 2018	 2017	Thousands of U.S. dollars (Note 1) 2018
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	**¥ 21,682**	¥ 11,967	**$ 203,951**
Short-term loans (Note 8)	**29,787**	24,388	**280,190**
Long-term debt due within one year (Note 8)	**2,971**	3,041	**27,947**
Income taxes payable	**846**	949	**7,958**
Deferred tax liabilities (Note 11)	**–**	0	**–**
Accrued employees' bonuses	**709**	701	**6,669**
Accrued directors' bonuses	**20**	110	**188**
Other current liabilities	**9,214**	8,878	**86,671**
Total current liabilities	**65,229**	50,034	**613,574**
Long-term liabilities:			
Long-term debt (Note 8)	**16,820**	13,427	**158,217**
Deferred tax liabilities (Note 11)	**794**	920	**7,469**
Deferred tax liabilities for revaluation (Note 7)	**2,433**	2,433	**22,886**
Accrued directors' severance and retirement benefits	**10**	9	**94**
Net defined benefit liability (Note 14)	**70**	76	**658**
Other long-term liabilities	**741**	779	**6,970**
Total long-term liabilities	**20,868**	17,644	**196,294**
Total liabilities:	**86,097**	67,678	**809,868**
Net assets (Note 10)			
Shareholders' equity			
Common stock	**18,516**	18,516	**174,170**
Authorized – 150,300,000 shares in 2018			
150,300,000 shares in 2017			
Issued – 44,898,730 shares in 2018			
44,898,730 shares in 2017			
Capital surplus	**21,493**	21,493	**202,173**
Retained earnings	**93,909**	91,730	**883,351**
Treasury stock	**(1,809)**	(1,916)	**(17,016)**
Total shareholders' equity	**132,109**	129,823	**1,242,678**
Accumulated other comprehensive income			
Valuation difference on available for sale securities	**1,425**	1,952	**13,404**
Deferred gains or losses on hedges	**(48)**	40	**(452)**
Revaluation reserve for land (Note 6)	**4,618**	4,618	**43,439**
Foreign currency translation adjustments	**1,706**	1,930	**16,047**
Remeasurement of defined benefit plans	**200**	2	**1,881**
Total accumulated other comprehensive income	**7,901**	8,542	**74,319**
Non-controlling interests	**8,450**	8,298	**79,485**
Total net assets	**148,460**	146,663	**1,396,482**
Total liabilities and net assets	**¥ 234,557**	¥ 214,341	**$ 2,206,350**

Consolidated Statements of Operations

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2018 and 2017	**2018**	2017	**2018**
Net sales	**¥ 191,254**	¥ 145,991	**$ 1,799,022**
Cost of sales	**174,782**	127,265	**1,644,079**
Gross profit	**16,472**	18,726	**154,943**
Selling, general and administrative expenses (Note 9)	**12,213**	10,755	**114,881**
Operating income	**4,259**	7,971	**40,062**
Other income (expenses):			
Interest income	**494**	288	**4,647**
Dividend income	**266**	222	**2,502**
Interest expense	**(1,144)**	(723)	**(10,761)**
Share of profit of entities accounted for using equity method	**21**	112	**198**
Foreign exchange losses	**(16)**	(80)	**(150)**
Gain on sale and disposal of property, plant and equipment	**27**	566	**254**
Loss on sale and disposal of property, plant and equipment	**(337)**	(520)	**(3,170)**
Gain on sales of investments in securities	**1,981**	–	**18,634**
Loss on liquidation of business (Note 19)	**–**	(120)	**–**
Cash sales discount	**(29)**	(25)	**(273)**
Loss on sales of investments in securities	**(293)**	(94)	**(2,756)**
Loss on accidents	**(158)**	(25)	**(1,486)**
Other, net	**378**	126	**3,555**
Other income (expenses), net	**1,190**	(273)	**11,194**
Income before income taxes	**5,449**	7,698	**51,256**
Income taxes (Note 11)			
Current	**1,598**	1,835	**15,032**
Deferred	**(11)**	722	**(103)**
Total income taxes	**1,587**	2,557	**14,929**
Profit	**3,862**	5,141	**36,327**
Profit (loss) attributable to non-controlling interests	**379**	358	**3,564**
Profit attributable to owners of parent	**¥ 3,483**	¥ 4,783	**$ 32,763**

	Yen		U.S. dollars (Note 1)
Amounts per share (Note 15)	**2018**	2017	**2018**
Net income			
Basic	**¥ 80.31**	¥ 110.41	**$ 0.76**
Diluted*	**–**	–	**–**
Cash dividends applicable to the year	**¥ 40.00**	¥ 30.00	**$ 0.38**

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

Consolidated Statements of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2018 and 2017	**2018**	2017	**2018**
Profit	**¥ 3,862**	¥ 5,141	**$ 36,327**
Other comprehensive income			
Valuation difference on available for sale securities	**(527)**	640	**(4,957)**
Deferred gains or losses on hedges	**(79)**	88	**(743)**
Foreign currency translation adjustments	**(444)**	(581)	**(4,176)**
Remeasurement of defined benefit plans	**198**	161	**1,862**
Other comprehensive income, net (Note 20)	**(852)**	308	**(8,014)**
Comprehensive income	**¥ 3,010**	¥ 5,449	**$ 28,313**
Breakdown of comprehensive income:			
Comprehensive income attributable to owners of parent	**¥ 2,843**	¥ 5,325	**$ 26,742**
Comprehensive income attributable to non-controlling interests	**¥ 167**	¥ 124	**$ 1,571**

Consolidated Statements of Changes in Net Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2018 and 2017	**2018**	2017	**2018**
Shareholders' equity			
Common stock			
Balance at the beginning of current period	**¥ 18,516**	¥ 18,516	**$ 174,170**
Balance at the end of current period	**18,516**	18,516	**174,170**
Capital surplus			
Balance at the beginning of current period	**21,493**	21,493	**202,173**
Balance at the end of current period	**21,493**	21,493	**202,173**
Retained earnings			
Balance at the beginning of current period	**91,730**	88,546	**862,854**
Changes during the period			
Cash dividends	**(1,304)**	(1,955)	**(12,266)**
Profit attributable to owners of parent	**3,483**	4,783	**32,763**
Reversal of revaluation reserve for land	**–**	356	**–**
Total changes during the period	**2,179**	3,184	**20,497**
Balance at the end of current period	**93,909**	91,730	**883,351**
Treasury stock			
Balance at the beginning of current period	**(1,916)**	(2,025)	**(18,023)**
Changes during the period			
Purchase of treasury stock	**(0)**	(1)	**(0)**
Sale of treasury stock	**107**	110	**1,007**
Total changes during the period	**107**	109	**1,007**
Balance at the end of current period	**(1,809)**	(1,916)	**(17,016)**
Total shareholders' equity			
Balance at the beginning of current period	**129,823**	126,530	**1,221,174**
Changes during the period			
Cash dividends	**(1,304)**	(1,955)	**(12,266)**
Profit attributable to owners of parent	**3,483**	4,783	**32,763**
Reversal of revaluation reserve for land	**–**	356	**–**
Purchase of treasury stock	**(0)**	(1)	**(0)**
Sale of treasury stock	**107**	110	**1,007**
Total changes during the period	**2,286**	3,293	**21,504**
Balance at the end of current period	**¥ 132,109**	¥ 129,823	**$ 1,242,678**

KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2018 and 2017	Millions of yen 2018	 2017	Thousands of U.S. dollars (Note 1) 2018
Accumulated other comprehensive income			
Valuation difference on available for sale securities			
Balance at the beginning of current period	**¥ 1,952**	¥ 1,312	**$ 18,361**
Changes during the period			
Net changes in items other than shareholders' equity	**(527)**	640	**(4,957)**
Total changes during the period	**(527)**	640	**(4,957)**
Balance at the end of current period	**1,425**	1,952	**13,404**
Deferred gains or losses on hedges			
Balance at the beginning of current period	**40**	–	**376**
Change during the period			
Net changes in items other than shareholders' equity	**(88)**	40	**(828)**
Total changes during the period	**(88)**	40	**(828)**
Balance at end of current fiscal year	**(48)**	40	**(452)**
Revaluation reserve for land			
Balance at the beginning of current period	**4,618**	4,974	**43,439**
Changes during the period			
Net changes in items other than shareholders' equity	**–**	(356)	**–**
Total changes during the period	**–**	(356)	**–**
Balance at the end of current period	**4,618**	4,618	**43,439**
Foreign currency translation adjustments			
Balance at the beginning of current period	**1,930**	2,229	**18,154**
Changes during the period			
Net changes in items other than shareholders' equity	**(224)**	(299)	**(2,107)**
Total changes during the period	**(224)**	(299)	**(2,107)**
Balance at the end of current period	**1,706**	1,930	**16,047**
Remeasurement of defined benefit plans			
Balance at the beginning of current period	**2**	(159)	**19**
Changes during the period			
Net changes in items other than shareholders' equity	**198**	161	**1,862**
Total changes during the period	**198**	161	**1,862**
Balance at the end of current period	**¥ 200**	¥ 2	**$ 1,881**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**8,542**	8,356	**80,349**
Changes during the period			
Net changes in items other than shareholders' equity	**(641)**	186	**(6,030)**
Total changes during the period	**(641)**	186	**(6,030)**
Balance at the end of current period	**¥ 7,901**	¥ 8,542	**$ 74,319**

Consolidated Statements of Changes in Net Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2018 and 2017	**2018**	2017	**2018**
Non-controlling interests			
Balance at the beginning of current period	**¥ 8,298**	¥ 8,204	**$ 78,055**
Changes during the period			
Net changes in items other than shareholders' equity	**152**	94	**1,430**
Total changes during the period	**152**	94	**1,430**
Balance at the end of current period	**8,450**	8,298	**79,485**
Total net assets			
Balance at the beginning of current period	**146,663**	143,090	**1,379,578**
Changes during the period			
Cash dividends	**(1,304)**	(1,955)	**(12,266)**
Profit attributable to owners of parent	**3,483**	4,783	**32,763**
Reversal of revaluation reserve for land	**–**	356	**–**
Purchase of treasury stock	**0**	(1)	**0**
Sale of treasury stock	**107**	110	**1,007**
Net changes in items other than shareholders' equity	**(489)**	280	**(4,600)**
Total changes during the period	**1,797**	3,573	**16,904**
Balance at the end of current period	**¥ 148,460**	¥ 146,663	**$ 1,396,482**

Consolidated Statements of Cash Flows

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

KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2018 and 2017	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Cash flows from operating activities:			
Income before income taxes	¥ **5,449**	¥ 7,698	$ **51,256**
Depreciation and amortization	**6,663**	5,961	**62,675**
Impairment loss on fixed assets	**136**	–	**1,279**
Increase (decrease) in provision	**(53)**	(151)	**(498)**
Increase (decrease) in net defined benefit liability	**62**	(11)	**583**
Share of profit of entities accounted for using equity method	**(21)**	(112)	**(197)**
Loss (gain) on sales of investments in securities	**(1,688)**	94	**(15,878)**
Loss (gain) on sale and disposal of property, plant and equipment	**310**	(46)	**2,916**
Loss on accidents	**158**	25	**1,486**
Interest and dividend income	**(760)**	(510)	**(7,149)**
Interest expense	**1,144**	723	**10,761**
Decrease (increase) in notes and accounts receivable	**(19,892)**	(2,685)	**(187,113)**
Decrease (increase) in inventories	**(8,829)**	(2,747)	**(83,050)**
Increase (decrease) in notes and accounts payable	**9,753**	2,150	**91,741**
Increase (decrease) in accrued consumption taxes	**126**	(651)	**1,185**
Decrease (increase) in net defined benefit asset	**89**	138	**837**
Other	**838**	75	**7,883**
Subtotal	**(6,515)**	9,951	**(61,283)**
Interest and dividends received	**779**	612	**7,328**
Interest paid	**(1,119)**	(706)	**(10,526)**
Payments for loss on accidents	**(153)**	–	**(1,439)**
Income taxes paid	**(1,626)**	(2,968)	**(15,295)**
Net cash provided by (used in) operating activities	**(8,634)**	6,889	**(81,215)**
Cash flows from investing activities:			
Increase in time deposits	**(18,929)**	(5,965)	**(178,055)**
Decrease in time deposits	**15,675**	710	**147,446**
Payment for acquisition of marketable securities	**(6,000)**	(13,716)	**(56,439)**
Proceeds from sale of marketable securities	**8,000**	13,516	**75,252**
Payment for purchase of investments in securities	**(1,957)**	(250)	**(18,408)**
Proceeds from sale or redemption of investments in securities	**3,114**	754	**29,292**
Increase in money deposited	**(80)**	(1,204)	**(752)**
Decrease in money deposited	**83**	1,101	**781**
Payment for purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 13)	**–**	(5,612)	**–**
Payment for acquisition of investment securities in subsidiaries	**(347)**	(110)	**(3,264)**
Payment for acquisition of investments of capital in subsidiaries	**–**	(252)	**–**
Proceeds from sale of investments in capital of subsidiaries	**283**	–	**2,662**
Investments in loans	**(705)**	(279)	**(6,632)**
Collection of loans	**35**	118	**329**
Payment for purchase of property, plant and equipment	**(5,282)**	(6,724)	**(49,685)**
Proceeds from sale of property, plant and equipment	**57**	2,343	**536**
Payment for purchase of intangibles	**(796)**	(225)	**(7,488)**
Other	**(421)**	(221)	**(3,960)**
Net cash provided by (used in) investing activities	**(7,270)**	(16,016)	**(68,385)**

