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OVERVIEW OF OPERATING ENVIRONMENT AND PERFORMANCE

In fiscal 2016, ended March 31, 2017, the Japanese economy tracked a gradual recovery path, underpinned by an upturn in consumer spending on the back of continued improvement in employment and income conditions, along with signs of a rebound in industrial production in the corporate sector. In Europe and the U.S., there were major developments including the U.K.'s decision to withdraw from the European Union and President Trump coming to power in the U.S. Economic expansion continued at a moderate pace, driven by growth in employment. Supported by government economic stimulus policies, China posted relatively steady growth, including a significant increase in automobile sales volume.

Under these economic circumstances, production in the automobile industry, our key source of demand for specialty steel, increased in the second half in response to solid sales in North America and China. The price of steel scrap, a key raw material, had remained relatively stable after rising and falling sharply in early spring 2016 due to the impact of Chinese billet prices. However, since early autumn 2016, the cost of steel scrap has been increasing in response to rising coking coal prices.

As a result, the Group's net sales in fiscal 2016 decreased ¥15,454 million to ¥445,123 million, due primarily to a decline in sales prices in line with raw material price movements. Ordinary income rose ¥1,265 million to ¥26,373 million, due to the positive contribution of higher sales volumes and other factors. Net

income attributable to owners of the parent increased by ¥9,640 million to ¥16,386 million, reflecting the absence of extraordinary losses for discontinuing software development and provisions for environmental remediation recorded in the previous fiscal year.

BUSINESS SEGMENT PERFORMANCE

Specialty Steel

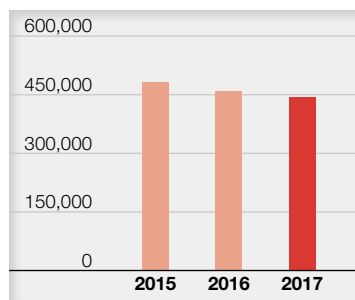
Sales volume for structural steel increased year on year, mainly due to favorable demand from the automotive sector, a major source of demand for this steel, in North America and China. Sales volume of tool steel decreased year on year due to the impact of inventory adjustments. The cost of steel scrap, the main raw material, had remained relatively stable after rising and falling sharply in early spring 2016 due to the impact of Chinese billet prices. However, since early autumn 2016, the cost of steel scrap has been increasing in response to rising coking coal prices.

As a result, the specialty steel segment's net sales in fiscal 2016 fell 4.4% year on year to ¥163,087 million, due primarily to a decline in sales prices in line with raw material price movements. Operating income decreased by ¥1,747 million to ¥5,813 million, reflecting the impact of higher costs in connection with rising raw material prices since November, among other factors.

NET SALES

Years ended March 31

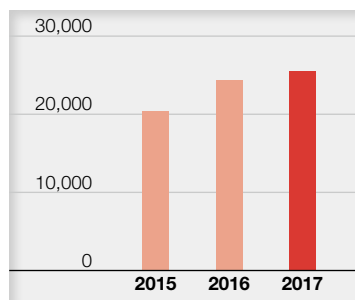
(millions of yen)



OPERATING INCOME

Years ended March 31

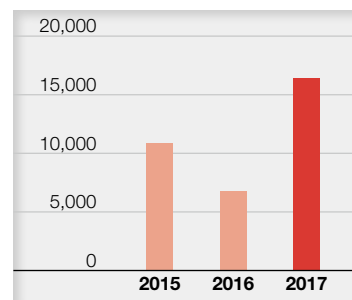
(millions of yen)



NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT

Years ended March 31

(millions of yen)



High Performance Materials and Magnetic Materials

Sales volume of stainless steel products increased year on year, driven by strong demand for use in automobiles and semiconductors. However, sales prices of stainless steel products declined in line with the falling nickel prices. Sales volume of high alloys increased year on year atop higher demand from the automotive sector. Sales volume of magnetic products rose year on year primarily for use in electronic power steering systems. Powder metal products saw increased sales volume due to robust demand for use in automobile components overseas.

As a result, net sales for the high performance materials and magnetic materials segment in fiscal 2016 decreased 4.4% year on year to ¥148,468 million. Operating income rose by ¥5,085 million to ¥17,417 million as higher sales volume contributed positively to earnings.

Parts for Automobile and Industrial Equipment

Net sales of free forged products decreased year on year, due to a large decline in demand from the oil and gas sector amid falling crude oil prices. Net sales of die forged products declined, mainly as a result of decreased sales prices linked to raw material prices and other factors. On the other hand, net sales of engine valves increased year on year, as automobile sales in North America and China remained strong. Net sales of precision cast products rose, reflecting continuing growth in turbocharger-related demand.

As a result, net sales in the parts for automobile and industrial equipment segment for fiscal 2016 decreased 2.2% year on year to ¥97,492 million. In terms of operating profitability, the segment recorded an operating loss of ¥516 million, a decline of ¥1,814 million from operating income recorded in the previous fiscal year. The operating loss was due to the impact of lower demand for free forged products, among other factors.

Engineering

In the engineering segment, despite strong overseas sales of certain products, the number of revenue-generating projects decreased as a whole. As a result, engineering segment sales for fiscal 2016 decreased 8.4% year on year to ¥23,918 million, while operating income decreased by ¥852 million to ¥1,219 million.

Trading and Service

Net sales in the trading and service segment for fiscal 2016 rose 34.6% year on year to ¥12,158 million, while operating income increased by ¥410 million to ¥1,583 million. These increases partly reflected the conversion of Daido Steel (Shanghai) Co., Ltd. into a consolidated subsidiary in fiscal 2016.

CAPITAL EXPENDITURES

Capital expenditures by business segment during the fiscal year under review are shown in the table below.

Figures in the table include intangible fixed assets in addition to property, plant and equipment.

RESEARCH AND DEVELOPMENT

R&D costs for the entire Daido Steel Group during the fiscal year under review totaled ¥6,205 million. The research objectives, main achievements and R&D costs in each business segment were as follows:

(1) Specialty Steel

Daido Steel bears the principal responsibility for carrying out specialty steel R&D. Research areas include basic material development, such as automotive structural steel and tool steel. Other areas of emphasis are development of process innovations ranging from steelmaking, refining and solidification to quality assurance for finished products.

Specialty steel R&D costs during the fiscal year under review totaled ¥1,524 million.

(2) High Performance Materials and Magnetic Materials

Development of materials that resist corrosion and heat, high-grade strip steel, welding materials, electromagnetic materials, and other basic materials, as well as R&D of electronic devices, is conducted mainly by Daido Steel. R&D costs in this segment during the fiscal year under review amounted to ¥3,086 million.

CAPITAL EXPENDITURES BY SEGMENT

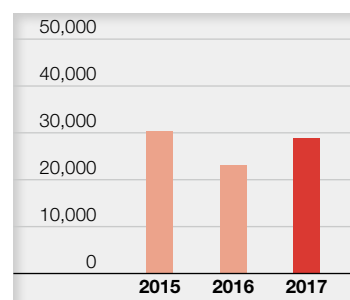
Years ended March 31

	Millions of Yen		
	2017	2016	Change (%)
Specialty Steel	¥ 7,527	¥ 7,670	(1.9)
High Performance Materials and Magnetic Materials	9,844	6,906	42.5
Parts for Automobile and Industrial Equipment	10,503	7,044	49.1
Engineering	273	245	11.5
Trading and Service	792	1,339	(40.8)
Total	¥28,940	¥23,205	24.7

CAPITAL EXPENDITURES

Years ended March 31

(millions of yen)



(3) Parts for Automobile and Industrial Equipment

Mainly the responsibility of Daido Steel, R&D in this segment concentrates on development of turbochargers, engine valves and other automotive parts, and parts for various types of industrial machinery. R&D costs for the fiscal year under review in this segment totaled ¥1,449 million.

(4) Engineering

Engineering R&D is carried out primarily by Daido Steel, focused on development of environmental conservation and recycling equipment and a variety of energy-saving industrial furnaces. Engineering R&D costs during the fiscal year under review were ¥145 million.

(5) Trading and Service

There are no R&D activities in this segment.

FINANCIAL POSITION

Cash Flows

Cash and cash equivalents as of March 31, 2017 (hereafter, "cash") amounted to ¥33,686 million, representing a decrease of ¥88 million year on year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥28,391 million, decreasing by ¥17,341 million from the previous fiscal year. This mainly reflected income before income taxes of ¥27,355 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥26,449 million, increasing by ¥3,284 million from the previous fiscal year. The major cash outflows included ¥27,893 million in purchases of property, plant, and equipment.

