KYOEI STEEL

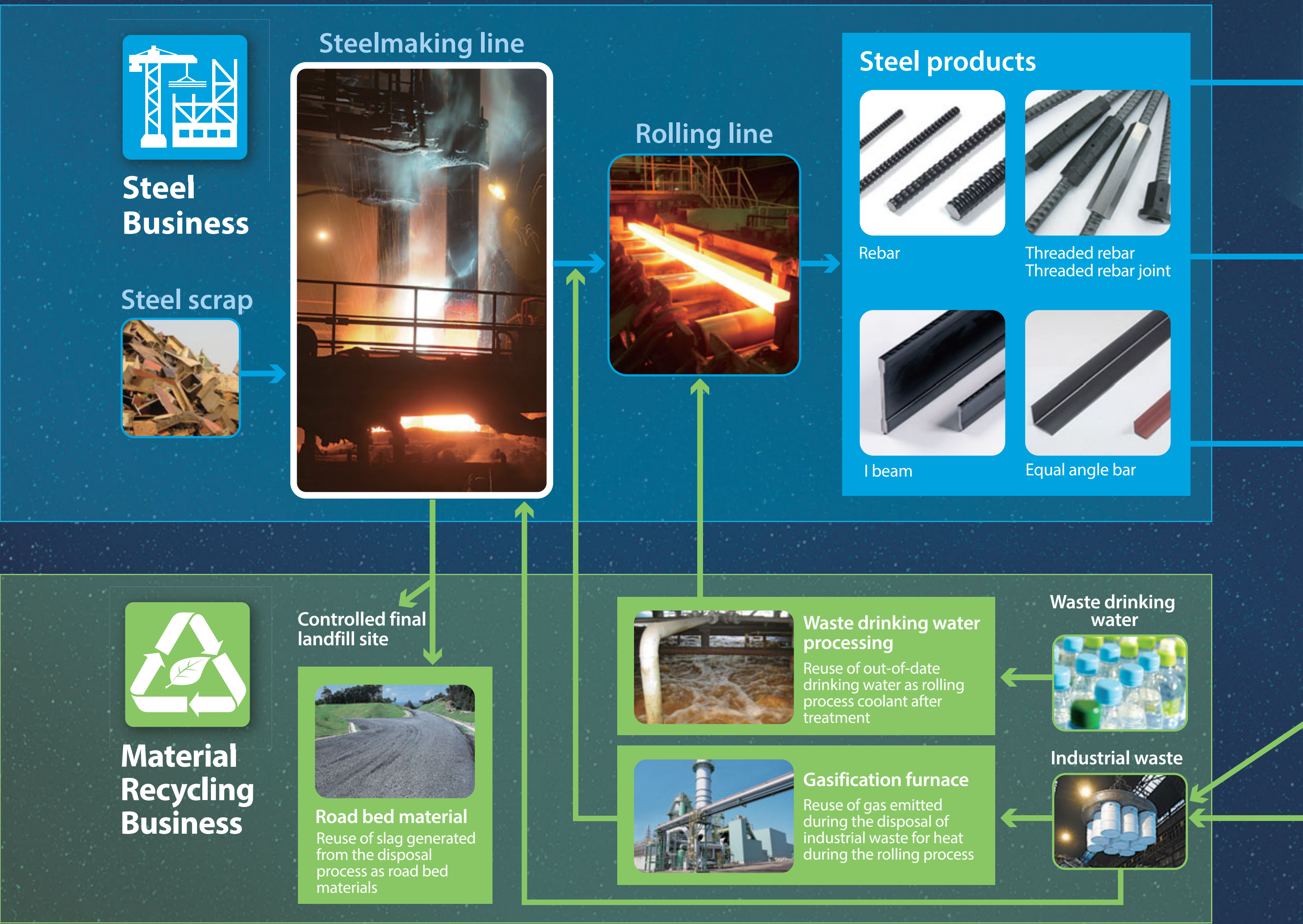
Annual Report 2015

Year Ended March 31, 2015

Code Number: 5440

Profile

We are a steel minimill producing concrete reinforcing bars and other steel products for construction work. We are also developing a material recycling business using electric arc furnaces.



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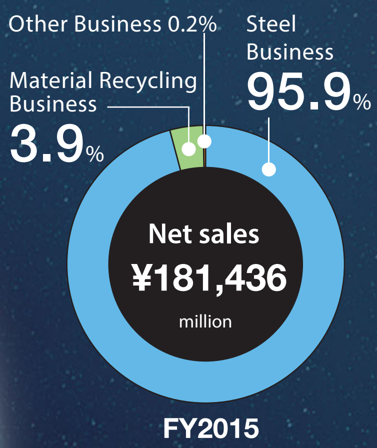


Forward Looking Statements

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.

High-Quality Steel Products Supporting Infrastructure and Industry

Leading Market Share of Steel Rebar in Japan*

The steel business, which melts steel scrap in electric arc furnaces and brings it back to life as new steel products, is the core business of Kyoei Steel. The Company provides a stable supply of high-quality steel products by utilizing its technological capabilities nurtured for over half a century since its founding.

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.

* As of fiscal 2014, including owned subsidiary Kanto Steel

Operating in Vietnam for Over 20 Years

In 1994, Kyoei Steel became the first Japanese steel producer to establish production in Vietnam. High-quality steel manufactured in Vietnam using Japanese management and technologies is highly trusted as a virtually "made in Japan" product.

Steel Business

Main products

- Concrete reinforcing bar
- Threaded rebar/Threaded rebar joint
- Flat bar
- I beam
- Equal angle bar
- Round bar
- Billet (semi-finished product)

Main use

- Steel products for high-rise buildings and condominium
- Bridges (bridge footings)
- Highways
- Shipbuilding materials
- Machinery parts
- Groove covers (grating)

Safe Waste Disposal Using Electric Arc Furnaces

Detoxification Processing with Thousands of Degrees of Heat

Utilizing the heat from electric arc furnaces that reach thousands of degrees Celsius to melt and detoxify potentially infectious medical waste and industrial waste, the material recycling business was the first commercially successful venture of this kind established by a Japanese minimill steel producer, and we have developing it as a business for over 25 years.

Nationwide Medical Waste Disposal

The MESSCUD System for completely detoxifying and melting medical waste is an integrated collection, transport and disposal method developed nationwide.

Material Recycling Business

Main services

- Medical waste disposal
- Industrial waste disposal
- Liquid waste disposal
- Controlled final landfill site

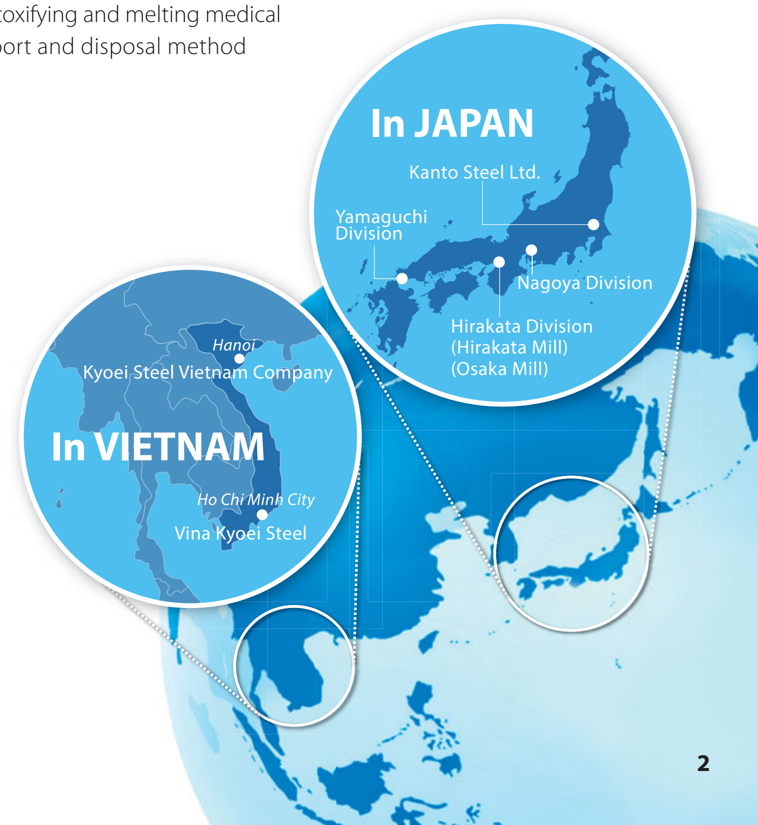
Production and Sales Bases

Meeting industrial needs in Japan's major cities

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

Development of steel business in rapidly growing Vietnam

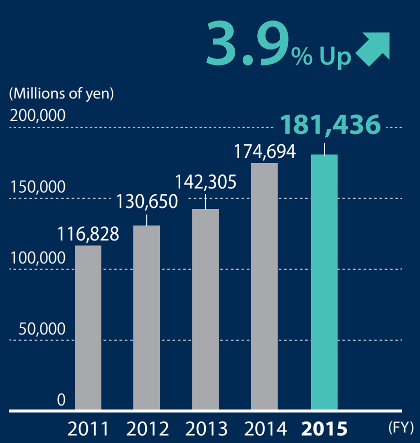
- **Vina Kyoei Steel (VKS)**
  Established in 1994 and located 70 km southeast of Ho Chi Minh City in southern Vietnam. Manufactures rebar, round bar and steel wire. JIS-certified mill, ISO 9001 certification acquired.
- **Kyoei Steel Vietnam Company (KSVC)**
  Established in 2011 about 100 km south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



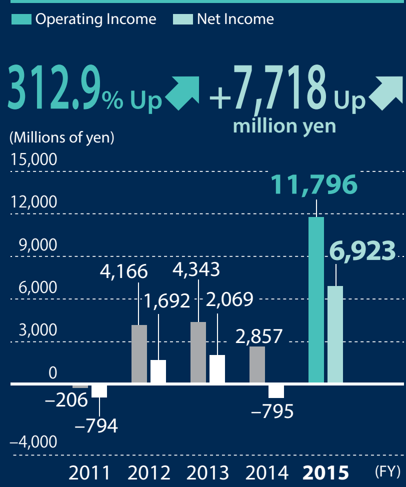
Financial Highlights

KYOEI STEEL LTD. and Consolidated Subsidiaries
The years ended March 31, 2015, 2014, 2013, 2012 and 2011

