ANNUAL REPORT 2020

Year Ended March 31, 2020

Playing a Primary Role in Steel Resource Recycling

KYOEI STEEL

Management Principle

SPIRIT OF CHALLENGE

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

Action Guidelines

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

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

We are practical and realistic.

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

CONTENTS

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

BUSINESS SEGMENTS

Domestic Steel Business

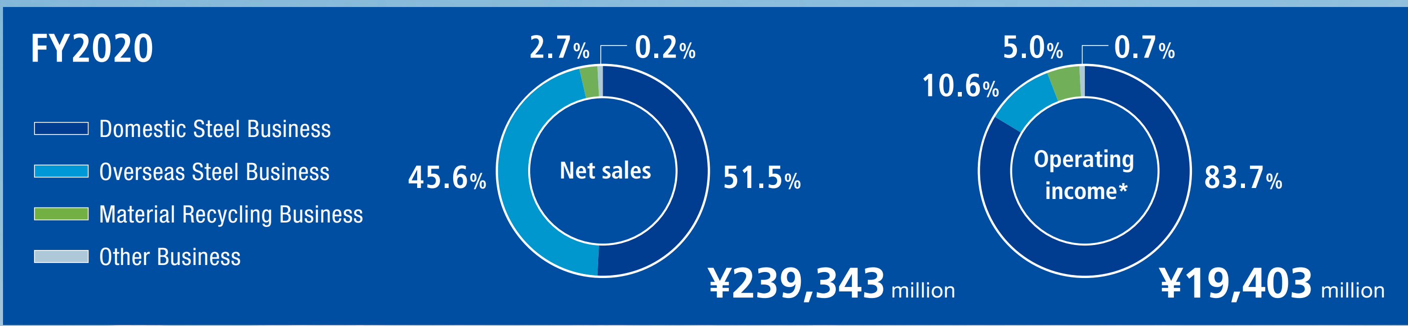
The steel business, which melts steel scrap in electric arc furnaces, transforming it into new steel products, is the core business of Kyoei Steel. The Company provides a stable supply of high-quality steel products by using technological capabilities nurtured for more than 70 years. Our mainstay product,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

Overseas Steel Business

The Company has been conducting operations overseas since the 1960s, and now has three production bases in Vietnam and two in North America.
In 1994, we became the first Japanese steel manufacturer to expand into Vietnam when we established a base in the south. Afterward, in 2011 and 2018, we also acquired two bases in northern Vietnam.
In North America, we acquired Vinton Steel LLC in the United States in 2016 and acquired a new base in Canada in March 2020.
For further growth, the Group will strive to strengthen the Overseas Steel segment.

Material Recycling Business

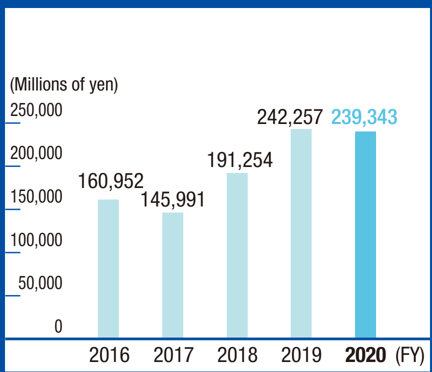
Kyoei Steel became the first Japanese minimill steel company to succeed in melting and detoxifying potentially infectious medical and industrial waste, using the heat from electric arc furnaces that reach thousands of degrees Celsius. We have been developing this as a business for almost 30 years. Our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



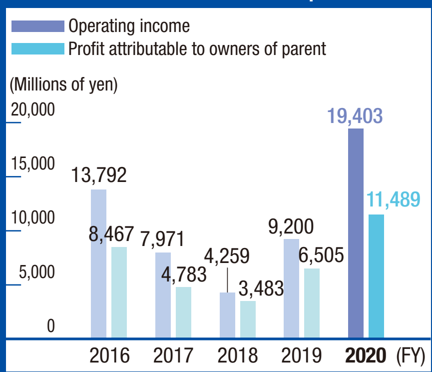
*Before the elimination of inter-segment transactions

FINANCIAL HIGHLIGHTS

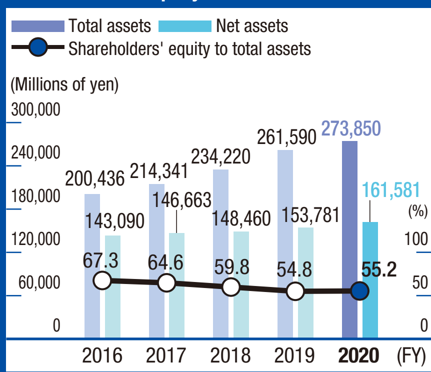
Net Sales



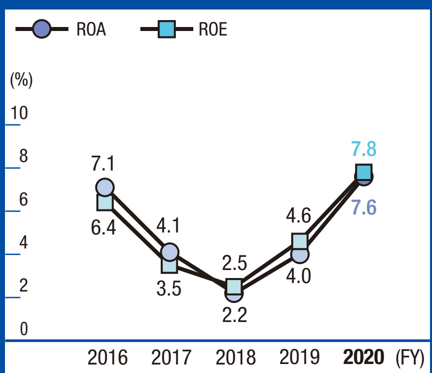
Operating income & Profit attributable to owners of parent



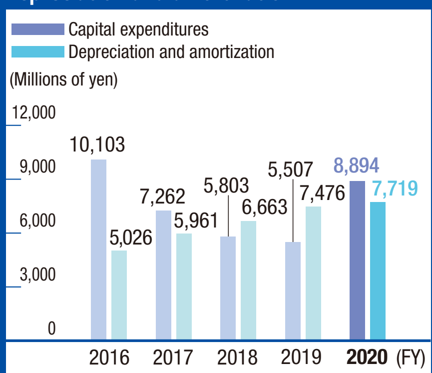
Total assets, Net assets & Shareholders' equity to total assets



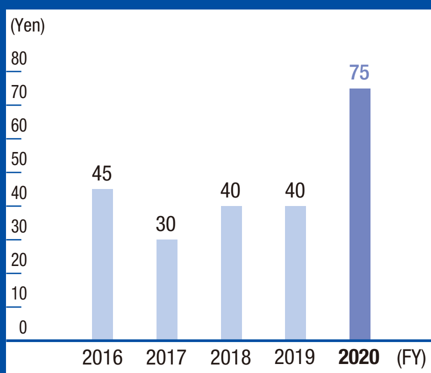
ROA & ROE



Capital expenditures & Depreciation and amortization



Cash dividends applicable to the year



Becoming a company that contributes

Founding and early period (1947 to 1961)

"Wishing to contribute to the reconstruction of Japan through steelmaking"

Expansion period (1962 to 1981)

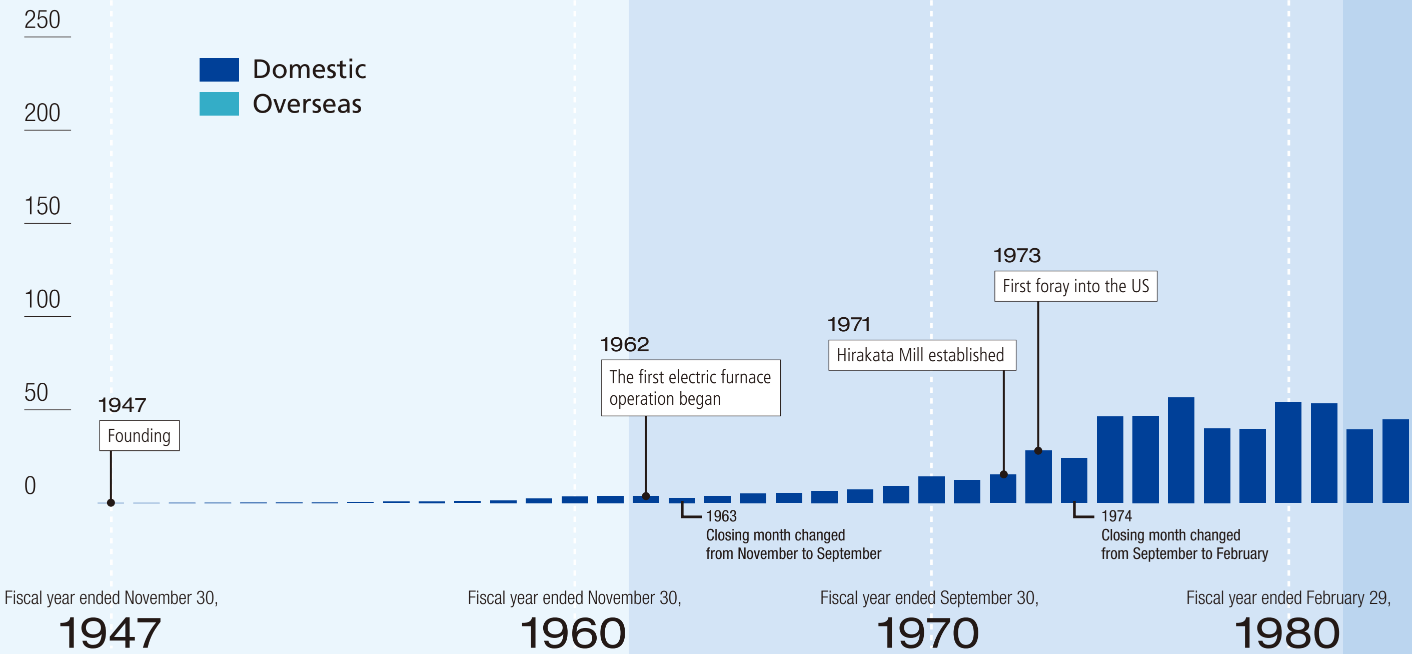
"Wishing to show Japan's excellence to the world"

First integrated steel mill built (Hirakata Division)

Technical advisory service provided overseas

Sales

(Unit: Billions of yen)



Historic events

Treaty of San Francisco (1951)

After World War II, national land reform and industrial reconstruction were called for across the country
Demand for steel grew as the need for construction rose

Jinmu Boom (1954 to 1957)
Iwato Boom (1958 to 1961)
Izanagi Boom (1965 to 1970)
First oil shock (1973)
Second oil shock (1979)

Pollution problems; two oil shocks

broadly to society through steelmaking

Regeneration period (1982 to 2000)

"Aspiring to contribute to the reconstruction of Vietnam"

"The problem of injection needle disposal can be resolved using electric furnaces"

Vina Kyoei Steel, Ltd. established

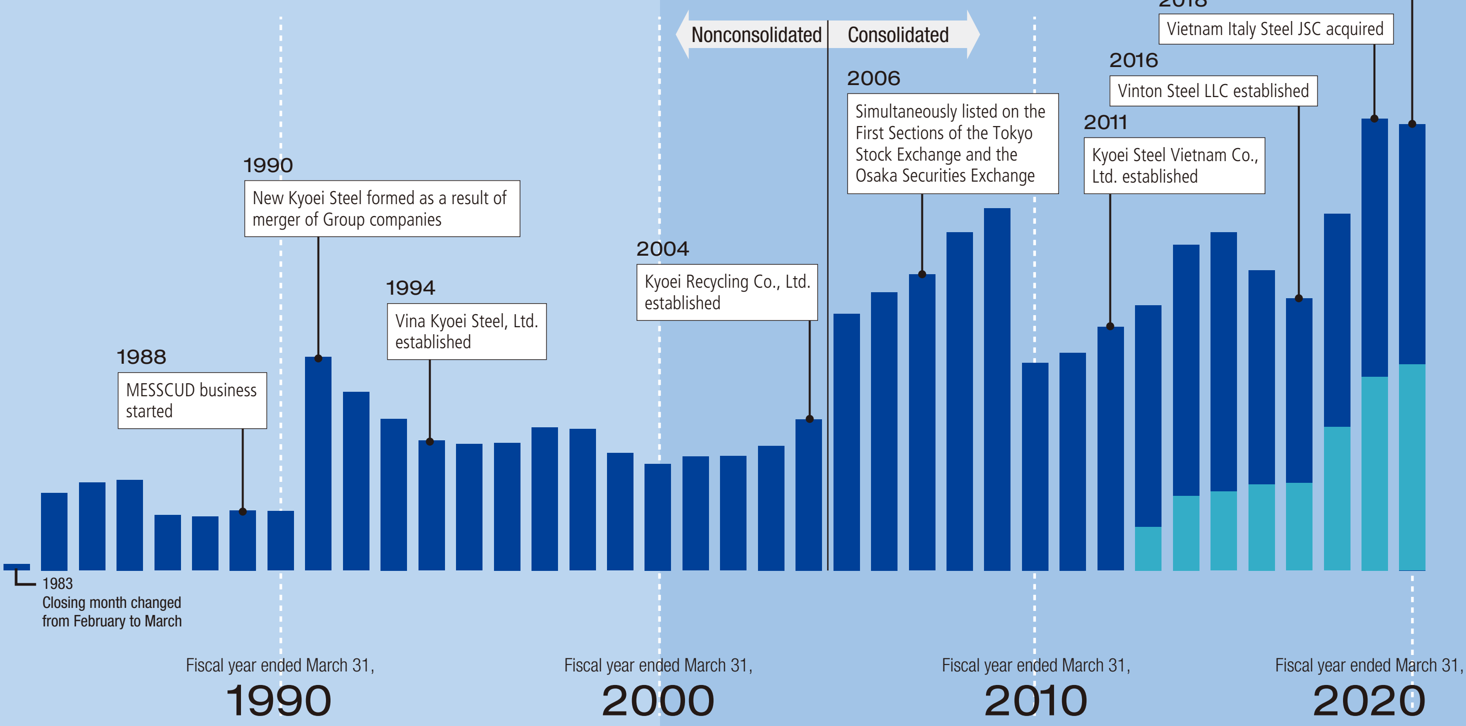
Medical waste treatment business started

Toward being a 100-year-old company (2000 to 2020)

"Wishing to contribute to global environmental conservation through business"

Listed on the First Sections of the Tokyo Stock Exchange and the Osaka Securities Exchange

Vinton Steel LLC established



Bubble Boom (1986 to 1991)
Bubble burst (1991 to 1993)
Asian currency crisis (1997)

Higher consumption and more growth in production due to the Bubble Boom increased the amount of waste

Izanami Boom (2002 to 2008)
Kyoto Protocol was officially enacted (2005)
Global financial crisis (2008)

Individual legislative acts for recycling were founded on the Basic Act on Establishing a Sound Material-Cycle Society
With the aim of building a recycling-based society, a legal framework was developed, and environmental awareness increased across society

We aim to help resolve social issues in enhance corporate value

Creating corporate value

Invested resources

(FY2020 results)

Financial capital	
Net assets	161.6 billion yen
Total assets	273.9 billion yen
Production capital	
Capital expenditure	8.9 billion yen
Human capital	
Number of consolidated employees	3,605
Social overhead capital	
Donation from the MESSCUD Medical Treatment Safety Fund	408.8 million yen in total
Natural capital	
Energy input	238,371 kL (crude oil equivalent)

Strength of Kyoei Steel Group

Accumulated ability to resolve issues

For over 70 years—since being founded in 1947—Kyoei Steel has earned respect from society by embracing challenges and producing results

Work practices

High cost competitiveness
Ability to gather sales-related information
Energy-conserving technology

Number 1 and pioneer

Top manufacturer of steel rebar for reinforcing concrete
Pioneering manufacturer of electric furnaces through the Material Recycling division

Global operations

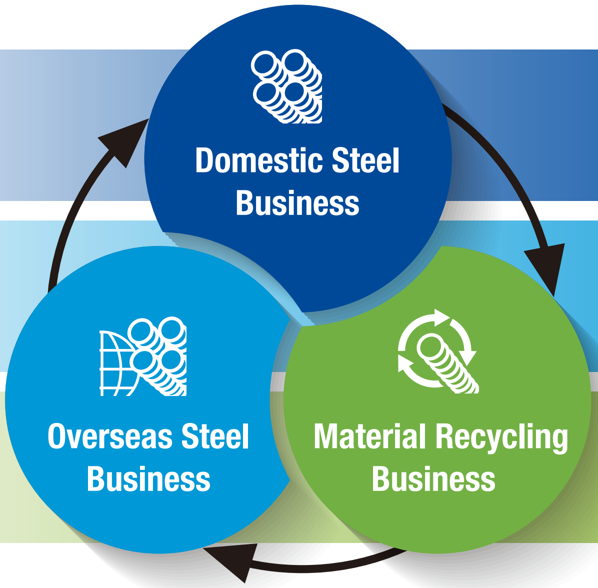
Global tripolar structure (Japan, Vietnam, North America)

Environment-friendly

Resource recycling business
Helping to resolve the social problem of waste

Medium-Term Business Plan
Quality Up 2020

Work practices
People
Management



Action Guidelines

Management Principle

Spirit of Challenge

Investing in ways to resolve social issues

Japan and overseas and further

by helping to resolve social issues

Domestic Steel Business

Secured superior position through a broad lineup of products and production bases covering areas of high demand

Our Group has plants in all regions with high demand: Kanto, Chubu, Kansai, Chu-Shikoku and Kyushu. We supply steel products that are recycled from the steel scrap generated in each region. This means production and sales can respond to different market trends in each region and CO_2 emissions from transportation can be reduced.

Overseas Steel Business

Growth strategy based on a global tripolar system: Japan, Vietnam, and North America

In Japan, due to the declining population, a significant increase in steel demand is considered unlikely. At the same time, global steel demand continues to grow. Our Group also operates steel businesses in Vietnam, a growing market, and North America, a mature market. We aim to grow the entire Group through our global tripolar system.

Material Recycling Business & Steel-related Business

Increasing earning opportunities in material recycling and in the global steel market

Our Group developed waste disposal technologies using electric arc furnaces approximately 30 years ago. Since then, we have steadily expanded our business fields. Further, we are working to increase earning opportunities through the steel-related business, such as the iron casting and port operations in Vietnam.