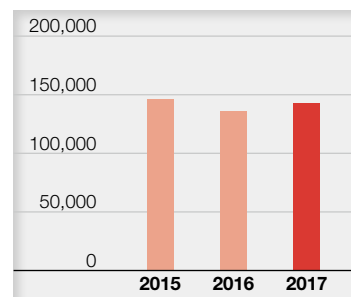
Cash Flows from Financing Activities

Net cash used in financing activities was ¥1,843 million, decreasing by ¥18,321 million from the previous fiscal year. The main use of cash was ¥4,988 million for the acquisition of treasury stock.

INTEREST-BEARING DEBT

Years ended March 31

(millions of yen)



CONSOLIDATED BALANCE SHEET

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	¥ 33,686	¥ 33,774	\$ 300,768
Time deposits (Notes 9 and 17)	1,281	1,155	11,437
Receivables:			
Trade (Note 17)	113,215	98,800	1,010,848
Other	1,278	1,656	11,411
Total receivables	114,493	100,456	1,022,259
Inventories (Note 5)	98,478	95,131	879,268
Deferred tax assets (Note 13)	4,276	4,277	38,179
Prepaid expenses and other current assets	5,160	3,814	46,071
Allowance for doubtful accounts	(165)	(139)	(1,473)
Total current assets	257,209	238,468	2,296,509
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 7 and 9)	35,474	35,302	316,732
Buildings and structures (Notes 6, 7 and 9)	173,103	164,903	1,545,563
Machinery and equipment (Notes 6 and 9)	469,941	456,501	4,195,901
Construction in progress	3,306	9,916	29,518
Total	681,824	666,622	6,087,714
Accumulated depreciation	(490,909)	(477,844)	(4,383,116)
Net property, plant, and equipment	190,915	188,778	1,704,598
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4, 9 and 17)	76,310	53,433	681,339
Investments in unconsolidated subsidiaries and associated companies (Note 17)	22,617	20,387	201,937
Asset for employees' retirement benefits (Note 10)	21,091	26,239	188,313
Deferred tax assets (Note 13)	621	1,002	5,545
Other investments and assets (Note 6)	5,406	7,369	48,268
Total investments and other assets	126,045	108,430	1,125,402
TOTAL	¥ 574,169	¥ 535,676	\$ 5,126,509

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 17)	¥ 31,108	¥ 18,545	\$ 277,750
Current portion of long-term debt (Notes 8 and 17)	16,127	24,648	143,991
Payables:			
Trade (Notes 9 and 17)	75,160	68,153	671,071
Acquisitions of property, plant, and equipment	8,895	8,354	79,420
Total payables	84,055	76,507	750,491
Income taxes payable (Note 17)	4,636	2,752	41,393
Accrued expenses	11,429	11,053	102,045
Provision for environmental measures (Note 2 (n))	402	–	3,589
Other current liabilities (Note 9)	5,034	9,982	44,946
Total current liabilities	152,791	143,487	1,364,205
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 17)	94,979	92,423	848,027
Liability for employees' retirement benefits (Note 10)	9,220	8,999	82,321
Retirement allowance for directors and Audit & Supervisory Board members	832	910	7,429
Provision for environmental measures (Note 2 (n))	3,428	5,720	30,607
Asset retirement obligations (Note 11)	428	432	3,822
Deferred tax liabilities (Note 13)	19,517	12,862	174,259
Other long-term liabilities	2,473	2,497	22,080
Total long-term liabilities	130,877	123,843	1,168,545
COMMITMENTS AND CONTINGENT LIABILITIES (Note 19)			
EQUITY (Note 12):			
Common stock:			
Authorized: 1,160,000 thousand shares			
Issued: 434,488 thousand shares in 2017 and 2016	37,172	37,172	331,893
Capital surplus	29,928	28,722	267,214
Retained earnings	169,497	155,251	1,513,366
Treasury stock, at cost			
8,133 thousand shares in 2017 and 7,473 thousand shares in 2016	(3,613)	(3,560)	(32,259)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	21,236	13,826	189,607
Deferred gain on derivatives under hedge accounting	1	0	9
Land revaluation surplus	1,814	1,821	16,197
Foreign currency translation adjustments	1,452	2,044	12,964
Defined retirement benefit plans	2,365	(2,443)	21,116
Total	259,852	232,833	2,320,107
Noncontrolling interests	30,649	35,513	273,652
Total equity	290,501	268,346	2,593,759
TOTAL	¥574,169	¥535,676	\$5,126,509

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES	¥445,123	¥460,578	\$3,974,313
COST OF SALES (Note 14)	366,688	386,145	3,274,000
Gross profit	78,435	74,433	700,313
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 14 and 15)	52,921	50,001	472,509
Operating income	25,514	24,432	227,804
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,870	2,259	16,696
Interest expense	(967)	(1,309)	(8,634)
Equity in earnings of associated companies	811	418	7,241
Gain on transfer of assets from employee retirement benefit trust (Note 10)	2,524	—	22,536
Gain on sales of investment securities and investments in unconsolidated subsidiaries and associated companies—net	152	1,595	1,357
Foreign exchange loss	(423)	(570)	(3,777)
Provision for environmental measures (Note 2 (n))	(444)	(5,736)	(3,964)
Loss on sales and disposals of property, plant, and equipment—net	(111)	(884)	(991)
Investment rents received	547	547	4,884
Write-down of investment securities and investments in associated companies (Note 4)	(75)	(34)	(670)
Loss on discontinued software development (Note 6)	—	(5,586)	—
Impairment loss on long-lived assets (Note 6)	(1,957)	(436)	(17,473)
Other—net	(86)	284	(768)
Other income (expenses)—net	1,841	(9,452)	16,437
INCOME BEFORE INCOME TAXES	27,355	14,980	244,241
INCOME TAXES (Note 13):			
Current	7,515	6,377	67,098
Deferred	1,576	(500)	14,072
Total income taxes	9,091	5,877	81,170
NET INCOME	18,264	9,103	163,071
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,878	2,357	16,767
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 16,386	¥ 6,746	\$ 146,304

PER SHARE OF COMMON STOCK (Note 2 (w)):

Basic net income
Cash dividends applicable to the year

Yen		U.S. Dollars
¥		\$
38.59	15.62	0.34
10.00	7.50	0.09

WEIGHTED-AVERAGE NUMBER OF OUTSTANDING SHARES OF COMMON STOCK

Thousands
424,595
431,829

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥18,264	¥ 9,103	\$163,071
OTHER COMPREHENSIVE INCOME (LOSS) (Note 20):			
Unrealized gain (loss) on available-for-sale securities	7,339	(11,482)	65,527
Deferred gain (loss) on derivatives under hedge accounting	1	(2)	9
Land revaluation surplus	0	62	0
Foreign currency translation adjustments	(855)	(1,699)	(7,634)
Defined retirement benefit plans	4,866	(11,114)	43,446
Share of other comprehensive income (loss) in associates	41	(81)	366
Total other comprehensive income (loss)	11,392	(24,316)	101,714
COMPREHENSIVE INCOME (LOSS)	¥29,656	¥(15,213)	\$264,785
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥27,875	¥(16,707)	\$248,884
Noncontrolling interests	1,781	1,494	15,901

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2017

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	
						Unrealized Gain on Available-for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting
BALANCE, APRIL 1, 2015	433,683	¥37,172	¥28,542	¥152,131	¥ (382)	¥ 25,129	¥ 1
Net income attributable to owners of the parent	—	—	—	6,746	—	—	—
Cash dividends, ¥8.5 per share	—	—	—	(3,687)	—	—	—
Purchase of treasury stock	(6,671)	—	—	—	(3,179)	—	—
Disposal of treasury stock	2	—	(0)	—	1	—	—
Adjustment of retained earnings for changes in the scope of consolidation	—	—	—	61	0	—	—
Change in the parent's ownership interest due to transactions with noncontrolling interests	—	—	180	—	—	—	—
Net change in the year	—	—	—	—	—	(11,303)	(1)
BALANCE, MARCH 31, 2016	427,014	37,172	28,722	155,251	(3,560)	13,826	0
Net income attributable to owners of the parent	—	—	—	16,386	—	—	—
Cash dividends, ¥6.5 per share	—	—	—	(2,736)	—	—	—
Purchase of treasury stock	(12,040)	—	—	—	(4,988)	—	—
Disposal of treasury stock	11,380	—	(0)	—	1	—	—
Adjustment of retained earnings for changes in the scope of consolidation	—	—	—	590	—	—	—
Increase due to stock exchange	—	—	311	—	4,934	—	—
Change in the parent's ownership interest due to transactions with noncontrolling interests	—	—	895	—	—	—	—
Reversal of land revaluation surplus	—	—	—	6	—	—	—
Net change in the year	—	—	—	—	—	7,410	1
BALANCE, MARCH 31, 2017	426,354	¥37,172	¥29,928	¥169,497	¥(3,613)	¥ 21,236	¥ 1