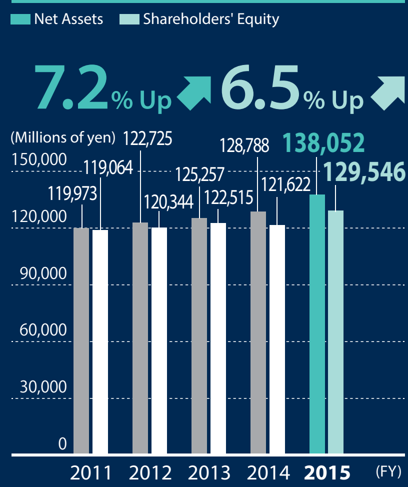
Net Sales



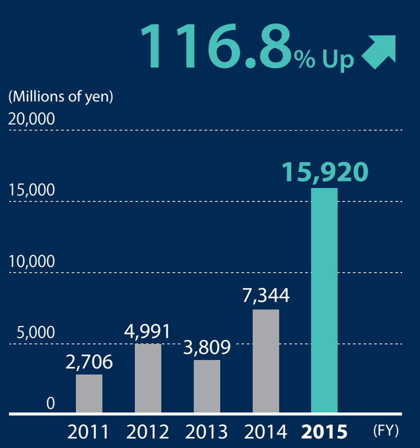
Operating Income & Net Income



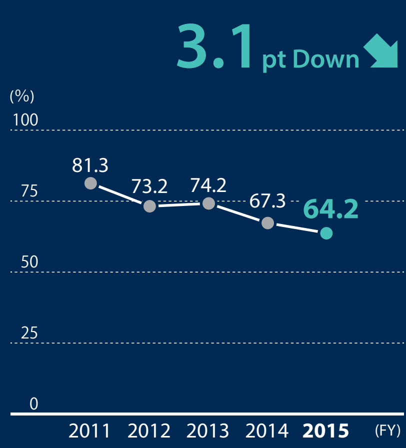
Net Assets & Shareholders' Equity



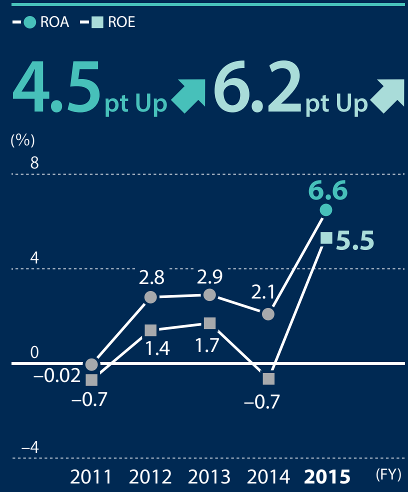
Capital Investment



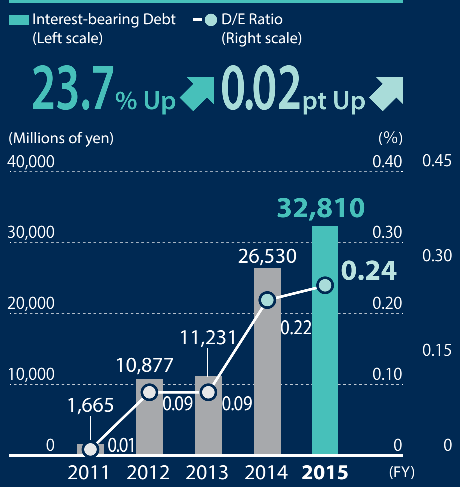
Equity Ratio



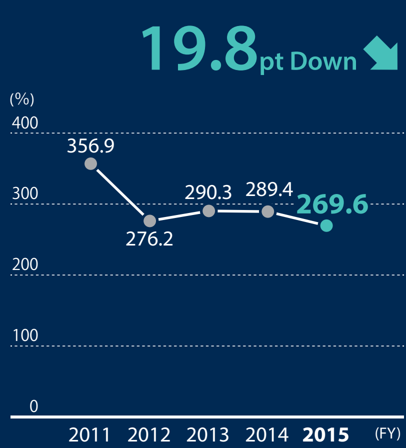
ROA & ROE



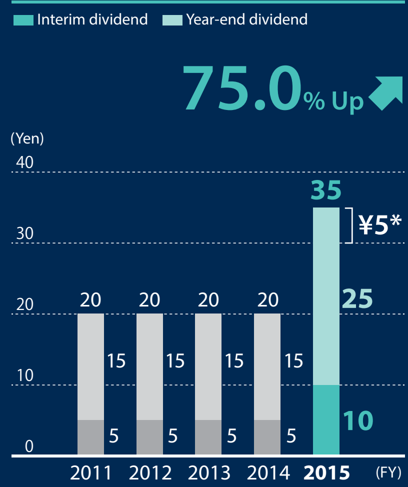
Interest-bearing Debt & D/E Ratio



Current Ratio



Dividends



* including a bonus dividend of ¥5 per share

Strengths of Our Businesses

Steel Business

Operating Production and Sales Bases in Each Major Demand Region

The four main regions for construction activity in Japan are Kanto, Chubu, Kansai and Kyushu, with these regions accounting for 70% of the rebar market.

The Kyoei Steel Group is the only steel minimill company with production and sales bases in each of these regions. We understand the regional differences in demand and conduct our sales strategy accordingly.

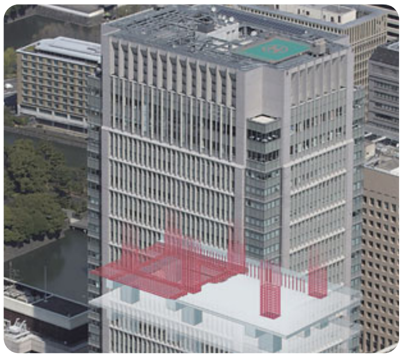
The sharing of technological data among our many bases enables prompt technological improvements.

Using the Vietnam Bases to Respond to Expanding Steel Product Demand in ASEAN Countries

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

At present, we are moving forward with preparations for port facilities in southern Vietnam near VKS to facilitate the import of raw materials and export of steel products to ASEAN countries in an attempt to achieve further growth.

High-Tensile " Tough Threaded Rebars"



Tough Threaded Rebars are high-tensile threaded rebars used for structures built by connecting rebar, including high-rise buildings, roads and railroad support beams.

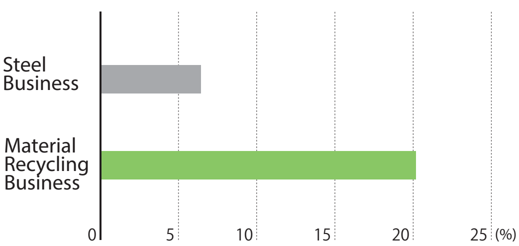
Tough Threaded Rebars are easily bonded, providing higher quality and faster construction, while enabling the creation of even taller high-rises.

Material Recycling Business

Highly Profitable Business Model Using Steel Business Facilities

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

Operating margin by business segment



Metal Recycling Completed In-Mill

The Yamaguchi Division possesses all kinds of equipment for the dismantling, crushing, sorting and compressing of metal resources. Waste materials are completely disposed of using equipment inside the same mill, establishing a safety management system.

Market Trends

Intently Focused on Demand and Industry Movement and Trends in Both Businesses

Steel Business

1 Market Trends in Japan

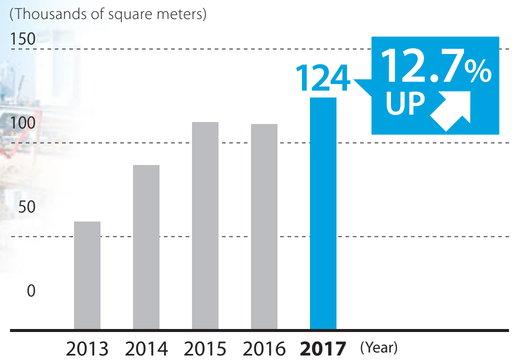
Firm Demand Mainly Due to Reconstruction after the Great East Japan Earthquake

During the past few years, demand for steel products used in construction work in Japan has been robust, driven mainly by reconstruction after the Great East Japan Earthquake, major development projects in the Tokyo metropolitan area, and warehouses and other public non-residential projects.

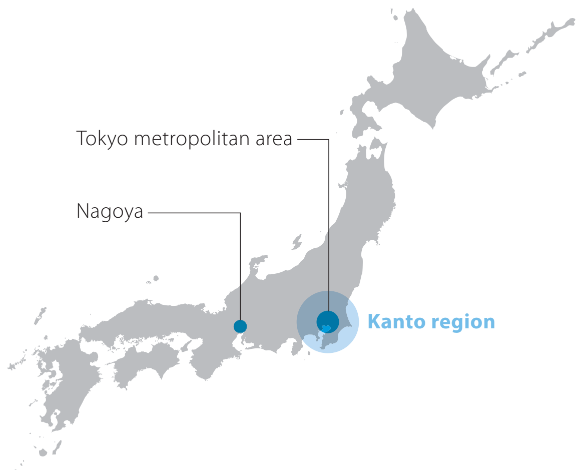
Mounting Expectations Ahead of the Tokyo Olympic and Paralympic Games

Ahead of the Tokyo Olympic and Paralympic Games planned for 2020, preparation and construction plans for various facilities are proceeding in the Kanto region. Accordingly, we expect to see expanding demand for steel products going forward. The Kyoei Steel Group will meet this demand through Group company Kanto Steel and high-value-added steel products supplied by the Nagoya Division.

Supply of Large-Scale Office Buildings in Tokyo's 23 Wards



Source: Mori Building "Survey of Large-Scale Office Building Market in Tokyo's 23 Wards"

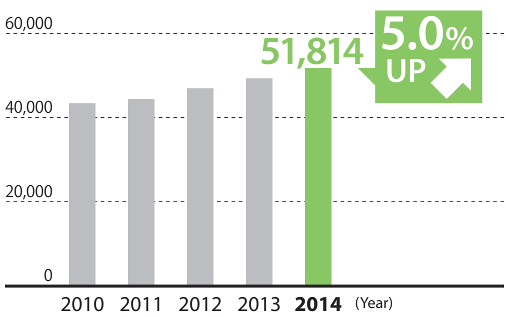


Material Recycling Business

1 Convenience Store Closing and Renovation Demand

The number of convenience stores continues to increase in Japan. The prevalence of store closures and renovations has given rise to the disposal of large amounts of unwanted appliances and equipment. Kyoei Steel has agreements with nearly 60% of the convenience stores in Japan to process and recycle these waste materials.

Number of Convenience Stores



Source: Japan Franchise Association

2 Market Trends in ASEAN Countries

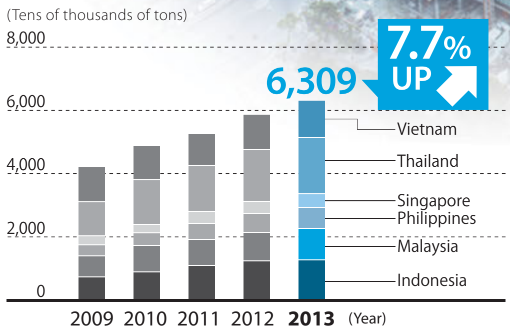
Demand for Steel Products in Vietnam and Other Counties Rising Each Year

In rapidly growing ASEAN countries, ongoing construction of infrastructure and modern buildings is driving demand for steel products. In particular, demand is growing significantly in Vietnam, where active foreign capital investment in line with the China plus one strategy has made the country into a major contender.

Establishment of the ASEAN Economic Community (AEC) a Major Opportunity

Preparations are underway for the establishment of the AEC at the end of 2015. Once established, taxes levied on imports and exports within the region will be eliminated. With a base in Vietnam, capturing demand from other ASEAN countries presents a major opportunity for the Kyoei Steel Group.

Southeast Asia Steel Nominal Consumption

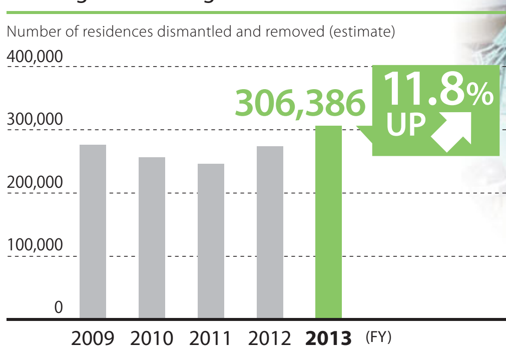


Source: South East Asia Iron & Steel Institute

2 Demand for Dismantling Buildings Built During Japan's Rapid Growth Period

The time has come to rebuild buildings constructed during Japan's rapid growth period, thus dismantlement is on the rise. Many of the materials initially used to construct these buildings are difficult to dispose of and are recognized as a social problem. Kyoei Steel uses electric arc furnaces to safely melt these materials.

Building Dismantling Trends



Source: Statistics based on "Housing and Land Statistical Survey Results" (Japanese Statistics Bureau and Statistics Centre)

We will anticipate market changes and promote the transformation of our business structure.

In the fiscal year ended March 31, 2015, favorable developments drove growth in sales and profits. Maintaining this momentum, we are proactively transforming our business structure by focusing on forward-looking overseas strategies.

Q Please explain the results for the fiscal year ended March 31, 2015.

A Profits grew significantly due to the expanding "metals spread" in the steel business.

During the year, the Japanese economy moved toward a gradual recovery on improved employment conditions and corporate earnings, despite sluggish individual consumption due to the consumption tax hike. In the construction steel market, our core area, demand was stable overall in the first half. However, from the third quarter, a significant drop in steel scrap raw material prices led customers to delay purchases of steel products.

In this management environment, we engaged in production and sales more thoroughly attuned to demand, strove to preserve product prices and focused efforts on maintaining the metal spread (the difference between the product price and steel scrap price), resulting in substantial profit growth in the steel business.

Management Principle

Spirit of Challenge

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

Action Guidelines

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

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

We are practical and realistic.

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

Mitsuhiro Mori
President and Representative Director

Profile

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

In the material recycling business, amid intensifying competition, we focused on acquiring high disposal fee projects for materials that are difficult to dispose of while cultivating new customers, resulting in higher sales and profit that contributed to Group performance.

As a result, the Group's consolidated performance in the fiscal year under review included net sales of ¥181,436 million, up 3.9% over the previous fiscal year. Operating income skyrocketed 312.9%, to ¥11,796 million, while net income was ¥6,923 million, compared to a net loss of ¥795 million in the previous term.

Furthermore, we booked a ¥900 million extraordinary loss at the end of the fiscal year under review in relation to the decision to close the Hirakata Division Osaka Mill, which manufactures and sells billet (semi-finished product). Reflecting changes in the environment, including semi-finished product market contraction in Japan and overseas and an increased supply of semi-finished products to southeast Asia by Chinese steel manufacturers, the decision to close the Osaka Mill was made after careful consideration of future profits in light of ongoing maintenance and replacement investment expenses after more than 50 years in operation. Production will end on March 31, 2016.

Q Please explain priority issues for the fiscal year ending March 31, 2016.

A The most critical management issue is the early launch of the new production line in Vietnam.

In the steel business, to respond to changes in domestic and international markets, we are engaged in transforming our business structure through selection and concentration.

Part of these efforts also include focusing on overseas business. The most critical management issue in the fiscal year ending March 31, 2016, is quickly launching and

Medium- to Long-term Business Plan

1 Prevail in the Japanese minimill market

Become a linchpin company for industry reorganization and consolidation

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

2 Expand the overseas steel business

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

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

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

3 Achieve steady growth in the material recycling business

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

monetizing the new production line at VKS. This should be an extremely big year for the Group, as we aim for further growth driven by overseas business.

As an economically advanced nation, in Japan there are few opportunities to build new steel manufacturing facilities or cultivate human resources. Launching the new production line at VKS provides a huge opportunity to cultivate human resources. We are convinced the new facility will revitalize the Group.

In the fiscal year ending March 31, 2016, we forecast net sales of ¥177.0 billion, operating profit of ¥8.7 billion and net income of ¥5.0 billion. Sales and profits are expected to be lower than the fiscal year under review. In particular, profits are forecast to decline 20% or more due to an anticipated reduction of the metal spread due to rising steel scrap prices in the domestic steel business.