Corporate value

(Results for fiscal year ended March 31, 2020)

Results for this period	
Consolidated net sales	239.3 billion yen
Ratio of overseas sales	46.2%
Operating income	19.4 billion yen
ROE (Return on equity)	7.8%
Dividend per share	75.0 yen

Value we provide to society

For customers

Emphasizing compliance and quality

For shareholders / investors

Raising profit levels and returning profits to stakeholders
Improving framework for corporate governance and compliance

For partner companies

Building strong relationships of mutual trust

For our employees

Creating rewarding, safe, and comfortable workplaces

For local communities

Contributing to environmental conservation, SDGs, and local communities

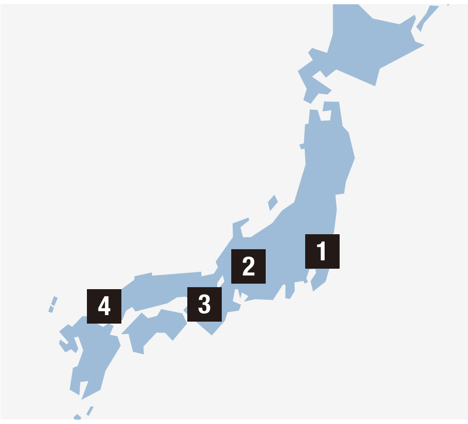
Kyoei Steel contributes to the building

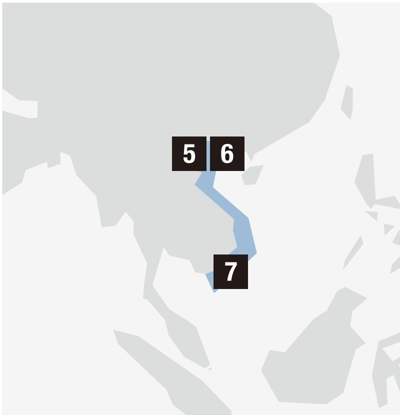
# of a recycling-oriented society

Company Outline

Established	August 21, 1947
Head office	1-4-16 Dojimahama, Kita-ku, Osaka 530-0004 Japan
Capital	¥18,516 million
Employees	3,605 (as of March 31, 2020)

Production and Sales Bases





JAPAN

1 KANTO STEEL LTD.
2 Nagoya Division
3 Hirakata Division
4 Yamaguchi Division

VIETNAM

5 Kyoei Steel Vietnam Co., Ltd. (KSVC)
6 Vietnam Italy Steel JSC (VIS)
7 Vina Kyoei Steel Co., Ltd. (VKS)

CANADA

8 AltaSteel Inc.

UNITED STATES

9 Vinton Steel LLC

Roadmap of priority issues we have identified toward achieving the UN's Sustainable Development Goals (SDGs) by fiscal 2030

We will include in the next Medium-Term Business Plan (for fiscal 2022 to 2024) specific initiatives for solving material issues

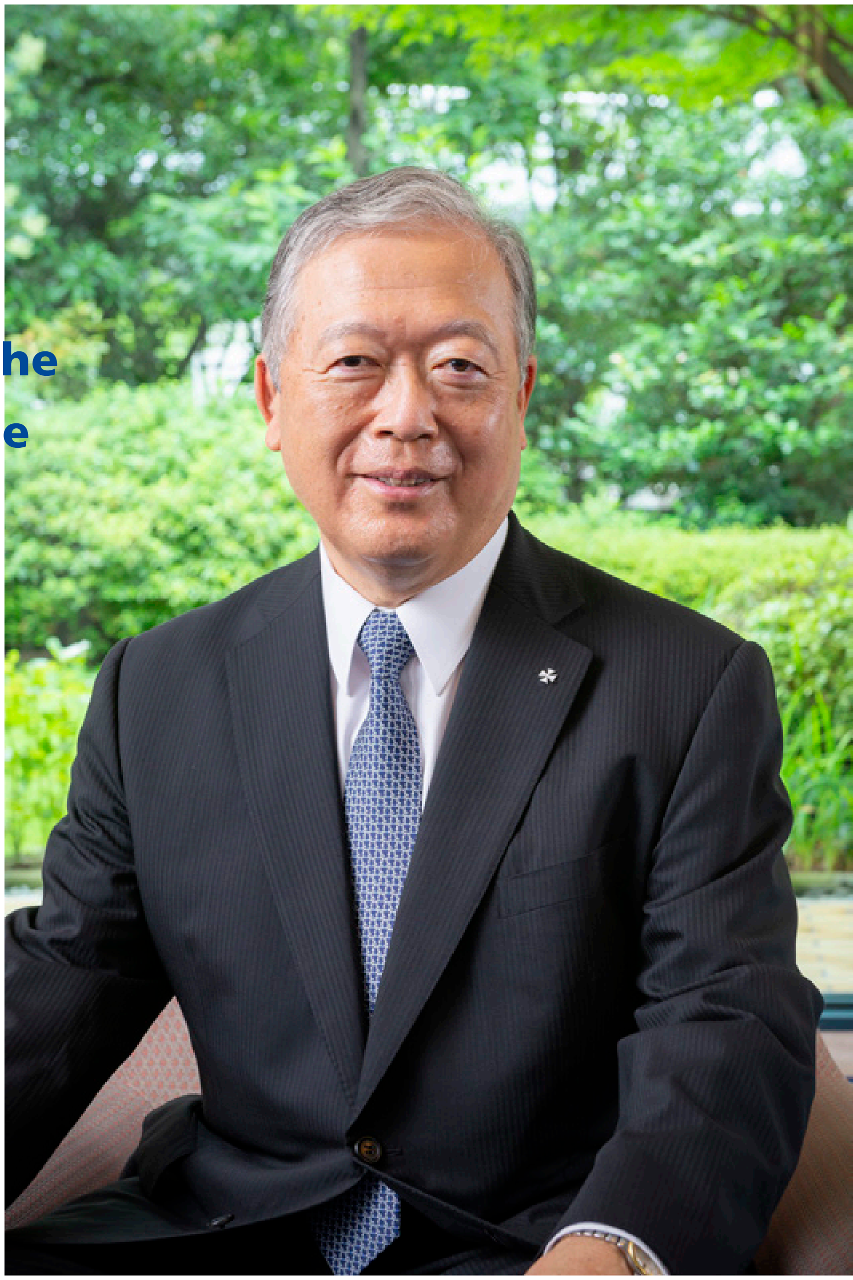
STEP 4 **Validating and identifying material issues**
Board of Directors' resolution

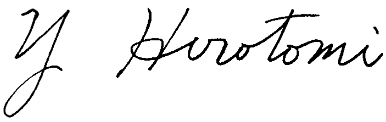
STEP 3 **Prioritizing**
Mapping the reporting priorities

STEP 2 **Assessing the issues**
Examining the issues across the value chain
Evaluating the issues from the stakeholders' perspective

STEP 1 **Understanding and organizing issues**
Identify issues toward 2030

We will overcome obstacles presented by COVID-19 and confront the challenges of FY2021, the final year of Quality Up 2020, our medium-term business plan.





Yasuyuki Hirotomi, President

PROFILE

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

Performance for the Fiscal Year ended March 31, 2020:

Net sales declined slightly, but profit increased substantially, reaching the targets set in the medium-term business plan ahead of schedule

Consolidated net sales of the Group came to ¥239,343 million (down 1.2% year on year), operating income was ¥19,403 million (up 110.9%), and profit attributable to owners of parent was ¥11,489 million (up 76.6%). At the same time, ROS was 8.1% and ROE was 7.8%. The numerical targets for the fiscal year ending March 31, 2021 (FY2021) in Quality Up 2020, the medium-term business plan that the Group formulated in 2018, are ¥280,000 million in net sales, ¥14,500 million in operating income, ROS of at least 5%, and ROE of at least 6%. However, the Group has already achieved, ahead of schedule, the profit target and management goals for the final year of the plan.

In the Domestic Steel business segment, which faced sluggish demand for steel products, we strove to maintain effective price levels after carefully considering the high production costs during recent years without aimlessly rushing to secure sales volume. As a result, profit grew substantially year on year.

Product shipments fell by roughly 6% year on year due to slightly weaker demand for steel products for construction and civil engineering and a strong sense of stagnation caused by the spread of the COVID-19 during the fourth quarter of the fiscal year. Conditions in the steel scrap market trended downward for nearly the entire year, but our hard work to maintain product prices at the same levels as the previous fiscal year proved successful. As a result, the metal spread increased. (The metal spread is the difference between the prices of steel products and steel scrap and is a major source of the Group's earnings.)

The Overseas Steel business segment moved into the black after recording a loss in the previous fiscal year but did not reach our profit targets.

In Vietnam, performance in the first half of the fiscal year was favorable due primarily to inexpensive raw material prices and robust demand. However, the largest manufacturer in Vietnam began seriously expanding sales into the southern Vietnamese market in the second half of the fiscal year, and competition intensified in this market, which had been relatively stable when compared with the market in northern Vietnam.

In the United States, both sales and profit fell year on year due primarily to weakening market conditions, which had previously been surging due to strong demand for steel products and US protectionist trade policies. There were other temporary factors that accounted for the decline, such as equipment problems and a valuation loss on secondary material inventories.

Profit in the Material Recycling business segment was mostly level year on year as we strove to acquire projects for difficult-to-process materials such as carbon fibers, which are expensive to process.

Outlook for the Fiscal Year Ending March 31, 2021:

Taking COVID-19 and other factors into account, we anticipate a year-on-year decline in sales and profits

Allow me to describe our outlook for the fiscal year ending March 31, 2021.

The COVID-19 continues to spread throughout the world and has had a tremendous impact on the global economy. Consequently, uncertainty is rising in business environments surrounding the Group. The Group's core steel business segments in Japan and overseas are expected to face a decline in demand primarily caused by suspended or delayed construction, civil engineering work, and capital investment as well as a resulting deterioration in the market and shipment volume decreases. Currently, making quantitative projections about future performance is difficult because the COVID-19 pandemic could potentially have a long-term impact. We are basing our assessment of the impact that COVID-19 will have on the Group in Japan and overseas based on information currently available (as of July 2020). Our forecast for the fiscal year ending March 31, 2021 is based on this information, as well as the current state of the operating environment in Japan and overseas.

In the fiscal year ending March 31, 2021, we project consolidated net sales of ¥220,000 million, consolidated operating income of ¥10,000 million, and profit attributable to owners of parent of ¥6,500 million.

Growth Initiatives: Aiming to Successfully Close Out the Final Fiscal Year of Quality Up 2020, our Medium-Term Business Plan

As mentioned, the Group successfully achieved profit targets for the final year of the medium-term business plan earlier than expected, or in the fiscal year ended March 31, 2020, the second year of the plan. However, we are not content with these results and acknowledge a number of challenges that we need to overcome.
Moving forward, we will make strengthening our earning power in the Overseas Steel business segment a top priority while striving to increase both sales and profit to meet final-year targets set in our medium-term business plan.
We are facing a tough competitive environment in Vietnam. However, we will respond primarily by cutting costs; enhancing collaboration between Vietnam Italy Steel Joint Stock Company (VIS) and Kyoei Steel Vietnam Co., Ltd. (KSVC) in the north; and reformulating sales strategies at Vina Kyoei Steel Co., Ltd. (VKS) while actively using Thi Vai International Port Co., Ltd. (TVP), which is expanding harbor works in the south. We are aiming to further develop operations in North America through our March 2020 acquisition of AltaSteel Inc. in Canada (see page 12) and collaboration with Vinton Steel, LLC, our base in the United States.
Under our strengthened Global tripolar structure (Japan, Vietnam, and North America), we will promote our Glocal Niche Strategy, which demonstrates the strength of our entire Group by expanding regionally while focused on operations in high demand areas and by increasing our Group's corporate value.

In the Material Recycling business segment, we believe that we must continue to increase the amount of difficult-to-process waste that we handle and to expand the types of items that we process at every site. In addition, we believe that we must boost our processing strengths primarily by building treating furnaces other than electric arc furnaces, which have a limited capacity to process industrial waste generated when producing steel products.
Our Quality Up strategy includes initiatives aimed at improvements in the quality of our management, work practices, and people. We are steadily implementing a range of these initiatives, including restructuring subsidiaries focused on increasing the Group's overall strength; automation and labor saving such as factory automation; and personnel system reform. Furthermore, we received an A- credit rating from Japan Credit Rating Agency, Ltd. in March.
Thanks to this rating, we will be able to more flexibly raise funds in response to changes in the business environment.

Overcoming the COVID-19 Pandemic

The coronavirus has had a considerable impact on the global economy. As a result of this pandemic, the state of global society will also likely change moving forward. Based on these conditions, we will implement and execute the following five priority measures during the fiscal year ending March 31, 2021:

1. **Construct optimal production, sales, and purchasing systems in the Domestic Steel business segment**
   Establish mutually complementary systems at our four plants in Japan
2. **Carry out initiatives to help achieve a**

sustainable society

Strengthen efforts focused on fulfilling SDGs to contribute to resolving societal issues

3. **Implement glocal niche strategy**

   Improve independent management (localization) of overseas subsidiaries

4. **Reinforce overall Group strengths in preparation for the post-COVID-19 era**

   Focus on restructuring Group companies and developing new businesses while expanding our range of operations

5. **Create workplaces and develop human resources in response to changes in workstyles**

   Further improve work environments and reform workstyles

As common practices change around the world, the Group will respond to these changes while aiming to achieve growth that will successfully lead us into the new period, at the same time that we take on the challenges related to innovation.

Progress in the Second Fiscal Year (FY2020)

Progress against Numeric Targets

In fiscal year 2020, the second year of our medium-term business plan, net sales were below forecast. Despite this shortfall, we reached final-year targets for both income and management indicators ahead of schedule. Capital expenditure and business investments in FY2020 were 24,600 million yen due to the acquisition of Canada-based AltaSteel for 15,700 million yen in March 2020.

Monetary unit: billions of yen / Unit of weight: millions of tons

	FY2019		FY2020		FY2021
	(Forecast) Note	(Results)	(Forecast)	(Results)	(Target)
Net sales	235.0	242.3	255.0	**239.3**	280
Operating income	7.5	9.2	11.0	**19.4**	14.5
Net income	5.0	6.5	7.0	**11.5**	—
Product shipment volume	3.26	3.27	3.62	**3.37**	4.00
Japan	1.74	1.75	1.78	**1.65**	1.80
Overseas	1.52	1.52	1.85	**1.72**	2.20
ROS	3.2%	3.8%	4.3%	**8.1%**	5% or more
ROE	3.5%	4.6%	4.8%	**7.8%**	6% or more
Dividend payout ratio	Approx. 30%	26.7%	24.8%	**28.4%**	Approx. 30%
Capital expenditure and business investments		12.3		**24.6**	
	45 billion yen over 3 years				

Note: Forecast figures for FY2019 are as of the release date of this medium-term business plan (October 31, 2018).

Acquiring New Bases in North America Based on the Glocal Niche Strategy

The Group has long viewed improving the overseas steel business as a core pillar of our growth strategy.
Accordingly, we are developing our steel business using a Global tripolar structure.
In a move aimed at strengthening our business in North America, we acquired a part of Moly-Cop AltaSteel Ltd. in Canada as a business base in March 2020 and converted the company into the AltaSteel Inc. subsidiary.


Plant Exterior

Through our core steel minimill operations, the Group provides steel products in the same regions where steel scrap is obtained to produce steel under a "local production for local consumption" business model.
We have long endeavored to raise our corporate value by setting up production bases near demand centers in Japan and overseas and by strengthening their competitiveness.
We call this our glocal niche strategy, which includes market approaches for global (tripolar structure: Japan, North America, and Asia); local (business development based on local production for local consumption); and niche (specific areas and products).
Our recent acquisition of AltaSteel was made based on the glocal niche strategy.
AltaSteel was founded in 1955 as the sole steel minimill in western Canada. Using their superior equipment, they manufacture and sell products such as special steel round bar used in mines, rebars used in construction and civil engineering, and steel merchant bars for machine processing. These products are highly valued by the customers.
AltaSteel's plant is located where the petroleum industry is booming and steel scrap can be obtained. These factors allow us to consistently buy raw materials, making this area an ideal location for electric furnaces.
Moving forward, the Group will conduct regionally focused business development that will allow us to further apply AltaSteel's strengths. At the same time, we aim to improve our steel business in North America primarily through technology-based collaboration with Vinton Steel, LLC in the United States.

Steelmaking Process

Rolling Process

Company Outline

Company name	AltaSteel Inc.
Plant location	Edmonton, Alberta, Canada
Representative	Masahiro Kitada (Board Director and Senior Executive Officer of Kyoei Steel, Ltd.)
Business details	Manufacture and sale of steel products; processing and sale of steel scrap and non-ferrous scrap metal
Ownership ratio of investor	Kyoei Steel, Ltd. 100%
Production capacity	300,000 tons of steel and rolling 270,000 tons
Number of employees	428 (as of March 2020)

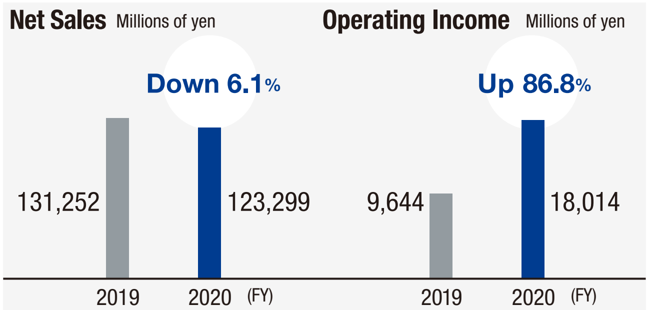
In the fiscal year ended March 31, 2020 (FY2020), profits rose for the Domestic Steel Business segment despite a decline in sales, while both sales and profit increased in the Overseas Steel Business segment, which moved into the black. At the same time, both sales and profit decreased in the Material Recycling Business segment, while the Other Business segment shifted into profitable territory with increases in sales and profit. As a result, operating income rose substantially overall, despite a slight drop in net sales.

Domestic Steel Business

Product shipments declined by 102,000 tons year on year, to 1,645,000 tons due to lackluster demand for steel products from the construction and civil engineering sectors and intensifying stagnation caused by the spread of the novel coronavirus during the fourth quarter.

Meanwhile, the price of steel scrap, our primary raw material, trended downward from the beginning of the fiscal year, dropping ¥8,100 per ton or 23.0% year on year. However, we were able to maintain the prices of steel products at levels equivalent to the previous fiscal year, and the metal spread (difference between the prices of steel products and steel scrap), a major source of earnings, grew by ¥8,100 per ton or 24.2% year on year.

As a result, segment sales decreased ¥7,953 million or 6.1% year on year, to ¥123,299 million, and operating income rose ¥8,370 million or 86.8% to ¥18,014 million.

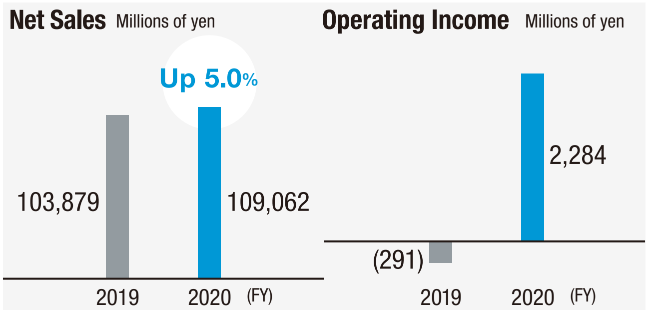


Overseas Steel Business

In Vietnam, business performance was generally firm from the beginning of the fiscal year, supported by steady demand for steel products and lower prices for semi-finished products and steel scrap, our primary raw material. Starting from the second half of the fiscal year, the business environment was tough in both northern and southern Vietnam due to intensified competition.

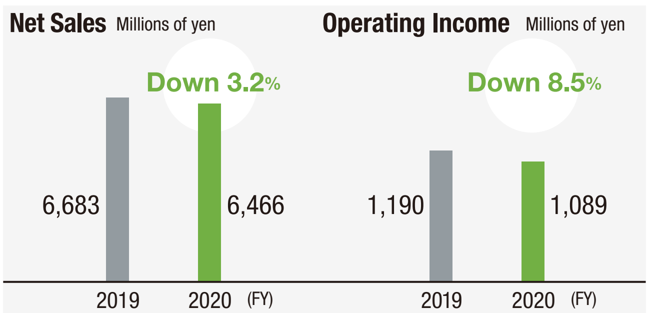
In the United States, financial results were unfavorable, despite firm demand for steel products, due primarily to weakening steel product market conditions that contrasted with an upsurge during the previous fiscal year. Another negative factor was problems with equipment during the second half of the fiscal year.