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2018 and 2017	**2018**	2017	**2018**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**6,080**	10,975	**57,191**
Proceeds from long-term debt	**6,760**	–	**63,588**
Repayment of long-term debt	**(3,060)**	(2,520)	**(28,784)**
Repayment of installment payables	**(40)**	(7)	**(376)**
Payment for purchase of treasury stock	**(0)**	(1)	**(0)**
Proceeds from sale of treasury stock	**107**	110	**1,007**
Cash dividends paid	**(1,305)**	(1,955)	**(12,276)**
Dividends paid to non-controlling shareholders	**(15)**	(30)	**(141)**
Net cash provided by (used in) financing activities	**¥ 8,527**	¥ 6,572	**$ 80,209**
Effect of exchange rate changes on cash and cash equivalents	**¥ (64)**	¥ (301)	**$ (602)**
Net increase (decrease) in cash and cash equivalents	**(7,441)**	(2,856)	**(69,993)**
Cash and cash equivalents at the beginning of the period	**36,740**	39,596	**345,593**
Cash and cash equivalents at the end of the period (Note 13)	**¥ 29,299**	¥ 36,740	**$ 275,600**

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.31 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the parent company and all the subsidiaries over which it exerts substantial control either through majority ownership of voting stock or by other means. As a result, the accompanying consolidated financial statements for the years ended March 31, 2018 and 2017 include the accounts of the Company and its 12 subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

(b) Foreign currency translation

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

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

(c) Cash and cash equivalents

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

(d) Securities

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

(e) Derivatives

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

(f) Inventories

Rolls are stated at cost determined by the specific identification method. Other inventories are stated mainly at cost determined by the average method. Regarding balance sheet values, this method is designed to reduce book value when the contribution of inventories to profitability declines.

(g) Depreciation and amortization

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

Depreciation of property, plant and equipment is calculated principally by the straight-line method.

Estimated useful lives of the property, plant and equipment are summarized as follows:

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

(2) Intangible assets (excluding lease assets)

Most 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 (in general, 5 years).

(3) Lease assets

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

(h) Allowance for doubtful accounts

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

(i) Accrued employees' bonuses

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

(j) Accrued directors' bonuses

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

(k) Accrued directors' severance and retirement benefits

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

(l) Accounting policies for severance and retirement benefits

(1) The method of attributing expected benefit to periods

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

(2) Recognition of actuarial differences and past service costs

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

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

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

(m) Income taxes

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

(n) Significant hedge accounting

(1) Method of hedge accounting

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

(2) Hedging instruments and hedged items

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

(3) Hedging policy

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

(4) Evaluating hedge effectiveness

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

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

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

3 ACCOUNTING STANDARDS NOT YET IMPLEMENTED, ETC.

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

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

(b) Planned date of application
To be applied from the beginning of the fiscal year ending in March 2022

(c) Impact of application of accounting standards.
The Company and its domestic consolidated subsidiaries are currently assessing the impact of the Accounting Standards on Revenue Recognition. On the consolidated financial statements.

4 CHANGES IN PRESENTATION METHODS OF ACCOUNTING

(a) Consolidated Balance Sheets
"Electronically recorded monetary claims - operating" which was included in "Notes and accounts receivable" under "Current assets" in the previous fiscal year has been reclassified and presented as a separate item in the fiscal year ended March 31, 2018 since it has increased in materiality in the context of the consolidated financial statements. The financial statements for the previous fiscal year have also been reclassified to conform with the year ended March 31, 2018 presentation. As a result, "Notes and accounts receivable" of 35,584 million yen ($334,719 thousand) presented under "Current assets" in the previous fiscal year's consolidated balance sheet has been reclassified as "Notes and accounts receivable" of 28,025 million yen ($263,616 thousand) and "Electronically recorded monetary claims - operating" of 7,559 million yen ($71,103 thousand).

(b) Consolidated Statements of Operations
"Loss on accidents" which was included in "Other, net" under "Other income (expenses), net" in the previous fiscal year has been reclassified and presented as a separate item in the fiscal year since it has increased in materiality in the context of the consolidated financial statements. The financial statements for the previous fiscal year have also been reclassified.
As a result, "Other, net" of 101 million yen ($950 thousand) presented under "Other income (expenses), net" in the previous fiscal year's consolidated statement of operations has been reclassified as "Loss on accidents" of 25 million yen ($235 thousand) and "Other, net" of 126 million yen ($1,185 thousand).

5 ADDITIONAL INFORMATION

(a) Applying Revised Implementation Guidance on Recoverability of Deferred Tax Assets

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets"(ASBJ Guidance No. 26, March 28, 2016) has been applied from the fiscal year-ended March 31, 2017.

(b) Employee stock ownership plan (ESOP) by using a trust

(1) Summary

The Group is introducing an employee stock ownership plan (ESOP) with a support trust. The ESOP is an employee benefit plan which aims to encourage improvements in morale by giving Group employees incentives to improve mid- to long-term corporate value and promote the revitalization of employee stock ownership and stable property accumulation.
The ESOP Trust is a scheme based on US ESOPs (Employee Stock Ownership Plans) to encourage employee equity holding that conforms to the Laws of Japan. By combining employee stock ownership with a trust it will be possible for the trust fund to secure the stock to be purchased by the employees in the future. Moreover, the scheme promotes aims such as the expansion of the employee benefits system and an increase it employee motivation to be realized.

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

(2) Stock remaining in the trust

The book value (excluding incidental expenses) of the Company stock held by the ESOP Trust is included as "treasury stock" in net assets in the consolidated balance sheets. The ESOP Trust held 57 thousand shares and 112 thousand shares of the Company stock with a book value of 109 million yen ($1,025 thousand) and 216 million yen as of the end of March 2018 and 2017, respectively.

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

Using the gross price method, the book value of loans was 106 million yen ($997 thousand) and 212 million yen at the end of March 2018 and 2017, respectively.

6 INVENTORIES

Inventories at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Merchandise	**¥ 228**	¥ 288	**$ 2,145**
Finished goods	**14,423**	10,298	**135,669**
Semi-finished goods	**6,756**	4,131	**63,550**
Work-in-process	**5,522**	856	**51,942**
Raw materials	**1,050**	4,772	**9,877**
Supplies	**6,580**	5,785	**61,894**
Rolls	**3,161**	3,095	**29,734**
Total	**¥ 37,720**	¥ 29,225	**$ 354,811**

7 APPLICATION OF THE LAND REVALUATION LAW

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

Revaluation method
The land value has been calculated as stipulated in Article 2.4 of the "Regulations for Applying the Land Revaluation Law" (Government Ordinance No. 119 of 1998, promulgated on March 31, 1998) by making rational adjustments to the price calculated 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
	2018	2017	**2018**
Difference between the market value at end of year and the book value after revaluation of the land revalued	**¥(5,807)**	¥(5,874)	**$(54,623)**

8 BANK LOANS

Short-term loans consisted of unsecured loans payable from banks at the weighted average interest rate of 2.93% at March 31, 2018 and 2.91% at March 31, 2017.