The price of steel scrap has a major impact on performance; significant changes in market conditions in Japan and overseas caused by a variety of factors make accurately forecasting price movement extremely difficult. We will maintain product prices and continue to engage in production and sales thoroughly attuned to demand. We will build a robust business structure capable of withstanding steel scrap price fluctuations through ongoing efforts to reduce manufacturing costs.

Furthermore, there is a possibility of wide-scale thinning out or restructuring in the Japanese steel minimill industry. To survive and continue growing, we aim to be the linchpin of industry restructuring.

Topics

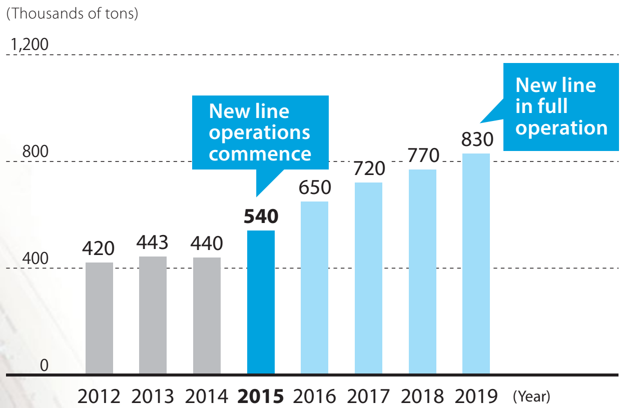
Construction of a New Production Line in Response to Robust Demand in Vietnam

Demand for steel products in Vietnam is expected to increase, mainly due to infrastructure construction.

A new production line consolidating the melting and rolling processes with production capacity of 500,000 tons per year was constructed at VKS in southern Vietnam. In addition to ordinary rebar and wire rod, this line will manufacture high-value-added steel products including high-tensile rebar, threaded rebar, merchant bar and flat bar. We will also meet a wide range of demands with a variety of products and grades of steel. Furthermore, we are constructing port facilities to realize smooth exports to other ASEAN countries from our Vietnam base.

At the same time, the competitive environment has intensified in northern Vietnam, resulting in oversupply that caused us to temporarily halt expansion construction at our base there.

VKS Shipment Volume (Forecast)



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

A In light of our performance, we significantly increased our dividend.

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

In light of our strong performance in the fiscal year under review, we awarded a year-end dividend of ¥25 per share, including the addition of a special dividend of ¥5, which combined with an interim dividend of ¥10, resulted in a substantially increased full-year dividend of ¥35 per share. In the next fiscal year, we are planning an interim dividend of ¥10 and a year-end dividend of ¥20, for a full-year dividend of ¥30 per share.

Q Please explain your medium- to long-term business strategy.

A We will focus on capturing steel demand in Vietnam and high-value-added projects in the material recycling business.

In the core steel business, despite domestic market demand driven by disaster prevention and reduction countermeasures, a variety of infrastructure upgrades and the reconstruction of aging buildings, we expect demand to contract over the long term due to Japan's declining population. Given these conditions, we position expansion of the overseas steel business as a critical growth strategy.

Since 1963, Kyoei Steel has developed business and provided technical guidance in numerous countries and regions. Early on, we recognized the growth potential of Vietnam and established Vina Kyoei Steel (VKS) in southern Vietnam in January 1994. In September 2011, we established Kyoei Steel Vietnam Company (KSVC) in northern Vietnam. At present, both companies manufacture and sell high-quality products.

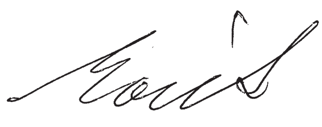
The steel market in Vietnam, which is in a growth phase, is approximately 2/3 the size of the steel market in Japan at present. To meet demand, which is expected to rise as this market grows going forward, we are attempting to increase production capacity at VKS. In 2013, we began construction of a new production line consisting of the steelmaking and rolling processes, with production

capacity of 500,000 tons/year. In March 2015, the rolling line commenced operations and production is well underway. The steelmaking line began operating this June. In terms of sales, two years ago we began focusing on expanding sales channels in anticipation of this line's completion, and have already achieved success with the acquisition of large-scale projects.

Meanwhile at KSVC, differences in demand between the south and north and a changing competitive environment led us to suspend facility upgrade plans we considered in August 2014. At present, we are engaged in reducing costs through existing line improvements.

In the material recycling business, although performance has been solid, the competitive environment has intensified in the field of medical waste disposal and other issues have arisen in recent years. We will attempt to get back on track with new growth by shifting to high-value-added projects involving difficult waste disposal.

July 2015

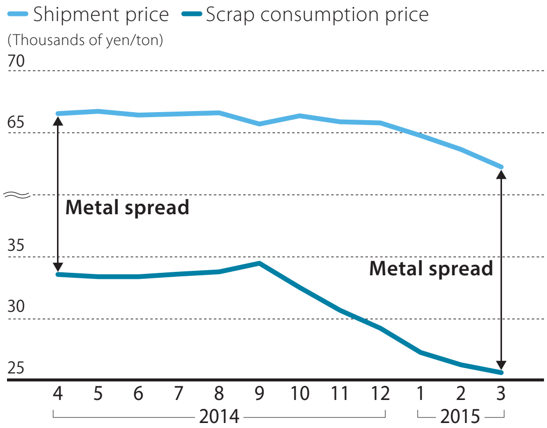


Mitsuhiro Mori
President and Representative Director

Successful Initiatives Resulted in Sales and Income Growth in Both Businesses

Steel Business

Monthly Change of Scrap Consumption Price and Shipment Price



Performance by Segment

In the steel business, a drop in scrap prices caused customers to put off purchases, resulting in a year-on-year decrease of 39,000 tons, or 2.3%, in domestic shipment volume, while product prices were up ¥4,300 per ton.

At the same time, the full-year average consumption price of steel scrap, our main raw material, declined ¥3,900 per ton year on year, resulting in an increase of ¥8,100 per ton in the metal spread (the difference between the product price and steel scrap price), which is the source of our earnings. However, the cost of electricity rose, and imported materials prices were higher due to the weaker yen, resulting in higher costs.

As a result, segment sales were ¥173,981 million, a year-on-year increase of ¥6,190 million, or 3.7%, while operating income rose ¥8,962 million, or 386.5%, to ¥11,281 million.

Initiatives to Expand the Metal Spread in Response to Raw Material Price Fluctuations

The metal spread, which is the difference between the product price and steel scrap price, the raw material of the steel minimill industry, is said to have a major impact on profits.

In the fiscal year under review, particularly in the second half, scrap prices fell, causing us to focus on maintaining sales prices to expand the metal spread. These efforts contributed significantly to earnings.

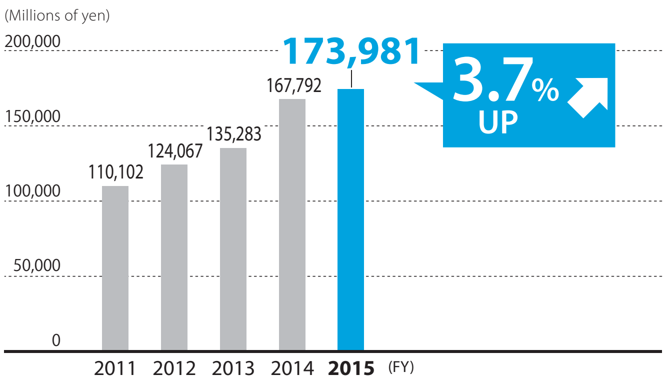
Material Recycling Business

Performance by Segment

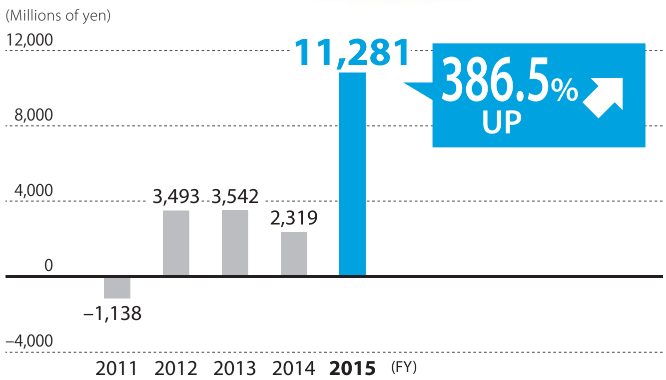
Amid an intensifying competitive environment, the material recycling business focused on acquiring projects involving the disposal of waste that is difficult to treat having high processing unit prices. Efforts to cultivate new customers resulted in segment sales for the term of ¥7,035 million, a year-on-year increase of ¥524 million, or 8.0%, while operating income grew ¥82 million, or 6.1%, to ¥1,421 million.

Steel Business Results

Sales



Operating Income



Topics

Kyoei Steel High-Tensile Threaded Rebar Employed for Japan's Tallest Expressway Support Beams

High-tensile threaded rebar, USD685B D51, developed and manufactured by Kyoei Steel was employed for Japan's tallest 125 meter-high support beams for the Washimi Bridge phase II lane on the Tokai–Hokuriku Expressway.

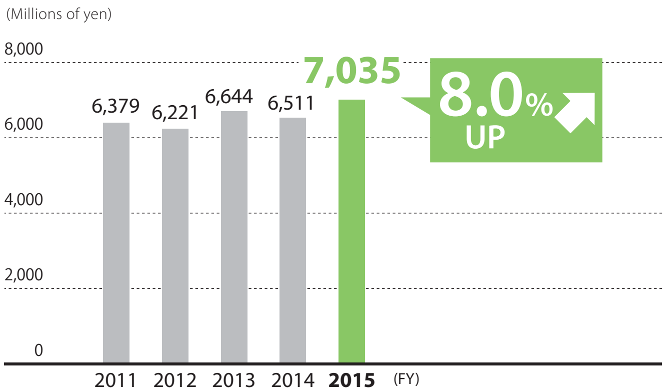
This was the first successfully integrated production, from minimill scrap melting and billet casting to rolling, for a minimill steel producer. Up to now, threaded rebar of this steel grade could only be produced in blast furnaces, but employing a smaller electric arc furnace enabled the quicker delivery of smaller lots.

High-tensile threaded rebar: USD685B D51

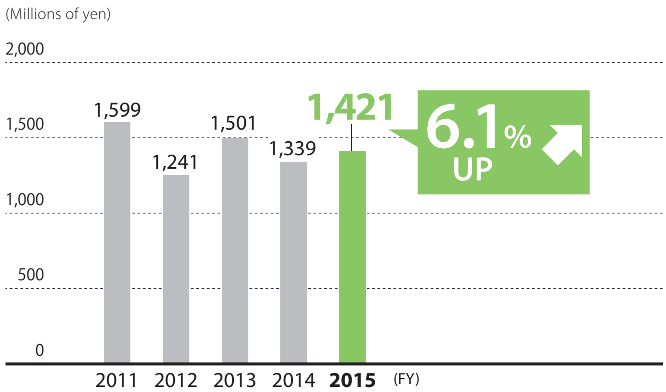
Outlook chart of the Washimi Bridge phase II lane

Material Recycling Business Results

Sales

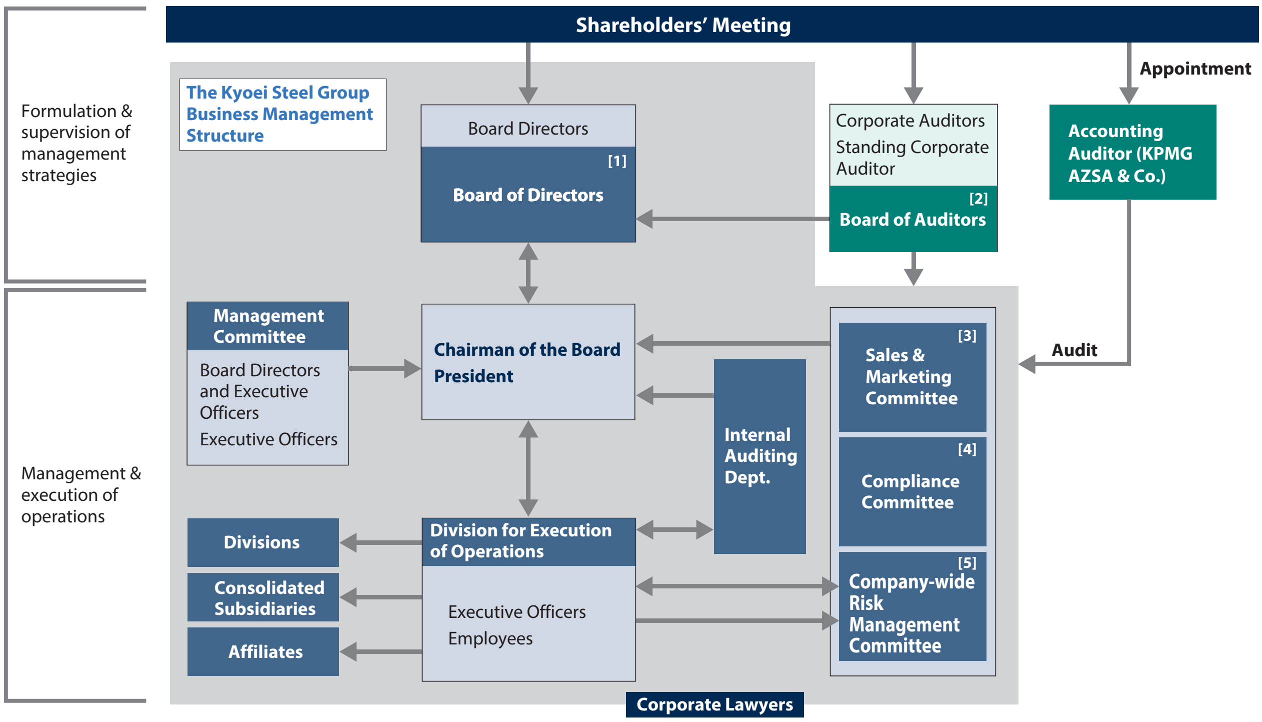


Operating Income



Corporate Governance

Corporate Governance Structure



Highly transparent management is necessary to coexist with and contribute to society as a corporate group, and therefore Kyoei Steel's management goals are as follows: (1) Build a management system capable of prompt and accurate responses to changes in the business environment; (2) Strive for rational decision-making and efficient execution for sufficient fulfillment of the duty of accountability; (3) Disclose information promptly and appropriately to stakeholders; and (4) Seek to pursue sound ethics not only from a legal perspective but also more broadly in accordance with social norms. We believe that one of the important challenges of management is to strengthen and shore up corporate governance so as to realize these goals and make them the focus of our organizational behavior, and we seek to create organizational structures and drive our management measures accordingly.