However, overall performance in this segment exceeded that of the previous fiscal year. Segment sales increased by ¥5,183 million or 5.0% year on year to ¥109,062 million. Operating income rose year on year by ¥2,575 million to ¥2,284 million (compared with an operating loss of ¥291 million one year earlier).



Material Recycling Business

Although the processing volume of difficult-to-process waste increased, including carbon fiber, there was a decline in the number of large one-time orders that affected segment performance. Segment sales consequently decreased ¥217 million or 3.2% year on year, to ¥6,466 million, and operating income decreased ¥101 million or 8.5%, to ¥1,089 million.

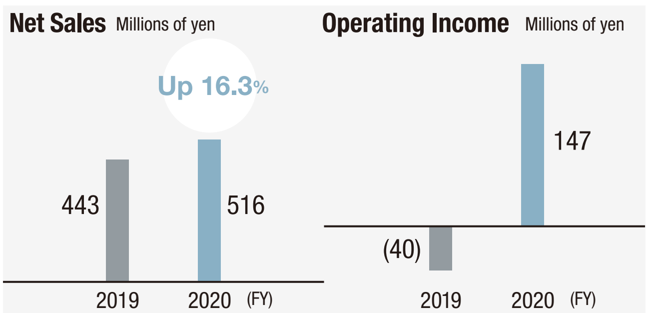


Other Business

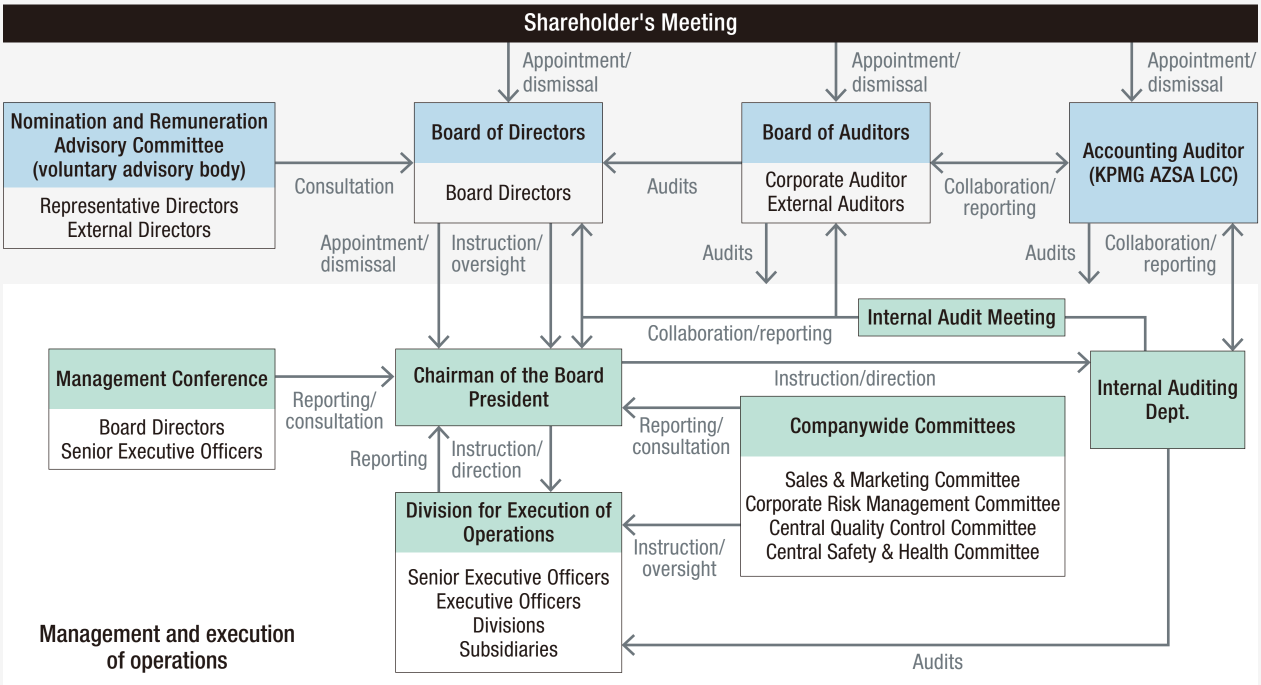
This business segment includes sales of civil engineering materials, an insurance agency business, and other business operations conducted by a subsidiary. In addition, this segment is developing harbor works in Vietnam.

In this segment, sales increased ¥72 million or 16.3% year on year to ¥516 million, while operating income rose ¥187 million year on year to ¥147 million (compared with an operating loss of ¥40 million one year earlier).

Harbor works in Vietnam contributed to the growth in both sales and operating income.



Corporate Governance Structure



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

Board of Directors

Our Board of Directors has eleven members (with four external directors), including two representative directors and nine board directors. The Board executes important decisions and oversees the execution of business by the board directors and executive officers. In addition to regular monthly meetings, extraordinary meetings of the Board are convened when necessary. Management conferences are held concerning Board of Directors meeting agenda items or important matters for discussion, adjustment, or decision pertaining to management execution.
Management conferences are attended by the chairman, the president, executive managing officers, standing corporate auditors, senior executive officers, executive officers, and the president of Kanto Steel Ltd., as well as others designated by the chairman or president.
In addition to being held monthly, extraordinary management conferences may be convened when necessary.
On June 15, 2016, we established the Nomination and Remuneration Advisory Committee as a voluntary advisory body to the Board of Directors. This committee is composed of independent external directors and board directors selected by resolution of the Board of Directors.

Board of Auditors

Kyoei Steel is a company with a Board of Auditors, and our Articles of Incorporation specifies a maximum of five corporate auditors. Currently, the Board of Auditors consists of one standing corporate auditor, two external auditors, and one substitute auditor.
According to our policy, the Board of Auditors must include at least one member who has a considerable degree of knowledge concerning finance and accounting and one independent executive who poses no conflict of interest with general shareholders.
The Board of Auditors meets regularly (once a month) and holds additional meetings as necessary.
Fundamentally, the Board of Auditors is responsible for

monitoring the effectiveness of the Company's governance, as well as auditing the implementation and execution of management, which includes the execution of duties of directors. Members of the Board of Auditors attend meetings of the Board of Directors; inspect major offices and business locations in Japan and overseas; receive business reports from directors and other authorities; and share their own opinions when necessary. At the same time, members are also briefed by the Accounting Auditor concerning audit planning and methodology, as well as remuneration. Furthermore, they are working to strengthen our auditing structure by collaborating with both the Accounting Auditor and the Internal Auditing Department through quarterly reviews that include participation and reports from the Accounting & Financing Department and the Internal Auditing Department.

The Board of Auditors also receives reports from the Internal Auditing Department on a regular basis and on other occasions, as necessary. In addition, the Internal Auditing Department informs members of the Board of Auditors regarding the results of internal audits each time they are performed.

Sales & Marketing Committee

The president serves as the committee chairman, with other members being the director in charge of the Marketing Planning & Coordination Department, the general managers of the sales & marketing departments of each division, and others designated by the chairman.

In principle, the committee meets monthly.

In addition to the detailed sharing of information concerning the environment and situation surrounding steel scrap (raw material) and product market conditions, the members propose business strategy plans.

Exchanges of timely information concerning sales and purchasing are also conducted via the Company intranet.

Corporate Risk Management Committee

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

Central Quality Control Committee

This committee is chaired by the director in charge of the headquarters Production Planning & Coordination Department, with other members being headquarters executives and general managers of each division, presidents of affiliated companies, and others designated by the chairman. In principle, the committee meets twice a year.

The committee oversees quality assurance issues and provides instructions for ways to enhance governance of the Group's quality. The committee also reports necessary matters at management conferences and works to improve the quality control system.

Central Safety & Health Committee

The Central Safety & Health Committee is chaired by the director in charge of the headquarters Production Planning & Coordination Department, with other members being the chairmen of the Safety & Health Committees of each division, the general manager of the Production Department of each division, and others designated by the Chairman of the Central Safety & Health Committee. The committee conducts general planning and coordination related to health and safety while exchanging related information. It also conducts an annual safety and health audit, as well as a joint safety and health patrol. Furthermore, the committee reports to the Company's chairman, president, and other top management while striving to intensify the Group's safety and health activities and raise overall sensitivity regarding safety.

Compliance System

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

Also, when questions arise concerning compliance, executive officers and employees can report to the Risk and Compliance Committee or internally to the Compliance Consultation Desk, which was set up for that purpose.

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

Initiatives Targeting Affiliated Companies

Based on Kyoei Steel's management principle and action guidelines, we have formulated the Affiliated Company Management Regulations for managing subsidiaries and for ensuring the appropriate application of those rules.

We dispatch corporate auditors to each of our affiliated companies. Additionally, the Company's Internal Auditing Department conducts both regular and unscheduled internal audits, while providing advice and proposals based on their results.

We also call on individual subsidiaries to establish compliance programs based on the Company's programs, depending on the type and scale of their operations.

For the above items, we have also formulated a management structure by department for subsidiaries.

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 four external board directors and two external auditors.
We are working to strengthen our management oversight and have appointed external board directors and external auditors with assured independence for more sound, fair, and transparent management as well as to ensure fulfillment of our duty of accountability.
External Board Director Nobuhiko Arai has rich experience as manager at such companies as Resona Trust & Banking Co., Ltd. (the present Resona Bank, Ltd.) and TOYO TEC CO., LTD. and we have appointed him based on our belief that he will provide advice on overall management judgments.
External Board Director Tetsuya Yamao has significant experience gained over many years and specialized knowledge as an attorney, as well as a robust spirit of compliance. We have appointed him based on our judgment that he will conduct his duties appropriately.
External Board Director Tatsuya Kawabe, who had served as a director of the Kansai Electric Power Co., Inc., has deep knowledge and significant insight gained during his career. We have appointed him based on our judgment that he will conduct his duties effectively.
External Board Director Takehiko Yamamoto, who had served as a director of Mitsui O.S.K. Lines, Ltd. and DAIBIRU CORPORATION, has deep knowledge and significant insight gained during his career. We have appointed him as a new external board director based on our judgment that he will conduct his duties effectively.
External Auditor Hiroshi Matsuda has extensive knowledge of and experience in the steel industry, and we have appointed him based on our judgment that he will strengthen and improve the Group’s auditing structure.
External Auditor Toru Muneoka has expert knowledge and extensive experience as a certified public accountant and as a university professor, 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

Compensation for the Company’s executives is within the remuneration range set at the General Meeting of Shareholders. Compensation includes a fixed amount depending on the position and a performance-based amount that takes into account the Company’s management status and each executive’s degree of responsibility. Based on these factors, the Company's policy is to pay amounts in line with the Company's operating performance, as well as individual performance and achievement. Following deliberations by the Nomination and Remuneration Advisory Committee, an advisory body to the Board of Directors, the resolution is made by the representative director at the Board of Directors meeting.
Compensation for corporate auditors is determined after discussions by the Board of Auditors.

Basic Compensation Based on Position

Basic compensation based on position is a fixed amount determined according to position. Amounts are determined by taking into account research by third-party institutions and remuneration levels at other companies.

Performance-Based Compensation

Performance-based compensation has two parts: one based on the Company’s overall performance, which is indexed to profit attributable to owners of parent and one based on individual performance.
In the fiscal year ended March 31, 2020, profit attributable to owners of parent came to ¥11,489 million, compared with our forecast of ¥7,000 million.
The portion of performance-based compensation for individual performance is evaluated according to the performance of the division for which the executive is responsible, as well as the level of achievement of strategic targets set for the individual.
Performance-based compensation amounts to around 10–40% of the basic compensation.
To ensure objectiveness and transparency, the Nomination and Remuneration Advisory Committee confirms specific remuneration amounts and calculation methods used for individual assessments based on performance targets.
The Company discontinued retirement benefits for executives in 2009.
It has been resolved that compensation for all board directors will not exceed ¥550 million annually, while compensation for all corporate auditors will not exceed ¥60 million annually.

Risk Management

The Company categorizes risks as those items related to fluctuations in business and market environments; operational risks incurred during manufacturing; product quality; environmental conservation; exchange rate fluctuations or investments and lending; compliance; and risks associated with natural disasters and pandemics, such as the novel coronavirus. Our executives are always examining and sharing measures for preventing and hedging every type of risk.
Moreover, the internal communication system for use in the event of an emergency is very well known, and in case of an emergency the department with jurisdiction immediately contacts the Headquarters Human Resources and General Affairs Department, whereupon the Headquarters Human Resources and General Affairs Department transmits the information via the prescribed network.

For details about risk information, please refer to our website.
URL https://www.kyoeisteel.co.jp/en/ir/management/risk.html

1 Relationship with Nippon Steel Corporation

As of June 26, 2020, Nippon Steel owned 25.8% of the outstanding shares of Kyoei Steel (26.7% of voting rights) and is the Company's largest shareholder. Kyoei Steel is an equity-method affiliate of Nippon Steel.
The Company operates autonomously, conducts business independently, and intends to continue doing so in the future. However, as the top shareholder in the Company, Nippon Steel is positioned to influence our operations by exercising its voting rights, and its interests may not necessarily coincide with those of our other shareholders.

2 Downward Trend in Construction Demand

With the mature Japanese economy now facing a decline in population, we believe that neither domestic public- nor private-sector demand is likely to grow significantly over the long term. Accordingly, we judge that demand for the Group's mainstay product, steel rebar, is likely to decrease.
If the Group's efforts to supplement this declining demand are unsuccessful, our results could be affected.
The Group is striving to expand overseas, where construction demand is expected to grow due to population increases and economic development.
We have already expanded into Vietnam, the United States, and Canada, and are developing regional strategies that will extend our business locations throughout the world to enable us to supplement declining demand in some countries and regions with performance in other countries and regions.

3 Selling Price Declines and Shipment Volume Reductions Caused by Competition

The Group's core domestic steel operations face competition from many steel minimill companies as well as the structural issue of excess production capacity.
Consequently, the Group's results could be impacted if trends in steel demand cause a rise in competition aimed at securing sales volume, with resulting lower selling prices and shipped volumes.
To preserve our ability to compete with rival manufacturers, the Group is boosting sales capacity, cutting manufacturing costs, improving product quality, and developing value-added products.

4 Rises in Raw and Secondary Material Prices and Purchasing Limitations

The Group uses raw materials (steel scrap) with prices that fluctuate based on global demand, and passing on increases for these materials to product selling prices is difficult. Further, the Company could become unable to procure the necessary volume of secondary materials (electrodes, alloy iron, etc.) due to price increases or supply shortages. These factors could potentially cause manufacturing cost increases or operational stoppages that could consequently impact the Group's results.
To ensure favorable and stable purchasing of raw and secondary materials, the Group makes appropriate judgments, while gathering information, by considering factors such as purchase prices and timing. At the same time, we are working to secure trustworthy suppliers.

5 Rising Prices for Energy, including Electrical Power and Fuel

Electricity expense burdens are trending higher due in part to rising prices caused by nuclear power plants being shut down and the surcharge for renewable energy.
The Company could potentially face higher costs for transportation, electricity, and fuel used in manufacturing due to rising global energy prices (for petroleum, liquefied natural gas, etc.) or increases in energy prices caused by exchange rate fluctuations.
These factors could potentially impact the Group's results.
Accordingly, the Group is striving to improve productivity primarily by reducing electric power consumption while working to reduce costs for energy and other commodities.

6 Changes to External Environments Related to Logistics

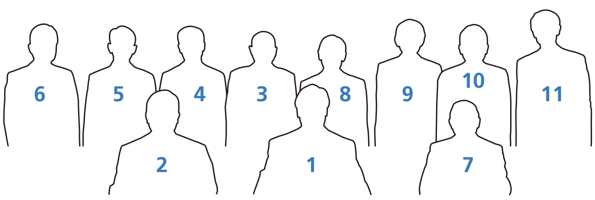
The Group could potentially face higher transportation costs, as well as barriers to acquiring more shipping capacity, if logistics affect product shipments or raw and secondary material purchasing changes substantially due to factors such as personnel shortages in the transportation industry or tighter regulations. These factors could impact the Group's results.
The Group is endeavoring to increase transportation efficiency and to secure more shipping capacity mainly by establishing shipping stop points and shuttle services, and by reducing loading and standby times, while converting some carriers into subsidiaries.

7 Quality-Related Issues

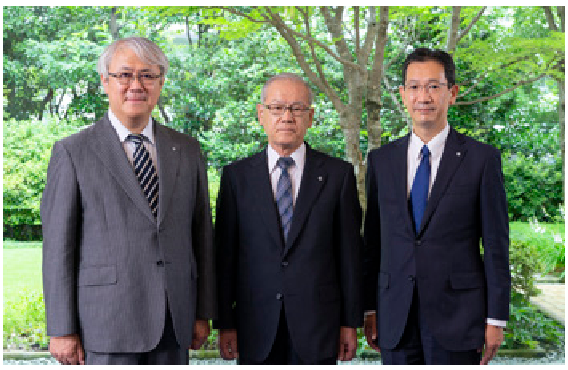
The Group regulates product quality based primarily on Japanese Industrial Standards under the Industrial Standardization Act; other public standards such as the Building Standards Act; quality assessments; and agreements with business partners.
In recent years, quality standard violations, falsifications, and other quality-related issues in many industries have been gathering attention on a societal level. Under these circumstances, the Group offers many products that are related to buildings and structures that impact a large and unknown number of lives and amount of property. Accordingly, the Company acknowledges the strong social interest in the quality of our products.
As a result, product quality issues could potentially impact the Group's results by causing revocations of public certifications, business loss, damage to our reputation, or other negative factors.
Through our Quality Control Section, the Company is conducting groupwide integrated quality management and systematically conducting quality audits. At the same time, we are building a quality control framework through actions such as improvement requests received in response to important quality management-related issues uncovered by quality audits conducted through our Central Quality Control Committee.
We are also implementing ways to mitigate quality control issues related to hardware and equipment that can occur during inspection and testing conducted at all production bases. These measures include installing automatic measuring equipment and communication systems designed to cut back on data falsifications or manual input errors.