	Millions of Yen					
	Accumulated Other Comprehensive Income			Total	Noncontrolling Interests	Total Equity
	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, APRIL 1, 2015	¥1,758	¥ 3,236	¥ 8,435	¥256,022	¥36,384	¥292,406
Net income attributable to owners of the parent	—	—	—	6,746	—	6,746
Cash dividends, ¥8.5 per share	—	—	—	(3,687)	—	(3,687)
Purchase of treasury stock	—	—	—	(3,179)	—	(3,179)
Disposal of treasury stock	—	—	—	1	—	1
Adjustment of retained earnings for changes in the scope of consolidation	—	—	—	61	—	61
Change in the parent's ownership interest due to transactions with noncontrolling interests	—	—	—	180	—	180
Net change in the year	63	(1,192)	(10,878)	(23,311)	(871)	(24,182)
BALANCE, MARCH 31, 2016	1,821	2,044	(2,443)	232,833	35,513	268,346
Net income attributable to owners of the parent	—	—	—	16,386	—	16,386
Cash dividends, ¥6.5 per share	—	—	—	(2,736)	—	(2,736)
Purchase of treasury stock	—	—	—	(4,988)	—	(4,988)
Disposal of treasury stock	—	—	—	1	—	1
Adjustment of retained earnings for changes in the scope of consolidation	—	—	—	590	—	590
Increase due to stock exchange	—	—	—	5,245	—	5,245
Change in the parent's ownership interest due to transactions with noncontrolling interests	—	—	—	895	—	895
Reversal of land revaluation surplus	—	—	—	6	—	6
Net change in the year	(7)	(592)	4,808	11,620	(4,864)	6,756
BALANCE, MARCH 31, 2017	¥1,814	¥ 1,452	¥ 2,365	¥259,852	¥30,649	¥290,501

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	
					Unrealized Gain on Available-for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting
BALANCE, MARCH 31, 2016	\$331,893	\$256,446	\$1,386,169	\$(31,786)	\$123,446	\$0
Net income attributable to owners of the parent	-	-	146,304	-	-	-
Cash dividends, \$0.06 per share	-	-	(24,429)	-	-	-
Purchase of treasury stock	-	-	-	(44,536)	-	-
Disposal of treasury stock	-	(0)	-	9	-	-
Adjustment of retained earnings for changes in the scope of consolidation	-	-	5,268	-	-	-
Increase due to stock exchange	-	2,777	-	44,054	-	-
Change in the parent's ownership interest due to transactions with noncontrolling interests	-	7,991	-	-	-	-
Reversal of land revaluation surplus	-	-	54	-	-	-
Net change in the year	-	-	-	-	66,161	9
BALANCE, MARCH 31, 2017	\$331,893	\$267,214	\$1,513,366	\$(32,259)	\$189,607	\$9

Thousands of U.S. Dollars (Note 1)

	Accumulated Other Comprehensive Income			Total	Noncontrolling Interests	Total Equity
	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, MARCH 31, 2016	\$16,260	\$18,250	\$(21,813)	\$2,078,865	\$317,081	\$2,395,946
Net income attributable to owners of the parent	-	-	-	146,304	-	146,304
Cash dividends, \$0.06 per share	-	-	-	(24,429)	-	(24,429)
Purchase of treasury stock	-	-	-	(44,536)	-	(44,536)
Disposal of treasury stock	-	-	-	9	-	9
Adjustment of retained earnings for changes in the scope of consolidation	-	-	-	5,268	-	5,268
Increase due to stock exchange	-	-	-	46,831	-	46,831
Change in the parent's ownership interest due to transactions with noncontrolling interests	-	-	-	7,991	-	7,991
Reversal of land revaluation surplus	-	-	-	54	-	54
Net change in the year	(63)	(5,286)	42,929	103,750	(43,429)	60,321
BALANCE, MARCH 31, 2017	\$16,197	\$12,964	\$ 21,116	\$2,320,107	\$273,652	\$2,593,759

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 27,355	¥ 14,980	\$ 244,241
Adjustments for:			
Income taxes paid	(6,185)	(7,781)	(55,223)
Depreciation and amortization	23,276	22,454	207,821
Loss on discontinued software development	—	5,586	—
Impairment loss on long-lived assets	1,957	436	17,473
Gain on transfer of assets from employee retirement benefit trust	(2,524)	—	(22,536)
Loss on sales and disposals of property, plant, equipment, and other—net	95	842	848
Gain on sales of investment securities and investments in unconsolidated subsidiaries and associated companies	(152)	(1,553)	(1,357)
Write-down of investment securities and investments in unconsolidated subsidiaries and associated companies	75	38	670
Equity in earnings of associated companies	(811)	(418)	(7,241)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(14,182)	6,103	(126,625)
Increase (decrease) in allowance for doubtful accounts	22	(39)	196
(Increase) decrease in inventories	(3,479)	12,444	(31,062)
Increase (decrease) in notes and accounts payable	6,795	(9,929)	60,670
(Decrease) increase in provision for environmental measures	(1,891)	4,473	(16,884)
Decrease (increase) in asset for retirement benefits	2,310	(2,510)	20,625
Decrease in liability for employees' retirement benefits	446	246	3,982
Other—net	(4,716)	360	(42,107)
Total adjustments	1,036	30,752	9,250
Net cash provided by operating activities	28,391	45,732	253,491
INVESTING ACTIVITIES:			
Payment for time deposits	(318)	(963)	(2,839)
Repayment from time deposits	534	592	4,768
Purchases of property, plant, and equipment	(27,894)	(21,057)	(249,054)
Proceeds from sales of property, plant and equipment	693	204	6,188
Purchases of investment securities and investments in unconsolidated subsidiaries and associated companies	(1,182)	(3,377)	(10,554)
Proceeds from sales of investment securities and investments in unconsolidated subsidiaries and associated companies	587	4,175	5,241
Disbursements for originating loans	(193)	(1,659)	(1,723)
Proceeds from collection of loans	1,941	212	17,330
Other—net	(617)	(1,292)	(5,509)
Net cash used in investing activities	(26,449)	(23,165)	(236,152)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term bank loans	12,818	(3,777)	114,446
Proceeds from long-term debt	18,578	19,264	165,875
Repayments of long-term debt	(14,365)	(5,496)	(128,259)
Redemption of long-term debt	(10,000)	(20,000)	(89,286)
Acquisition of treasury stock	(4,988)	(3,179)	(44,536)
Acquisition of treasury stock by a subsidiary	(23)	(881)	(205)
Dividends paid, including payments to noncontrolling shareholders of subsidiaries	(3,352)	(4,170)	(29,928)
Liquidating dividends to noncontrolling shareholders of a subsidiary	—	(1,122)	—
Payments for transactions with noncontrolling interests	(15)	(562)	(134)
Other—net	(496)	(241)	(4,428)
Net cash used in financing activities	(1,843)	(20,164)	(16,455)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(203)	(650)	(1,813)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(104)	1,753	(929)
CASH AND CASH EQUIVALENTS OF NEWLY-CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR	404	790	3,607
CASH AND CASH EQUIVALENTS OF DECONSOLIDATED SUBSIDIARY	—	(545)	—
DECREASE IN CASH AND CASH EQUIVALENTS DUE TO COMPANY DEVESTITURE	(388)	—	(3,464)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,774	31,776	301,554
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 33,686	¥ 33,774	\$ 300,768

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2017

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements 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 accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which DAIDO STEEL CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112 to \$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company had 67 (67 in 2016) subsidiaries and 13 (17 in 2016) associated companies at March 31, 2017. The consolidated financial statements as of March 31, 2017, include the accounts of the Company and 34 (34 in 2016) significant subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in six associated companies were accounted for by the equity method for the years ended March 31, 2017 and 2016. Investments in other unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The fiscal years of the consolidated subsidiaries are not necessarily the same as that of the Company. Accounts of those subsidiaries which have different fiscal years have been adjusted for significant transactions to properly reflect their financial position at March 31 of each year and the results of operations for the year then ended.