Board of Directors [1]

Our Board of Directors totals 12 members (with one external director), including two representative directors and 10 board directors. The Board executes important decisions and oversees the execution of business by the board directors and executive officers. In addition to regular monthly meetings, extraordinary meetings of the board are convened when necessary.

Management Conferences are held concerning Board of Directors meeting agenda items or important matters for discussion, adjustment, or decision pertaining to management execution. Management Conferences are attended by executive managing directors, standing auditors, executive officers, and the president of Kanto Steel, as well as others designated by the chairman or president. In addition to being held monthly, extraordinary Management Conferences may be convened when necessary.

Board of Auditors [2]

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

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

Sales & Marketing Committee [3]

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

Compliance Committee [4]

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

Company-wide Risk Management Committee [5]

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

Compliance
– Compliance System

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

Also, when questions arise concerning compliance, executive officers and employees can report to the Compliance Committee or internally to the Compliance Consultation Desk, which has been established for that purpose.

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

– Efforts Concerning Affiliates

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

– Elimination of Antisocial Forces

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

External Directors / External Auditors

Kyoei Steel has one external board director and two external auditors.

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

External board director Mutsuo Tahara began as a lawyer and was a justice of the Supreme Court of Japan. We appointed him based on our expectation that he will make use of his abundant experience and legal knowledge to provide objective management oversight and advice.

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

External auditor Akira Kotani has rich experience as a banker, and we have appointed him based upon our judgment that as a specialist his auditing will strengthen and improve our corporate group's auditing structure.

Method for Deciding Executive Pay and Executive Pay Amounts

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

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

Risk Management

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

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

Business and Other Risks

(1) Relationship with Nippon Steel & Sumitomo Metal Corporation

As of June 23, 2015, Nippon Steel & Sumitomo Metal Corporation (NSSMC) owned 25.8% of the outstanding shares in Kyoei Steel (26.7% of the voting rights) and is the Company's largest shareholder. Kyoei Steel is an equity-method affiliate of NSSMC. Our company operates autonomously and conducts business independently, and intends to continue doing so in the future; provided, however, that as the top shareholder in our company, NSSMC is in a position to influence our operations by exercising its voting rights, and the interests of NSSMC may not necessarily coincide with those of the Company's other shareholders.

(2) Selling price fluctuations caused by competition

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

(3) Fluctuations in raw materials prices

Steel production is growing in the countries of Asia, which have experienced rapid economic growth in recent years, with consumption of steel scrap also trending upward. At the same time, semi-finished product exports from China to neighboring Asian countries has increased, significantly lowering steel scrap prices. These factors can cause the supply/demand environment for steel scrap, which is the principal raw material of our main products, to experience severe fluctuations in materials prices that may influence the results of our Group.

(4) Effects of power supply issues

All nuclear power plants in Japan are currently out of operation as of June 23, 2015. This has resulted in Tokyo Electric Power, Kansai Electric Power, Chubu Electric Power, and other power companies raising their rates, resulting in a significant expansion of the cost burden of electrical power. Despite a temporary drop in the unit price adjusted for fuel costs, which is determined by in response to the cost of thermal power plant fuel (liquefied natural gas (LNG) and crude oil), going forward fluctuations in energy prices and exchange rates may be associated with further rises in electricity rates.

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

As a result, electricity rates and the power supply situation may influence the results of our Group.

(5) Effects of sharply higher energy prices

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

(6) Country risk regarding our subsidiaries

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

Board Directors and Corporate Auditors

Chairman and Representative Director

Hideichiro Takashima

President and Representative Director

Mitsuhiro Mori

Standing Corporate Auditor

Shuji Ichihara

Corporate Auditors

Makoto Nakaoka (External Auditor)

Akira Kotani (External Auditor)

Board Directors

Yasuyuki Hirotomi
Senior Vice President

Nobuyuki Fukada
Senior Executive Managing Officer
Production Planning & Coordination

Koji Kawasaki
Executive Managing Officer
Accounting & Financing Information Systems

Toshimasa Zako
Executive Managing Officer
Corporate Planning,
Planning & Administration Material
Recycling Business,
General Manager of Hirakata Division

Naoyoshi Goroku
Executive Managing Officer
Marketing Planning & Coordination

Kazuyoshi Ota
Executive Managing Officer
General Manager of Yamaguchi Division

Haruo Hiraiwa
Executive Managing Officer
General Manager of Nagoya Division

Kenji Ishihara
Executive Officer
Compliance, Human Resources & General Affairs

Yoshio Hata
Executive Officer
Deputy General Manager of Nagoya Division

Mutsuo Tahara (External Director)
Special Counsel of Habataki Law Office
External Director of Nidec Corporation

Haruo Hiraiwa Naoyoshi Goroku Koji Kawasaki Yasuyuki Hirotomi Nobuyuki Fukada Toshimasa Zako Kazuyoshi Ota Shuji Ichihara

Hideichiro Takashima Mitsuhiro Mori

FINANCIAL SECTION

Consolidated Five-Year Summary

For the years ended March 31, 2011, 2012, 2013, 2014 and 2015

	2011	2012	2013	2014	**2015**
Product shipments					Thousands of tons
Finished products	1,462	1,549	1,603	1,720	**1,680**
Billet (semi-finished products)	243	297	303	247	**280**
For the year:					Millions of yen
Net sales	¥116,828	¥130,650	¥142,305	¥174,694	**¥181,436**
Gross profit	8,124	12,780	13,256	12,293	**21,900**
Operating income (loss)	(206)	4,166	4,343	2,857	**11,796**
Net income (loss) before income taxes	(386)	3,151	3,738	9	**10,730**
Net income (loss)	(794)	1,692	2,069	(795)	**6,923**
Research and development expenses	43	29	95	188	**231**
Depreciation and amortization	4,806	4,644	4,254	4,232	**4,147**
Capital expenditures	2,706	4,991	3,809	7,344	**15,920**
Per share amounts (yen):					
Net income (loss) - basic	(18.22)	38.89	47.59	(18.28)	**159.30**
Net income (loss) - diluted	–	–	–	–	**–**
Cash dividends applicable to the year	20.00	20.00	20.00	20.00	**35.00**
At year-end:					
Total assets	¥146,453	¥164,486	¥165,129	¥180,771	**¥201,760**
Working capital	51,265	61,950	63,811	79,699	**81,872**
Interest bearing debt	1,665	10,877	11,231	26,530	**32,810**
Net assets	119,973	122,725	125,257	128,788	**138,052**
Shareholders' equity*	119,064	120,344	122,515	121,622	**129,546**
Ratios:					
Return on equity (%)	(0.7)	1.4	1.7	(0.7)	**5.5**
Return on total assets (%)	(0.0)	2.8	2.9	2.1	**6.6**
Debt to equity ratio (times)	0.01	0.09	0.09	0.22	**0.24**
Shareholders' equity* to total assets (%)	81.3	73.2	74.2	67.3	**64.2**
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	**44,899**
Number of employees	1,077	1,299	1,327	1,611	**1,741**
Stock price (yen):					
High	¥2,082	¥1,692	¥1,781	¥2,220	**¥2,286**
Low	¥876	¥1,011	¥1,105	¥1,372	**¥1,618**

*Shareholders' equity = Net assets – Minority interests

Financial Review (Consolidated)

1. Consolidated Operating Results

Analysis of Operating Results

During the consolidated fiscal year under review, ended March 31, 2015, the Japanese economy maintained a course of modest recovery due to such factors as improved corporate earnings, despite some lingering weaknesses, such as a backlash from the surge in personal consumption ahead of the consumption tax hike.

In the construction steel market, the main demand sector for KYOEI STEEL, LTD. ("the Company") and its consolidated subsidiaries ("the Group"), overall product demand was lackluster through the second quarter. From the third quarter, buyers showed signs of delaying purchases of steel as prices on steel scrap, the main raw material, plummeted.

Against this backdrop, the Group continued its efforts to bring production and sales in line with demand and maintain product prices in order to ensure earnings by securing the metal spread (price difference between product price and steel scrap price).

The Company resolved to close the Hirakata Division Osaka Mill, which has continued to produce in the production of billets, semi-finished goods, in March 2016. This decision was in response to the difficult conditions in the Japanese and overseas markets for billets.

As a result, the Group reported consolidated net sales of ¥181,436 million (U.S.$1,508,447 thousand), up ¥6,741 million (U.S.$56,044 thousand), or 3.9%, from the preceding fiscal year. In terms of income, consolidated operating income surged ¥8,939 million (U.S.$74,318 thousand), or 312.9%, to ¥11,796 million (U.S.$98,071 thousand), due to such factors as a major increase in the metal spread in the Company's steel business. Consolidated net income rose ¥7,718 million (U.S.$64,167 thousand), to ¥6,923 million (U.S.$57,557 thousand), compared with a net loss of ¥795 million in the previous fiscal year, despite the posting of loss on liquidation of business at the end of the fiscal year in relation to the decision to close the Osaka Mill.

Performance results by business segment were as follows.

(1) Steel Business

In the steel business segment, although domestic product shipments fell by 39,000 tons, or 2.3%, from the previous fiscal year, as buyers delayed purchases in response to falling prices on steel scrap, product prices rose by ¥4.3 thousand (U.S.$35.75) per ton. Meanwhile, the annual average consumption unit price for scrap steel, the main raw material, fell by ¥3.9 thousand (U.S.$32.42) per ton, widening the metal spread—the Group's source of earnings—by ¥8.1 thousand (U.S.$67.34) per ton. Nevertheless, costs increased due to higher electricity prices and the rising cost of imported materials resulting from a weak yen.

Owing to these factors, net sales for the segment were up ¥6,190 million (U.S.$51,463 thousand), or 3.7%, to ¥173,981 million (U.S.$1,446,467 thousand), and operating income increased by ¥8,962 million (U.S.$74,509 thousand), or 386.5%, to ¥11,281 million (U.S.$93,789 thousand).

(2) Material Recycling Business

In the material recycling business segment, amid stringent competition we focused on acquiring orders for difficult-to-process waste, for which unit processing prices are high. By cultivating new customers, we succeeded in boosting segment net sales ¥524 million (U.S.$4,357 thousand), or 8.0%, to ¥7,035 million (U.S.$58,489 thousand). Operating income rose by ¥82 million (U.S.$682 thousand), or 6.1%, to ¥1,421 million (U.S.$11,814 thousand).

(3) Other Business

The other business segment consists of sales of civil engineering materials through a subsidiary and the operation of insurance dealers. Net sales for this segment rose by ¥28 million (U.S.$233 thousand) year on year, or 7.2%, to ¥420 million (U.S.$3,492 thousand), but operating income decreased by ¥19 million (U.S.$158 thousand), or 51.7%, to ¥18 million (U.S.$150 thousand).

2. Analysis of Financial Situation

i. Status of Consolidated Assets, Liabilities and Net Assets

(1) Assets

Total current assets amounted to ¥108,666 million (U.S.$903,442 thousand) as of March 31, 2015, up ¥7,698 million (U.S.$64,001 thousand), or 7.6%, from the previous fiscal year. This rise was attributable to a ¥13,000 million (U.S.$108,081 thousand) increase in marketable securities and a ¥695 million (U.S.$5,778 thousand) rise in notes and accounts receivable, while cash and time deposits fell by ¥6,845 million (U.S.$56,909 thousand).

Noncurrent assets rose by ¥13,291 million (U.S.$110,500 thousand), or 16.7%, to ¥93,094 million (U.S.$773,977 thousand) at fiscal year-end. This growth was due to a ¥12,036 million (U.S.$100,067 thousand) increase in construction in progress and a ¥739 million (U.S.$6,144 thousand) expansion in investments in securities and unconsolidated subsidiaries and affiliated companies, while land fell by ¥245 million (U.S.$2,037 thousand).

As a result, total assets as of March 31, 2015, totaled ¥201,760 million (U.S.$1,677,419 thousand), up ¥20,989 million (U.S.$174,501 thousand), or 11.6%, from March 31, 2014.