Board Directors and Corporate Auditors

Chairman & Representative Director	Hideichiro Takashima	1
President & Representative Director	Yasuyuki Hirotomi	2
Board Directors & Executive Managing Officers	Shogo Sakamoto	3
	Osamu Narumi	4
Board Directors & Senior Executive Officers	Hiroshi Kunimaru	5
	Masahiro Kitada	6
Board Director	Mitsuhiro Mori	7
Board Directors (External Board Directors)	Nobuhiko Arai	8
	Tetsuya Yamao	9
	Tatsuya Kawabe	10
	Takehiko Yamamoto	11



Standing Corporate Auditor	Shuji Ichihara	12
Corporate Auditors	Hiroshi Matsuda	13
	Toru Muneoka	14



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Board of Directors

Hideichiro Takashima 1

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

Yasuyuki Hirotomi 2

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

Shogo Sakamoto 3

April 1999	Joined the Company
June 2012	General Manager of Sales & Marketing Dept. of Yamaguchi Division
June 2014	Executive Officer, Deputy General Manager of Yamaguchi Division, General Manager of Sales & Marketing Dept. of Yamaguchi Division
June 2017	Board Director and Executive Officer, Deputy General Manager of Yamaguchi Division, General Manager of Sales & Marketing Dept. of Yamaguchi Division
January 2018	Board Director and Executive Officer, General Manager of Marketing Planning & Coordination Dept. of head office, Deputy General Manager of Yamaguchi Division
June 2018	Board Director and Executive Managing Officer, General Manager of Marketing Planning & Coordination Dept. of head office
June 2019	Board Director and Executive Managing Officer in charge of Marketing Planning & Coordination Dept. of head office and General Manager of Marketing Planning & Coordination Dept. of the Company
June 2020	Board Director and Executive Managing Officer, General Manager of Yamaguchi Division (current position)

Osamu Narumi 4

August 1974	Joined the Company
May 1999	Deputy General Manager of Production Dept. of Hirakata Division
June 2011	Executive Officer, and dispatched to Vina Kyoei Steel Ltd. (Vice President of Vina Kyoei Steel Ltd.)
June 2015	Corporate Adviser of the Company (Vice President of Vina Kyoei Steel Ltd.)
June 2016	Board Director and Executive Officer, and General Manager of Hirakata Division
June 2018	Senior Executive Officer and General Manager of Hirakata Division
June 2019	Board Director and Executive Managing Officer, General Manager of Hirakata Division and General Manager of Production Dept. of Hirakata Division
April 2020	Board Director and Executive Managing Officer, General Manager of Hirakata Division (current position)

Hiroshi Kunimaru 5

April 1986	Joined the Daiwa Bank Ltd. (currently Resona Bank, Ltd.)
June 2003	Manager of Shimamoto Branch of Resona Bank, Ltd.
March 2006	Manager of Minamimorimachi Branch of Resona Bank, Ltd.
July 2010	Manager of Ueroku Branch of Resona Bank, Ltd.
April 2012	Manager of Semba Branch of Resona Bank, Ltd.
April 2014	Credit Manager of Resona Bank, Ltd.
May 2016	Joined the Company
June 2017	Executive Officer, Assistant to the Director in charge of Accounting & Financing Dept. of head office and General Manager of Corporate Planning Dept.
June 2018	Senior Executive Officer, in charge of Corporate Planning Dept., Accounting & Financing Dept. and Information System Dept. of head office and General Manager of Corporate Planning Dept.
June 2019	Senior Executive Officer, in charge of Corporate Planning Dept., Accounting & Financing Dept. and Overseas Investment Dept. of head office
June 2020	Board Director, Senior Executive Officer, in charge of Corporate Planning Dept., Accounting & Financing Dept. and Overseas Investment Dept. of head office (current position)

Masahiro Kitada 6

October 1991	Joined the Company
April 2010	General Manager of Accounting & Financing Dept. of head office
October 2014	Executive Officer, General Manager of Accounting & Financing Dept. and General Manager of Overseas Investment Dept. of head office
December 2016	Executive Officer, Assistant to Director in charge of Overseas Investment Dept. of head office, dispatched to KYOEI STEEL America LLC (President of KYOEI STEEL America LLC and President of Vinton Steel, LLC)
June 2017	Executive Officer, dispatched to KYOEI STEEL America LLC (President of KYOEI STEEL America LLC and President of Vinton Steel, LLC)
June 2019	Senior Executive Officer, dispatched to KYOEI STEEL America LLC (President of KYOEI STEEL America LLC and President of Vinton Steel, LLC)
March 2020	Senior Executive Officer, dispatched to KYOEI STEEL America LLC (President of KYOEI STEEL America LLC and President of Vinton Steel, LLC), dispatched to AltaSteel Inc. (President of AltaSteel Inc.) and KYOEI CANADA INVESTMENT LTD. (Representative of KYOEI CANADA INVESTMENT LTD.)
June 2020	Board Director and Senior Executive Officer, dispatched to KYOEI STEEL America LLC (President of KYOEI STEEL America LLC and President of Vinton Steel, LLC), dispatched to AltaSteel Inc. (President of AltaSteel Inc.) and KYOEI CANADA INVESTMENT LTD. (Representative of KYOEI CANADA INVESTMENT LTD.) (current position)

Mitsuhiro Mori 7

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

Nobuhiko Arai 8

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

Tetsuya Yamao 9

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

Tatsuya Kawabe 10

April 1976	Joined the Kansai Electric Power Company Incorporated ("KEPCO")
June 2006	Manager of District Symbiosis and Public Relation Office of KEPCO
June 2007	Executive Officer and Manager of District Symbiosis and Public Relations Office of KEPCO
May 2009	Executive Officer of the KEPCO, and Managing Director and Head of the Secretariat of Kansai Economic Federation
June 2009	Executive Managing Officer of KEPCO, and Managing Director and Head of the Secretariat of Kansai Economic Federation
May 2011	Executive Managing Officer of KEPCO, and Senior Managing Director and Head of Secretariat of Kansai Economic Federation
June 2011	Director of KEPCO and Senior Managing Director of Kansai Economic Federation
June 2015	President of Kansai Electrical Safety Inspection Association (current position)
June 2019	Board Director of the Company (current position)

Takehiko Yamamoto 11

April 1975	Joined Mitsui O.S.K. Lines, Ltd.
June 2002	General Manager of Affiliated Business Division of Mitsui O.S.K. Lines, Ltd.
June 2003	General Manager of Group Business Division of Mitsui O.S.K. Lines, Ltd.
June 2005	Executive Officer, in charge of Group Business Division and Kansai Business District of Mitsui O.S.K. Lines, Ltd. and Director of DAIBIRU Corporation
June 2007	Managing Executive Officer and in charge of Group Business Division and Kansai Business District of Mitsui O.S.K. Lines, Ltd.
June 2009	Director and Senior Managing Executive Officer and in charge of Group Business Division and Kansai Business District of Mitsui O.S.K. Lines, Ltd.
June 2010	Representative Director, Vice President and Executive Officer of DAIBIRU Corporation
June 2011	Representative Director, President and Chief Executive Officer of DAIBIRU Corporation
April 2016	Representative Director and Chairman of DAIBIRU Corporation
April 2019	Director and Chairman of DAIBIRU Corporation
June 2019	Corporate Advisor of DAIBIRU Corporation (current position)
June 2020	Board Director of the Company (current position)

Auditors

Shuji Ichihara 12

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

Hiroshi Matsuda 13

April 1992	Joined Nippon Steel Corporation
April 2013	Manager of General Administration Office in General Administration Division of Nippon Steel & Sumitomo Metal Corporation (currently Nippon Steel Corporation)
April 2017	General Manager of General Administration Dept. of Nagoya Works of Nippon Steel & Sumitomo Metal Corporation
April 2019	General Manager of General Administration Division of head office of Nippon Steel Corporation
April 2020	General Manager of Group Companies Planning Division of Nippon Steel Corporation (current position)
June 2020	Provisional Auditor of the Company (current position)

Toru Muneoka 14

September 1984	Joined Tomatsu Aoki (currently Deloitte Touche Tohmatsu LLC)
February 1988	Registered Certified Public Accountant
September 1990	Joined Industrial Bank of Japan (currently Mizuho Bank, Ltd.)
April 2003	Joined Sony Corporation
April 2006	Professor, School of Accountancy of Graduate School of Kansai University (current position)
March 2011	Auditor of DDS Inc. (current position)
January 2016	Outside Director of SENSHU ELECTRIC CO., LTD. (current position)
January 2019	Provisional Auditor of the Company
June 2019	Auditor of the Company (current position)

Executive Officers

Senior Executive Officers

Aimei Shiraishi General Manager of Nagoya Division

Masami Yokoyama in charge of Production Planning & Coordination Dept. and Material Recycling Dept. of head office

Kiminori Hashimoto in charge of Compliance, Human Resources & General Affairs Dept., and Information System Dept. of head office

Kenji Kawai in charge of Marketing Planning & Coordination Dept. of head office, Deputy General Manager of Nagoya Division and General Manager of Logistics (Delivery) & Procurement Dept. of Nagoya Division

Executive Officers

Kosei Kawakami General Manager of Overseas Investment Dept. of head office

Akira Ono General Manager of Material Recycling Dept. of head office

Toyoji Maeda General Manager of Internal Auditing Dept.

Tetsuya Matsumoto Deputy General Manager of Yamaguchi Division and General Manager of Sales & Marketing Dept. of Yamaguchi Division

Susumu Hayashi General Manager of Accounting & Financing Dept., and General Manager of Information System Dept. of head office

Meguru Nishimura Assistant to Director in charge of Overseas Investment Dept. of head office, Assistant to Director in charge of Marketing Planning & Coordination Dept., Assistant to Director in charge of Material Recycling Dept., Chairman of KYOEI STEEL America LLC and Chairman of Vinton Steel, LLC

Nobuaki Nakatani General Manager of Human Resources & General Affairs Dept. of head office

Akio Miyamura dispatched to Thi Vai International Port Co., Ltd. (President of Thi Vai International Port Co., Ltd)

Hiroyuki Iwasa dispatched to Vina Kyoei Steel Ltd. (President of Vina Kyoei Steel Ltd.)

Consolidated Ten-Year Summary

For the years ended March 31, 2011 through 2020

	2011	2012	2013	2014	2015
Product shipments (Thousands of tons):					
Finished products (total)	1,883	1,919	2,081	2,357	2,338
Domestic	1,462	1,549	1,603	1,720	1,680
Overseas	421	371	478	637	657
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
Income (loss) before income taxes	(386)	3,151	3,738	9	10,730
Profit (loss) attributable to owners of parent	(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

2016	2017	2018	2019	2020	
					Products shipment (Thousands of tons)**:**
2,429	2,662	2,965	3,269	**3,367**	Finished products (total)
1,641	1,662	1,682	1,747	**1,645**	Domestic
788	999	1,284	1,522	**1,722**	Overseas
					For the year (Millions of yen)**:**
¥ 160,952	¥ 145,991	¥ 191,254	¥ 242,257	**¥ 239,343**	Net sales
23,889	18,726	16,472	23,474	**34,742**	Gross profit
13,792	7,971	4,259	9,200	**19,403**	Operating income (loss)
12,432	7,698	5,449	8,444	**17,031**	Income (loss) before income taxes
8,467	4,783	3,483	6,505	**11,489**	Profit (loss) attributable to owners of parent
104	119	177	169	**180**	Research and development expenses
5,026	5,961	6,663	7,476	**7,719**	Depreciation and amortization
10,103	7,262	5,803	5,507	**8,894**	Capital expenditures
					Per share amounts (yen):
194.94	110.41	80.31	149.78	**264.38**	Net income (loss), basic
—	—	—	—	**—**	Net income (loss), diluted
45.00	30.00	40.00	40.00	**75.00**	Cash dividends applicable to the year
					At year-end:
¥ 200,436	¥ 214,341	¥ 234,220	¥ 261,590	**¥ 273,850**	Total assets
83,565	93,301	105,791	126,734	**127,952**	Working capital
33,149	41,414	50,088	69,247	**72,407**	Interest bearing debt
143,090	146,663	148,460	153,781	**161,581**	Net assets
134,886	138,365	140,010	143,407	**151,208**	Shareholders' equity*
					Ratios:
6.4	3.5	2.5	4.6	**7.8**	Return on equity (%)
7.1	4.1	2.2	4.0	**7.6**	Return on total assets (%)
0.23	0.28	0.34	0.45	**0.45**	Debt to equity ratio (times)
67.3	64.6	59.8	54.8	**55.2**	Shareholders' equity* to total assets (%)
					Other statistics:
44,899	44,899	44,899	44,899	**44,899**	Number of shares outstanding (thousands)
1,806	2,341	2,430	3,200	**3,605**	Number of employees
					Stock price (yen)**:**
¥ 2,455	¥ 2,349	¥ 2,295	¥ 2,510	**¥ 2,314**	High
¥ 1,584	¥ 1,387	¥ 1,594	¥ 1,473	**¥ 1,161**	Low

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

Financial Review (Consolidated)

1 CONSOLIDATED OPERATING RESULTS

(1) Operating Results

In the fiscal year ended March 31, 2020, the Japanese economy showed a gradual recovery due to improvements in the employment and income environment and various policy effects. However, the domestic and overseas economies slowed significantly, and the outlook remains uncertain due to the spread of coronavirus infections (COVID-19 pandemic).
In the market for steel construction materials in Japan, the primary source of demand for the Kyoei Steel Group's products, demand was sluggish both for construction and civil engineering uses. Furthermore, affected by the COVID-19 pandemic the products market softened in the midst of increasing stagnation from the beginning of 2020 through the end of March. In response, Kyoei Steel took action aimed at maintaining product prices in this challenging environment.
Prices of steel scrap had been on a downward trend from the beginning of the fiscal year until November, when there was a brief upturn. However, prices of steel scrap started falling again from early 2020 and remained at a level lower than expected. As a result, the metal spread (the difference between the prices of steel products and steel scrap as a material), which is a major source of the Group's earnings, has increased.
In the overseas steel business, the products market weakened, and competition became more severe in both Vietnam and the United States from the second half. However, the overall business performance exceeded the previous fiscal year, supported by strong demand.
On March 17, 2020, Kyoei Steel acquired all the shares of AltaSteel Inc., an Alberta, Canada-based company in the steel minimill business. As a result of this acquisition, AltaSteel and its subsidiary became Kyoei Steel's subsidiaries.
Consolidated net sales decreased 2,914 million yen ($26,775 thousand) (1.2%) to 239,343 million yen ($2,199,242 thousand). Operating income increased 10,203 million yen ($93,755 thousand) (110.9%) to 19,403 million yen ($178,291 thousand). Profit attributable to owners of parent increased 4,985 million yen ($45,804 thousand) (76.6%) to 11,489 million yen ($105,570 thousand). A gain on bargain purchase of 3,512 million yen ($32,270 thousand) was recorded under extraordinary income in the fourth quarter on the acquisition of AltaSteel, and an impairment loss of 4,630 million yen ($42,543 thousand) in the third quarter was recorded under extraordinary losses on long-term assets, including goodwill, at Vietnam Italy Steel Joint Stock Company, which is located in northern Vietnam.

Results by business segment:

1) Domestic Steel Business

Shipments decreased 102,000 tons from one year earlier to 1,650,000 tons. While the price of steel scrap fell by 8,100 yen ($74.43) (23.0%) per ton year on year, product prices were the same level as in the previous fiscal year. Therefore, the difference between the prices of steel products and steel scrap widened by 8,100 yen ($74.43) (24.2%) per ton compared with one year earlier. Segment sales decreased 7,953 million yen ($73,073 thousand) (6.1%) to 123,299 million yen ($1,132,952 thousand), and operating income increased 8,370 million yen ($76,917 thousand) (86.8%) to 18,014 million yen ($165,530 thousand).

2) Overseas Steel Business

Kyoei Steel operates in the steel business in Vietnam and the United States.
In Vietnam, business performance was generally firm from the beginning of the fiscal year, supported by strong demand for steel products and lower prices for steel scrap and semi-finished products, the main raw materials for products. From the third quarter of this fiscal year, the business environment was severe in both South and North Vietnam as competition intensified.
In the United States, although demand for steel products was firm, prices declined from their high levels in the previous fiscal year. As a result, the financial results were unfavorable from the third quarter.
However, overall performance of this business exceeded the previous fiscal year. Segment sales increased 5,183 million yen ($47,627 thousand) (5.0%) to 109,062 million yen ($1,002,135 thousand) and operating income increased 2,575 million yen ($23,657 thousand) (compared with operating loss of 291 million yen ($2,674 thousand) one year earlier) to 2,284 million yen ($20,984 thousand).

3) Material Recycling Business

Although the processing volume of difficult items to dispose, including carbon fibers, increased, a decline in the number of large one-time orders affected segment performance. Segment sales decreased 217 million yen ($1,991 thousand) (3.2%) to 6,466 million yen ($59,415 thousand), and operating income decreased 101 million yen ($930 thousand) (8.5%) to 1,089 million yen ($10,004 thousand).

4) Others

This category includes sales of civil engineering materials, an insurance agent business and other activities by a subsidiary. In addition, Kyoei Steel has harbor operations in Vietnam. Sales increased 72 million yen ($663 thousand) (16.3%) to 516 million yen ($4,740 thousand), and operating income increased 187 million yen ($1,718 thousand), compared with operating loss of 40 million yen ($368 thousand) one year earlier, to 147 million yen ($1,350 thousand).

(2) Financial Position

1) Assets, liabilities and net assets

(i) Assets

Current assets decreased by 2,723 million yen ($25,021 thousand), or 1.7%, from the end of the previous fiscal year to 159,192 million yen ($1,462,764 thousand). This was attributable mainly to increases of 13,476 million yen ($123,826 thousand) in cash and deposits and 2,949 million yen ($27,096 thousand) in raw materials and supplies and decreases of 9,242 million yen ($84,922 thousand) in notes and accounts receivable - trade, 3,353 million yen ($30,810 thousand) in electronically recorded monetary claims - operating, 2,100 million yen ($19,296 thousand) in securities, 1,255 million yen ($11,529 thousand) in merchandise and finished goods and 3,031 million yen ($27,849 thousand) in other current assets.
Long-term assets increased by 14,983 million yen

($137,675 thousand), or 15.0%, from the end of the previous fiscal year to 114,657 million yen ($1,053,539 thousand). This was attributable mainly to increases of 5,841 million yen ($53,671 thousand) in machinery, equipment and vehicles, 6,937 million yen ($63,737 thousand) in land, 2,374 million yen ($21,818 thousand) in construction in progress, and 1,070 million yen ($9,834 thousand) in investment securities and a decrease of 3,677 million yen ($33,786 thousand) in goodwill.

Total assets increased by 12,260 million yen ($112,654 thousand), or 4.7%, from the end of the previous fiscal year to 273,850 million yen ($2,516,303 thousand).

(ii) Liabilities

Current liabilities increased by 2,338 million yen ($21,479 thousand), or 2.9%, from the end of the previous fiscal year to 82,237 million yen ($755,652 thousand). This was attributable mainly to increases of 5,880 million yen ($54,028 thousand) in short-term borrowings and 3,113 million yen ($28,604 thousand) in other current liabilities and a decrease of 7,334 million yen ($67,386 thousand) in notes and accounts payable - trade.

Long-term liabilities increased by 2,122 million yen ($19,502 thousand), or 7.6%, from the end of the previous fiscal year to 30,032 million yen ($275,951 thousand). This was attributable mainly to increases of 3,957 million yen ($36,363 thousand) in retirement benefit liability and 1,093 million yen ($10,045 thousand) in deferred tax liabilities and a 3,429 million yen ($31,510 thousand) decrease in long-term borrowings.