Long-term debt from banks at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Long-term debt from banks at average interest rates of 1.59% and 1.76% for current and noncurrent portions, respectively	**¥19,791**	¥16,468	**$186,164**
Less current portion	**(2,971)**	(3,041)	**(27,947)**
Long-term debt from banks	**¥16,820**	¥13,427	**$158,217**

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

Year ended March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 2,971	$ 27,947
2020	3,078	28,953
2021	3,198	30,082
2022	3,181	29,922
2023	1,706	16,047
Thereafter	5,657	53,213
Total	¥ 19,791	$ 186,164

The annual maturities of long-term debt from banks as of March 31, 2017 are summarized as follows:

Year ended March 31,	Millions of yen
2018	¥ 3,041
2019	3,253
2020	3,041
2021	3,041
2022	2,801
Thereafter	1,291
Total	¥ 16,468

9 R&D EXPENSES

R&D expenses included in selling, general and administrative expenses for the years ended March 31, 2018 and 2017 amounted to ¥177 million ($1,665 thousand) and ¥119 million, respectively.

10 NET ASSETS

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

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

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

At the Board Directors' meeting held on April 27, 2018, the Board approved cash dividends amounting to ¥1,304 million ($12,266 thousand). The appropriation had not been accrued in the consolidated financial statements as of March 31, 2018. At the Board Directors' meeting held on April 28, 2017, the Board approved cash dividends amounting to ¥869 million. The appropriation had not been accrued in the consolidated financial statements as of March 31, 2017.

11 INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 30.8% for the year ended March 31, 2018 and 2017.

The major components of deferred tax assets and liabilities as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Deferred tax assets:			
Impairment loss	**¥ 527**	¥ 556	**$ 4,957**
Accrued enterprise taxes	**69**	48	**649**
Allowance for doubtful accounts	**50**	32	**470**
Accrued bonuses	**218**	216	**2,051**
Accrued directors' retirement benefits	**40**	43	**376**
Tax carryforward	**393**	391	**3,697**
Other	**898**	862	**8,447**
Gross deferred tax assets	**2,195**	2,148	**20,647**
Valuation allowance	**(1,378)**	(1,281)	**(12,962)**
Total deferred tax assets	**817**	867	**7,685**
Deferred tax liabilities:			
Valuation difference on available for sale securities	**(682)**	(915)	**(6,415)**
Retained earnings appropriated for tax deductible reserves	**(22)**	(24)	**(207)**
Reserve for special depreciation for tax purposes	**(2)**	(3)	**(19)**
Net defined benefit asset	**(114)**	(54)	**(1,072)**
Other	**(53)**	(58)	**(499)**
Total deferred tax liabilities	**¥ (873)**	¥ (1,054)	**$ (8,212)**
Net deferred tax assets	**¥ (56)**	¥ (187)	**$ (527)**

Net deferred tax liabilities at March 31, 2018 and 2017 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Deferred tax assets (current)	**¥ 440**	¥ 410	**$ 4,138**
Deferred tax assets (noncurrent)	**298**	323	**2,803**
Deferred tax liabilities (current)	**–**	(0)	**–**
Deferred tax liabilities (noncurrent)	**(794)**	(920)	**(7,468)**
Net deferred tax assets	**¥ (56)**	¥ (187)	**$ (527)**

The major components of the reconciliation between the statutory tax rate and the effective tax rate as of March 31, 2018 and 2017 were as follows:

	2018	2017
Statutory tax rate	**30.8 %**	30.8 %
Disallowed expenses, including entertainment expenses	**1.0**	1.0
Dividends and other income deductible for income tax purposes	**(0.5)**	(0.4)
Inhabitants per capita taxes	**0.5**	0.4
Increase in valuation allowance	**1.8**	1.0
Prior year's taxes, other	**(3.5)**	–
Others	**(1.0)**	0.4
Effective tax rates	**29.1 %**	33.2 %

12 CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

The following tables present information related to the consolidated statements of changes in net assets for the year ended March 31, 2018 and March 31, 2017 respectively:

(a) Number of shares issued

For the year ended March 31, 2018

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

For the year ended March 31, 2017

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, 2018

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

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

For the year ended March 31, 2017

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	1,608,855	131	57,200	1,551,786

(1) Treasury stock increased by 131 shares due to the repurchase of shares of less than one unit.
(2) Treasury stock decreased by 57,200 due to the sale by the ESOP Trust.
(3) Treasury stock included 112,200 shares of the Company owned by the ESOP Trust as of March 31, 2017.

(c) Cash dividends

Amount of dividend payments

For the year ended March 31, 2018

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 28, 2017 (Board of Directors)	**Common stock**	**¥ 869**	**$ 8,174**	**¥ 20**	**$ 0.2**	**March 31, 2017**	**June 12, 2017**

(Note) Total amount of dividends included ¥ 2 million ($19 thousand) for the treasury stock owned by the ESOP Trust.

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
October 31, 2017 (Board of Directors)	**Common stock**	**¥ 435**	**$ 4,092**	**¥ 10**	**$ 0.1**	**September 30, 2017**	**December 8 , 2017**

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

For the year ended March 31, 2017

Date of approval	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
April 28, 2016 (Board of Directors)	Common stock	¥ 1,521	¥ 35	March 31, 2016	June 7, 2016

Date of approval	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
October 31, 2016 (Board of Directors)	Common stock	¥ 434	¥ 10	September 30, 2016	December 8 2016

13 SUPPLEMENTARY CASH FLOW INFORMATION

Reconciliation of cash and cash equivalents
The following table represents a reconciliation of cash and cash equivalents at March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Cash and time deposits	**¥ 36,070**	¥ 39,446	**$ 339,291**
Time deposits with a maturity of more than three months	**(9,171)**	(6,106)	**(86,266)**
Negotiable certificates of deposit with maturities of three months or less from the acquisition date	**2,400**	3,400	**22,575**
Cash and cash equivalents	**¥ 29,299**	¥ 36,740	**$ 275,600**

Reconciliation of payment for purchase of investments in subsidiaries
The following table represents a reconciliation of cash and cash equivalents at March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Current assets	–	¥ 3,427	–
Fixed assets	–	3,291	–
Goodwill	–	705	–
Current liabilities	–	(1,377)	–
Fixed liabilities	–	(495)	–
Acquisition cost	–	5,551	–
Receivables	–	157	–
Cash and cash equivalents	–	(96)	–
Payment for purchase of investments	–	¥ 5,612	–

14 SEVERANCE AND RETIREMENT BENEFITS

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

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

(b) Defined benefit plan

(1) Movement in retirement benefit obligations, except those described in (3)

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Balance at April 1	**¥ 4,721**	¥ 4,737	**$ 44,408**
Service cost	**286**	292	**2,690**
Interest cost	**25**	16	**235**
Actuarial loss	**(10)**	(111)	**(94)**
Benefits paid	**(118)**	(213)	**(1,110)**
Others	**7**	–	**66**
Balance at March 31	**¥ 4,911**	¥ 4,721	**$ 46,195**

(2) Movements in plan assets, except those described in (3)

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Balance at April 1	**¥ 4,822**	¥ 4,772	**$ 45,358**
Expected return on plan assets	**73**	73	**687**
Actuarial gain (loss)	**157**	1	**1,477**
Contributions paid by the employer	**197**	189	**1,853**
Benefits paid	**(118)**	(213)	**(1,110)**
Balance at March 31	**¥ 5,131**	¥ 4,822	**$ 48,265**