(2) Liabilities

Total current liabilities increased by ¥5,413 million (U.S.$45,003 thousand), or 15.5%, to ¥40,304 million (U.S.$335,085 thousand) at the end of the fiscal year. This increase was mainly the result of a ¥3,423 million (U.S.$28,459 thousand) increase in income taxes payable and a ¥1,130 million (U.S.$9,395 thousand) rise in the current portion of long-term debt due within one year.

Total long-term liabilities increased by ¥6,312 million (U.S.$52,478 thousand), or 36.9%, to ¥23,404 million (U.S.$194,579 thousand). A ¥6,395 million (U.S.$53,168 thousand) increase in long-term debt was the primary reason.

Total liabilities, consequently, increased by ¥11,725 million (U.S.$97,481 thousand), or 22.6% during the year, to ¥63,708 million (U.S.$529,664 thousand).

(3) Net Assets

Total net assets amounted to ¥138,052 million (U.S.$1,147,755 thousand) as of March 31, 2015, up ¥9,264 million (U.S.$77,020 thousand), or 7.2%, from the previous fiscal year. This rise was primarily attributable to net income of ¥6,923 million (U.S.$57,557 thousand) and cash dividends paid of ¥1,086 million (U.S.$9,029 thousand).

As a result, net assets per share rose by ¥182.31 (U.S.$1.52) year on year, to ¥2,980.84 (U.S.$24.78). The ratio of shareholders' equity to total assets decreased from 67.3% to 64.2%.

ii. Cash Flow Status

The ending balance of cash and cash equivalents on March 31, 2015, was ¥34,982 million (U.S.$290,838 thousand), up ¥1,111 million (U.S.$9,237 thousand) from March 31, 2014. Below is a summary of the cash flows for the fiscal year.

(1) Cash Flows from Operating Activities

Net cash provided by operating activities came to ¥16,665 million (U.S.$138,552 thousand). Major components of cash flows were ¥10,730 million (U.S.$89,209 thousand) from net income before income taxes, ¥4,147 million (U.S.$34,478 thousand) from depreciation and amortization, ¥1,433 million (U.S.$11,914 thousand) from an increase in accrued consumption taxes, ¥1,176 million (U.S.$9,777 thousand) in income taxes paid and a ¥1,071 million (U.S.$8,904 thousand) decrease in trade notes and accounts payable.

(2) Cash Flows from Investing Activities

Net cash used in investing activities was ¥18,934 million (U.S.$157,416 thousand). Primary uses of cash were ¥13,654 million (U.S.$113,518 thousand) in payment for purchase of property, plant and equipment and ¥5,000 million (U.S.$41,570 thousand) in payment for acquisition of marketable securities.

(3) Cash Flows from Financing Activities

Net cash provided by financing activities was ¥1,985 million (U.S.$16,503 thousand). Major components of cash flows were ¥6,415 million (U.S.$53,334 thousand) in proceeds from long-term debt, a ¥3,014 million (U.S.$25,058 thousand) net decrease in short-term loans payable and cash dividends paid of ¥1,086 million (U.S.$9,029 thousand).

3. Dividends

It is our fundamental principle to reward our shareholders by increasing corporate value. Accordingly, we endeavor to distribute dividends rationally, while ensuring appropriate internal reserves for business growth and enhancing the corporate structure from a long-term perspective.

In celebration of improved operating performance and to commemorate the 20th anniversary of establishment of Vina Kyoei Steel Ltd. in southern Vietnam and that company's completion of facility enhancements, we increased the year-end dividend by ¥5 from our forecast of ¥15 per share and added a bonus dividend of ¥5 per share. Therefore, added to an interim dividend of ¥10 per share, total dividends for the year were ¥35 per share.

Consolidated Balance Sheets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
ASSETS			
Current assets:			
Cash and time deposits	**¥ 21,179**	¥ 28,024	**$ 176,081**
Notes and accounts receivable	**37,848**	37,153	**314,666**
Marketable securities (Note 17)	**19,600**	6,600	**162,953**
Inventories (Note 5)	**26,707**	26,498	**222,040**
Deferred tax assets (Note 10)	**752**	432	**6,252**
Other current assets	**2,724**	2,382	**22,647**
Allowance for doubtful accounts	**(144)**	(121)	**(1,197)**
Total current assets	**108,666**	100,968	**903,442**
Property, plant and equipment:			
Buildings and structures (Note 7)	**38,902**	38,010	**323,429**
Machinery and equipment (Note 7)	**92,984**	90,963	**773,063**
Land (Note 7)	**25,186**	25,431	**209,395**
Construction in progress	**17,500**	5,464	**145,494**
Other (Note 7)	**2,274**	2,157	**18,906**
Total	**176,846**	162,025	**1,470,287**
Accumulated depreciation	**(100,213)**	(96,971)	**(833,164)**
Net property, plant and equipment	**76,633**	65,054	**637,123**
Investments and other assets:			
Investments in securities (Note 17)	**7,337**	7,021	**60,999**
Unconsolidated subsidiaries and affiliated companies (Note 17)	**4,356**	3,933	**36,215**
Investments in long-term loans receivable	**503**	190	**4,182**
Net defined benefit asset (Note 13)	**967**	444	**8,040**
Intangible assets, net	**1,153**	1,167	**9,586**
Deferred tax assets (Note 10)	**699**	502	**5,811**
Other noncurrent assets	**1,517**	1,567	**12,612**
Allowance for doubtful accounts	**(71)**	(75)	**(590)**
Total investments and other assets	**16,461**	14,749	**136,855**
Total assets	**¥201,760**	¥180,771	**$1,677,420**

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)
	2015	2014	**2015**
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	**¥ 12,388**	¥ 13,122	**$ 102,993**
Bank loans (Note 7)	**11,439**	12,681	**95,103**
Long-term debt due within one year (Note 7)	**2,071**	941	**17,218**
Income taxes payable	**4,051**	628	**33,680**
Accrued employees' bonuses	**698**	645	**5,803**
Accrued directors' bonuses	**139**	9	**1,156**
Other current liabilities	**9,518**	6,865	**79,132**
Total current liabilities	**40,304**	34,891	**335,085**
Long-term liabilities:			
Long-term debt (Note 7)	**19,296**	12,901	**160,426**
Deferred tax liabilities (Note10)	**689**	649	**5,728**
Deferred tax liabilities for revaluation	**2,731**	3,119	**22,705**
Accrued directors' severance and retirement benefits	**21**	19	**175**
Provision for loss on business liquidation (Note 19)	**298**	—	**2,478**
Net defined benefit liability (Note 13)	**57**	64	**474**
Other long-term liabilities	**312**	340	**2,594**
Total long-term liabilities	**23,404**	17,092	**194,580**
Total liabilities:	**63,708**	51,983	**529,665**
Contingent liabilities (Note 6)			
Net assets (Note 9)			
Shareholders' equity			
Common stock	**18,516**	18,516	**153,941**
Authorized – 150,300,000 shares in 2015			
150,300,000 shares in 2014			
Issued – 44,898,730 shares in 2015			
44,898,730 shares in 2014			
Capital surplus	**21,493**	21,493	**178,691**
Retained earnings	**81,599**	75,673	**678,409**
Treasury stock	**(1,699)**	(1,699)	**(14,125)**
Total shareholders' equity	**119,909**	113,983	**996,916**
Accumulated other comprehensive income			
Valuation difference on available for sales securities	**2,259**	1,700	**18,781**
Revaluation reserve for land	**4,835**	4,735	**40,198**
Foreign currency translation adjustments	**2,161**	1,205	**17,966**
Remeasurement of defined benefit plans	**382**	(1)	**3,176**
Total accumulated other comprehensive income	**9,637**	7,639	**80,121**
Minority interests	**8,506**	7,166	**70,718**
Total net assets	**138,052**	128,788	**1,147,755**
Total liabilities and net assets	**¥201,760**	¥180,771	**$1,677,420**

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

Consolidated Statements of Operations

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Net sales	**¥181,436**	¥174,694	**$1,508,447**
Cost of sales	**159,536**	162,401	**1,326,372**
Gross profit	**21,900**	12,293	**182,075**
Selling, general and administrative expenses (Note 8)	**10,104**	9,436	**84,004**
Operating income	**11,796**	2,857	**98,071**
Other income (expenses):			
Interest income	**641**	558	**5,329**
Dividend income	**176**	176	**1,463**
Interest expense	**(429)**	(461)	**(3,567)**
Equity in net income (loss) of unconsolidated subsidiaries and affiliates	**417**	(301)	**3,467**
Foreign exchange gains (losses)	**(203)**	112	**(1,688)**
Gain on sale and disposal of property, plant and equipment	**32**	35	**266**
Loss on sale and disposal of property, plant and equipment	**(891)**	(476)	**(7,408)**
Impairment loss on fixed assets (Note 18)	**(96)**	(2,651)	**(798)**
Gain on sales of investments in securities (Note 17)	**247**	—	**2,054**
Loss on liquidation of business (Note 19)	**(901)**	—	**(7,491)**
Cash sales discount	**(52)**	(44)	**(432)**
Other, net	**(7)**	204	**(58)**
Other income (expenses), net	**(1,066)**	(2,848)	**(8,863)**
Net income before income taxes	**10,730**	9	**89,208**
Income taxes (Note 10)			
Current	**4,565**	997	**37,953**
Deferred	**(819)**	(577)	**(6,809)**
Total income taxes	**3,746**	420	**31,144**
Income (loss) before minority interests	**6,984**	(411)	**58,064**
Minority interests in net income of consolidated subsidiaries	**61**	384	**507**
Net income (loss)	**¥ 6,923**	¥ (795)	**$ 57,557**

	yen		U.S. dollars (Note 1)
Amounts per share (Note 14)	**2015**	2014	**2015**
Net income (loss)			
Basic	**¥ 159.30**	¥ (18.28)	**$ 1.32**
Diluted*	—	—	—
Cash dividends applicable to the year	**¥ 35.00**	¥ 20.00	**$ 0.29**

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

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

Consolidated Statements of Comprehensive Income

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Income (loss) before minority interests	**¥ 6,984**	¥ (411)	**$58,064**
Other comprehensive income			
Valuation difference on available for sales securities	**559**	376	**4,647**
Deferred gains and losses on hedges	—	(117)	—
Revaluation reserve for land	**286**	—	**2,378**
Foreign currency translation adjustments	**1,961**	1,875	**16,305**
Remeasurement of defined benefit plans	**383**	—	**3,184**
Other comprehensive income, net (Note 20)	**3,189**	2,134	**26,514**
Comprehensive income	**¥10,173**	¥1,723	**$84,578**
Breakdown of comprehensive income:			
Comprehensive income attributable to owners of the parent	**¥ 9,106**	¥ 426	**$75,707**
Comprehensive income attributable to minority interests	**¥ 1,067**	¥1,297	**$ 8,871**

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

Consolidated Statements of Changes in Net Assets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Shareholders' equity			
Common stock			
Balance at the beginning of current period	**¥ 18,516**	¥ 18,516	**$153,941**
Balance at the end of current period	**18,516**	18,516	**153,941**
Capital surplus			
Balance at the beginning of current period	**21,493**	21,493	**178,691**
Balance at the end of current period	**21,493**	21,493	**178,691**
Retained earnings			
Balance at the beginning of current period	**75,673**	77,300	**629,140**
Cumulative effects of changes in accounting policies	**(96)**	—	**(798)**
Restated balance at the beginning of current period	**75,577**	—	**628,342**
Changes during the period			
Cash dividends	**(1,086)**	(869)	**(9,029)**
Net income (loss)	**6,923**	(795)	**57,557**
Reversal of revaluation reserve for land	**185**	594	**1,539**
Changes of scope of consolidation	—	(557)	—
Total changes during the period	**6,022**	(1,627)	**50,067**
Balance at the end of current period	**81,599**	75,673	**678,409**
Treasury stock			
Balance at the beginning of current period	**(1,699)**	(1,699)	**(14,125)**
Changes during the period			
Purchase of treasury stock	**(0)**	(0)	**(0)**
Total changes during the period	**(0)**	(0)	**(0)**
Balance at the end of current period	**(1,699)**	(1,699)	**(14,125)**
Total shareholders' equity			
Balance at the beginning of current period	**113,983**	115,610	**947,647**
Cumulative effects of changes in accounting policies	**(96)**	—	**(798)**
Restated balance at the beginning of current period	**113,887**	115,610	**946,849**
Changes during the period			
Cash dividends	**(1,086)**	(869)	**(9,029)**
Net income	**6,923**	(795)	**57,557**
Reversal of revaluation reserve for land	**185**	594	**1,539**
Purchase of treasury stock	**(0)**	(0)	**(0)**
Changes of scope of consolidation	—	(557)	—
Total changes during the period	**6,022**	(1,627)	**50,067**
Balance at the end of current period	**¥119,909**	¥113,983	**$996,916**