The difference between the cost of acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized on a straight-line basis over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

(b) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

The Accounting Standards Board of Japan (ASBJ) issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," advising that accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the accounting principles generally accepted in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: a) amortization of goodwill; b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; c) expensing capitalized development costs of research and development; and d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting.

(c) Business Combinations

Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(d) Cash and Cash Equivalents

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

(e) Investment Securities

Investment securities are classified and accounted for, depending on management's intent, as follows:

Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

A limited partnership investment is accounted for by the equity method.

Non-marketable securities are stated at cost, determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(f) Inventories

Inventories are stated at the lower of cost, mainly determined by the weighted-average method or net selling value. A reversal of allowance for inventory valuation of ¥523 million (\$4,670 thousand) for the year ended March 31, 2017 and a write-down of inventory of ¥604 million for the year ended March 31, 2016 were included in cost of sales.

(g) Allowance for Doubtful Accounts

To provide for the loss from doubtful accounts, an allowance for doubtful accounts is made using the historical rate of actual losses for normal receivables and the estimated irrecoverable amount for specific doubtful receivables after considering the recoverability of each account.

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less gains on grant receipts, etc. Under certain conditions, such as government grant receipts, exchanges of fixed assets of similar kinds, and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section. The acquisition costs of property, plant, and equipment were reduced in the amounts of ¥4,585 million (\$40,938 thousand) and ¥4,678 million at March 31, 2017 and 2016, respectively.

Depreciation of certain plants of the Company and certain domestic and foreign subsidiaries is computed by the straight-line method. Depreciation of other plants of the Company and other subsidiaries is computed by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016, for domestic companies.

Pursuant to an amendment to the Corporate Tax Act, the Company adopted ASBJ Practical Issues Task Force No. 32 "Practical

Solution on a Change in Depreciation Method Due to Tax Reform 2016,” and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The effect of this amendment was immaterial to the consolidated financial statements.

Depreciation of leased assets is computed by the straight-line method over the lease period.

The range of useful lives is from 5 to 75 years for buildings and structures and from 4 to 17 years for machinery and equipment.

(i) Land Revaluation

Under the “Law of Land Revaluation,” Nippon Drop Forge Co., Ltd., a consolidated subsidiary, elected a one-time revaluation of its own-use land to a value based on real estate appraisal information at March 31, 1999. The resulting land revaluation surplus represented unrealized appreciation of land and was stated, net of income taxes, as a component of equity. Continuous readjustment is not permitted, unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation surplus account and related deferred tax liabilities. At March 31, 2017, the carrying amount of the land after the above one-time revaluation and impairment exceeded the market value by ¥920 million (\$8,214 thousand).

(j) Long-Lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(k) Other Assets

Intangible assets are amortized by the straight-line method. Software costs are amortized over five years.

(l) Bond Issue Costs

Bond issue costs are charged to income as incurred.

(m) Retirement and Pension Plans

The Company and its domestic consolidated subsidiaries have defined retirement benefit plans and unfunded pension plans. Certain consolidated subsidiaries have defined contribution pension plans, multi-employer contributory funded pension plans and smaller enterprise retirement allowance mutual aid plans.

The Group accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 10 years, no longer than the expected average remaining service period of the employees.

Retirement benefits to directors and Audit & Supervisory Board members of certain subsidiaries are provided at the amount that would be required if all directors and Audit & Supervisory Board members retired at the consolidated balance sheet date.

(n) Provision for Environmental Measures

A provision for environmental measures is provided to accrue the estimated costs of PCB (Polychlorinated Biphenyl) waste disposals and the estimated costs of removal of steel slag products sold in reserve for future expenses. The estimated costs of removal of steel slag products used in construction projects by the Ministry of Land, Infrastructure, Transport and Tourism, Gunma Prefecture, and municipalities in Gunma were accrued and included in the provision for environmental measures in the consolidated statement of income.

(o) Asset Retirement Obligations

An asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition,

construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(p) Research and Development Costs

Research and development costs are charged to income as incurred.

(q) Bonuses to Directors and Audit & Supervisory Board Members

Bonuses to directors and Audit & Supervisory Board members are accrued at the year-end to which such bonuses are attributable.

(r) Construction Contracts

Construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

(s) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016.

(t) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

(u) Foreign Currency Financial Statements

The consolidated balance sheet accounts, and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

(v) Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange and interest rates. Foreign currency forward contracts, currency swaps and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and, except for those derivatives which qualify for hedge accounting, gains or

losses are recognized in the consolidated statement of income and b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are measured at fair value, and the unrealized gains (losses) are recognized in the consolidated statement of income. Forward contracts used to hedge forecasted (or committed) transactions are also measured at fair value, but the unrealized gains (losses) are deferred until the underlying transactions are completed.

Long-term debt denominated in foreign currencies for which currency swaps are used to hedge the foreign currency fluctuations is translated at the contracted rate if the swaps qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense.

(w) Per Share Information

Net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because the Group had no dilutive shares at March 31, 2017 and 2016.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of year.

3. BUSINESS COMBINATIONS

Year Ended March 31, 2017

(Transaction under common control)

On October 1, 2016, the Company acquired shares of Daido Kogyo Co., Ltd. ("Daido Kogyo"), a consolidated subsidiary of the Company, by issuing the Company's shares to all of the shareholders of Daido Kogyo in exchange for all of the outstanding shares of Daido Kogyo. As a result, Daido Kogyo became a wholly owned subsidiary of the Company.

a. Outline of the business combination

(1) Name of the company and its business outline

Name of the company: Daido Kogyo Co., Ltd.

Business outline: Sale, export and import of specialty steel, nonferrous metals, materials, machinery, etc.

(2) Date of business combination

October 1, 2016

(3) Legal form of business combination

Stock exchange

(4) Name of the company after the business combination

No change

(5) Outline of the business combination

This stock exchange was made in order to strengthen the marketing initiatives in foreign countries and to establish efficient business models for the turbo materials, magnetic and high alloy businesses.

b. Accounting method

The business combination was accounted for as a transaction with noncontrolling interests.

c. Acquisition of the subsidiary's shares

(1) The Company acquired the subsidiary's shares in exchange for the Company's treasury stock in the amount of ¥5,245 million (\$46,830 thousand).

(2) The exchange ratio, formula and number of shares issued to shareholders of noncontrolling interests

The Company allotted 1.53 shares per 1 shares of Daido Kogyo.

The Company and Daido Kogyo determined the exchange ratio by referencing the stock valuation of Daido Kogyo by The Bank of

Tokyo Mitsubishi UFJ, Ltd., a third party. The discounted cash flow method was used in the valuation. 11,379,417 shares were allotted to noncontrolling shareholders of Daido Kogyo.

d. Transactions with noncontrolling shareholders

As a result of the transactions with noncontrolling shareholders, capital surplus increased by ¥715 million (\$6,384 thousand).

4. INVESTMENT SECURITIES

Investment securities at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Noncurrent:			
Equity securities	¥76,310	¥53,433	\$681,339
Total	¥76,310	¥53,433	\$681,339

The costs and aggregate fair values of investment securities at March 31, 2017 and 2016, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2017				
Available-for-sale:				
Equity securities	¥44,604	¥30,258	¥526	¥74,336
	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016				
Available-for-sale:				
Equity securities	¥32,383	¥20,701	¥1,596	¥51,488
	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2017				
Available-for-sale:				
Equity securities	\$398,250	\$270,160	\$4,696	\$663,714

Information for available-for-sale securities that were sold during the years ended March 31, 2017 and 2016, was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
March 31, 2017						
Available-for-sale:						
Equity securities	¥26	¥6	¥0	\$232	\$54	\$3
	Millions of Yen					
	Proceeds	Realized Gains	Realized Losses			
March 31, 2016						
Available-for-sale:						
Equity securities	¥2,503	¥467	¥52			

Impairment losses on equity securities and investments in associated companies for the years ended March 31, 2017 and 2016, were ¥75 million (\$670 thousand) and ¥34 million, respectively.