Total liabilities increased by 4,460 million yen ($40,981 thousand), or 4.1%, from the end of the previous fiscal year to 112,269 million yen ($1,031,603 thousand).

(iii) Net assets

Net assets increased by 7,800 million yen ($71,672 thousand), or 5.1%, from the end of the previous fiscal year to 161,581 million yen ($1,484,700 thousand). This was attributable mainly to a profit attributable to owners of parent of 11,489 million yen ($105,570 thousand), dividends of surplus of 1,738 million yen ($15,972 thousand), a 539 million yen ($4,956 thousand) decrease in valuation difference on available-for-sale securities, and a 965 million yen ($8,865 thousand) decrease in foreign currency translation adjustment.

As a result, compared to the end of the previous fiscal year, net assets per share increased by 179.50 yen ($1.65) to 3,479.31 yen ($31.97), and equity to total assets increased from 54.8% to 55.2%.

2) Cash flows

Cash and cash equivalents at the end of the current fiscal year increased by 15,677 million yen ($144,058 thousand) from the end of the previous fiscal year to 42,084 million yen ($386,700 thousand). The cash flow components during the fiscal year and the main reasons for changes are described below.

(i) Cash flows from operating activities

Net cash provided by operating activities was 33,246 million yen ($305,490 thousand). Major components were income before income taxes of 17,031 million yen ($156,500 thousand), income of 7,048 million yen ($64,759 thousand) resulting in working capital burden reduction due to a decrease in trade receivables at the end of the fiscal year, income increasing noncash items such as depreciation expenses of 13,842 million yen ($127,188 thousand), interest payments of 1,919 million yen ($17,638 thousand), income tax payments of 3,642 million yen ($33,463 thousand) and interest and dividends received of 871 million yen ($8,010 thousand).

(ii) Cash flows from investing activities

Net cash used in investing activities was 19,323 million yen ($177,548 thousand). Major components were payments into time deposits of 22,269 million yen ($204,624 thousand), proceeds from the withdrawal of time deposits of 24,867 million yen ($228,490 thousand), expenditure on stock acquisition of AltaSteel, which became a consolidated subsidiary in March in the current consolidated fiscal year, of 15,177 million yen ($139,453 thousand), and purchases of property, plant and equipment for maintenance and renewal of existing steel manufacturing facilities, rationalization investments and the rationalization investments for production bases in Vietnam of 7,783 million yen ($71,512 thousand).

(iii) Cash flows from financing activities

Net cash provided by financing activities was 1,697 million yen ($15,595 thousand). Major components included a net increase of 6,415 million yen ($58,944 thousand) in short-term borrowings, proceeds from long-term borrowings of 1,000 million yen ($9,192 thousand), repayments of long-term borrowings of 3,855 million yen ($35,420 thousand) and dividends paid of 1,739 million yen ($15,982 thousand).

(3) Dividends

It is our fundamental principle to reward our shareholders by increasing corporate value. We endeavor to distribute dividends while ensuring appropriate reserves for business growth and enhancing the corporate structure from a long-term prospective. Accordingly, we plan to pay a year-end dividend of 65 yen ($0.60) per share. Including the interim dividend of 10 yen ($0.09), total dividends per share for the fiscal year will be 75 yen ($0.69).

2 BASIC APPROACH TO THE SELECTION OF ACCOUNTING STANDARDS

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

Consolidated Balance Sheets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2020 and 2019	**2020**	2019	**2020**
ASSETS			
Current assets:			
Cash and time deposits (Note 12)	**¥ 55,609**	¥ 42,133	**$ 510,971**
Notes and accounts receivable	**39,603**	48,845	**363,896**
Electronically recorded monetary claims - operating	**11,501**	14,854	**105,678**
Marketable securities (Note 17)	**2,300**	4,400	**21,134**
Inventories (Note 5)	**46,588**	44,895	**428,090**
Other current assets	**4,258**	7,289	**39,126**
Allowance for doubtful accounts	**(667)**	(500)	**(6,131)**
Total current assets	**159,192**	161,916	**1,462,764**
Property, plant and equipment:			
Buildings and structures (Note 7)	**52,420**	49,430	**481,667**
Machinery and equipment (Note 7)	**134,579**	119,117	**1,236,596**
Land (Note 6)	**31,186**	24,249	**286,554**
Construction in progress	**3,002**	628	**27,588**
Other	**3,441**	2,812	**31,619**
Total	**224,628**	196,236	**2,064,024**
Accumulated depreciation	**(126,976)**	(114,619)	**(1,166,738)**
Net property, plant and equipment	**97,652**	81,617	**897,286**
Investments and other assets:			
Investments in securities (Note 17)	**3,160**	3,963	**29,036**
Unconsolidated subsidiaries and affiliated companies (Note 17)	**6,031**	4,157	**55,412**
Investments in long-term loans receivable	**1,301**	475	**11,955**
Net defined benefit asset (Note 13)	**974**	275	**8,948**
Goodwill	**267**	3,944	**2,451**
Other intangible assets (Note 7)	**2,399**	2,564	**22,045**
Deferred tax assets (Note 10)	**821**	731	**7,540**
Other noncurrent assets (Note 17)	**2,117**	2,012	**19,453**
Allowance for doubtful accounts	**(64)**	(64)	**(587)**
Total investments and other assets	**17,006**	18,057	**156,253**
Total assets	**¥ 273,850**	¥ 261,590	**$ 2,516,303**

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2020 and 2019	**2020**	2019	**2020**
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	**¥ 10,482**	¥ 17,816	**$ 96,314**
Electronically recorded obligations – operating	**2,975**	4,673	**27,340**
Short-term loans (Note 7)	**46,737**	40,857	**429,447**
Long-term debt due within one year (Note 7)	**4,260**	3,861	**39,146**
Income taxes payable	**3,976**	2,053	**36,537**
Accrued employees' bonuses	**756**	718	**6,947**
Accrued directors' bonuses	**18**	2	**162**
Other current liabilities	**13,033**	9,920	**119,759**
Total current liabilities	**82,237**	79,900	**755,652**
Long-term liabilities:			
Long-term debt (Note 7)	**20,640**	24,069	**189,655**
Deferred tax liabilities (Note 10)	**1,824**	730	**16,756**
Deferred tax liabilities for revaluation (Note 6)	**2,433**	2,433	**22,357**
Accrued directors' severance and retirement benefits	**—**	12	**—**
Net defined benefit liability (Note 13)	**4,031**	74	**37,043**
Other long-term liabilities	**1,104**	591	**10,140**
Total long-term liabilities	**30,032**	27,909	**275,951**
Total liabilities:	**112,269**	107,809	**1,031,603**
Net assets (Note 9)			
Shareholders' equity			
Common stock	**18,516**	18,516	**170,133**
Authorized – 150,300,000 shares in 2020 and 150,300,000 shares in 2019			
Issued – 44,898,730 shares in 2020 and 44,898,730 shares in 2019			
Capital surplus	**21,141**	21,141	**194,254**
Retained earnings	**108,335**	98,550	**995,453**
Treasury stock	**(1,700)**	(1,700)	**(15,620)**
Total shareholders' equity	**146,292**	136,507	**1,344,220**
Accumulated other comprehensive income			
Valuation difference on available for sale securities	**246**	785	**2,259**
Deferred gains and losses on hedges	**(158)**	32	**(1,454)**
Revaluation reserve for land (Note 6)	**4,626**	4,626	**42,500**
Foreign currency translation adjustments	**286**	1,251	**2,632**
Remeasurement of defined benefit plans	**(84)**	206	**(767)**
Total accumulated other comprehensive income	**4,916**	6,900	**45,170**
Noncontrolling interests	**10,373**	10,374	**95,310**
Total net assets	**161,581**	153,781	**1,484,700**
Total liabilities and net assets	**¥ 273,850**	¥ 261,590	**$ 2,516,303**

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2020 and 2019	**2020**	2019	**2020**
Net sales	¥ **239,343**	¥ 242,257	$ **2,199,242**
Cost of sales	**204,601**	218,783	**1,880,002**
Gross profit	**34,742**	23,474	**319,240**
Selling, general and administrative expenses (Note 8)	**15,339**	14,274	**140,949**
Operating income	**19,403**	9,200	**178,291**
Other income (expenses):			
Interest income	**704**	613	**6,472**
Dividend income	**143**	157	**1,310**
Interest expense	**(1,936)**	(1,707)	**(17,786)**
Share of profit of entities accounted for using equity method	**788**	118	**7,238**
Foreign exchange losses	**(347)**	(33)	**(3,186)**
Gain on sale and disposal of property, plant and equipment	**17**	38	**160**
Loss on sale and disposal of property, plant and equipment	**(656)**	(368)	**(6,024)**
Impairment loss on fixed assets (Note 19)	**(4,630)**	(342)	**(42,543)**
Gain on sales of investments in securities	**—**	0	**—**
Gain on step acquisitions	**—**	549	**—**
Gain on bargain purchases	**3,512**	—	**32,270**
Insurance income	**36**	313	**330**
Cash sales discounts	**(24)**	(29)	**(218)**
Loss on sales of investments in securities	**(1)**	(136)	**(13)**
Loss on disaster	**(21)**	(184)	**(195)**
Provision for disposal costs of PCBs	**(46)**	—	**(422)**
Other, net	**89**	255	**816**
Other income (expenses), net	**(2,372)**	(756)	**(21,791)**
Income before income taxes	**17,031**	8,444	**156,500**
Income taxes (Note 10)			
Current	**5,308**	2,932	**48,777**
Deferred	**(0)**	(165)	**(1)**
Total income taxes	**5,308**	2,767	**48,776**
Profit	**11,723**	5,677	**107,724**
Profit (loss) attributable to noncontrolling interests	**234**	(828)	**2,154**
Profit attributable to owners of parent	¥ **11,489**	¥ 6,505	$ **105,570**

	Yen		U.S. dollars (Note 1)
Amounts per share (Note 14)	**2020**	2019	**2020**
Net income			
Basic	¥ **264.38**	¥ 149.78	$ **2.43**
Diluted*	**—**	—	**—**
Cash dividends applicable to the year	¥ **75.00**	¥ 40.00	$ **0.69**

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

Consolidated Statements of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2020 and 2019	**2020**	2019	**2020**
Profit	**¥ 11,723**	¥ 5,677	**$ 107,724**
Other comprehensive income			
Valuation difference on available for sale securities	**(539)**	(640)	**(4,956)**
Deferred gains and losses on hedges	**(224)**	57	**(2,062)**
Foreign currency translation adjustments	**(1,084)**	(552)	**(9,956)**
Remeasurement of defined benefit plans	**(290)**	6	**(2,664)**
Other comprehensive income, net (Note 19)	**(2,137)**	(1,129)	**(19,638)**
Comprehensive income	**¥ 9,586**	¥ 4,548	**$ 88,086**
Breakdown of comprehensive income:			
Attributable to owners of parent	**¥ 9,504**	¥ 5,639	**$ 87,336**
Attributable to noncontrolling interests	**¥ 82**	¥ (1,091)	**$ 750**

Consolidated Statements of Changes in Net Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2020 and 2019	**2020**	2019	**2020**
Shareholders' equity			
Common stock			
Balance at the beginning of current period	**¥ 18,516**	¥ 18,516	**$ 170,133**
Balance at the end of current period	**18,516**	18,516	**170,133**
Capital surplus			
Balance at the beginning of current period	**21,141**	21,493	**194,254**
Changes during the period			
Change in scope of consolidation	**—**	14	**—**
Change in ownership interest of parent due to transactions with noncontrolling interests	**—**	(366)	**—**
Total changes during the period	**—**	(352)	**—**
Balance at the end of current period	**21,141**	21,141	**194,254**
Retained earnings			
Balance at the beginning of current period	**98,550**	93,909	**905,543**
Cumulative effects of changes in accounting policies	**34**	—	**312**
Restated balance	**98,584**	93,909	**905,855**
Changes during the period			
Cash dividends	**(1,738)**	(1,739)	**(15,972)**
Profit attributable to owners of parent	**11,489**	6,505	**105,570**
Change in scope of consolidation	**—**	(117)	**—**
Reversal of revaluation reserve for land	**—**	(8)	**—**
Total changes during the period	**9,751**	4,641	**89,598**
Balance at the end of current period	**108,335**	98,550	**995,453**
Treasury stock			
Balance at the beginning of current period	**(1,700)**	(1,809)	**(15,619)**
Changes during the period			
Purchase of treasury stock	**(0)**	(0)	**(1)**
Sale of treasury stock	**—**	109	**—**
Total changes during the period	**(0)**	109	**(1)**
Balance at the end of current period	**(1,700)**	(1,700)	**(15,620)**
Total shareholders' equity			
Balance at the beginning of current period	**136,507**	132,109	**1,254,311**
Cumulative effects of changes in accounting policies	**34**	—	**312**
Restated balance	**136,541**	132,109	**1,254,623**
Changes during the period			
Cash dividends	**(1,738)**	(1,739)	**(15,972)**
Profit attributable to owners of parent	**11,489**	6,505	**105,570**
Purchase of treasury stock	**(0)**	(0)	**(1)**
Sale of treasury stock	**—**	109	**—**
Change in scope of consolidation	**—**	(103)	**—**
Change in ownership interest of parent due to transactions with noncontrolling interests	**—**	(366)	**—**
Reversal of revaluation reserve for land	**—**	(8)	**—**
Total changes during the period	**9,751**	4,398	**89,597**
Balance at the end of current period	**¥ 146,292**	¥ 136,507	**$ 1,344,220**

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2020 and 2019	**2020**	2019	**2020**
Accumulated other comprehensive income			
Valuation difference on available for sale securities			
Balance at the beginning of current period	**¥ 785**	¥ 1,425	**$ 7,215**
Changes during the period			
Net changes in items other than shareholders' equity	**(539)**	(640)	**(4,956)**
Total changes during the period	**(539)**	(640)	**(4,956)**
Balance at the end of current period	**246**	785	**2,259**
Deferred gains and losses on hedges			
Balance at the beginning of current period	**32**	(48)	**296**
Change during the period			
Net changes in items other than shareholders' equity	**(190)**	80	**(1,750)**
Total changes during the period	**(190)**	80	**(1,750)**
Balance at the end of current period	**(158)**	32	**(1,454)**
Revaluation reserve for land			
Balance at the beginning of current period	**4,626**	4,618	**42,500**
Changes during the period			
Net changes in items other than shareholders' equity	**—**	8	**—**
Total changes during the period	**—**	8	**—**
Balance at the end of current period	**4,626**	4,626	**42,500**
Foreign currency translation adjustments			
Balance at the beginning of current period	**1,251**	1,706	**11,497**
Changes during the period			
Net changes in items other than shareholders' equity	**(965)**	(455)	**(8,865)**
Total changes during the period	**(965)**	(455)	**(8,865)**
Balance at the end of current period	**286**	1,251	**2,632**
Remeasurement of defined benefit plans			
Balance at the beginning of current period	**206**	200	**1,897**
Changes during the period			
Net changes in items other than shareholders' equity	**(290)**	6	**(2,664)**
Total changes during the period	**(290)**	6	**(2,664)**
Balance at the end of current period	**¥ (84)**	¥ 206	**$ (767)**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**6,900**	7,901	**63,405**
Changes during the period			
Net changes in items other than shareholders' equity	**(1,984)**	(1,001)	**(18,235)**
Total changes during the period	**(1,984)**	(1,001)	**(18,235)**
Balance at the end of current period	**¥ 4,916**	¥ 6,900	**$ 45,170**

Consolidated Statements of Changes in Net Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2020 and 2019	**2020**	2019	**2020**
Noncontrolling interests			
Balance at the beginning of current period	**¥ 10,374**	¥ 8,450	**$ 95,317**
Changes during the period			
Net changes in items other than shareholders' equity	**(1)**	1,924	**(7)**
Total changes during the period	**(1)**	1,924	**(7)**
Balance at the end of current period	**10,373**	10,374	**95,310**
Total net assets			
Balance at the beginning of current period	**153,781**	148,460	**1,413,033**
Cumulative effects of changes in accounting policies	**34**	—	**312**
Restated balance	**153,815**	148,460	**1,413,345**
Changes during the period			
Cash dividends	**(1,738)**	(1,739)	**(15,972)**
Profit attributable to owners of parent	**11,489**	6,505	**105,570**
Purchase of treasury stock	**(0)**	(0)	**(1)**
Sale of treasury stock	**—**	109	**—**
Change in scope of consolidation	**—**	(103)	**—**
Change in ownership interest of parent due to transactions with noncontrolling interests	**—**	(366)	**—**
Reversal of revaluation reserve for land	**—**	(8)	**—**
Net changes in items other than shareholders' equity	**(1,985)**	923	**(18,242)**
Total changes during the period	**7,766**	5,321	**71,355**
Balance at the end of current period	**¥ 161,581**	¥ 153,781	**$ 1,484,700**

Consolidated Statements of Cash Flows

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

KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Cash flows from operating activities:			
Income before income taxes	**¥ 17,031**	¥ 8,444	**$ 156,500**
Depreciation and amortization	**7,719**	7,476	**70,930**
Impairment loss on fixed assets	**4,630**	342	**42,543**
Amortization of goodwill	**312**	257	**2,869**
Increase (decrease) in provision	**214**	(117)	**1,965**
Increase (decrease) in net defined benefit liability	**21**	47	**191**
Share of profit of entities accounted for using equity method	**(788)**	(118)	**(7,238)**
Loss (gain) on sale of investments in securities	**1**	136	**13**
Loss (gain) on sale and disposal of property, plant and equipment	**638**	329	**5,864**
Insurance income	**(36)**	(313)	**(330)**
Loss on disaster	**21**	184	**195**
Loss (gain) on step acquisitions	**—**	(549)	**—**
Gain on bargain purchases	**(3,512)**	—	**(32,270)**
Interest and dividend income	**(847)**	(771)	**(7,782)**
Interest expense	**1,936**	1,707	**17,786**
Decrease (increase) in notes and accounts receivable	**14,777**	(5,406)	**135,780**
Decrease (increase) in inventories	**2,543**	(3,511)	**23,364**
Increase (decrease) in notes and accounts payable	**(10,272)**	(1,228)	**(94,385)**
Increase (decrease) in accrued consumption taxes	**222**	945	**2,038**
Decrease (increase) in net defined benefit asset	**61**	(5)	**557**
Other	**3,250**	(1,173)	**29,857**
Subtotal	**37,921**	6,676	**348,447**
Interest and dividends received	**871**	774	**8,010**
Interest paid	**(1,919)**	(1,744)	**(17,638)**
Payments for loss on disaster	**(21)**	(6)	**(196)**
Proceeds from insurance income	**36**	393	**330**
Income taxes paid	**(3,642)**	(1,726)	**(33,463)**
Net cash provided by (used in) operating activities	**33,246**	4,367	**305,490**
Cash flows from investing activities:			
Increase in time deposits	**(22,269)**	(17,887)	**(204,624)**
Decrease in time deposits	**24,867**	9,809	**228,490**
Payment for acquisition of marketable securities	**(2,000)**	(4,000)	**(18,377)**
Proceeds from sale of marketable securities	**3,000**	5,000	**27,566**
Payment for purchase of investments in securities	**(3)**	(2)	**(29)**