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

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Balance at April 1	**¥ 2**	¥ 16	**$ 19**
Retirement benefit cost	**74**	86	**696**
Benefits paid	**(15)**	(22)	**(141)**
Other	**(1)**	(1)	**(9)**
Contributions to benefit plans	**(73)**	(77)	**(687)**
Balance at March 31	**¥ (13)**	¥ 2	**$ (122)**

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

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Funded retirement benefit obligations	**¥ 6,160**	¥ 5,904	**$ 57,943**
Plan assets	**(6,459)**	(6,065)	**(60,756)**
	(299)	(161)	**(2,813)**
Unfunded retirement benefit obligations	**65**	62	**611**
Total net liability (asset) for retirement benefits at March 31	**¥ (234)**	¥ (99)	**$ (2,202)**

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Net defined benefit asset	**¥ (304)**	¥ (176)	**$ (2,860)**
Net defined benefit liability	**70**	77	**658**
Total net liability (asset) for retirement benefits at March 31	**¥ (234)**	¥ (99)	**$ (2,202)**

(5) Retirement benefit costs

	Millions of yen				Thousands of U.S.dollars	
	2018		2017		2018	
Service cost	¥	286	¥	292	$	2,690
Interest cost		25		16		235
Expected return on plan assets		(73)		(73)		(687)
Net actuarial loss (gain) amortization		103		104		969
Past service costs amortization		16		16		151
Retirement benefit cost applying the simplified method		74		86		696
Total retirement benefit costs for the year ended March 31	¥	431	¥	441	$	4,054

(6) Remeasurement of defined benefit plans

	Millions of yen				Thousands of U.S.dollars	
	2018		2017		2018	
Prior service cost	¥	16	¥	16	$	151
Actuarial gain or loss		270		216		2,540
Total balance at March 31	¥	286	¥	232	$	2,691

(7) Accumulated adjustments for retirement benefits

	Millions of yen				Thousands of U.S.dollars	
	2018		2017		2018	
Unrecognized prior service cost		–	¥	(16)		–
Unrecognized actuarial gain or loss		289		20		2,718
Total balance at March 31	¥	289	¥	4	$	2,718

(8) Plan assets

a. Plan assets comprise:

	2018	2017
Bonds	55%	56%
Stock	26	25
Life insurance company general accounts	16	16
Other	3	3
Total	100%	100%

b. Long-term expected rate of return

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

(9) Actuarial assumptions

The principal actuarial assumptions were as follows:

	2018	2017
Discount rate	0.4%	0.5%
Expected long-term rate of return	1.5%	1.5%
Salary increase rate	2.3%	2.3%

(c) Defined contribution scheme

The required contribution to the Company’s defined contribution plan was ¥26 million ($245 thousand) for the year ended March 31, 2018 and ¥25 million for the year ended March 31, 2017.

15 AMOUNTS PER SHARE

	Yen		U.S.dollars
Years ended March 31	**2018**	2017	**2018**
Net income	**¥ 80.31**	¥ 110.41	**$ 0.76**
As of March 31	**2018**	2017	**2018**
Net assets	**¥ 3,225.85**	¥ 3,192.02	**$ 30.34**

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

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

	Millions of yen		Thousands of U.S.dollars
Years ended March 31	**2018**	2017	**2018**
Basic net assets per share:			
Total net assets on the balance sheets	**¥ 148,460**	¥ 146,663	**$ 1,396,482**
Deduction on total net assets	**¥ (8,450)**	¥ (8,298)	**$ (79,485)**
Non-controlling interests	**¥ (8,450)**	¥ (8,298)	**$ (79,485)**
Amount attributable to shareholders of common stock	**¥ 140,010**	¥ 138,365	**$ 1,316,997**
Number of shares outstanding	**44,899**	44,899	**–**
Number of treasury shares	**(1,496)**	(1,552)	**–**
Number of shares at fiscal year-end used in calculation of net assets per share	**43,403 thousand share**	43,347 thousand share	**–**

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

	Millions of yen		Thousands of U.S.dollars
Years ended March 31	**2018**	2017	**2018**
Basic net income per share:			
Profit attributable to owners of parents	**¥ 3,483**	¥ 4,783	**$ 32,763**
Amount attributable to shareholders of common stock	**¥ 3,483**	¥ 4,783	**$ 32,755**
Weighted average number of shares outstanding	**¥ 43,374 thousand share**	¥ 43,319 thousand share	**–**

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

For the calculation of net income per share, the average number of shares of treasury stock that was held by the ESOP Trust and therefore excluded was 85 thousand for the year ended March 31, 2018 and 140 thousand for the year ended March 31, 2017. For the calculation of net assets per share, the number of shares of treasury stock that was held by the ESOP Trust and therefore excluded was 57 thousand for the year ended March 31, 2018 and 112 thousand for the year ended March 31, 2017.

16 LEASES

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

The Group also has entered into non-cancellable operating lease contracts. Future lease payments subsequent to March 31, 2018 and 2017 under non-cancellable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
As of March 31	**2018**	2017	**2018**
Due within one year	**¥ 74**	¥ 33	**$ 696**
Due after one year	**1,414**	1,182	**13,301**
Total	**¥ 1,488**	¥ 1,215	**$ 13,997**

17 FINANCIAL INSTRUMENTS

Additional information – Disclosure of fair value of financial instruments

(a) Qualitative information on financial instruments

(1) Policies for using financial instruments

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

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

Notes and accounts receivable 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 are due within four months.

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

Hedged instruments are recognized by individual contract. Hedge effectiveness is tasted 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 which the Group believes there is almost no credit risk. The derivative transactions are executed in accordance with internal management regulations.

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

(3) Supplemental information on fair values

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

(b) Fair values of financial instruments

(1) Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2018 and 2017 were as follows:

Year ended March 31, 2018	Millions of yen			Thousands of U.S. dollars		
	Carrying amount shown in balance sheet	Fair value	Difference	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	¥ 36,070	¥ 36,070	¥ –	$ 339,291	$ 339,291	$ –
Notes and accounts receivable	43,545	43,545	–	409,604	409,604	–
Electronically recorded monetary claims - operating	11,752	11,752	–	110,545	110,545	–
Marketable securities	5,400	5,400	–	50,795	50,795	–
Investments in securities			–			
Available for sale securities	4,557	4,557	–	42,865	42,865	–
Affiliated company	1,954	2,374	420	18,380	22,331	3,951
Investments in long-term loans receivable	506	506	–	4,760	4,760	–
Other noncurrent assets						
Long-term deposits	73	73	0	687	687	0
Notes and accounts payable	(21,682)	(21,682)	–	(203,951)	(203,951)	–
Short-term loans	(29,787)	(29,787)	–	(280,190)	(280,190)	–
Long-term debt						
Due within one year	(2,971)	(2,981)	10	(27,947)	(28,041)	94
Due after one year	(16,820)	(16,873)	53	(158,217)	(158,715)	498
Lease obligations	(510)	(547)	37	(4,797)	(5,145)	348
Derivatives	(11)	(11)	–	(103)	(103)	–

(Note) The amount of "Lease obligations" shows the sum of lease obligation amounts included in other current liabilities and other long-term liabilities.