5. INVENTORIES

Inventories held by the Group at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Merchandise	¥18,151	¥18,764	\$162,062
Finished products	11,724	11,803	104,679
Semifinished products	18,201	15,976	162,509
Work in process	22,060	21,738	196,964
Raw materials	17,081	16,207	152,509
Supplies	11,261	10,643	100,545
Total	¥98,478	¥95,131	\$879,268

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2017 and 2016. As a result, the Group recognized an impairment loss of ¥1,957 million (\$17,473 thousand) as other expense for property, plant and equipment located in Gifu due to devaluation; the carrying amount of the relevant assets was written down to the recoverable amount for the year ended March 31, 2017. The Group recognized an impairment loss of ¥436 million as other expense for property, plant and equipment located in Nagano due to devaluation; the carrying amount of the relevant assets was written down to the recoverable amount for the year ended March 31, 2016. Moreover, the Group recognized an impairment loss of ¥5,162 million as other expense for discontinued software development costs for internal use; the carrying amount of the relevant assets was written down to the recoverable amount for the year ended March 31, 2016. Such amount is included in loss on discontinued software development of ¥5,586 million.

7. INVESTMENT PROPERTY

The Company and certain consolidated subsidiaries hold some rental properties, such as office buildings and land in Aichi and other areas. The net amounts of rental income and operating expenses for those rental properties were ¥848 million (\$7,571 thousand) and ¥892 million for the years ended March 31, 2017 and 2016, respectively. Gain on sales of rental property was ¥194 million (\$1,732 thousand) for the year ended March 31, 2017.

The carrying amounts, changes in such balances and fair values of such properties at March 31, 2017 and 2016, were as follows:

Millions of Yen				Thousands of U.S. Dollars			
Carrying Amount		Fair Value		Carrying Amount		Fair Value	
March 31, 2016	Increase, net	March 31, 2017	March 31, 2017	March 31, 2016	Increase, net	March 31, 2017	March 31, 2017
¥5,655	¥233	¥5,422	¥24,692	\$50,491	\$2,080	\$48,411	\$220,464

Millions of Yen			
Carrying Amount		Fair Value	
March 31, 2015	Increase, net	March 31, 2016	March 31, 2016
¥5,197	¥458	¥5,655	¥24,805

Notes:

- (1) The carrying amount recognized in the consolidated balance sheet was net of accumulated depreciation and accumulated impairment losses, if any.
- (2) The increase during the fiscal year ended March 31, 2016, primarily represents the acquisition of certain properties of ¥565 million. The decreases during the fiscal years ended March 31, 2017 and 2016, primarily represent depreciation of ¥168 million (\$1,500 thousand) and ¥145 million, respectively.
- (3) The fair value of properties was primarily measured by the Group in accordance with its Real-Estate Appraisal Standard.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans consisted of notes to banks and bank overdrafts. The weighted-average rates of annual interest applicable to short-term bank loans at March 31, 2017 and 2016, were 0.56% and 0.78%, respectively.

Long-term debt at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Loans from banks and other financial institutions due serially to 2023 with weighted-average interest rates of 0.58% in 2017 and 0.68% in 2016	¥ 90,291	¥ 96,141	\$ 806,169
0.68% unsecured bonds due December 1, 2016	–	10,000	–
0.335% unsecured bonds due May 27, 2019	10,000	10,000	89,286
0.150% unsecured bonds due March 7, 2022	10,000	–	89,286
Obligations under finance leases	815	930	7,277
Total	111,106	117,071	992,018
Less: Portion due within one year	(16,127)	(24,648)	(143,991)
Total long-term debt	¥ 94,979	¥ 92,423	\$ 848,027

Annual maturities of long-term debt at March 31, 2017, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 16,127	\$143,991
2019	26,730	238,661
2020	26,314	234,946
2021	15,291	136,527
2022	14,148	126,321
2023 and thereafter	12,496	111,572
Total	¥111,106	\$992,018

The Company and a consolidated subsidiary entered into line-of-credit agreements with nine banks. The details of the agreements were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Line-of-credit amount	¥24,700	\$220,536
Balance used at March 31, 2017	–	–

9. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral for notes and accounts payable of ¥12 million (\$108 thousand) and other current liabilities of ¥8 million (\$71 thousand) at March 31, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	¥ 17	\$ 151
Land	5,061	45,188
Buildings and structures	2,113	18,866
Machinery and equipment	1,101	9,830
Investment securities	48	429
Total	¥8,340	\$74,464

10. RETIREMENT AND PENSION PLANS

The Company and its consolidated subsidiaries have defined retirement benefit plans and unfunded pension plans. Certain consolidated subsidiaries have defined contribution pension plans, multi-employer contributory funded pension plans, and smaller enterprise retirement allowance mutual aid plans.

The Group has employee retirement benefit trusts.

Furthermore, additional severance payments, which are not included in liability for employees' retirement benefit, are paid in certain cases.

Certain small consolidated subsidiaries apply the simplified method to state the liability based on the amount which would be paid if employees retired at the consolidated balance sheet date.

Some subsidiaries participate in multi-employer contributory funded plans, and the plans are accounted for as if the plans were defined contribution plans in the case that the plan assets attributable to the contributions by the subsidiaries cannot be reliably determined.

During the year ended March 31, 2017, the Company transferred a portion of its assets from the employee retirement benefit trust. Accordingly, the Company recorded unrecognized actuarial gain of ¥2,524 million (\$22,536 thousand) for the year ended March 31, 2017.

1. The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥55,123	¥51,262	\$492,170
Current service cost	2,139	1,815	19,098
Interest cost	168	575	1,500
Actuarial (gains) losses	(60)	5,484	(536)
Benefits paid	(4,123)	(4,102)	(36,813)
Past service cost	–	95	–
Others	(1)	(6)	(8)
Balance at end of year	¥ 53,246	¥55,123	\$ 475,411

2. The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 74,650	¥84,671	\$ 666,518
Expected return on plan assets	1,427	1,467	12,741
Actuarial gains (losses)	6,447	(9,171)	57,563
Contributions from the employer	802	798	7,160
Benefits paid	(3,746)	(3,112)	(33,446)
Others	(12,223)	(3)	(109,134)
Balance at end of year	¥ 67,357	¥74,650	\$ 601,402

3. The changes in liability for employees' retirement benefits for which the simplified method was applied to record the liability for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥2,286	¥2,204	\$20,411
Pension costs	564	740	5,035
Benefits paid	(271)	(359)	(2,420)
Contributions to pension funds	(339)	(295)	(3,026)
Others	(0)	(5)	(0)
Balance at end of year	¥2,240	¥2,285	\$20,000

4. A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2017 and 2016, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 53,203	¥ 55,043	\$ 475,027
Plan assets	(70,501)	(77,536)	(629,473)
Total	(17,298)	(22,493)	(154,446)
Unfunded defined benefit obligation	5,427	5,253	48,455
Net asset arising from defined benefit obligation	¥(11,871)	¥(17,240)	\$(105,991)

5. The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥ 2,139	¥ 1,815	\$ 19,098
Interest cost	168	575	1,500
Expected return on plan assets	(1,427)	(1,467)	(12,741)
Amortization of prior service benefit	3,181	(1,432)	28,402
Recognized actuarial gains	(80)	(54)	(714)
Retirement benefits for which simplified method was applied	564	740	5,036
Additional severance payments	97	92	866
Gain on transfer of assets from retirement benefit trust	(2,524)	–	(22,536)
Net periodic benefit costs	¥ 2,118	¥ 269	\$ 18,911

6. Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Prior service cost	¥ (80)	¥ (149)	\$ (714)
Actuarial gains (losses)	7,164	(16,087)	63,964
Total	¥7,084	¥(16,236)	\$63,250

7. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized prior service cost	¥ 225	¥ 305	\$ 2,009
Unrecognized actuarial gains (losses)	2,815	(4,349)	25,134
Total	¥3,040	¥(4,044)	\$27,143

8. Plan assets

(1) Components of plan assets

Plan assets consisted of the following:

	2017	2016
Debt investments	14%	15%
Equity investments	64	65
Assets in an insurer's general account	21	19
Others	1	1
Total	100%	100%

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

9. Assumptions used for the years ended March 31, 2017 and 2016, are set forth as follows:

	2017	2016
Discount rate	0.3%	0.3%
Expected rate of return on plan assets	2.0	2.0

Some consolidated subsidiaries participate in a multi-employer plan for which the Company cannot reasonably calculate the amount of plan assets corresponding to the contributions made by the subsidiaries. Therefore, it is accounted for using the same methods as used to account for a defined contribution plan.