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)
	2015	2014	**2015**
Accumulated other comprehensive income			
Valuation difference on available for sales securities			
Balance at the beginning of current period	**¥ 1,700**	¥ 1,324	**$ 14,134**
Changes during the period			
Net changes in items other than shareholders' equity	**559**	376	**4,647**
Total changes during the period	**559**	376	**4,647**
Balance at the end of current period	**2,259**	1,700	**18,781**
Deferred gains and losses on hedges			
Balance at the beginning of current period	—	117	—
Change during the period			
Net changes in items other than shareholders' equity	—	(117)	—
Total changes during the period	—	(117)	—
Balance at the end of current period	—	—	—
Revaluation reserve for land			
Balance at the beginning of current period	**4,735**	5,329	**39,367**
Changes during the period			
Net changes in items other than shareholders' equity	**100**	(594)	**831**
Total changes during the period	**100**	(594)	**831**
Balance at the end of current period	**4,835**	4,735	**40,198**
Foreign currency translation adjustments			
Balance at the beginning of current period	**1,205**	135	**10,018**
Changes during the period			
Net changes in items other than shareholders' equity	**956**	1,070	**7,948**
Total changes during the period	**956**	1,070	**7,948**
Balance at the end of current period	**2,161**	1,205	**17,966**
Remeasurement of defined benefit plans			
Balance at the beginning of current period	**(1)**	—	**(8)**
Changes during the period			
Net changes in items other than shareholders' equity	**383**	(1)	**3,184**
Total changes during the period	**383**	(1)	**3,184**
Balance at the end of current period	**382**	(1)	**3,176**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**7,639**	6,905	**63,510**
Changes during the period			
Net changes in items other than shareholders' equity	**1,998**	734	**16,611**
Total changes during the period	**1,998**	734	**16,611**
Balance at the end of current period	**9,637**	7,639	**$80,121**
Minority interests			
Balance at the beginning of current period	**7,166**	2,742	**$59,577**
Changes during the period			
Net changes in items other than shareholders' equity	**1,340**	4,424	**11,141**
Total changes during the period	**1,340**	4,424	**11,141**
Balance at the end of current period	**¥ 8,506**	¥ 7,166	**$ 70,718**

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

Consolidated Statements of Changes in Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Total net assets			
Balance at the beginning of current period	**¥128,788**	¥125,257	**$1,070,734**
Cumulative effects of changes in accounting policies	**(96)**	—	**(798)**
Restated balance at the beginning of current period	**128,692**	—	**1,069,936**
Changes during the period			
Cash dividends	**(1,086)**	(869)	**(9,029)**
Net income (loss)	**6,923**	(795)	**57,557**
Reversal of revaluation reserve for land	**185**	594	**1,539**
Purchase of treasury stock	**(0)**	(0)	**(0)**
Change of scope of consolidation	—	(557)	—
Net changes in items other than shareholders' equity	**3,338**	5,158	**27,752**
Total changes during the period	**9,360**	3,531	**77,819**
Balance at the end of current period	**¥138,052**	¥128,788	**$1,147,755**

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

Consolidated Statements of Cash Flows

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Cash flows from operating activities:			
Net income before income taxes	**¥ 10,730**	¥ 9	**$ 89,208**
Depreciation and amortization	**4,147**	4,232	**34,478**
Impairment loss on fixed assets	**649**	2,651	**5,396**
Increase in provision	**490**	37	**4,074**
Increase in net defined benefit liability	**(11)**	(68)	**(91)**
Equity in net loss (income) of unconsolidated subsidiaries and affiliates	**(417)**	301	**(3,467)**
Gain on sales of investments in securities	**(247)**	—	**(2,054)**
Loss on sale and disposal of property, plant and equipment	**859**	441	**7,142**
Interest and dividend income	**(817)**	(735)	**(6,792)**
Interest expense	**429**	461	**3,567**
Decrease (increase) in notes and accounts receivable	**2**	(305)	**17**
Decrease (increase) in inventories	**785**	(3,528)	**6,526**
Increase (decrease) in trade notes and accounts payable	**(1,071)**	(3,899)	**(8,904)**
Increase (decrease) in accrued consumption taxes	**1,433**	(516)	**11,914**
Decrease in net defined benefit asset	**(114)**	(90)	**(948)**
Other	**684**	(288)	**5,686**
Subtotal	**17,531**	(1,297)	**145,752**
Interest and dividends received	**773**	736	**6,427**
Interest paid	**(375)**	(453)	**(3,118)**
Compensation for damages	**(88)**	—	**(732)**
Income taxes paid	**(1,176)**	(1,103)	**(9,777)**
Net cash provided (used in) by operating activities	**16,665**	(2,117)	**138,552**
Cash flows from investing activities:			
Increase in time deposits	**(901)**	(1,221)	**(7,491)**
Decrease in time deposits	**900**	1,192	**7,483**
Payment for acquisition of marketable securities	**(5,000)**	—	**(41,570)**
Payment for purchase of investments in securities	**(8)**	(92)	**(67)**
Proceeds from sale of marketable securities and investments	**641**	—	**5,329**
Increase in money deposited	**(1)**	(1)	**(8)**
Decrease in money deposited	**1**	100	**8**
Payment for acquisition of investment securities in subsidiaries	**(376)**	—	**(3,126)**
Investments in loans	**(323)**	(18)	**(2,685)**
Collection of loans	**81**	100	**673**
Payment for purchase of property, plant and equipment	**(13,654)**	(6,611)	**(113,518)**
Proceeds from sale of property, plant and equipment	**24**	53	**200**
Payment for purchase of intangibles	**(129)**	(70)	**(1,072)**
Other	**(189)**	(411)	**(1,572)**
Net cash used in by investing activities	**¥(18,934)**	¥(6,979)	**$(157,416)**

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

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**¥ (3,014)**	¥ 2,930	**$ (25,058)**
Proceeds from long-term debt	**6,415**	8,144	**53,334**
Repayment of long-term debt	**(977)**	(131)	**(8,123)**
Repayment of installment payables	**(2)**	(4)	**(17)**
Payment for payback of treasury stock	**(0)**	(0)	**(0)**
Cash dividends paid	**(1,086)**	(870)	**(9,029)**
Dividends paid to minority shareholders	**(228)**	(35)	**(1,896)**
Proceeds from stock issuance to minority shareholders	**877**	1,615	**7,292**
Other	—	(2)	—
Net cash provided by financing activities	**¥ 1,985**	11,647	**$ 16,503**
Effect of exchange rate changes on cash and cash equivalents	**¥ 1,395**	1,983	**$ 11,598**
Net increase in cash and cash equivalents	**1,111**	4,534	**9,237**
Cash and cash equivalents at the beginning of the period	**33,871**	29,216	**281,601**
Increase in cash and cash equivalents from newly consolidated subsidiary (Note 12)	—	121	—
Cash and cash equivalents at the end of the period (Note 12)	**¥34,982**	¥33,871	**$290,838**

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

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2015, which was ¥120.28 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, 2015 and 2014 included the accounts of the Company and its 9 subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.
Kyoei Steel Vietnam Co., Ltd and Vina Kyoei Steel Co., Ltd included in consolidation have fiscal years that end on December 31. These subsidiaries do not prepare for consolidation purposes statements with periods that correspond to the fiscal year of the Company (March 31). For these consolidated subsidiaries, if there were significant transactions between their fiscal year-end and the Company's year-end, necessary adjustments were made to reflect these transactions in the accompanying consolidated financial statements.

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

(b) Foreign currency translation

Monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at each balance sheet date if not hedged by forward foreign exchange contracts or at the contracted rates of exchange when hedged by forward foreign exchange contracts. The resulting gain or loss is recognized as other income or expense.
Assets and liabilities of the overseas consolidated subsidiaries are translated at the exchange rates in effect at each balance sheet date, and revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation adjustments are presented as a component of net assets and minority interests in the consolidated financial statements.

(c) Cash and cash equivalents

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

(d) Securities

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

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

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

(g) Depreciation and amortization

(1) Property, plant and equipment (excluding lease assets)
Depreciation of property, plant and equipment is calculated principally by the straight-line method (except that certain consolidated subsidiaries employ the declining balance method).
Estimated useful lives of the property, plant and equipment are summarized as follows:

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

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

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

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

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

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

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

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

(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 conditions for the special treatment of interest-rate swaps and designation of forward exchange contracts and currency swaps are accounted for separately.

(2) Hedging instruments and hedged items

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

(3) Hedging policy

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

(4) Method for evaluating hedge effectiveness

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

(p) Scope of funds in consolidated statements of cash flows

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

(q) Unapplied accounting standards

- "Revised Accounting Standard for Business Combination" (ASBJ Statement No.21, September 13, 2013)
- "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013)
- "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013)
- "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2, September 13, 2013)
- "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standards for Business Divestitures" (ASBJ Guidance No.10, September 13, 2013)
- "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4, September 13, 2013)

(1) Summary

The above standards and guidance have been revised primarily to account for:

1. How the changes of the shares in subsidiaries, over which the Company continues to control, should be treated by the Company when additional stock of a subsidiary is acquired.
2. Treatment of acquisition related costs
3. Presentation of current net income and the change of shareholder's equity from minority interests to non-controlling interests
4. Provisional application of accounting treatments

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2016.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. CHANGES IN METHODS OF ACCOUNTING

Application of Accounting Standards for Retirement Benefits

The Company and its consolidated domestic subsidiaries adopted article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012 (hereinafter, "Statement No.26")) and article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012 (hereinafter, "Guidance No.25")) from the current fiscal year, and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefit to periods from a straight-line basis to a benefit formula basis along with changing the method of determining the discount rate to a method that uses a single weighted average discount rate reflecting the estimated timing and amount of benefit payment, rather than a discount rate based on the expected average remaining service years of employees.

In accordance with article 37 of Statement No.26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the current fiscal year.

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

4. CHANGES IN PRESENTATION METHODS OF ACCOUNTING

Change in Method of Presentation

(a) Consolidated Statements of Operations

"Gain on sale of scrap", which had been disclosed separately in the "Other income" is included in "Other, net" of "Other income" from the fiscal year ended March 31, 2015 due to its decrease in materiality. As a result, the ¥82 million presented in "Gain on sale of scrap" of "Other income" has been reclassified to "Other, net" of "Other income".

(b) Consolidated Statements of Cash Flows

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

5. INVENTORIES

Inventories at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Merchandise	**¥ 72**	¥ 53	**$ 599**
Finished goods	**9,672**	10,418	**80,412**
Semi-finished goods	**7,438**	6,433	**61,839**
Work-in-process	**905**	903	**7,524**
Raw materials	**2,236**	2,491	**18,590**
Supplies	**3,892**	3,799	**32,358**
Rolls	**2,492**	2,401	**20,718**
Total	**¥26,707**	¥26,498	**$222,040**

6. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
As endorser of notes discounted	—	¥410	—

7. BANK LOANS

Bank loans consisted of unsecured loans payable from banks at the weighted average interest rate of 3.10% at March 31, 2015.
Long-term debt from banks at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Long-term debt from banks at average rates of 1.51% and 1.33% for current and noncurrent portions, respectively	**¥21,367**	¥13,842	**$177,644**
Less current portion	**(2,071)**	(941)	**(17,218)**
Long-term debt from banks	**¥19,296**	¥12,901	**$160,426**

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Buildings and structures	**¥ 8,903**	¥ 9,368	**$ 74,019**
Machinery and equipment	**16,698**	16,944	**138,826**
Land	**15,721**	15,959	**130,703**
Other	**155**	149	**1,289**
Total	**¥41,477**	¥42,420	**$344,837**

There is no obligation corresponding to the above pledged assets.

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	**¥ 2,071**	**$ 17,218**
2017	**2,585**	**21,492**
2018	**3,122**	**25,956**
2019	**3,122**	**25,956**
2020	**3,122**	**25,956**
Thereafter	**7,345**	**61,066**
Total	**¥21,367**	**$177,644**

8. R&D EXPENSES

R&D expenses, included in selling, general and administrative expenses for the years ended March 31, 2015 and 2014, amounted to ¥231 million ($1,921 thousand) and ¥188 million, respectively.

9. NET ASSETS

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

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

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

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law and regulations. At the Board Directors' meeting held on May 19, 2015, the Board approved cash dividends amounting to ¥1,086 million ($9,029 thousand). The appropriation had not been accrued in the consolidated financial statements as of March 31, 2015.

10. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 35.6% for the year ended March 31, 2015 and 38.0% for the year ended March 31, 2014.

The major components of deferred tax assets and liabilities as of March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Deferred tax assets:			
Impairment losses	**¥ 991**	¥ 1,028	**$ 8,239**
Accrued enterprise taxes	**281**	49	**2,336**
Allowance for doubtful accounts	**41**	490	**341**
Accrued bonuses	**231**	233	**1,921**
Provision for loss on business liquidation	**96**	—	**798**
Accrued directors' retirement benefits	**58**	64	**482**
Tax carry forward	**505**	489	**4,199**
Other	**948**	342	**7,881**
Gross deferred tax assets	**3,151**	2,695	**26,197**
Valuation allowance	**(890)**	(1,156)	**(7,399)**
Total deferred tax assets	**2,261**	1,539	**18,798**
Net deferred tax assets	**¥ 762**	¥ 285	**$ 6,335**
Deferred tax liabilities:			
Net unrealized gains/losses on available for sales securities	**(1,126)**	(977)	**(9,361)**
Retained earnings appropriated for tax deductible reserves	**(29)**	(34)	**(241)**
Reserve for special depreciation for tax purposes	**(4)**	(6)	**(33)**
Net defined benefit assets	**(312)**	(159)	**(2,594)**
Other	**(28)**	(78)	**(234)**
Total deferred tax liabilities	**¥(1,499)**	¥(1,254)	**$(12,463)**

Net deferred tax liabilities at March 31, 2015 and 2014 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Deferred tax assets (current)	**¥ 752**	¥ 432	**$6,252**
Deferred tax assets (noncurrent)	**699**	502	**5,811**
Deferred tax liabilities (noncurrent)	**(689)**	(649)	**(5,728)**
Net deferred tax assets	**¥ 762**	¥ 285	**$6,335**

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

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

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

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 are changed from 35.6% for the fiscal year ended March 31, 2015 to 33.0% and 32.2%, respectively, as of March 31, 2015.
Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥64 million (U.S.$ 532 thousand) as of March 31, 2015, deferred income tax expense recognized for the fiscal year ended March 31, 2015 increased by ¥185 million (U.S.$ 1,538 thousand), evaluation differences of other securities increased by ¥101 million (U.S.$ 840 thousand) and accumulated adjustments for employee retirement benefits increased by ¥19 million (U.S.$ 158 thousand).
In addition, deferred tax liabilities for revaluation decreased by ¥286 million (U.S.$ 2,378 thousand) and revaluation reserve for land increased by the same amount.