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2020 and 2019	**2020**	2019	**2020**
Proceeds from sale or redemption of investments in securities	**2**	220	**21**
Increase in money deposited	**(1)**	(2,751)	**(9)**
Decrease in money deposited	**1,220**	2,714	**11,212**
Payment for purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 12)	**(15,177)**	(5,458)	**(139,453)**
Payment for acquisition of investments of capital in subsidiaries	**(62)**	(146)	**(570)**
Investments in loans	**(882)**	(851)	**(8,104)**
Collection of loans	**61**	58	**564**
Payment for purchase of property, plant and equipment	**(7,783)**	(5,626)	**(71,512)**
Proceeds from sale of property, plant and equipment	**19**	50	**173**
Payment for purchase of intangibles	**(114)**	(230)	**(1,049)**
Other	**(201)**	(330)	**(1,847)**
Net cash provided by (used in) investing activities	**(19,323)**	(19,430)	**(177,548)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**6,415**	7,011	**58,944**
Proceeds from long-term debt	**1,000**	10,000	**9,192**
Repayment of long-term debt	**(3,855)**	(3,270)	**(35,420)**
Repayment of installment payables	**(42)**	(41)	**(385)**
Payment for purchase of treasury stock	**(0)**	(0)	**(1)**
Proceeds from sale of treasury stock	—	109	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(893)	—
Cash dividends paid	**(1,739)**	(1,739)	**(15,982)**
Dividends paid to noncontrolling shareholders	**(82)**	(11)	**(753)**
Other	—	(85)	—
Net cash provided by (used in) financing activities	**¥ 1,697**	¥ 11,081	**$ 15,595**
Effect of exchange rate changes on cash and cash equivalents	**¥ 57**	¥ (198)	**$ 521**
Net increase (decrease) in cash and cash equivalents	**15,677**	(4,180)	**144,058**
Cash and cash equivalents at the beginning of the period	**26,407**	29,299	**242,642**
Increase in cash and cash equivalents from newly consolidated subsidiary	—	1,288	—
Cash and cash equivalents at the end of the period (Note 12)	**¥ 42,084**	¥ 26,407	**$ 386,700**

Notes to Consolidated Financial Statements

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2020 and 2019

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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, 2020, which was ¥108.83 to US$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements include the accounts of the parent company and all the subsidiaries over which it exerts substantial control either through majority ownership of voting stock or by other means. As a result, the accompanying consolidated financial statements for the years ended March 31, 2020 and 2019 include the accounts of the Company and its 16 and 14 subsidiaries, respectively. Among these subsidiaries, KCI is included in the scope of consolidation following its new establishment during the current fiscal year. ALTA and MLM are also included in the scope of consolidation following the acquisition of equity during the current fiscal year. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

(b) Foreign currency translation

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

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

(c) Cash and cash equivalents

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

(d) Securities

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

(e) Derivatives

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

(f) Inventories

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

(g) Depreciation and amortization

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

Depreciation of property, plant and equipment is calculated principally by the straight-line method. For buildings and structures, the useful life is 31 years. For machinery and equipment, the useful life is 14 years.

(2) Intangible assets (excluding lease assets)

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

(3) Lease assets

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

(h) Allowance for doubtful accounts

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

(i) Accrued 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

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

(k) Accrued directors' severance and retirement benefits

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

(l) Accounting policies for severance and retirement benefits

(1) The method of attributing expected benefit to periods

In calculating retirement benefit obligation, estimated retirement benefits are attributed to the period up to the end of the consolidated fiscal year using a benefit formula basis. At some consolidated overseas subsidiaries, an estimated total amount of expenses for post-retirement benefits in addition to pensions is allotted based on the number of years of service provided by the employees.

(2) Recognition of actuarial differences and past service costs

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

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

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

(m) Income taxes

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

(n) Significant hedge accounting

(1) Method of hedge accounting

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

(2) Hedging instruments and hedged items

a. Hedge instruments: Interest rate swaps
Hedge items: Interest rates

b. Hedge instruments: Forward exchange contracts and currency swaps
Hedge items: Foreign monetary assets and liabilities

(3) Hedging policy

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

(4) Evaluating hedge effectiveness

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

(o) Goodwill

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

(p) Cash in consolidated statements of cash flows

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

3 ACCOUNTING STANDARDS NOT YET IMPLEMENTED, ETC.

- Accounting Standards on Revenue Recognition (Corporate Accounting Standard No. 29, March 30, 2018, Accounting Standards Board of Japan)
- Implementation Guidelines on Accounting Standard on Revenue Recognition (Corporate Accounting Standards Application Guideline No. 30, March 30, 2018, Accounting Standards Board of Japan)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (Corporate Accounting Standards Application Guideline No. 19, March 31, 2020, Accounting Standards Board of Japan)

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

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

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

- Accounting Standard for Fair Value Measurement (Corporate Accounting Standard No. 30, July 4, 2019, Accounting Standards Board of Japan)
- Accounting Standard on Measurement of Inventories (Corporate Accounting Standard No. 9, July 4, 2019, Accounting Standards Board of Japan)
- Accounting Standard on Financial Instruments (Corporate Accounting Standard No. 10, July 4, 2019, Accounting Standards Board of Japan)
- Implementation Guidance on Fair Value Measurement (Corporate Accounting Standards Application Guideline No. 31, July 4, 2019, Accounting Standards Board of Japan)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (Corporate Accounting Standards Application Guideline No. 19, March 31, 2020, Accounting Standards Board of Japan)

(a) Overview
Considering almost the same detailed contents of guidance by The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) on Fair Value Measurement (IFRS No. 13 "Fair Value Measurement," Accounting Standards Codification Topic 820 "Fair Value Measurement" in US GAAP), the Accounting Standards Board of Japan (ASBJ) established consistency between Japanese accounting standards and international ones mainly about the guidance and disclosure on the fair value of financial instruments and published "Implementation Guidance on Fair Value Measurement."
In developing the accounting standards on Fair Value Measurement of ASBJ, the fundamental policy is to basically adopt all the provisions of IFRS No. 13 from the perspective of improving comparability of financial statements among domestic and foreign companies by using a unified measurement method. Alternative treatment for individual items will be established with consideration of actual practice in Japan within a range that will not impair financial statement comparability.

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

(c) Impact of application of accounting standards
The Company and its domestic consolidated subsidiaries are currently assessing the impact of the Accounting Standard on Measurement of Fair Value on the consolidated financial statements.

- Accounting Standard for Disclosure of Accounting Estimates (Corporate Accounting Standard No. 31, March 31, 2020, Accounting Standards Board of Japan)

(a) Overview
"Sources of Estimation Uncertainty," which was requested for disclosure in International Accounting Standards No. 1 (IAS No. 1) Item 125, "Presentation of Financial Statements," published by The International Accounting Standards Board (ISAB) in 2003, was asked to consider requests to disclose highly useful information for financial statements users and annotation information in Japanese standards. As a result, Accounting Standards for Disclosure of Accounting Estimates (this accounting standard) was developed and published by the Accounting Standards Board of Japan.
Upon developing the accounting standard, ASBJ's basic policy was not to expand individual notes but to show the principle (disclosure purpose) and that specific disclosure content is determined by the disclosure purpose of each company and ASBJ referred to Paragraph 125 of IAS1.

(b) Planned date of application
To be applied from the ending of the fiscal year ending in March 2021.

- Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (Corporate Accounting Standard No. 24, March 31, 2020, Accounting Standards Board of Japan)

(a) Overview
ASBJ has made the necessary revisions and issued the accounting standard for accounting policy disclosures, accounting changes and error corrections because of the proposal to consider the enhancement of notes regarding the "Principles and procedures of accounting treatment adopted when the provisions of related accounting standards, etc., are not clear."

Upon pursuing the enhancement of information pertaining to "Principles and procedures of accounting treatment adopted when the provisions of related accounting standards, etc., are not clear," the provisions of the Note on Corporate Accounting Principles (Note 1-2) will be taken over so as not to affect the practice in cases in which the relevant accounting standards have been clear so far.

(b) Planned date of application
To be applied from the ending of the fiscal year ending in March 2021.

4 CHANGES IN ACCOUNTING POLICIES

Application of IFRS 16 "Leases"
Some foreign subsidiaries have started to apply IFRS 16 "Leases" from the beginning of the current fiscal year. Accordingly, as a lessee, in principle, Kyoei Steel booked all leased assets and liabilities as assets and liabilities in the consolidated balance sheets. To begin applying this standard, Kyoei Steel is using the approved transitional treatment of recognizing the cumulative effect of applying this standard on the first day that this standard was applied.
The effect of this change on the consolidated financial statements for the current fiscal year was insignificant.

5 INVENTORIES

Inventories at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Merchandise	**¥ 258**	¥ 197	**$ 2,366**
Finished goods	**16,975**	15,832	**155,978**
Semi-finished goods	**6,384**	8,807	**58,664**
Work-in-process	**1,488**	1,524	**13,677**
Raw materials	**8,603**	7,914	**79,052**
Supplies	**9,070**	7,343	**83,341**
Rolls	**3,810**	3,278	**35,012**
Total	**¥ 46,588**	¥ 44,895	**$ 428,090**

6 APPLICATION OF LAND REVALUATION LAW

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

Revaluation method
The land value has been calculated as stipulated in Article 2.4 of the "Regulations for Applying the Land Revaluation Law" (Government Ordinance No. 119 of 1998, promulgated on March 31, 1998) by making adjustments to the price determined by the method publicly announced for the calculation of the tax base under the Land Value Tax.

Revaluation date: March 31, 2000

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Difference between the market value at end of year and the book value after revaluation of the land	**¥ (5,602)**	¥ (5,843)	**$ (51,471)**

7 BANK LOANS

Short-term loans consisted of unsecured loans payable from banks at the weighted average interest rate of 2.80% at March 31, 2020 and 3.70% at March 31, 2019.

Long-term debt from banks at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Long-term debt from banks at average interest rates of 1.30% and 1.40% for current and noncurrent portions, respectively	**¥ 24,900**	¥ 27,930	**$ 228,801**
Less current portion	**(4,260)**	(3,861)	**(39,146)**
Long-term debt from banks	**¥ 20,640**	¥ 24,069	**$ 189,655**

The assets pledged as collateral for short-term loans at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Cash and deposits*	**¥ 597**	¥ —	**$ 5,486**
Buildings and structures	**—**	1,958	**—**
Machinery and equipment	**—**	1,443	**—**
Land	**1,121**	—	**10,303**
Other intangible assets	**—**	187	**—**
Total	**¥ 1,718**	¥ 3,588	**$ 15,789**

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

Secured debts at March 31,2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Short-term loans	**¥ —**	¥ 5,836	**$ —**
Long-term debt due within one year	**200**	—	**1,838**
Long-term debt	**767**	—	**7,048**
Total	**¥ 967**	¥ 5,836	**$ 8,886**

The annual maturities of long-term debt from banks as of March 31, 2020 are summarized as follows:

Year ended March 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 4,260	$ 39,146
2022	4,330	39,787
2023	3,018	27,732
2024	2,220	20,401
2025	2,187	20,097
Thereafter	8,885	81,638
Total	¥ 24,900	$ 228,801

The annual maturities of long-term debt from banks as of March 31, 2019 are summarized as follows:

Year ended March 31,	Millions of yen
2020	¥ 3,861
2021	4,088
2022	4,161
2023	2,835
2024	2,028
Thereafter	10,957
Total	¥ 27,930

8 R&D EXPENSES

R&D expenses included in selling, general and administrative expenses for the years ended March 31, 2020 and 2019 amounted to ¥180 million ($1,656 thousand) and ¥169 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 12, 2020, the Board approved cash dividends in the amount of ¥2,825 million ($25,958 thousand). The appropriation had not been accrued in the consolidated financial statements as of March 31, 2020. At the Board Directors’ meeting held on April 26, 2019, the Board approved cash dividends in the amount of ¥1,304 million. The appropriation had not been accrued in the consolidated financial statements as of March 31, 2019.

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 30.6% for the year ended March 31, 2020 and 30.6% for the year ended March 31, 2019.

The major components of deferred tax assets and liabilities as of March 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Deferred tax assets:			
Impairment loss	**¥ 377**	¥ 413	**$ 3,460**
Inventories	**190**	155	**1,748**
Accrued enterprise taxes	**213**	151	**1,954**
Allowance for doubtful accounts	**69**	37	**638**
Accrued bonuses	**228**	220	**2,098**
Net defined benefit liability	**739**	50	**6,790**
Accrued directors’ retirement benefits	**27**	40	**250**
Tax carryforwards	**499**	640	**4,583**
Other	**826**	562	**7,585**
Gross deferred tax assets	**3,168**	2,268	**29,106**
Valuation allowance	**(1,151)**	(1,078)	**(10,576)**
Total deferred tax assets	**2,017**	1,190	**18,530**
Deferred tax liabilities:			
Valuation difference on available for sale securities	**(127)**	(391)	**(1,171)**
Retained earnings appropriated for tax deductible reserves	**(18)**	(20)	**(165)**
Reserve for special depreciation for tax purposes	**(1)**	(1)	**(7)**
Depreciation of consolidated overseas subsidiaries	**(2,184)**	(166)	**(20,064)**
Valuation difference on assets	**(249)**	(386)	**(2,290)**
Net defined benefit asset	**(8)**	(117)	**(70)**
Other	**(433)**	(275)	**(3,979)**
Total deferred tax liabilities	**¥ (3,020)**	¥ (1,190)	**$(27,746)**
Net deferred tax assets	**¥ (1,003)**	¥ —	**$ (9,216)**

Changes in presentation methods of accounting
In the previous fiscal year, "Inventories" and "Net defined benefit liability," which were included in "Other" under "Deferred tax assets," and "Depreciation of consolidated overseas subsidiaries," which was included in "Other" under "Deferred tax liabilities," were reclassified and presented as separate items for the current fiscal year since all of them had increased in their materiality in the context of the consolidated financial statements. To reflect this change in reporting method, annotations of the consolidated financial statements for the prior fiscal year were made reclassifications. As a result, "Other" of 768 million yen ($7,047 thousand) presented under "Deferred tax assets" has been reclassified as "Inventories" of 155 million yen ($1,424 thousand), "Net defined benefit liability" of 50 million yen ($459 thousand) and "Other" of 563 million yen ($5,164 thousand). In the same way, "Other" of 276 million yen ($2,527 thousand) presented under "Deferred tax liabilities" has been reclassified as "Depreciation of consolidated overseas subsidiaries" of 167 million yen ($1,525 thousand) and "Other" of 109 million yen ($1,002 thousand).

The major components of the reconciliation between the statutory tax rate and the effective tax rate as of March 31, 2020 and 2019 were as follows:

	2020	2019
Statutory tax rate	The note was omitted because the difference between the statutory tax rate and the effective tax rate was equal to or less than 5% of the statutory tax rate.	30.6 %
Disallowed expenses, including entertainment expenses		3.8
Dividends and other income deductible for income tax purposes		(0.0)
Inhabitants per capita taxes		0.3
Increase in valuation allowance		(2.6)
Prior year's taxes, other		(1.1)
Others		1.8
Effective tax rates		32.8 %

11 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, 2020 and March 31, 2019 respectively:

(a) Number of shares issued

For the year ended March 31, 2020

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

For the year ended March 31, 2019

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

(b) Treasury stock

For the year ended March 2020

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	**1,439,682**	**73**	**—**	**1,439,755**

(1) Treasury stock increased by 73 shares due to the repurchase of shares of less than one unit.

For the year ended March 31, 2019

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	1,496,219	63	56,600	1,439,682

(1) Treasury stock increased by 63 shares due to the repurchase of shares of less than one unit.
(2) Treasury stock decreased by 56,600 due to the sale by the ESOP Trust.

(c) Cash dividends

Amount of dividend payments

For the year ended March 31, 2020

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 26, 2019 (Board of Directors)	**Common stock**	**¥ 1,304**	**$ 11,980**	**¥ 30**	**$ 0.3**	**March 31, 2019**	**June 10, 2019**

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
October 31, 2019 (Board of Directors)	**Common stock**	**¥ 435**	**$ 3,993**	**¥ 10**	**$ 0.1**	**September 30, 2019**	**December 6, 2019**

For the year ended March 31, 2019

Date of approval	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
April 27, 2018 (Board of Directors)	Common stock	¥ 1,304	¥ 30	March 31, 2018	June 11, 2018

(Note) Total amount of dividends included ¥2 million ($18 thousand) for the treasury stock owned by the ESOP Trust.

Date of approval	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
October 31, 2018 (Board of Directors)	Common stock	¥ 435	¥ 10	September 30, 2018	December 7, 2018

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

12 SUPPLEMENTARY CASH FLOW INFORMATION

1. Reconciliation of cash and cash equivalents

The following table represents a reconciliation of cash and cash equivalents at March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Cash and time deposits	**¥ 55,609**	¥ 42,133	**$ 510,971**
Time deposits with a maturity of more than three months	**(14,825)**	(18,126)	**(136,216)**
Negotiable certificates of deposit with maturities of three months or less from the acquisition date	**1,300**	2,400	**11,945**
Cash and cash equivalents	**¥ 42,084**	¥ 26,407	**$ 386,700**

2. Reconciliation of payment for purchases of investments in subsidiaries

For the year ended March 31, 2020

A breakdown of assets and liabilities at the start of consolidation of AltaSteel Inc. and Maple Leaf Metals Inc. resulting from the acquisition of shares, along with details regarding the share acquisition price and related expenditure are as follows.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 7,188	**$ 66,049**
Fixed assets	18,542	**170,376**
Current liabilities	(2,364)	**(21,721)**
Long-term liabilities	(5,242)	**(48,170)**
Gain on bargain purchases	(3,512)	**(32,270)**
Foreign currency translation adjustments	659	**6,056**
Share acquisition price	15,271	**140,320**
Cash and cash equivalents	(94)	**(867)**
Net payments for share acquisition	¥ 15,177	**$ 139,453**

Related to the amount of assets and liabilities received by business combinations, provisional accounting procedures are performed based on reasonable information available at the end of the current consolidated fiscal year because the allocation of the acquisition cost has not been completed.

For the year ended March 31, 2019
A breakdown of assets and liabilities at the start of the consolidation of VIS resulting from the acquisition of shares, along with details regarding the share acquisition price and related expenditure are follows.