The contributions to such multi-employer plan, which are accounted for using the same method as a defined contribution plan, were ¥265 million (\$2,366 thousand) and ¥317 million for the years ended March 31, 2017 and 2016, respectively.

(1) The funded status of the multi-employer plan as of March 31, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Plan assets	¥251,436	¥263,436	\$2,244,964
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	253,982	268,703	2,267,696
Net balance	¥ (2,546)	¥ (5,267)	\$ (22,732)

(2) The contribution ratio of the Group in the multi-employer plan for the years ended March 31, 2017 and 2016, was as follows:

	2017	2016
The contribution ratio of the Group in the multi-employer plan	2.29%	2.28%

11. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥432	¥426	\$3,857
Additional provisions associated with the change in the estimated costs of PCB waste disposal	—	6	—
Reconciliation associated with passage of time	4	0	35
Balance at end of year	¥428	¥432	\$3,822

12. EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the Shareholders' Meeting. Additionally, for companies that meet certain criteria, such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of the legal reserve and additional paid-in capital equals 25% of common stock.

Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 31% and 33% for the years ended March 31, 2017, and 2016, respectively.

The tax effects of significant temporary differences and loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Accrued bonuses	¥ 2,142	¥ 2,079	\$ 19,125
Liability for employees' retirement benefits	2,803	2,763	25,027
Allowance for doubtful accounts	56	53	500
Write-down of securities and other assets	2,726	2,663	24,339
Net loss carryforwards	3,327	2,996	29,705
Elimination of unrealized gain on inventories	884	883	7,893
Provision for environmental measures	1,153	1,737	10,295
Enterprise tax	420	285	3,750
Other	4,106	4,542	36,661
Less valuation allowance	(9,045)	(7,727)	(80,759)
Total deferred tax assets	8,572	10,274	76,536
Deferred tax liabilities:			
Deferred gain on property, plant, and equipment	1,757	1,830	15,688
Land revaluation surplus	1,230	1,230	10,982
Unrealized gain on securities	8,868	5,774	79,178
Asset for employees' retirement benefits	5,026	6,215	44,875
Unrealized gain on lands resulting from consolidation of a subsidiary	1,076	1,057	9,607
Transfer of investment securities from retirement benefit trust	3,342	—	29,839
Other	1,893	1,751	16,902
Total deferred tax liabilities	23,192	17,857	207,071
Net deferred tax liabilities	¥14,620	¥ 7,583	\$130,535

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2017, with the corresponding figures for 2016 is as follows:

	2017	2016
Normal effective statutory tax rates	31.0 %	33.0 %
Expenses not deductible for income tax purposes	1.2	1.9
Revenues not recognized for income tax purposes	(4.7)	(9.9)
Per capita tax	0.4	0.7
Net change in valuation allowance	5.8	9.0
Effects of elimination of dividends for consolidation purposes	4.2	6.9
Effect of accounting by the equity method	(0.9)	(0.9)
Lower income tax rates applicable to income in certain foreign countries	(0.2)	(0.9)
Tax credit	(3.6)	(4.8)
Effect of change in statutory tax rate	—	(0.8)
Investments in subsidiaries	0.3	4.2
Other—net	(0.3)	0.8
Actual effective tax rates	33.2 %	39.2 %

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥6,206 million (\$55,411 thousand) and ¥5,766 million for the years ended March 31, 2017 and 2016, respectively.

15. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses for the years ended March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Freight expenses	¥13,175	¥12,948	\$117,634
Salaries and welfare expenses	22,002	21,944	196,446
Provision for bonuses to employees	2,475	2,340	22,098
Provision for bonuses to directors and Audit & Supervisory Board members	230	159	2,054
Net periodic retirement benefit costs	2,059	154	18,384
Depreciation	1,226	1,227	10,946
Other	11,754	11,229	104,947
Total	¥52,921	¥50,001	\$472,509

16. LEASES

(As lessor)

Expected revenues from noncancelable operating leases at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥ 508	¥ 507	\$ 4,536
Due after one year	2,631	3,116	23,491
Total	¥3,139	¥3,623	\$28,027

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly short-term and long-term debt including bank loans and bonds, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are used, not for speculative purposes, but only for the purpose of reducing exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables—trade, such as trade notes and accounts, and electronically recorded monetary claims, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of payables denominated in the same currency, of which positions are almost equal. In addition, foreign currency receivables of certain consolidated subsidiaries are hedged by using forward foreign currency contracts. Investment securities, mainly equity instruments of customers and suppliers of the Group and for alliance purposes, are exposed to the risk of market price fluctuations.

Payment terms of payables—trade, such as trade notes and accounts, and electronically recorded obligations, are less than one year. Although payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency, of which positions are almost equal, as noted above. In addition, foreign currency trade payables in certain consolidated subsidiaries are exposed to risk resulting from fluctuations in foreign currency exchange rates. The risk is hedged by using forward foreign currency contracts.

Short-term bank loans and commercial paper are mainly used for general operating purposes, and long-term bank loans and bonds are mainly used for investment and strategy. Although a portion of such bank loans and commercial paper, excluding bonds, is exposed to risk of changes in variable interest rates, that risk is mitigated by using interest rate swaps. Bonds are not exposed to risk of changes in interest rates as interest rates are fixed.

Derivatives mainly include forward foreign currency contracts, which are used to manage future cash flows, currency swaps and interest rate swaps, which are used to manage risks from changes in interest rates of bank loans. Please see Note 18 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. To reduce the counterparty risk, the Group enters into derivative transactions only with highly rated financial institutions. Please see Note 18 for detail about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2017.

Market Risk Management (Foreign Currency Exchange Rate Risk and Interest Rate Risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such risk is netted against the balance of receivables and payables, of which positions are almost equal. In addition, certain consolidated subsidiaries hedge such risk principally by using forward foreign currency contracts.

Interest rate swaps and currency swaps are used to manage exposure to risks of changes in interest rates of loan payables.

Investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

Derivative transactions of the Company are undertaken by the finance and accounting department and the procurement center and reported to directors or the Board of Directors based on internal policies that prescribe the authority and maximum amount for each transaction. Derivative transactions of consolidated subsidiaries are undertaken by the finance and accounting department based on internal policies.

Liquidity Risk Management

The Group manages its liquidity risk by establishing a cash management plan according to reports from each department.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Please see Note 18 for details of the fair value of derivatives.

(a) Fair value of financial instruments

	Millions of Yen			Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)	Carrying Amount	Fair Value	Unrealized Gain (Loss)
March 31, 2017						
Cash and cash equivalents	¥ 33,686	¥ 33,686	—	\$ 300,768	\$ 300,768	—
Time deposits	1,281	1,281	—	11,437	11,437	—
Receivables—trade	113,215	113,215	—	1,010,848	1,010,848	—
Investment securities	74,336	74,336	—	663,714	663,714	—
Investment in an associated company	4,575	3,748	¥(827)	40,848	33,464	\$(7,384)
Total	¥227,093	¥226,266	¥(827)	\$2,027,615	\$2,020,231	\$(7,384)
Short-term bank loans	¥ 31,108	¥ 31,108	—	\$ 277,750	\$ 277,750	—
Current portion of long-term debt	16,127	16,127	—	143,991	143,991	—
Payables—trade	75,160	75,160	—	671,071	671,071	—
Income taxes payable	4,636	4,636	—	41,393	41,393	—
Long-term debt	94,979	94,730	¥ 249	848,027	845,804	\$ 2,223
Total	¥222,010	¥221,761	¥ 249	\$1,982,232	\$1,980,009	\$ 2,223

March 31, 2016	Millions of Yen		Unrealized Loss
	Carrying Amount	Fair Value	
Cash and cash equivalents	¥ 33,774	¥ 33,774	—
Time deposits	1,155	1,155	—
Receivables—trade	98,800	98,800	—
Investment securities	51,488	51,488	—
Investment in an associated company	4,414	2,447	¥(1,967)
Total	¥189,631	¥187,664	¥(1,967)
Short-term bank loans	¥ 18,545	¥ 18,545	—
Current portion of long-term debt	24,648	24,683	¥ (35)
Payables—trade	68,153	68,153	—
Income taxes payable	2,752	2,752	—
Long-term debt	92,423	92,845	(422)
Total	¥206,521	¥206,978	¥ (457)

Cash and Cash Equivalents, Time Deposits, Receivables—Trade, Short-Term Bank Loans, Current Portion of Long-Term Debt with Variable Interest Rates, Payables—Trade, and Income Taxes Payable

The carrying values of cash and cash equivalents, time deposits, receivables—trade, short-term bank loans, current portion of long-term debt with variable interest rates, payables—trade, and income taxes payable, approximate fair value because of their short maturities. The fair values of receivables—trade, payables—trade, and short-term bank loans include the fair values of foreign currency forward contracts and interest rate swaps.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 4.