11. INFORMATION FOR CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

(a) Number of shares issued

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

(b) Treasury stock

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

(c) Cash dividends

Amount of dividend payments

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
April 30, 2014 (Board of Directors)	Common stock	¥652	$5,421	¥15	$0.1	March 31, 2014	June 6, 2014

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 30, 2014 (Board of Directors)	Common stock	¥435	$3,617	¥10	$0.1	September 30, 2014	December 9, 2014

12. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Reconciliation of cash and cash equivalents

The following table represents a reconciliation of cash and cash equivalents at March 31, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cash and time deposits	**¥21,179**	¥28,024	**$176,081**
Time deposits with a maturity of more than three months	**(797)**	(753)	**(6,626)**
Negotiable certificates of deposit with maturities of within three months from the acquisition date	**14,600**	6,600	**121,383**
Cash and cash equivalents	**¥34,982**	¥33,871	**$290,838**

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

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

	Millions of yen
Current assets	**¥2,529**
Fixed assets	**3,446**
Total assets	**¥5,975**

	Millions of yen
Current liabilities	**¥2,249**
Long-term liabilities	—
Total liabilities	**¥2,249**

13. SEVERANCE AND RETIREMENT BENEFITS

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

Some of the Company's subsidiaries have instituted defined benefit plans, and they calculate defined benefit liabilities and periodic pension cost by the simplified method.

(2) Defined benefit plan

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Balance at April 1	**¥3,767**	¥3,857	**$31,319**
Cumulative effects of changes in accounting policies	**149**	—	**1,239**
Restated balance at the beginning of current period	**3,916**	3,857	**32,558**
Service cost	**230**	218	**1,912**
Interest cost	**52**	58	**432**
Actuarial loss	**23**	14	**191**
Benefits paid	**(150)**	(380)	**(1,247)**
Balance at March 31	**¥4,071**	¥3,767	**$33,846**

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Balance at April 1	**¥4,154**	¥3,758	**$34,537**
Expected return on plan assets	**62**	56	**515**
Actuarial gain	**536**	365	**4,456**
Contributions paid by the employer	**320**	355	**2,660**
Benefits paid	**(150)**	(380)	**(1,247)**
Balance at March 31	**¥4,922**	¥4,154	**$ 40,921**

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Balance at April 1	**¥ 7**	¥89	**$ 58**
Retirement benefit cost	**17**	59	**141**
Benefits paid	**(20)**	(8)	**(166)**
Other	**3**	5	**25**
Contributions to defined benefit plans	**(66)**	(138)	**(549)**
Balance at March 31	**¥(59)**	¥ 7	**$(491)**

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Funded retirement benefit obligations	**¥5,027**	¥4,665	**$41,794**
Plan assets	**(6,100)**	(5,195)	**(50,715)**
	(1,073)	(530)	**(8,921)**
Unfunded retirement benefit obligations	**163**	150	**1355**
Total net liability (asset) for retirement benefits at March 31	**¥ (910)**	¥ (380)	**$(7,566)**

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Net defined benefit asset	**¥(967)**	¥(444)	**$(8,040)**
Net defined benefit liability	**57**	64	**474**
Total net liability (asset) for retirement benefits at March 31	**¥(910)**	¥(380)	**$(7,566)**

(e) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Service cost	**¥230**	¥218	**$1,912**
Interest cost	**52**	58	**432**
Expected return on plan assets	**(62)**	(56)	**(515)**
Net actuarial loss amortization	**5**	18	**42**
Past service costs amortization	**46**	45	**382**
Retirement benefit cost by applying the simplified method	**17**	59	**141**
Total retirement benefit costs for the year ended March 31	**¥288**	¥342	**$2,394**

(f) Remeasurement of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Prior service cost	**¥ 46**	¥ —	**$ 382**
Actuarial gain or loss	**519**	¥ —	**4,315**
Total balance at March 31	**¥565**	¥ —	**$4,697**

(g) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Unrecognized prior service cost	**¥ (66)**	¥ (112)	**$ (549)**
Unrecognized actuarial gain or loss	**629**	¥ 110	**5,230**
Total balance at March 31	**¥563**	¥ (2)	**$4,681**

(h) Plan assets

① Plan assets comprise:

	2015	2014
Bonds	**36%**	37%
Stock	**45**	41
Life insurance company general accounts	**16**	17
Other	**3**	5
Total	**100%**	100%

② Long-term expected rate of return

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

(i) Actuarial assumptions

The principal actuarial assumptions were as follows:

	2015	2014
Discount rate	**1.3%**	1.5%
Expected long-term rate of return	**1.5%**	1.5%
Salary increase rate	**2.3%**	2.3%

(3) Defined contribution scheme

The required contribution to the Company's defined contribution scheme was ¥24 million (U.S.$ 200 thousand) for the year ended march 31, 2015 and ¥23 million for the year ended March 31, 2014.

14. AMOUNTS PER SHARE

	Yen		U.S. dollars
Years ended March 31	**2015**	2014	**2015**
Net income (loss)	**¥159.30**	¥(18.28)	**$1.32**

	Yen		U.S. dollars
As of March 31	**2015**	2014	**2015**
Net assets	**¥2,980.84**	¥2,798.53	**$24.78**

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

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

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	**2015**	2014	**2015**
Basic net income (loss) per share:			
Net income (loss)	**¥ 6,923**	¥(795)	**$57,557**
Amount attributable to shareholders of common stock	**¥ 6,923**	¥(795)	**$57,557**
Weighted average number of shares outstanding	**43,459 thousand share**	43,459 thousand share	—

15. LEASES

(a) Accounting as lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2015 and 2014 which would have been reflected in the consolidated balance sheets if the finance leases currently accounted for as operating leases had been capitalized:

	Millions of yen		Thousands of U.S. dollars	
As of March 31, 2015	Tools and equipment	Total	Tools and equipment	Total
Acquisition costs	**¥—**	**¥ —**	**$ —**	**$ —**
Accumulated depreciation	**—**	**—**	**—**	**—**
Net book value	**¥ —**	**¥—**	**$ —**	**$ —**

	Millions of yen	
As of March 31, 2014	Tools and equipment	Total
Acquisition costs	¥ 8	¥ 8
Accumulated depreciation	8	8
Net book value	¥—	¥—

(b) Operating leases

Operating leases at March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2015**	2014	**2015**
Due within one year	**¥ 1**	¥ 1	**$ 8**
Due after one year	**2**	3	**17**
Total	**¥ 3**	¥ 4	**$25**

16. FINANCIAL INSTRUMENTS

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

1. Qualitative information on financial instruments

(a) Policies for using financial instruments

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

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

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

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

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

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

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

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

(c) Policies and processes for managing the risk

The Group enters into derivative transactions only with counterparties of high credit rating and with respect to which the Company believes there is almost no credit risk. The derivative transactions are executed in accordance with internal management regulations.

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

(d) Supplemental information on fair values

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

2. Fair values of financial instruments

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2015 and 2014 were as follows:

	Millions of yen			Thousands of U.S. dollars		
Year ended March 31, 2015	Carrying amount shown in balance sheet	Fair value	Difference	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	**¥21,179**	**¥21,179**	**¥ —**	**$176,081**	**$176,081**	**$ —**
Notes and accounts receivable	**37,848**	**37,848**	**—**	**314,666**	**314,666**	**—**
Marketable securities	**19,600**	**19,600**	**—**	**162,953**	**162,953**	**—**
Investments in securities						
Available for sales securities	**6,006**	**6,006**	**—**	**49,933**	**49,933**	**—**
Investments in long-term loans receivable	**503**	**503**	**—**	**4,182**	**4,182**	**—**
Notes and accounts payable	**(12,388)**	**(12,388)**	**—**	**(102,993)**	**(102,993)**	**—**
Bank loans	**(11,439)**	**(11,439)**	**—**	**(95,103)**	**(95,103)**	**—**
Long-term debt						
Due within one year	**(2,071)**	**(2,112)**	**41**	**(17,218)**	**(17,559)**	**341**
Due after one year	**(19,296)**	**(19,680)**	**384**	**(160,426)**	**(163,618)**	**3,192**
Derivatives	**(53)**	**(53)**	**—**	**(441)**	**(441)**	**—**

	Millions of yen		
Year ended March 31, 2014	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	¥28,024	¥28,024	¥ —
Notes and accounts receivable	37,153	37,153	—
Marketable securities	6,600	6,600	—
Investments in securities			
Available for sales securities	5,690	5,690	—
Investments in long-term loans receivable	190	190	—
Notes and accounts payable	(13,122)	(13,122)	—
Bank loans	(12,681)	(12,681)	—
Long-term debt			
Due within one year	(941)	(959)	18
Due after one year	(12,901)	(13,154)	253

17. SECURITIES

(a) Available for sales securities with determinable market values

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2015	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	**¥1,424**	**¥5,080**	**¥3,656**	**$11,839**	**$42,235**	**$30,396**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Securities whose carrying value does not exceed acquisition costs:						
Stock	**1,183**	**926**	**(257)**	**9,835**	**7,699**	**(2,136)**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥2,607**	**¥6,006**	**¥3,399**	**$21,674**	**$49,934**	**$28,260**

As of March 31, 2014	Acquisition costs (Millions of yen)	Carrying value (Millions of yen)	Unrealized gain (loss) (Millions of yen)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥1,817	¥4,944	¥3,127
Bonds	—	—	—
Other	—	—	—
Securities whose carrying value does not exceed acquisition costs:			
Stock	1,182	746	(436)
Bonds	—	—	—
Other	—	—	—
Total	¥2,999	¥5,690	¥2,691

(b) Available for sales securities sold during the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Sales of other securities	**¥ 641**	¥ —	**$5,329**
Profit on sales	**¥ 247**	¥ —	**$2,054**

(c) Securities without determinable market values

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Other securities:			
Unlisted securities	**¥1,331**	¥1,331	**$11,066**
Bonds	**¥ —**	¥ —	**$ —**
Unconsolidated subsidiary and affiliated company:			
Unlisted securities	**¥4,356**	¥3,933	**$36,215**

(d) Derivative transactions

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

Year ended March 31, 2015

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)	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	Foreign exchange forward contracts Buying U.S. dollars	¥94	¥—	¥2	¥2	$782	$—	$17	$17
Non-market transactions	Foreign exchange forward contracts Selling U.S. dollars	886	—	(11)	(11)	7,366	—	(91)	(91)
Non-market transactions	Currency swaps Receiving Japanese yen Paying U.S. dollars	891	—	(11)	(11)	7,408	—	(91)	(91)
Non-market transactions	Currency swaps Receiving U.S. dollars Paying Vietnamese dong	13,290	—	(33)	(33)	110,492	—	(274)	(274)

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

Year ended March 31, 2014

Nothing to report

(2) Derivative transactions for which hedge accounting is applied

Interest rate related

Year ended March 31, 2015

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Millions of yen)	Amount of contracts amount over 1 year (Millions of yen)	Fair value (Millions of yen)
Special treatment of interest rate swaps	Interest-rate swap transaction receive floating, pay fixed	Long-term debt	¥9,431	¥8,174	*

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Thousands of U.S. dollars)	Amount of contracts amount over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S.dollars)
Special treatment of interest rate swaps	Interest-rate swap transaction receive floating, pay fixed	Long-term debt	¥78,409	¥67,958	*

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

Year ended March 31, 2014

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Millions of yen)	Amount of contracts amount over 1 year (Millions of yen)	Fair value (Millions of yen)
Special treatment of interest rate swaps	Interest-rate swap transaction receive floating, pay fixed	Long-term debt	¥8,790	¥8,241	*

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

18. IMPAIRMENT LOSS ON FIXED ASSETS

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

Use	Place	Type of asset	Millions of yen	Thousands of U.S. dollars
Idle properties	Sanyo Onoda City, Yamaguchi	Buildings and structures	¥37	$308
		Land	59	490
Total			¥96	$798

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

(Impairment Loss on Consolidated Statements of Operations)

Regarding company-owned houses for its employees, some of them are not expected to be used in the future and classified as idle properties. Carrying amounts of them were written down to their recoverable value and the amount of the decline is stated in other income (expenses) as an impairment loss (¥96 million (U.S.$ 798 thousand)).