	Millions of yen
Current assets	¥ 9,214
Fixed assets	4,818
Goodwill	3,683
Current liabilities	(7,040)
Long-term liabilities	(395)
Noncontrolling interests	(2,309)
Foreign currency translation adjustments	7
Gain on step acquisitions	(549)
Equity methods value prior to acquiring control	(1,906)
Share acquisition price	5,523
Cash and cash equivalents	(65)
Net payments for share acquisition	¥ 5,458

13 SEVERANCE AND RETIREMENT BENEFITS

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

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

(b) Defined benefit plan

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Balance at April 1	**¥ 4,924**	¥ 4,911	**$ 45,245**
Service cost	**296**	284	**2,720**
Interest cost	**12**	20	**110**
Actuarial loss	**148**	10	**1,360**
Benefits paid	**(277)**	(301)	**(2,545)**
Increase due to joining of consolidated group of subsidiaries	**17,498**	—	**160,783**
Balance at March 31	**¥ 22,601**	¥ 4,924	**$ 207,673**

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Balance at April 1	**¥ 5,110**	¥ 5,131	**$ 46,954**
Expected return on plan assets	**77**	77	**704**
Actuarial gain (loss)	**(190)**	10	**(1,750)**
Contributions paid by the employer	**194**	193	**1,783**
Increase due to joining of consolidated group of subsidiaries	**14,739**	—	**135,431**
Benefits paid	**(277)**	(301)	**(2,545)**
Balance at March 31	**¥ 19,653**	¥ 5,110	**$ 180,577**

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Balance at April 1	**¥ (14)**	¥ (13)	**$ (129)**
Retirement benefit cost	**215**	112	**1,975**
Benefits paid	**(26)**	(47)	**(239)**
Other	**(0)**	(0)	**(4)**
Contributions to benefit plans	**(66)**	(66)	**(605)**
Balance at March 31	**¥ 109**	¥ (14)	**$ 998**

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Funded retirement benefit obligations	**¥ 20,722**	¥ 6,197	**$ 190,407**
Plan assets	**(20,924)**	(6,464)	**(192,263)**
	(202)	(267)	**(1,856)**
Unfunded retirement benefit obligations	**3,259**	66	**29,949**
Total net liability (asset) for retirement benefits at March 31	**¥ 3,057**	¥ (201)	**$ 28,093**

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Net defined benefit asset	**¥ (974)**	¥ (275)	**$ (8,946)**
Net defined benefit liability	**4,031**	74	**37,039**
Total net liability (asset) for retirement benefits at March 31	**¥ 3,057**	¥ (201)	**$ 28,093**

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Service cost	**¥ 296**	¥ 284	**$ 2,721**
Interest cost	**12**	20	**110**
Expected return on plan assets	**(77)**	(77)	**(704)**
Net actuarial loss (gain) amortization	**(80)**	8	**(735)**
Retirement benefit cost applying the simplified method	**215**	112	**1,975**
Total retirement benefit costs for the year ended March 31	**¥ 366**	¥ 347	**$ 3,367**

(6) Remeasurement of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Actuarial gain or loss	**¥ (417)**	¥ 8	**$ (3,832)**
Total balance at March 31	**¥ (417)**	¥ 8	**$ (3,832)**

(7) Accumulated adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Unrecognized actuarial gain or loss	**¥ (120)**	¥ 297	**$ (1,103)**
Total balance at March 31	**¥ (120)**	¥ 297	**$ (1,103)**

(8) Plan assets

a. Plan assets comprise:

	2020	2019
Bonds	**58%**	54%
Stock	**35**	27
Life insurance company general accounts	**5**	16
Other	**2**	3
Total	**100%**	100%

b. Long-term expected rate of return

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

(9) Actuarial assumptions

The principal actuarial assumptions were as follows:

	2020	2019
Discount rate	**0.3%~3.0%**	0.2%
Expected long-term rate of return	**1.5%~5.4%**	1.5%
Salary increase rate	**2.3%~3.0%**	2.3%

(c) Defined contribution scheme

The required contribution to the Company's defined contribution plan was ¥27 million ($248 thousand) for the year ended March 31, 2020 and ¥26 million for the year ended March 31, 2019.

14 AMOUNTS PER SHARE

	Yen		U.S. dollars
Years ended March 31	2020	2019	2020
Net income	¥ 264.38	¥ 149.78	$ 2.43
	Yen		U.S. dollars
As of March 31	2020	2019	2020
Net assets	¥ 3,479.31	¥ 3,299.82	$ 31.96

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

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

Basic net assets per share were as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	2020	2019	2020
Basic net assets per share:			
Total net assets on the balance sheets	¥ 161,581	¥ 153,781	$ 1,484,700
Deduction on total net assets	¥ (10,373)	¥ (10,374)	$ (95,310)
Noncontrolling interests	¥ (10,373)	¥ (10,374)	$ (95,310)
Amount attributable to shareholders of common stock	¥ 151,208	¥ 143,407	$ 1,389,390
Number of shares outstanding	44,899	44,899	—
Number of treasury shares	(1,440)	(1,440)	—
Number of shares at fiscal year-end used in calculation of net assets per share	43,459 thousand shares	43,459 thousand shares	—

Basic net income per share was as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	2020	2019	2020
Basic net income per share:			
Profit attributable to owners of parents	¥ 11,489	¥ 6,505	$ 105,570
Amount attributable to shareholders of common stock	¥ 11,489	¥ 6,505	$ 105,570
Weighted average number of shares outstanding	43,459 thousand shares	43,429 thousand shares	—

15 LEASES

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

The Group also has entered into noncancellable operating lease contracts. Future lease payments subsequent to March 31, 2020 and 2019 under noncancellable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2020**	2019	**2020**
Due within one year	**¥ 174**	¥ 97	**$ 1,601**
Due after one year	**267**	1,099	**2,452**
Total	**¥ 441**	¥ 1,196	**$ 4,053**

Some foreign subsidiaries have started to apply IFRS 16 "Leases" from the beginning of the current fiscal year. Therefore, the operating lease related to the subsidiary is included only in the amount for the previous consolidated fiscal year.

16 FINANCIAL INSTRUMENTS

Additional information – Disclosure of fair value of financial instruments

(a) Qualitative information on financial instruments

(1) Policies for using financial instruments

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

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

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

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

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

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

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

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

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

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

(3) Supplemental information on fair values

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

(b) Fair values of financial instruments

(1) Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2020 and 2019 were as follows:

Year ended March 31, 2020	Millions of yen			Thousands of U.S. dollars		
	Carrying amount shown in balance sheet	Fair value	Difference	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	¥ 55,609	¥ 55,609	¥ —	$ 510,971	$ 510,971	$ —
Notes and accounts receivable	39,603	39,603	—	363,896	363,896	—
Electronically recorded monetary claims - operating	11,501	11,501	—	105,678	105,678	—
Marketable securities	2,300	2,300	—	21,134	21,134	—
Investments in securities						
Available for sale securities	2,829	2,829	—	25,991	25,991	—
Investments in long-term loans receivable	1,301	1,301	—	11,955	11,955	—
Other noncurrent assets	681	681	0	6,254	6,253	1
Long-term deposits						
Notes and accounts payable	(10,482)	(10,482)	—	(96,314)	(96,314)	—
Electronically recorded obligations – operating	(2,975)	(2,975)	—	(27,340)	(27,340)	—
Short-term loans	(46,737)	(46,737)	—	(429,447)	(429,447)	—
Long-term debt						
Due within one year	(4,260)	(4,260)	(0)	(39,146)	(39,142)	(4)
Due after one year	(20,640)	(20,638)	(2)	(189,655)	(189,635)	(20)
Lease obligations	(770)	(896)	126	(7,075)	(8,234)	1,159
Derivatives	(415)	(415)	—	(3,815)	(3,815)	—

(Note) 1. The amount of "Lease obligations" shows the sum of lease obligation amounts included in other current liabilities and other long-term liabilities.
2. Receivables and payables incurred by derivative transactions are presented in net.

Year ended March 31, 2019	Millions of yen		
	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	¥ 42,133	¥ 42,133	¥ —
Notes and accounts receivable	48,845	48,845	—
Electronically recorded monetary claims - operating	14,854	14,854	—
Marketable securities	4,400	4,400	—
Investments in securities			
Available for sale securities	3,630	3,630	—
Investments in long-term loans receivable	475	475	—
Other noncurrent assets			
Long-term deposits	203	203	0
Notes and accounts payable	(17,816)	(17,816)	—
Electronically recorded obligations – operating	(4,673)	(4,673)	—
Short-term loans	(40,857)	(40,857)	—
Long-term debt			
Due within one year	(3,861)	(3,874)	13
Due after one year	(24,069)	(24,152)	83
Lease obligations	(460)	(480)	20
Derivatives	239	239	—

(2) Market values of financial instruments and securities

a. Cash and time deposits, Notes and accounts receivable, Electronically recorded monetary claims - operating and Marketable securities

These items are recorded using book values because market values approximate book values as a result of their short-term maturities.

b. Investments in securities

The fair values of securities are determined using the quoted price on the stock exchange.
Investments in securities are classified as available for sale securities, and information on securities classified by the purpose of holding are shown in Note 17, "Securities".

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

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

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

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

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

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

17 SECURITIES

(a) Available for sale securities with determinable market values

As of March 31, 2020	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	**¥ 773**	**¥ 1,408**	**¥ 635**	**$ 7,103**	**$ 12,942**	**$ 5,839**
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Securities whose carrying value does not exceed acquisition costs:						
Stock	**1,668**	**1,420**	**(248)**	**15,329**	**13,050**	**(2,279)**
Bonds	—	—	—	—	—	—
Other	**2,300**	**2,300**	—	**21,134**	**21,134**	—
Total	**¥ 4,741**	**¥ 5,128**	**¥ 387**	**$ 43,566**	**$ 47,126**	**$ 3,560**

As of March 31, 2019	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥ 874	¥ 2,453	¥ 1,579
Bonds	—	—	—
Other	—	—	—
Securities whose carrying value does not exceed acquisition costs:			
Stock	1,565	1,177	(388)
Bonds	—	—	—
Other	4,400	4,400	—
Total	¥ 6,839	¥ 8,030	¥ 1,191

(b) Securities without determinable market values

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Investment in securities:			
Unlisted securities (available for sale securities)	**¥ 331**	¥ 334	**$ 3,045**
Unlisted securities (unconsolidated subsidiaries and affiliated companies)	**¥ 6,031**	¥ 4,157	**$ 55,413**
Investments in capital (unconsolidated subsidiaries and affiliated companies)	**¥ 557**	¥ 495	**$ 5,114**

(c) Derivative transactions

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

Currency related

Year ended March 31, 2020

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Over one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)	Valuation gain (loss) (Thousands of U.S. dollars)
Nonmarket transactions	Foreign exchange forward contracts Selling Canadian dollars	¥ 2,297	¥ —	¥ (1)	¥ (1)	$ 21,108	$ —	$ (7)	$ (7)
Nonmarket transactions	Foreign exchange forward contracts Buying U.S. dollars	¥ 12,455	¥ 12,423	¥ (158)	¥ (158)	$114,444	$114,152	$ (1,448)	$ (1,448)

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

Year ended March 31, 2019

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)
Nonmarket transactions	Foreign exchange forward contracts Buying U.S. dollars	¥ 18,994	¥ 18,899	¥ 85	¥ 85

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

Commodity related

Year ended March 31, 2020

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Over one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)	Valuation gain(loss) (Thousands of U.S. dollars)
Nonmarket transactions	Forward contracts Buying natural gas	¥ 102	¥ —	¥ (59)	¥ (59)	$ 938	$ —	$ (545)	$ (545)

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

Year ended March 31, 2019

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)
Nonmarket transactions	Forward contracts Buying natural gas	¥ 118	¥ —	¥ (24)	¥ (24)

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

(2) Derivative transactions for which hedge accounting is applied

Interest rate related

Year ended March 31, 2020

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Millions of yen)	Amount of contracts over 1 year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	¥ 9,372	¥ 7,254	¥ (197)

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Thousands of U.S. dollars)	Amount of contracts over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	$ 86,112	$ 66,657	$ (1,814)

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

Year ended March 31, 2019

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Millions of yen)	Amount of contracts over 1 year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge treatment	Interest rate swap transaction receive floating, pay fixed	Long-term debt	¥ 11,639	¥ 9,495	¥ 178

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

18 IMPAIRMENT LOSS ON FIXED ASSETS

In the year ended March 31, 2020, the Group reported the following loss on impairment of fixed assets:

Use	Place	Type of asset	Millions of yen	Thousands of U.S. dollars
Plant of Overseas Steel Business	Hung Yen Province, Vietnam Hai Phong Province, Vietnam	Buildings and structures	¥ 269	$ 2,469
		Machinery and equipment	¥ 929	$ 8,532
		Other tangible assets	¥ 80	$ 735
		Goodwill	¥ 3,263	$ 29,987
		Other intangible assets	¥ 89	$ 820
		Total	¥ 4,630	$ 42,543

The Group grouped their fixed assets based on division, and each idle asset was treated as separate property.
Regarding factories in the overseas steel business in Hung Yen Province, Vietnam, etc., the book value of the fixed assets, including goodwill owned by VIS, has been written down to its recoverable value due to a decline in profitability and recorded as loss on impairment of fixed assets.
The recoverable value for measuring impairment losses is determined by the net selling price based on the appraisal value.

In the year ended March 31, 2019, the Group reported the following loss on impairment of fixed assets:

Use	Place	Type of asset	Millions of yen
Plant of Overseas Steel Business	Ninh Binh Province, Vietnam	Buildings and structures	¥ 118
		Machinery and equipment	¥ 213
		Others	¥ 2
Company Housing	Kukuchi-Nishimachi, Amagasaki-City, Hyogo	Buildings and structures	¥ 8
		Land	¥ 1
		Total	¥ 342

The Group grouped their fixed assets based on division, and each idle asset was treated as separate property.
Regarding factories in the overseas steel business in Ninh Binh Province, Vietnam, the book value of the fixed assets owned by KSVC has been written down to its recoverable value due to a decline in profitability and recorded as loss on impairment of fixed assets.
The recoverable value for measuring impairment losses is determined by the net selling price based on the appraisal value.
For company housing in Kukuchi-Nishimachi, Amagasaki-City, Hyogo, the book value was written down to the recoverable value due to the decision to sell and recorded as loss on impairment of fixed assets.
The recoverable value for measuring impairment loss is determined by the net selling price based on the expected sale price.

19 STATEMENTS OF COMPREHENSIVE INCOME

Comprehensive income for the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Valuation difference on available for sale securities:			
Current accrual	¥ **(803)**	¥ (930)	$ **(7,382)**
Reclassification adjustment	**—**	—	**—**
Before tax effect adjustment	**(803)**	(930)	**(7,382)**
Tax effect adjustment	**264**	290	**2,426**
Valuation difference on available for sale securities	**(539)**	(640)	**(4,956)**
Deferred gains and losses on hedges			
Current accrual	**(285)**	49	**(2,619)**
Reclassification adjustment	**—**	—	**—**
Before tax effect adjustment	**(285)**	49	**(2,619)**
Tax effect adjustment	**61**	8	**557**
Deferred gains and losses on hedges	**(224)**	57	**(2,062)**
Foreign currency translation adjustments:			
Current accrual	**(1,084)**	(552)	**(9,956)**
Reclassification adjustment	**—**	—	**—**
Before tax effect adjustment	**(1,084)**	(552)	**(9,956)**
Tax effect adjustment	**—**	—	**—**
Foreign currency translation adjustments:	**(1,084)**	(552)	**(9,956)**
Remeasurement of defined benefit plans:			
Current accrual	**(338)**	0	**(3,107)**
Reclassification adjustment	**(80)**	8	**(731)**
Before tax effect adjustment	**(418)**	8	**(3,838)**
Tax effect adjustment	**128**	(2)	**1,173**
Remeasurement of defined benefit plans	**(290)**	6	**(2,664)**
Total	¥ **(2,137)**	¥ (1,129)	$ **(19,638)**

20 BUSINESS COMBINATIONS

Year ended March 31, 2020

1. (Business combination through acquisition)

The Company's Board of Directors approved a resolution on February 4, 2020 to purchase all of the shares in AltaSteel Inc. (Alta), which operates in the production and sale of steel material and the disposal and sales of scrap metal in the Canada. As a result, Kyoei Steel acquired all of the shares in Alta on February 4, 2020, making it a subsidiary company.

a. Outline of the business combination

Name and business of combined entities
Name: AltaSteel Inc. (Alta)
Business activities: Production and sale of steel material and disposal and sales of scrap metal

b. Outline and purpose of the transaction

The Company has regarded its overseas steel business as an important component of its growth strategies, and under the "Global tripolar structure," it so far has conducted business in the Socialist Republic of Viet Nam and in the U.S.

As the Company's Medium-term Business plan ended in the 2020 fiscal year, it launched initiatives for "Increase the volume of shipments and become more profitable in overseas steel business," the Company has striven to succeed at its goal of increasing profits in its overseas steel business by up to 30% of the Company's group total earnings by building a framework for annual shipments of 2.2 million tons abroad and improving profitability.

Regarding the business in North America, after acquiring Vinton Steel LLC ("Vinton") located in Texas, in the U.S., as a beachhead of our business at the end of 2016, the Company explored opportunities to expand its business from by expanding its business scale. The MC AltaSteel base (assets related to AltaSteel), that the Company has recently obtained an opportunity to acquire, has steadily developed its business in Edmonton, Alberta, Canada as the sole mini-mill in Western Canada. After careful consideration, the Company decided that acquiring the assets would match its business vision and would contribute to the advancement of the "Global tripolar structure."

c. Date of acquisition of stock

March 16, 2020

d. Form of reorganization

Equity acquisition for cash consideration

e. Name of the entity after the reorganization

AltaSteel Inc.
Maple Leaf Metals Inc.

f. Number of shares acquired

Percent of shares held before investment	—%
Percent of shares acquired	100.0%
Percent of shares held after investment	100.0%

g. Main reason to decide the acquiring company

The Company acquired 100% of the shares and voting rights of AltaSteel.

h. Period for which the business results of the acquired company are included in the consolidated financial statements of the Company

The acquisition date of the acquired company is March 16, 2020 (local time), but since the difference from the consolidated closing date does not exceed 3 months, only the balance sheet is consolidated.

i. The breakdown of acquisition cost for the acquired company

Consideration for the acquisition	cash	¥15,271 million ($140,320 thousand)
Acquisition cost		¥15,271 million ($140,320 thousand)

j. Details and amounts of acquisition related cost

Advisory fees and others of ¥569 million yen ($5,226 thousand).

k. Gain on bargain purchase recognized

(1) Amount of bargain purchase

¥3,512 million ($32,270 thousand)
The amount of gain on bargain purchase is a provisional calculation because the allocation of acquisition costs has not been completed.

(2) Reason for recognition of gain on bargain purchase recognized

Since the net amount of assets received and liabilities assumed exceeded the acquisition cost of the shares, the difference is treated as a gain on bargain purchase.

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 7,188	$ 66,049
Noncurrent assets	¥ 18,542	$ 170,376
Total assets	**¥ 25,730**	**$ 236,425**
Current liabilities	¥ 2,364	$ 21,721
Noncurrent liabilities	¥ 5,242	$ 48,170
Total liabilities	**¥ 7,606**	**$ 69,891**

m. Allocation of acquisition cost

As of the end of the current consolidated fiscal year, the identification of identifiable assets and liabilities on the date of the business combination, the calculation of fair market value and the allocation of acquisition cost had not been completed. Therefore, provisional accounting treatment was performed based on reasonable information available at that time.

n. The approximate amount of impact on the consolidated statements of income for the current consolidated fiscal year and its calculation method, assuming that the business combination was completed on the beginning of the consolidated fiscal year

The estimated amount of impact is not stated because it is difficult to reasonably calculate.