Year ended March 31, 2017	Millions of yen		
	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	¥ 39,446	¥ 39,446	¥ –
Notes and accounts receivable	28,025	28,025	–
Electronically recorded monetary claims - operating	7,559	7,559	–
Marketable securities	8,400	8,400	–
Investments in securities			
Available for sale securities	6,740	6,740	–
Investments in long-term loans receivable	407	407	–
Other noncurrent assets			
Long-term deposits	35	35	0
Notes and accounts payable	(11,967)	(11,967)	–
Short-term loans	(24,388)	(24,388)	–
Long-term debt			
Due within one year	(3,041)	(3,056)	15
Due after one year	(13,427)	(13,495)	68
Lease obligations	(558)	(579)	21
Derivatives	93	93	–

(2) Calculation method for market values of financial instruments and securities

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

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

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

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

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

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

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

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

18 SECURITIES

(a) Available for sale securities with determinable market values

As of March 31, 2018	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	¥ 1,254	¥ 3,460	¥ 2,206	$ 11,796	$ 32,546	$ 20,750
Bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Securities whose carrying value does not exceed acquisition costs:						
Stock	1,183	1,097	(86)	11,128	10,319	(809)
Bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	¥ 2,437	¥ 4,557	¥ 2,120	$ 22,924	$ 42,865	$ 19,941

As of March 31, 2017	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥ 1,428	¥ 4,884	¥ 3,456
Bonds	–	–	–
Other	–	–	–
Securities whose carrying value does not exceed acquisition costs:			
Stock	2,430	1,856	(574)
Bonds	–	–	–
Other	–	–	–
Total	¥ 3,858	¥ 6,740	¥ 2,882

(b) Securities without determinable market values

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Investment in securities:			
Unlisted securities (available for sale securities)	**¥ 691**	¥ 693	**$ 6,500**
Unlisted securities (unconsolidated subsidiaries and affiliated companies)	**¥ 4,029**	¥ 3,683	**$ 37,899**
Investments in capital (unconsolidated subsidiaries and affiliated companies	**¥ 2,146**	¥ 2,414	**$ 20,186**

(c) Derivative transactions

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

Currency related

Year ended March 31, 2018

	Type of derivative	Contract amount (Millions of yen)		Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)	Contract amount (Thousands of U.S. dollars)		Fair value (Thousands of U.S. dollars)	Valuation gain (loss) (Thousands of U.S. dollars)
			Over one year (Millions of yen)				Over one year (Thousands of U.S. dollars)		
Non-market transactions	**Foreign exchange forward contracts Buying U.S. dollars**	**¥ 76**	**¥ –**	**¥ (1)**	**¥ (1)**	**$ 715**	**$ –**	**$ (9)**	**$ (9)**

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

Year ended March 31, 2017

	Type of derivative	Contract amount (Millions of yen)		Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)
			Over one year (Millions of yen)		
Non-market transactions	Foreign exchange forward contracts Buying U.S. dollars	¥ 68	¥ –	(0)	(0)
Non-market transactions	Foreign exchange forward contracts Selling U.S. dollars	¥ 896	¥ –	¥ 5	¥ 5

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

Currency related

Year ended March 31, 2018

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)	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)
Non-market transactions	Forward contracts Buying natural gas	**¥ 167**	**¥ –**	**¥ (36)**	**¥ (36)**	**$ 1,571**	**$ –**	**$ (339)**	**$ (339)**

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

Year ended March 31, 2017
Not applicable.

(2) Derivative transactions for which hedge accounting is applied
Interest rate related

Year ended March 31, 2018

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

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Thousands of U.S. dollars)	Amount of contracts over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S.dollars)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	**$ 126,733**	**$ 106,189**	**$ 254**

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

Year ended March 31, 2017

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Millions of yen)	Amount of contracts over 1 year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	¥ 12,644	¥ 10,393	¥ 88

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

19 LOSS ON LIQUIDATION OF BUSINESS

With the closing of the Hirakata Division (Osaka Mill) in the year ended March 31, 2017, the Company recorded a loss on liquidation of business resulting in processing costs for waste of ¥70 million, loss on disposal of inventories of ¥23 million and removable cost of plant equipment of ¥15 million.

20 STATEMENTS OF COMPREHENSIVE INCOME

Comprehensive income for the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S.dollars
	2018	2017	**2018**
Valuation difference on available for sale securities:			
Current accrual	**¥ 930**	¥ 924	**$ 8,748**
Reclassification adjustment	**(1,690)**	–	**(15,897)**
Before tax effect adjustment	**(760)**	924	**(7,149)**
Tax effect adjustment	**233**	(284)	**2,192**
Valuation difference on available for sale securities	**(527)**	640	**(4,957)**
Deferred gains or losses on hedges			
Current accrual	**(61)**	88	**(574)**
Reclassification adjustment	**–**	–	**–**
Before tax effect adjustment	**(61)**	88	**(574)**
Tax effect adjustment	**(18)**	–	**(169)**
Deferred gains or losses on hedges	**(79)**	88	**(743)**
Foreign currency translation adjustments:			
Current accrual	**(444)**	(581)	**(4,176)**
Reclassification adjustment	**–**	–	**–**
Before tax effect adjustment	**(444)**	(581)	**(4,176)**
Tax effect adjustment	**–**	–	**–**
Foreign currency translation adjustments:	**(444)**	(581)	**(4,176)**
Remeasurement of defined benefit plans:			
Current accrual	**167**	113	**1,571**
Reclassification adjustment	**119**	120	**1,120**
Before tax effect adjustment	**286**	233	**2,691**
Tax effect adjustment	**(88)**	(72)	**(829)**
Remeasurement of defined benefit plans	**198**	161	**1,862**
Total	**¥ (852)**	¥ 308	**$ (8,014)**

The pro-forma information of the effects on the consolidated statement of income was calculated as differences between net sales and income assuming the business combination had been completed as of the beginning of the current fiscal year, and net sales and income were included in the consolidated statement of income. The pro-forma information is unaudited.

21 Business combinations

Finalization of provisional accounting treatment of business combinations

A provisional accounting treatment was used in the fiscal year ended March 31, 2017 for the December 21, 2016 acquisition of Vinton Steel LLC and its subsidiary. This treatment was finalized in the fiscal year that ended on March 31, 2018. Along with the finalization of this provisional accounting treatment, the initial allocation of the acquisition cost was materially revised, resulting in a decrease of 474 million yen ($4,459 thousand) in machinery and equipment, which are tangible fixed assets, and goodwill increased 330 million yen ($3,104 thousand) from the provisional amount of 375 million yen ($3,527 thousand) to 705 million yen ($6,632 thousand).

Amortization method and period
Goodwill will be amortized over 5 years by the straight-line method.

22 SEGMENT INFORMATION

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

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

Accordingly, the Group has made these three segments—Domestic Steel Business, Overseas Steel Business and Material Recycling Business —its reporting segments.