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

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

Use	Place	Type of asset	Millions of yen
Steel business plant	Osaka City	Buildings and structures	¥ 654
		Machinery and equipment	913
		Land	1,073
		Other	11
Total			¥2,651

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

(Impairment Loss on Consolidated Statements of Operations)

Regarding fixed assets possessed by the Hirakata Division (Osaka Mill), book values have declined to recoverable values due to lower profitability and the amount of the decline is stated in other income (expenses) as an impairment loss (¥2,651 million).

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

19. LOSS ON LIQUIDATION OF BUSINESS

Loss on liquidation of business recorded in the consolidated statement of operations for the year ended March 31, 2015 stems from the decision to close the Hirakata Division (Osaka Mill) by the board of directors' meeting held at March 30, 2015. Details of the loss are impairment loss on fixed assets (¥553 million (U.S.$ 4,598 thousand)), removal cost of fixed assets (¥210 million (U.S.$ 1,746 thousand)), soil contamination countermeasures cost (¥88 million (U.S.$ 732 thousand)) and valuation loss of inventories (¥50 million (U.S.$ 416 thousand)).
The removal cost of fixed assets (¥210 million (U.S.$ 1,746 thousand)) and soil contamination countermeasures cost (¥88 million (U.S.$ 732 thousand)) included above details are set aside as provision for loss on business liquidation.
The followings are the details of the impairment loss on fixed assets.

Use	Place	Type of asset	Millions of yen	Thousands of U.S. dollars
Steel business plant	Osaka City	Buildings and structures	¥ 13	$ 108
		Machinery and equipment	296	2,461
		Land	238	1,979
		Other	6	50
Total			¥553	$4,598

The Group grouped their fixed assets based on division, and idle assets were each treated as separate property.
The Company has made the decision to suspend the operations of Hirakata Division (Osaka Mill) from the end of March 2016 and close the plant.
The carrying amount of the fixed assets possessed by the Hirakata Division (Osaka Mill), book values have declined to recoverable values and the amount of the decline is stated in other income (expenses).
Recoverable value when determining impairment losses was measured based on the value in use and the value in use was calculated by discounting the estimation of future cash flows using the discount rate, 4.9%.

20. STATEMENTS OF COMPREHENSIVE INCOME

Comprehensive income for the years ended March 31, 2015 and 2014 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Valuation difference on available for sales securities:			
Current accrual	**¥ 956**	¥ 581	**$ 7,948**
Reclassification adjustment	**(247)**	–	**(2,054)**
Before tax effect adjustment	**709**	581	**5,894**
Tax effect adjustment	**(150)**	(205)	**(1,247)**
Valuation difference on available for sales securities	**559**	376	**4,647**
Deferred gains and losses on hedges:			
Current accrual	—	13	—
Reclassification adjustment	—	(202)	—
Before tax effect adjustment	—	(189)	—
Tax effect adjustment	—	72	—
Deferred gains and losses on hedges	—	(117)	—
Revaluation reserve for land:			
Tax effect adjustment	**286**	–	**2,378**
Revaluation reserve for land	**286**	–	**2,378**
Foreign currency translation adjustments:			
Current accrual	**1,961**	1,875	**16,305**
Reclassification adjustment	—	—	—
Before tax effect adjustment	**1,961**	1,875	**16,305**
Tax effect adjustment	—	—	—
Foreign currency translation adjustments:	**1,961**	1,875	**16,305**
Remeasurement of defined benefit plans:			
Current accrual	**513**	–	**4,265**
Reclassification adjustment	**52**	–	**432**
Before tax effect adjustment	**565**	–	**4,697**
Tax effect adjustment	**(182)**	–	**(1,513)**
Remeasurement of defined benefit plans	**383**	–	**3,184**
Total	**¥3,189**	¥2,134	**$26,514**

21. SEGMENT INFORMATION

(a) Overview of Reporting Segments

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

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

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

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

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

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

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

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

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

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

Segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2015 and 2014 is outlined as follows:

	Millions of yen					
Year ended March 31, 2015	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
Sales						
Sales to external customers	**¥173,981**	**¥7,035**	**¥ 420**	**¥181,436**	**¥ —**	**¥181,436**
Intersegment sales and transfers	**259**	**2,131**	—	**2,390**	**(2,390)**	—
Total	**174,240**	**9,166**	**420**	**183,826**	**(2,390)**	**181,436**
Segment income	**¥ 11,281**	**¥1,421**	**¥ 18**	**¥ 12,720**	**¥ (924)**	**¥ 11,796**
Segment assets	**¥156,129**	**¥6,131**	**¥4,145**	**¥166,405**	**¥35,355**	**¥201,760**
Other						
Depreciation and amortization	**3,873**	**204**	**11**	**4,088**	**59**	**4,147**
Impairment loss on fixed assets	—	—	—	—	**96**	**96**
Increase in property, plant, equipment and intangible assets	**15,632**	**185**	—	**15,817**	**103**	**15,920**

(Note)
1. Inter-segment eliminations of ¥22 million and corporate expenses of ¥(946) million not allocated to the reporting segments are included in the ¥(924) million adjustment for "Segment profit (operating income)". Corporation expenses are mainly related to the general affairs department and other management departments of the submitting company's head office that is not attributable to a reporting segment.
2. The adjustment amount of segment assets was ¥35,355 million, mainly related to included the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
3. The adjustment amount of depreciation and amortization was ¥59 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
4. The adjustment amount of impairment loss on fixed assets was ¥96 million, mainly related to the corporate assets not allocated to reporting segments.
5. The adjustment amount of expenditure for addition to tangible and intangible assets was ¥103 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
6. Segment income was adjusted against operating income of the consolidated statement of income.
7. In addition to the above, impairment loss on fixed assets of ¥553 million was accrued from the assets in the steel segment and recorded as a part of loss on liquidation of business in the consolidated statement of operations.

Year ended March 31, 2015	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
	Thousands of U.S. dollars					
Sales						
Sales to external customers	**$1,446,467**	**$58,489**	**$ 3,491**	**$1,508,447**	**$ —**	**$1,508,447**
Intersegment sales and transfers	**2,153**	**17,717**	**—**	**19,870**	**(19,870)**	**—**
Total	**1,448,620**	**76,206**	**3,491**	**1,528,317**	**(19,870)**	**1,508,447**
Segment income	**$ 93,789**	**$11,814**	**$ 150**	**$ 105,753**	**$ (7,682)**	**$ 98,071**
Segment assets	**$1,298,046**	**$50,973**	**$34,462**	**$1,383,481**	**$293,939**	**$1,677,420**
Other						
Depreciation and amortization	**32,200**	**1,696**	**91**	**33,987**	**491**	**34,478**
Impairment loss on fixed assets	**—**	**—**	**—**	**—**	**798**	**798**
Increase in property, plant, equipment and intangible assets	**129,963**	**1,538**	**—**	**131,501**	**856**	**132,357**

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

(Note)
1 Inter-segment eliminations of ¥20 million and corporate expenses of ¥(858) million not allocated to the reporting segments are included in the ¥(838) million adjustment for "Segment profit (operating income)". Corporation expenses are mainly related to the general affairs department and other management departments of the submitting company's head office that is not attributable to a reporting segment.
2 The adjustment amount of segment assets was ¥23,585 million, mainly related to included the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
3 The adjustment amount of depreciation and amortization was ¥62million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
4 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥85 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
5 Segment income was adjusted against operating income of the consolidated statement of income.

22. SUBSEQUENT EVENTS

Dividend distribution of surplus

On May 19, 2015, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥1,086	**$9,029**

Cash dividends: ¥25 (U.S. $0.21) per share.

KPMG

Independent Auditor's Report

To the Board of Directors of KYOEI STEEL, LTD.

We have audited the accompanying consolidated financial statements of KYOEI STEEL, LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2015 and 2014, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KYOEI STEEL, LTD. and its consolidated subsidiaries as at March 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 15, 2015
Osaka, Japan

Investor Information

(As of March 31, 2015)

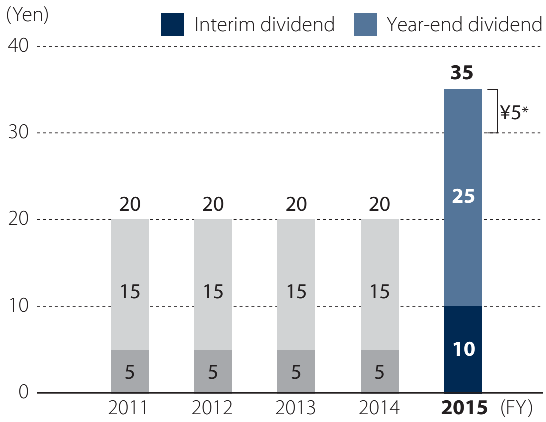
Date of Establishment	August 21, 1947
Common Stock	¥18,516 million
Number of Shares	Authorized : 150,300,000 Issued : 44,898,730
Number of Shareholders	3,576
Number of Employees	1,741 (Consolidated: regular employees)
Stock Listing	Tokyo
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan

Major Shareholders (As of March 31, 2015)

Name of shareholder	Number of shares owned	% of total shares Issued
Nippon Steel & Sumitomo Metal Corporation	11,592,932	25.82
Hideichiro Takashima	4,347,460	9.68
Japan Trustee Services Bank, Ltd. (Air Water Inc. retirement benefit trust account)*	2,600,400	5.79
Akihiko Takashima	2,233,000	4.97
NORTHERN TRUST CO. (AVFC) RE 15PCT TREATY ACCOUNT	2,113,600	4.71
Japan Trustee Services Bank, Ltd. (Trust Account)	1,498,200	3.34
Mitsui & Co., Ltd.	1,470,000	3.27
Kyoei Steel, Ltd. (Treasury stock)	1,439,389	3.21
Godo Steel, Ltd.	1,347,000	3.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,218,800	2.71

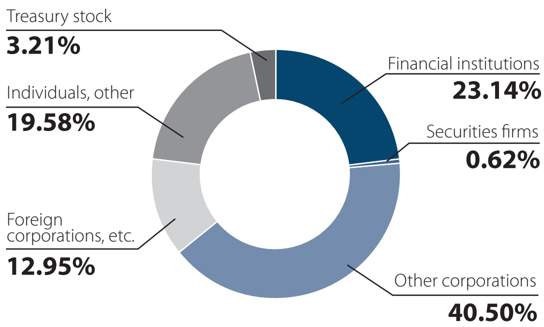
* The shares are owned beneficially by Air Water Inc. and held as a retirement benefit trust by Japan Trustee Services Bank, Ltd. Air Water Inc. holds the right to direct the voting of these shares. In addition to the above, Japan Trustee Services Bank, Ltd. holds 692,000 shares of the Company included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

Dividends per Share

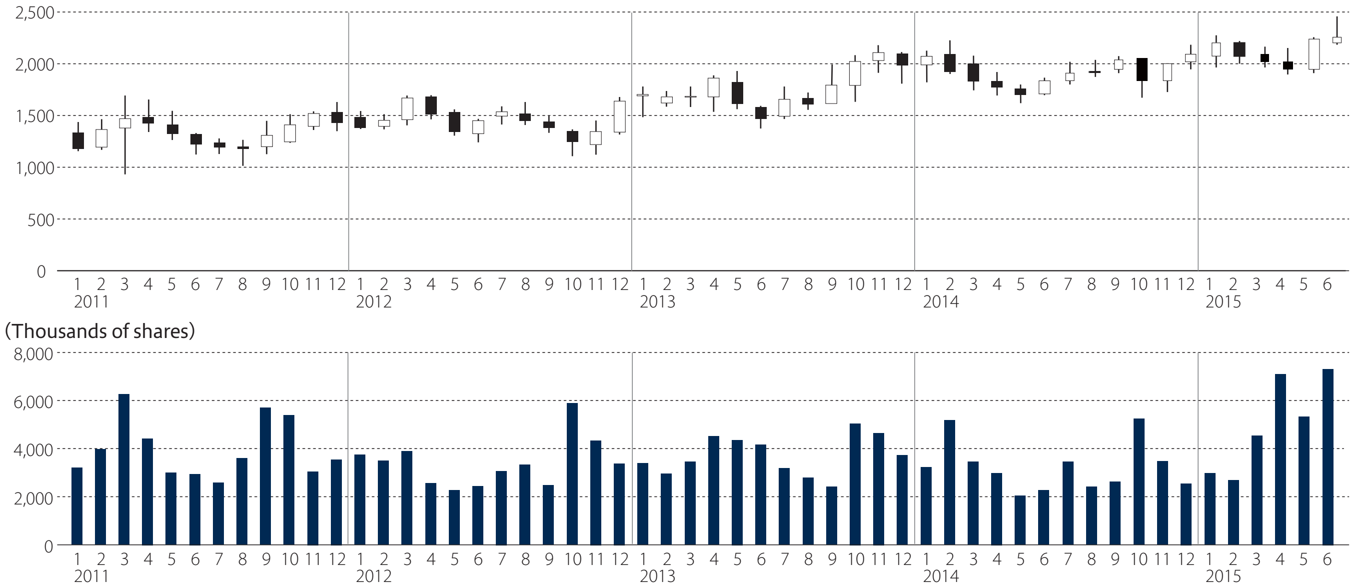


* including a bonus dividend of ¥5 per share

Composition of Shareholders by Type



Stock Price Movement and Trading Volume



KYOEI STEEL

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