Year ended March 31, 2019

1. (Business combination through acquisition)

The Company's Board of Directors approved a resolution on April 16, 2018 to purchase additional stocks of Vietnam Italy

Steel Joint Stock Company (VIS), which operates in the production and sales of steel in the northern Vietnam. As a result, Kyoei Steel acquired the stock of VIS on May 14, 2018, and it became a subsidiary company.

a. Outline of the business combination

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

b. Outline and purpose of the transaction

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

c. Date of acquisition of stock

June 30, 2018 (The deemed acquisition date)

d. Form of reorganization

Equity acquisition for cash consideration

e. Name of the entity after the reorganization

No change

f. Number of shares acquired

Percent of shares held before investment	20.0%
Percent of shares acquired	45.0%
Percent of shares held after investment	65.0%

g. Main reason to decide the acquiring company

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

h. Period for which the business results of the acquired company are included in the consolidated financial statements of the Company

The deemed acquisition date is June 30, 2018. In addition, since the acquired company was an equity method affiliate, the date of the fiscal-year-end is different from the consolidated closing date by three months. Operational results of the acquired company from January 1, 2018 to March 31, 2018 were recorded as equity in earnings of affiliates as the transaction was deemed to have been completed on June 30, 2018.

i. The breakdown of acquisition cost for the acquired company

Fair value of stock held by Kyoei Steel Cash at the date of acquisition	¥2,455 million
Consideration for the acquisition	¥5,523 million
Acquisition cost	¥7,978 million

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

Gain on step acquisitions of ¥549 million.

k. Details and amounts of acquisition related cost

Advisory fees, others ¥78 million.

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

(1) Amount of goodwill

¥3,683 million

(2) Reason for recognition of goodwill

Expected excess earning power from future business development

(3) Period and method of amortization of goodwill

15 years using the straight-line method

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

	Millions of yen
Current assets	¥ 9,214
Noncurrent assets	¥ 4,818
Total assets	**¥ 14,032**
Current liabilities	¥ 7,040
Noncurrent liabilities	¥ 395
Total liabilities	**¥ 7,435**

n. Approximate impact on the consolidated statement of income and calculation methods, assuming that the business combination was completed on the first day of the current fiscal year,

Net sales	11,778 million yen
Operating Income	(364) million yen
Net income attributable to owners of the parent	(333) million yen

(Calculation methods for approximate impact)

These amounts of approximate impact represent the difference between the hypothetical amounts of net sales, operating income and net income attributable to owners of the parent calculated assuming that the business combination was completed at the beginning of the current fiscal year and their corresponding amounts on the consolidated statement of income of the Company for the current fiscal year.

These notes have been unaudited.

2. (Transactions conducted by commonly controlled entities)

a. Overview of business combination

(1) Name and business of the Target Company

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

(2) Date of business combination

July 6, 2018 (2 million shares)
July 19, 2018 (2 million shares)
August 6, 2018 (1 million shares)
December 18, 2018 (1.5 million shares)

(3) Legal form of business combination

Acquisition of shares from noncontrolling shareholders

(4) Name of the Target Company after the combination

No change

(5) Other matters concerning business combination

After we made a capital participation in VIS in November 2017, Kyoei steel increased its investment ratio to 65% by an additional acquisition of shares in May 2018, making VIS, one of our subsidiary companies. As part of Kyoei Steel Group's business strategy, we acquired an additional 650 million shares in the current consolidated fiscal year and increased our investment ratio in VIS to 73.8%. By this means, Kyoei Steel group has enhanced the synergy with KSVC located in Ninh Binh Province, Vietnam, another of our consolidated subsidiaries, which operates in northern Vietnam like VIS. In this way, Kyoei Steel Group has increased the presence of our business in the steel market of northern Vietnam.

b. Overview of accounting treatments

The transaction is treated as a common control transaction pursuant to the Accounting Standard for Business Combinations (ASBJ Statement No. 21. September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10. September 13, 2013)

c. Acquisition cost and consideration paid

	Millions of yen
Consideration for acquisition: Cash	¥ 893
Acquisition cost	¥ 893

d. Changes in shares arising from transactions with noncontrolling shareholders

(1) Main cause of changes in capital surplus

Additional acquisition of shares in subsidiary

(2) Decrease in capital surplus arising from transactions with noncontrolling shareholders

¥318 million

21 SEGMENT INFORMATION

(a) Overview of Reporting Segments

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

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

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

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

The accounting methods used for the reporting business segments are the same as those in "Significant Accounting Policies." Reporting segment income is operating income. Intersegment transactions and transfers are based on market prices, etc.

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

Segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2020 and 2019 is outlined as follows:

Year ended March 31, 2020 Millions of yen

	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 123,299	¥ 109,062	¥ 6,466	¥ 238,827	¥ 516	¥ —	¥ 239,343
Intersegment sales and transfers	70	—	1,171	1,241	542	(1,783)	—
Total	123,369	109,062	7,637	240,068	1,058	(1,783)	239,343
Segment income	¥ 18,014	¥ 2,284	¥ 1,089	¥ 21,387	¥ 147	¥ (2,131)	¥ 19,403
Segment assets	¥ 115,506	¥ 103,595	¥ 6,675	¥ 225,776	¥ 5,997	¥ 42,077	¥ 273,850
Other							
Depreciation and amortization	3,622	3,370	290	7,282	197	240	7,719
Amortization of goodwill	—	312	—	312	—	—	312
Impairment loss on fixed assets	—	4,630	—	4,630	—	—	4,630
Increase in property, plant, equipment and intangible assets	5,799	2,450	239	8,488	282	124	8,894

Year ended March 31, 2020 — Thousands of U.S. dollars

	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	$ 1,132,952	$ 1,002,135	$ 59,415	$ 2,194,502	$ 4,740	$ —	$ 2,199,242
Intersegment sales and transfers	641	—	10,759	11,400	4,979	(16,379)	—
Total	1,133,593	1,002,135	70,174	2,205,902	9,719	(16,379)	2,199,242
Segment income	$ 165,530	$ 20,984	$ 10,004	$ 196,518	$ 1,350	$ (19,577)	$ 178,291
Segment assets	$ 1,061,337	$ 951,898	$ 61,336	$ 2,074,571	$ 55,099	$ 386,633	$ 2,516,303
Other							
Depreciation and amortization	33,283	30,971	2,661	66,915	1,809	2,206	70,930
Amortization of goodwill	—	2,869	—	2,869	—	—	2,869
Impairment loss on fixed assets	—	42,543	—	42,543	—	—	42,543
Increase in property, plant, equipment and intangible assets	53,288	22,510	2,197	77,995	2,594	1,140	81,729

(Note) 1 Others represents the businesses which are not included in any of the reporting segments and consists mainly of the civil engineering materials sales business and the insurance agent business.
2 Intersegment eliminations of ¥(143) million ($(1,314) thousand) and corporate expenses of ¥(2,131) million ($(19,577) thousand) not allocated to the reporting segments were included in the ¥(1,988) million ($(18,263) thousand) adjustment for "Segment income (operating income)." Corporate expenses are related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
3 The adjustment amount of segment assets was ¥42,077 million ($386,633 thousand) and related mainly to the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
4 The adjustment amount of depreciation and amortization was ¥240 million ($2,206 thousand) and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
5 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥124 million ($1,140 thousand) and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
6 Segment income was adjusted against operating income of the consolidated statement of income.

Year ended March 31, 2019 — Millions of yen

	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 131,252	¥ 103,879	¥ 6,683	¥ 241,814	¥ 443	¥ —	¥ 242,257
Intersegment sales and transfers	53	—	1,116	1,169	348	(1,517)	—
Total	131,305	103,879	7,799	242,983	791	(1,517)	242,257
Segment income	¥ 9,644	¥ (291)	¥ 1,190	¥ 10,543	¥ (40)	¥ (1,303)	¥ 9,200
Segment assets	¥ 127,639	¥ 85,771	¥ 6,518	¥ 219,928	¥ 6,813	¥ 34,849	¥ 261,590
Other							
Depreciation and amortization	3,577	3,225	288	7,090	193	193	7,476
Amortization of goodwill	—	257	—	257	—	—	257
Impairment loss on fixed assets	—	333	—	333	—	9	342
Increase in property, plant, equipment and intangible assets	3,311	1,573	239	5,123	188	196	5,507

(Note) 1 Others represents the businesses which are not included in any of the reporting segments and consists mainly of the civil engineering materials sales business and the insurance agent business.
2 Intersegment eliminations of ¥19 million and corporate expenses of ¥(1,322) million not allocated to the reporting segments were included in the ¥(1,303) million adjustment for "Segment income (operating income)." Corporate expenses are related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
3 The adjustment amount of segment assets was ¥34,849 million and related mainly to the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
4 The adjustment amount of depreciation and amortization was ¥193 million and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
5 The adjustment amount of impairment loss on fixed assets was ¥9 million and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
6 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥196 million and related mainly to the general affairs department and other management departments of the submitting company's head office that was not attributable to a reporting segment.
7 Segment income was adjusted against operating income of the consolidated statement of income.

(d) Information related to geographic areas
Information for the geographic areas for the years ended March 31, 2020 and 2019 are outlined as follows:

(1) Net sales

Year ended March 31, 2020 Millions of yen

Japan	Overseas				Total
		Vietnam	America	Others	
¥ 128,847	**¥ 110,496**	**¥ 86,544**	**¥ 13,125**	**¥ 10,827**	**¥ 239,343**

Year ended March 31, 2020 Thousands of U.S. dollars

Japan	Overseas				Total
		Vietnam	America	Others	
$ 1,183,929	**$ 1,015,313**	**$ 795,228**	**$ 120,602**	**$ 99,483**	**$ 2,199,242**

Year ended March 31, 2019 Millions of yen

Japan	Overseas				Total
		Vietnam	America	Others	
¥ 137,253	¥ 105,004	¥ 76,399	¥ 16,871	¥ 11,734	¥ 242,257

(2) Property, plant and equipment

Year ended March 31, 2020 Millions of yen

Japan	Vietnam	America	Canada	Total
¥ 55,687	**¥ 21,515**	**¥ 4,166**	**¥ 16,284**	**¥ 97,652**

Year ended March 31, 2020 Thousands of U.S. dollars

Japan	Vietnam	America	Canada	Total
$ 511,681	**$ 197,695**	**$ 38,281**	**$ 149,629**	**$ 897,286**

Year ended March 31, 2019 Millions of yen

Japan	Vietnam	America	Canada	Total
¥ 53,899	¥ 24,586	¥ 3,132	—	¥ 81,617

(3) Information about principal customers

Year ended March 31, 2020

Of the sales to external customers, the description is omitted because there are no customers who account for 10% or more of the sales on the consolidated statements of income.

Year ended March 31, 2019 Millions of yen

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	¥ 26,664	Domestic Steel Business
MM&KENZAI Corporation	¥ 24,375	Domestic Steel Business

(4) Information concerning impairment loss on fixed assets by reportable segment

Year ended March 31, 2020 Millions of yen

	Reporting segment			Others	Company wide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Impairment loss on fixed assets	¥ —	**¥ 4,630**	¥ —	¥ —	¥ —	**¥ 4,630**

Year ended March 31, 2020 Thousands of U.S. dollars

	Reporting segment			Others	Company wide and elimination	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business			
Impairment loss on fixed assets	$ —	**$ 42,543**	$ —	$ —	$ —	**$ 42,543**

Year ended March 31, 2019 — Millions of yen

	Reporting segment					
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Others	Company wide and elimination	Consolidated
Impairment loss on fixed assets	¥ —	¥ 333	¥ —	¥ —	¥ 9	¥ 342

(Note) ¥9 million in the Companywide and elimination of "Impairment loss on fixed assets" relates to corporate assets that are not attributed to each reporting segment.

(5) Information about amortization of goodwill and balance of unamortized goodwill by reportable segment

Year ended March 31, 2020 — Millions of yen

	Reporting segment					
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Others	Company wide and elimination	Consolidated
Amortization of goodwill	¥ —	¥ 312	¥ —	¥ —	¥ —	¥ 312
Balance at the end of the term	—	267	—	—	—	267

Year ended March 31, 2020 — Thousands of U.S. dollars

	Reporting segment					
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Others	Company wide and elimination	Consolidated
Amortization of goodwill	$ —	$ 2,869	$ —	$ —	$ —	$ 2,869
Balance at the end of the term	—	2,451	—	—	—	2,451

Year ended March 31, 2019 — Millions of yen

	Reporting segment					
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Others	Company wide and elimination	Consolidated
Amortization of goodwill	¥ —	¥ 257	¥ —	¥ —	¥ —	¥ 257
Balance at the end of the term	—	3,944	—	—	—	3,944

Information concerning gain on bargain purchase by reporting segment
For the current consolidated fiscal year, gain on bargain purchase of 3,512 million yen generated by the acquisition of AltaSteel Inc. was recorded in the overseas steel business.

22 SUBSEQUENT EVENTS

(a) Dividend distribution of surplus
On May 12, 2020, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥ 2,825	**$ 25,958**

Cash dividends: ¥65 ($0.60) per share.

KPMG

Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of KYOEI STEEL, LTD. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

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

Yoshinari Umeda

Designated Engagement Partner

Certified Public Accountant

Yoshinori Tatsuta

Designated Other Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

August 11, 2020

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

Investor Information As of March 31, 2020

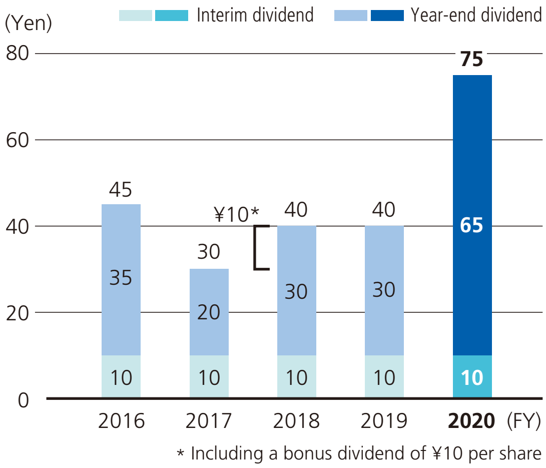
Date of Establishment	August 21, 1947
Common Stock	¥18,516 million
Number of Shares	Authorized: 150,300,000 Issued: 44,898,730
Number of Shareholders	8,099
Number of Employees	3,605 (Consolidated: regular employees)
Stock Listing	Tokyo, 1st Section
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233 Japan

Major Shareholders (As of March 31, 2020)

Name	Number of shares owned	Voting rights ratio
Nippon Steel Corporation	11,592,932	26.68%
Hideichiro Takashima	4,347,460	10.00%
Japan Trustee Services Bank, Ltd. (Air Water Inc. retirement benefit trust account)	2,600,400	5.98%
Akihiko Takashima	2,233,000	5.14%
Mitsui & Co., Ltd.	1,470,000	3.38%
Godo Steel, Ltd.	1,347,000	3.10%
SSBTC Client Omnibus Account	1,113,696	2.56%
The Master Trust Bank of Japan, Ltd. (Trust Account)	863,000	1.99%
Japan Trustee Services Bank, Ltd. (Trust Account)	759,000	1.75%
Japan Trustee Services Bank, Ltd. (Trust Account9)	713,700	1.64%

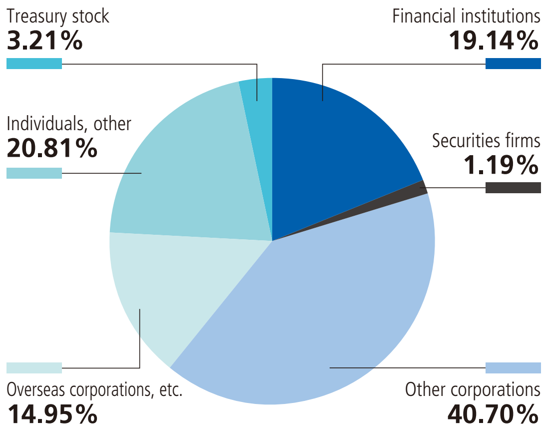
Note: Calculations of share ownership ratios exclude treasury stock (1,439,755 shares).

Dividends per Share

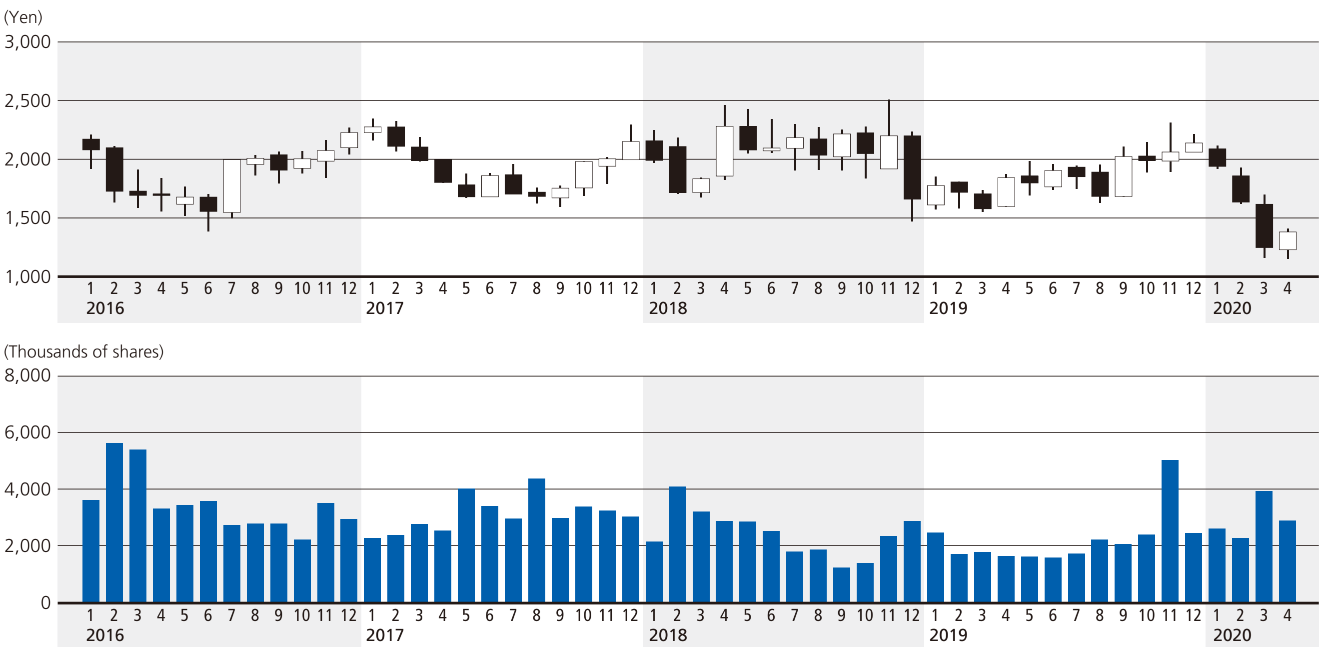


* Including a bonus dividend of ¥10 per share

Shareholders by Type



Stock Price and Trading Volume



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https://www.kyoeisteel.co.jp/en/