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

(b) Calculation methods for net sales, profit or loss, assets and amounts for other items for each reporting segment
The accounting methods used for the reporting business segments are the same as those in "Significant Accounting Policies." Reporting segment income is operating income. Intersegment transactions and transfers are based on market prices, etc.

(c) Net sales, profit or loss, assets and amounts for other items for each reporting segment
Segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2018 and 2017 is outlined as follows:

Millions of yen

Year ended March 31, 2018	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 107,831	¥ 76,866	¥ 6,237	¥ 190,934	¥ 320	¥ –	¥ 191,254
Intersegment sales and transfers	115	–	1,066	1,181	–	(1,181)	–
Total	107,946	76,866	7,303	192,115	320	(1,181)	191,254
Segment income	¥ 3,292	¥ 1,456	¥ 866	¥ 5,614	¥ 24	¥ (1,379)	¥ 4,259
Segment assets	¥ 119,621	¥ 69,179	¥ 6,769	¥ 195,569	¥ 2,559	¥ 36,429	¥ 234,557
Other							
Depreciation and amortization	3,459	2,876	226	6,561	10	92	6,663
Amortization of goodwill	–	136	–	136	–	–	136
Increase in property, plant, equipment and intangible assets	3,048	1,635	585	5,268	50	485	5,803

Thousands of U.S. dollars

Year ended March 31, 2018	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	**$ 1,014,306**	**$ 723,034**	**$ 58,666**	**$ 1,796,006**	**$ 3,016**	**$ –**	**$ 1,799,022**
Intersegment sales and transfers	**1,077**	**–**	**10,028**	**11,105**	**–**	**(11,105)**	**–**
Total	**1,015,383**	**723,034**	**68,694**	**1,807,111**	**3,016**	**(11,105)**	**1,799,022**
Segment income	**$ 30,966**	**$ 13,695**	**$ 8,145**	**$ 52,806**	**$ 230**	**$ (12,974)**	**$ 40,062**
Segment assets	**$ 1,125,207**	**$ 650,728**	**$ 63,680**	**$ 1,839,615**	**$ 24,070**	**$ 342,665**	**$ 2,206,350**
Other							
Depreciation and amortization	**32,533**	**27,056**	**2,130**	**61,719**	**92**	**864**	**62,675**
Amortization of goodwill	**–**	**1,279**	**–**	**1,279**	**–**	**–**	**1,279**
Increase in property, plant, equipment and intangible assets	**28,669**	**15,377**	**5,501**	**49,547**	**481**	**4,558**	**54,586**

(Note)
1 Others represent the businesses which are not included in any of the reporting segments and consist mainly of the civil engineering materials sales business and the insurance agent business.
2 Intersegment eliminations of ¥18 million ($169 thousand) and corporate expenses of ¥(1,397) million ($(13,142) thousand) not allocated to the reporting segments were included in the ¥(1,379) million ($(12,974) thousand) adjustment for "Segment income (operating income)." Corporate expenses are related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
3 The adjustment amount of segment assets was ¥36,429 million ($342,665 thousand) and related mainly to the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
4 The adjustment amount of depreciation and amortization was ¥92 million ($864 thousand) and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
5 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥485 million ($4,558 thousand) and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
6 Segment income was adjusted against operating income of the consolidated statement of income.

Millions of yen

Year ended March 31, 2017	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 92,525	¥ 46,648	¥ 6,504	¥ 145,677	¥ 314	¥ –	¥ 145,991
Intersegment sales and transfers	176	–	1,265	1,441	–	(1,441)	–
Total	92,701	46,648	7,769	147,118	314	(1,441)	145,991
Segment income	¥ 7,317	¥ 1,031	¥ 1,006	¥ 9,354	¥ (10)	¥ (1,373)	¥ 7,971
Segment assets	¥ 103,185	¥ 62,811	¥ 6,590	¥ 172,586	¥ 2,913	¥ 38,842	¥ 214,341
Other							
Depreciation and amortization	3,367	2,303	216	5,886	13	62	5,961
Increase in property, plant, equipment and intangible assets	5,514	1,279	261	7,054	1	207	7,262

(Note)
1 Others represent the businesses which are not included in any of the reporting segments and consist mainly of the civil engineering materials sales business and the insurance agent business.
2 Intersegment eliminations of ¥(138) million and corporate expenses of ¥(1,234) million not allocated to the reporting segments were included in the ¥(1,373) million adjustment for "Segment income (operating income)." Corporate expenses are related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
3 The adjustment amount of segment assets was ¥44,749 million and related mainly to the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
4 The adjustment amount of depreciation and amortization was ¥62 million and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
5 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥207 million and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
6 Segment income was adjusted against operating income of the consolidated statement of income.

(d) Information related to geographic areas
Information for the geographic areas for the years ended March 31, 2018 and 2017 are outlined as follows:

(1) Net sales

Year ended March 31, 2018 — Millions of yen

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

Year ended March 31, 2018 — Thousands of U.S. dollars

Japan	Overseas				Total
		Vietnam	America	Others	
$ 1,064,660	**$ 734,362**	**$ 559,345**	**$ 106,237**	**$ 68,780**	**$ 1,799,022**

Year ended March 31, 2017 — Millions of yen

Japan	Overseas				Total
		Vietnam	America	Others	
¥ 96,881	¥ 49,110	¥ 45,950	¥ 1,477	¥ 1,683	¥ 145,991

(2) Property, plant and equipment

Year ended March 31, 2018 — Millions of yen

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

Year ended March 31, 2018 — Thousands of U.S. dollars

Japan	Vietnam	America	Total
$511,838	**$188,260**	**$28,223**	**$728,321**

Year ended March 31, 2017 — Millions of yen

Japan	Vietnam	America	Total
¥55,321	¥22,288	¥3,765	¥81,374

(3) Information about principal customers

Year ended March 31, 2018 — Millions of yen

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

Year ended March 31, 2018 — Thousands of U.S. dollars

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	**$207,561**	**Domestic Steel Business**
MM&KENZAI Corporation	**$183,750**	**Domestic Steel Business**

Year ended March 31, 2017 — Millions of yen

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	¥18,424	Domestic Steel Business
MM&KENZAI Corporation	¥15,942	Domestic Steel Business

23 SUBSEQUENT EVENTS

(a) Dividend distribution of surplus

On April 27, 2018, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥1,304	**$12,266**

(Note) Total amount of dividends included ¥2 million ($19 thousand) for the treasury stock owned by the ESOP Trust.

Cash dividends: ¥30 ($0.28) per share.

(b) Business combination through acquisition

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

(1) Business combination

a. Outline of the business combination

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

b. Outline and purpose of the transaction

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

c. Date of acquisition of stock

May 14, 2018

d. Form of reorganization

Equity acquisition with cash consideration

e. Name of the entity after the reorganization

No change

f. Number of shares to be acquired

Shares held before investment	20.0%
Number of shares to be acquired	45.0%
Shares held after investment	65.0%

g. Main reason to decide the acquiring company

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

h. The breakdown of acquisition cost for the acquired company

Fair value of stock held by Kyoei Steel Cash at the date of acquisition	¥2,455 million yen ($23,093 thousand)
Consideration for the acquisition	¥5,523 million yen ($51,952 thousand)
Acquisition cost	¥7,978 million yen ($75,045 thousand)

Adjustments may be made to the acquisition cost.