Long-Term Debt with Fixed Interest Rates

The fair values of long-term debt with fixed interest rates are determined by discounting the cash flows related to the debt at the risk-free rate plus credit spread or at the Group's assumed corporate borrowing rate. The fair values of bonds are measured at quoted market prices.

Derivatives

Fair value information for derivatives is included in Note 18.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Securities that do not have a quoted market price in an active market:			
Investment securities	¥ 1,974	¥ 1,945	\$ 17,625
Investments in unconsolidated subsidiaries and associated companies	18,042	15,973	161,089

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
March 31, 2017				
Cash and cash equivalents	¥ 33,686	—	—	—
Time deposits	1,281	—	—	—
Receivable—trade	113,215	—	—	—
Total	¥148,182	—	—	—

	Thousands of U.S. Dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
March 31, 2017				
Cash and cash equivalents	\$ 300,768	—	—	—
Time deposits	11,437	—	—	—
Receivable—trade	1,010,848	—	—	—
Total	\$1,323,053	—	—	—

Please see Note 8 for annual maturities of long-term debt and the current portion of long-term debt.

18. DERIVATIVES

The Group enters into foreign currency forward contracts, interest rate swaps, and currency swaps. The Group does not hold or issue derivatives for trading or speculative purposes. Derivative transactions entered into by the Group have been made in accordance with internal policies, which regulate hedging policy, authorization, credit limit, and reporting to management. Each derivative transaction is periodically reported to management, which evaluates and analyzes the derivatives. To reduce the counterparty risk, the Group enters into the derivative transactions only with highly rated financial institutions. The contract amounts of derivatives which are shown in the following table do not measure the Group's exposure to market risk.

Derivative Transactions to Which Hedge Accounting Is Not Applied at March 31, 2017 and 2016

Millions of Yen				
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
At March 31, 2017				
Foreign currency forward contracts:				
Buying:				
U.S. dollar	¥ 314	—	¥ (3)	¥ (3)
Euro	322	—	(7)	(7)
Yen	549	—	(29)	(29)
RMB	46	—	(0)	(0)
Korean won	19	—	2	2
Singapore dollar	8	—	(0)	(0)
HK dollar	0	—	(0)	(0)
Selling:				
U.S. dollar	5,977	—	55	55
Euro	303	—	2	2
Thai baht	152	—	(8)	(8)
RMB	156	—	1	1
British pound	5	—	1	1
Indian rupiah	86	—	(7)	(7)

Millions of Yen				
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
At March 31, 2016				
Foreign currency forward contracts:				
Buying:				
U.S. dollar	¥ 198	—	¥ (5)	¥ (5)
Euro	211	—	(1)	(1)
Yen	480	—	5	5
Thai baht	0	—	(0)	(0)
RMB	49	—	(3)	(3)
Selling:				
U.S. dollar	3,502	—	36	36
Euro	185	—	(1)	(1)
Thai baht	271	—	4	4
RMB	74	—	0	0

		Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Unrealized Gain (Loss)
At March 31, 2017				
Foreign currency forward contracts:				
Buying:				
U.S. dollar		\$ 2,804	—	\$ (27)
Euro		2,875	—	(63)
Yen		4,902	—	(259)
RMB		411	—	(0)
Korean won		170	—	18
Singapore dollar		71	—	(0)
HK dollar		0	—	(0)
Selling:				
U.S. dollar		53,366	—	491
Euro		2,705	—	18
Thai baht		1,357	—	(71)
RMB		1,393	—	9
British pound		45	—	9
Indian rupiah		768	—	(63)

Derivative Transactions to Which Hedge Accounting Is Applied at March 31, 2017 and 2016

		Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
At March 31, 2017				
Foreign currency forward contracts:				
Hedge accounting:				
Selling:				
U.S. dollar	Receivables—trade	¥ 443	—	¥2
Euro	Receivables—trade	15	—	0
Qualified for hedge accounting not remeasured at market value:				
Selling:				
U.S. dollar	Receivables—trade	41	—	See Note on the following page
Currency swaps:				
Yen payment, U.S. dollar receipt	Short-term bank loans and long-term debt	5,500	¥ 5,500	
Interest rate swaps:				
Fixed rate payment, floating rate receipt		33,900	24,400	

		Millions of Yen		
At March 31, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Hedge accounting:				
Buying:				
U.S. dollar	Payables—trade	¥ 3	—	¥ 0
Euro	Payables—trade	0	—	(0)
Qualified for hedge accounting not remeasured at market value:				
Selling:				
U.S. dollar	Receivables—trade	1	—	See Note below
Euro	Receivables—trade	10	—	
Currency swaps:	Short-term bank loans and long-term debt			
Yen payment, U.S. dollar receipt		2,000	¥ 2,000	
Interest rate swaps:				
Fixed rate payment, floating rate receipt		37,300	33,900	
		Thousands of U.S. Dollars		
At March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Hedge accounting:				
Selling:				
U.S. dollar	Receivables—trade	\$ 3,955	—	\$18
Euro	Receivables—trade	134	—	0
Qualified for hedge accounting not remeasured at market value:				
Selling:				
U.S. dollar	Receivables—trade	366	—	See Note below
Currency swaps:	Short-term bank loans and long-term debt			
Yen payment, U.S. dollar receipt		49,107	\$ 49,107	
Interest rate swaps:				
Fixed rate payment, floating rate receipt		302,679	217,857	

Note: Fair values of derivatives qualified for hedge accounting, which are not remeasured at market value, are included in the fair values of hedged items in Note 17.

19. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2017, the Group was contingently liable for ¥8,662 million (\$77,339 thousand) for guarantees of loans and payables of unconsolidated subsidiaries, associated and other companies and employees, including borrowings of ¥3,600 million (\$32,143 thousand) by Yugen Kaisha Takakura Founding Corporation ("Takakura").

The Company was obligated to make an additional investment in Takakura via an anonymous association contract with an upper limit of ¥524 million (\$4,679 thousand) in the event that buildings owned by Takakura are destroyed or impaired by natural disaster at March 31, 2017.

20. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain on available-for-sale securities:			
Gains (losses) arising during the year	¥10,422	¥(17,029)	\$ 93,054
Reclassification adjustments to profit or loss	7	(318)	63
Amount before income tax effect	10,429	(17,347)	93,117
Income tax effect	(3,090)	5,865	(27,590)
Total	7,339	(11,482)	65,527
Deferred gain on derivatives under hedge accounting:			
Gains (losses) arising during the year	2	(3)	18
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	2	(3)	18
Income tax effect	(1)	1	(9)
Total	1	(2)	9
Land revaluation surplus:			
Income tax effect	—	62	—
Total	—	62	—
Foreign currency translation adjustments:			
Adjustments arising during the year	(855)	(1,699)	(7,634)
Total	(855)	(1,699)	(7,634)
Defined retirement benefit plans:			
Adjustments arising during the year	6,508	(14,750)	58,107
Reclassification adjustments to profit or loss	577	(1,486)	5,152
Amount before income tax effect	7,085	(16,236)	63,259
Income tax effect	(2,219)	5,122	(19,813)
Total	4,866	(11,114)	43,446
Share of other comprehensive income (loss) in associates:			
Gains (losses) arising during the year	42	(81)	375
Reclassification adjustments to profit or loss	(1)	(0)	(9)
Total	41	(81)	366
Total other comprehensive income (loss)	¥11,392	¥(24,316)	\$101,714

21. SUBSEQUENT EVENT

a. Appropriations of retained earnings

The following appropriation of retained earnings at March 31, 2017, was approved at the Company's Shareholders' Meeting held on June 28, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥6.0 (\$0.05) per share	¥2,558	\$22,839

b. Share consolidation and change in the number of shares constituting one trading unit

The Company resolved on the share consolidation and partial amendment of the articles of incorporation to change the number of shares constituting one trading unit at the Company's Shareholders' Meeting held on June 28, 2017.