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

j. Details and amounts of acquisition-related cost

Unable to confirm at present.

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

Unable to confirm at present.

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

Unable to confirm at present.

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of KYOEI STEEL, LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KYOEI STEEL, LTD. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 23 (b) to the consolidated financial statements.

KYOEI STEEL LTD.'s Board of Directors approved a resolution on April 16, 2018 to purchase additional stocks of Vietnam Italy Steel Joint Stock Company (VIS), which is engaged in production and sales of steel in the northern Vietnam. As a result, the Company acquired the stocks of VIS on May 14, 2018, and it became one of the Company's subsidiary companies.

Our opinion is not modified in respect of this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 31, 2018
Osaka, Japan

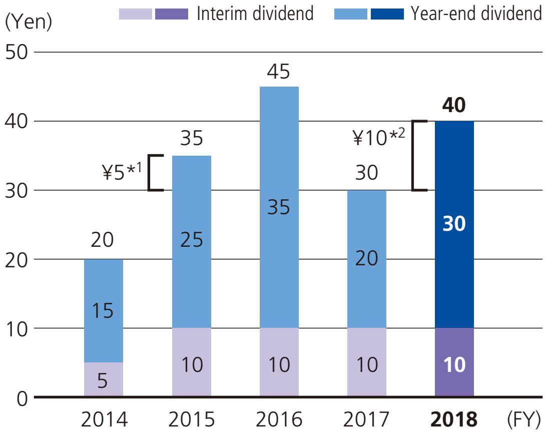
Date of Establishment	August 21, 1947
Common Stock	¥18,516 million
Number of Shares	Authorized: 150,300,000 Issued: 44,898,730
Number of Shareholders	3,866
Number of Employees	2,430 (Consolidated: regular employees)
Stock Listing	Tokyo
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233 Japan

Major Shareholders (As of March 31, 2018)

Name	Number of shares owned (thousands)	Voting rights ratio
Nippon Steel & Sumitomo Metal Corporation	**11,592,932**	**26.68**
Hideichiro Takashima	**4,347,460**	**10.00**
Japan Trustee Services Bank, Ltd. (Air Water Inc. retirement benefit trust account)	**2,600,400**	**5.98**
Akihiko Takashima	**2,233,000**	**5.14**
Mitsui & Co., Ltd.	**1,470,000**	**3.38**
Godo Steel, Ltd.	**1,347,000**	**3.10**
Japan Trustee Services Bank, Ltd. (Trust Account)	**1,115,000**	**2.57**
State Street Bank and Trust Company	**1,067,155**	**2.46**
NORTHERN TRUST CO. (AVFC) RE NVI01	**954,900**	**2.20**
The Master Trust Bank of Japan, Ltd. (Trust Account)	**793,900**	**1.83**

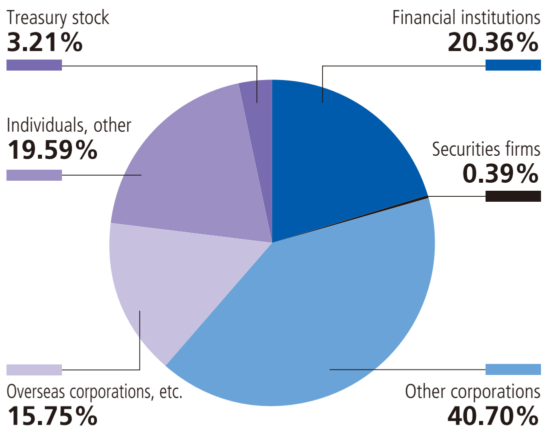
Note: Calculations of share ownership ratios exclude treasury stock (1,439,619 shares). This treasury stock does not include 56,600 shares in the Company held by the Company's employee stock ownership plan.

Dividends per Share

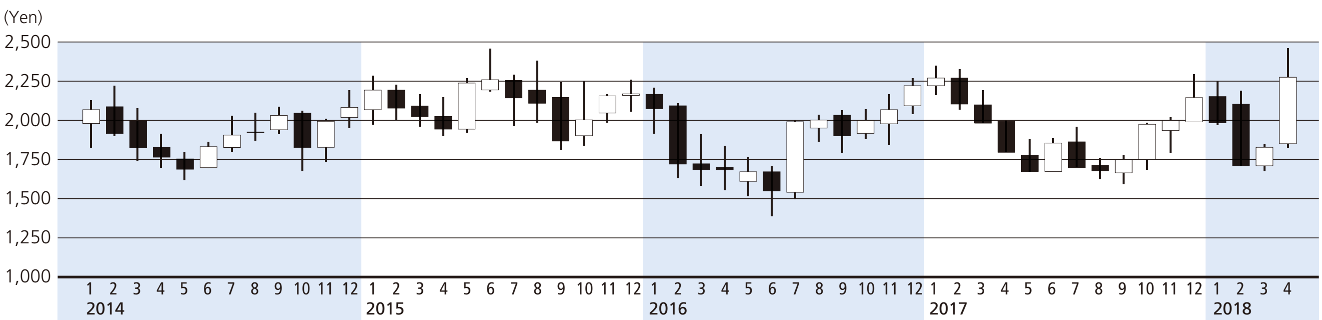


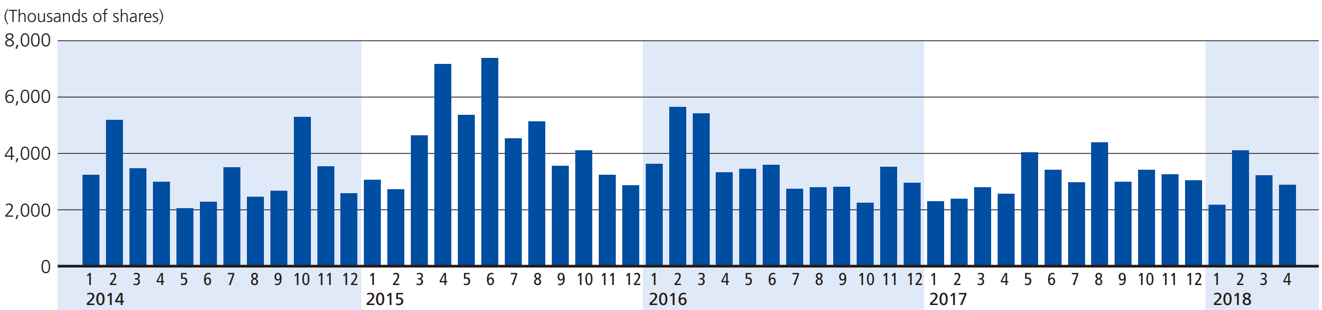
*1 Including a bonus dividend of ¥5 per share
*2 Including a bonus dividend of ¥10 per share

Shareholders by Type



Stock Price and Trading Volume





KYOEI STEEL

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