1. Purpose of share consolidation and change in the number of shares constituting one trading unit

Japanese stock exchanges are aiming to standardize the number of shares per trading unit at 100 shares. In recognition of this aim, the Company will change its share trading unit size, the number of shares constituting one trading unit, from 1,000 shares to 100 shares. The purpose of this share consolidation is to maintain the price of one trading unit of its stock at the same level after the number of shares constituting one trading unit is reduced.

2. Details and timing of the share consolidation

The Company shall consolidate the shares on October 1, 2017 by a factor of 10 to 1 based on the shareholders registered on September 30, 2017.

The decrease in shares after the share consolidation will be as follows:

Number of issued shares before the share consolidation as of March 31, 2017

434,487,693 shares

Decrease in shares by the share consolidation

391,038,924 shares

Number of issued shares after the share consolidation

43,448,769 shares

(Note) These are theoretical figures which are calculated by multiplying the number of issued shares before the share consolidation by the consolidation ratio.

3. Processing for a fraction of less than one share

If a fraction of less than one share is created due to share consolidation, such fractional shares will be sold together pursuant to the provisions of the Companies Act, and the proceeds will be distributed to shareholders who held the fractional shares in proportion to the number of fractional shares they held.

4. Change in the number of shares constituting one trading unit

The Company will change the number of shares per trading unit from 1,000 shares to 100 shares on October 1, 2017.

5. Change in the number of authorized shares

The number of authorized shares shall be changed from 1,160,000,000 shares to 116,000,000 after the share consolidation.

6. Schedule

Resolution at the Board of Directors' meeting

May 10, 2017

Resolution at the Company's Shareholders' Meeting

June 28, 2017

Effective date of the share consolidation and the change in the number of shares per trading unit

October 1, 2017

7. Effect on per share information

If the share consolidation was carried out at the beginning of the year ended March 31, 2016, per share information for the years ended March 31, 2017 and 2016, is as follows:

	Yen		U.S. Dollars
	2017	2016	2017
Net assets per share	¥6,094.74	¥5,452.58	\$54.42
Basic net income per share	385.92	156.22	3.45

22. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The Group has business divisions based on the nature of its products and services. Each division draws up strategies and operates its own business.

The Group consists of five industries: "Specialty Steel," "High Performance Materials and Magnetic Materials," "Parts for Automobile and Industrial Equipment," "Engineering," and "Trading and Service." "Specialty Steel" industry consists of manufacturing of specialty steel for automotive and industrial machinery parts.

The "High Performance Materials and Magnetic Materials" industry consists of manufacturing of stainless steel, high alloy and magnetic materials, titanium products and powder metals for automotive and industrial machinery, and electrical and electronic parts.

The "Parts for Automobile and Industrial Equipment" industry consists of manufacturing of die-forged parts, forging products, and other products for automotive and industrial machinery parts.

The "Engineering" industry consists of manufacturing and maintenance of steelmaking and environmental equipment, industrial furnaces, and associated equipment.

The "Trading and Service" industry consists of real estate-related services and welfare and other services.

2. Methods of measurement for the amounts of sales, profit, assets, and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

Reportable segment profit represents operating income.

3. Information about sales, profit, assets, and other items is as follows:

	Millions of Yen						Reconciliations	Consolidated
	Reportable Segment					Total		
2017	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total		
Sales:								
Sales to external customers	¥163,087	¥148,468	¥ 97,492	¥23,918	¥12,158	¥445,123	–	¥445,123
Intersegment sales or transfers	65,879	15,027	22,839	1,670	11,889	117,304	¥(117,304)	–
Total	¥228,966	¥163,495	¥120,331	¥25,588	¥24,047	¥562,427	¥(117,304)	¥445,123
Segment profit (loss)	¥ 5,813	¥ 17,417	¥ (516)	¥ 1,219	¥ 1,583	¥ 25,516	¥ (2)	¥ 25,514
Segment assets	198,352	177,788	127,249	18,143	16,613	538,145	36,024	574,169
Other:								
Depreciation and amortization	7,642	7,667	6,598	289	1,080	23,276	–	23,276
Investments in associated companies accounted for by the equity method	4,946	5,109	433	126	–	10,614	468	11,082
Increase in property, plant, and equipment and intangible assets	7,528	9,844	10,503	273	793	28,941	–	28,941

	Millions of Yen							
	Reportable Segment						Reconciliations	Consolidated
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total		
2016								
Sales:								
Sales to external customers	¥170,514	¥155,251	¥ 99,680	¥26,104	¥ 9,029	¥460,578	–	¥460,578
Intersegment sales or transfers	83,637	17,535	31,399	2,506	10,583	145,660	¥(145,660)	–
Total	¥254,151	¥172,786	¥131,079	¥28,610	¥19,612	¥606,238	¥(145,660)	¥460,578
Segment profit	¥ 7,561	¥ 12,331	¥ 1,299	¥ 2,071	¥ 1,173	¥ 24,435	¥ (3)	¥ 24,432
Segment assets	184,569	164,708	126,795	17,956	16,575	510,603	25,073	535,676
Other:								
Depreciation and amortization	7,811	6,763	6,472	336	1,072	22,454	–	22,454
Investments in associated companies accounted for by the equity method	4,839	4,648	408	84	–	9,979	378	10,357
Increase in property, plant, and equipment and intangible assets	7,670	6,906	7,044	245	1,340	23,205	–	23,205

	Thousands of U.S. Dollars							
	Reportable Segment						Reconciliations	Consolidated
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total		
2017								
Sales:								
Sales to external customers	\$1,456,134	\$1,325,607	\$ 870,464	\$213,554	\$108,554	\$3,974,313	–	\$3,974,313
Intersegment sales or transfers	588,205	134,170	203,920	14,910	106,152	1,047,357	\$(1,047,357)	–
Total	\$2,044,339	\$1,459,777	\$1,074,384	\$228,464	\$214,706	\$5,021,670	\$(1,047,357)	\$3,974,313
Segment profit (loss)	\$ 51,902	\$ 155,509	\$ (4,607)	\$ 10,884	\$ 14,134	\$ 227,822	\$ (18)	\$ 227,804
Segment assets	1,771,000	1,587,393	1,136,152	161,991	148,330	4,804,866	321,643	5,126,509
Other:								
Depreciation and amortization	68,232	68,455	58,911	2,580	9,643	207,821	–	207,821
Investments in associated companies accounted for by the equity method	44,161	45,616	3,866	1,125	–	94,768	4,179	98,947
Increase in property, plant, and equipment and intangible assets	67,214	87,893	93,777	2,438	7,080	258,402	–	258,402

Notes: 1. Reconciliations of segment profit consisted of elimination of intersegment transactions.

2. Reconciliations of segment assets and investments in associated companies consisted of corporate assets that were not allocated to any reportable segments.

3. Segment profit was reconciled to operating income in the consolidated statement of income.

4. Associated information

(1) Information about geographical areas

Sales

2017	Millions of Yen				
	Japan	North America	Asia	Other	Total
	¥343,529	¥19,266	¥74,733	¥7,595	¥445,123

2016	Millions of Yen				
	Japan	North America	Asia	Other	Total
	¥358,914	¥20,793	¥72,080	¥8,791	¥460,578

2017	Thousands of U.S. Dollars				
	Japan	North America	Asia	Other	Total
	\$3,067,223	\$172,018	\$667,259	\$67,813	\$3,974,313

(2) Information about impairment loss

2017	Millions of Yen					
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
Impairment loss	–	¥372	¥1,585	–	–	¥1,957

2016	Millions of Yen					
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
Impairment loss	¥2,318	¥1,527	¥1,189	¥128	¥435	¥5,597

2017	Thousands of U.S. Dollars					
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
Impairment loss	–	\$3,321	\$14,152	–	–	\$17,473

(3) Information about goodwill

	Millions of Yen					
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
2017						
Amortization of goodwill	¥51	—	—	—	—	¥51
Balance of goodwill	11	—	—	—	—	11

	Millions of Yen					
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
2016						
Amortization of goodwill	¥51	—	—	—	—	¥51
Balance of goodwill	62	—	—	—	—	62

	Thousands of U.S. Dollars					
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
2017						
Amortization of goodwill	\$455	—	—	—	—	\$455
Balance of goodwill	98	—	—	—	—	98



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daido Steel Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Daido Steel Co., Ltd. and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daido Steel Co., Ltd. and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 28, 2017

Member of
Deloitte Touche Tohmatsu Limited