

# **NISSHIN STEEL CO., LTD.**

## ANNUAL REPORT 2018

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Statements in this annual report with respect to Nisshin Steel Co., Ltd.'s plans, strategies, forecasts and other explanations that are not historical facts are forward-looking statements that are based on management's assumptions and beliefs derived from information currently available and invoke risks and uncertainties.

Factors that could cause actual results to differ materially from such statements include, without limitation, global economic conditions, demand for and competitive pricing pressure on products and services, Nisshin Steel Co., Ltd.'s ability to continue to win acceptance for its products and services in highly competitive markets, and currency exchange rate fluctuations.

## Consolidated Financial Highlights

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

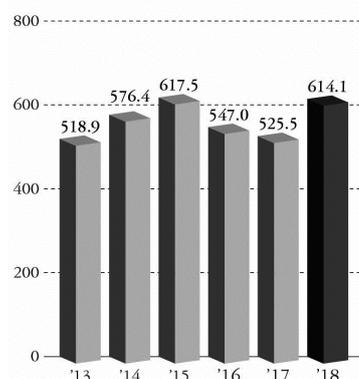
Years ended March 31, 2018, 2017 and 2016

	Millions of yen (except per share amounts)			Percent change 2018/2017	Thousands of U.S. dollars <sup>1</sup> (except per share amounts)
	2018	2017	2016		2018
Net sales	¥ 614,196	¥ 525,563	¥ 547,026	16.9%	\$ 5,781,212
Profit (loss) attributable to owners of parent	13,014	1,672	(6,613)	678.3%	122,496
Total assets	716,693	706,418	708,167	1.5%	6,745,980
Total net assets	247,860	226,223	217,978	9.6%	2,333,019
Profit (loss) attributable to owners of parent per share <sup>2</sup>	¥ 118.74	¥ 15.26	¥ (60.33)	678.1%	\$ 1.11
Cash dividends per share <sup>2</sup>	30.00	5.00	40.00	500.0%	0.28

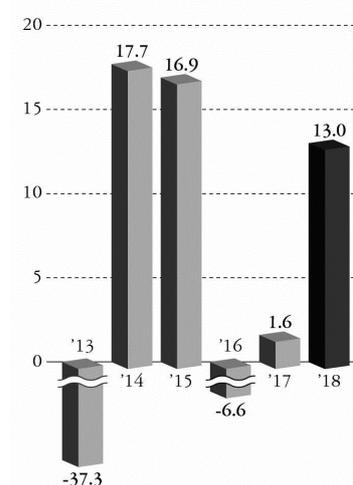
Notes: 1. Unless indicated otherwise, all dollar figures herein refer to U.S. currency. Yen amounts have been translated into U.S. dollars, for convenience only, at ¥106.24=US\$1, the effective rate of exchange at March 31, 2018

2. Per share amounts are in yen and U.S. dollars.

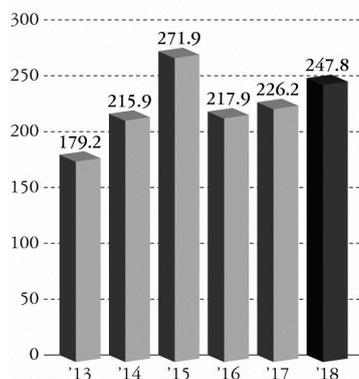
**Net Sales**  
(Billions of yen)  
(Years ended March 31)



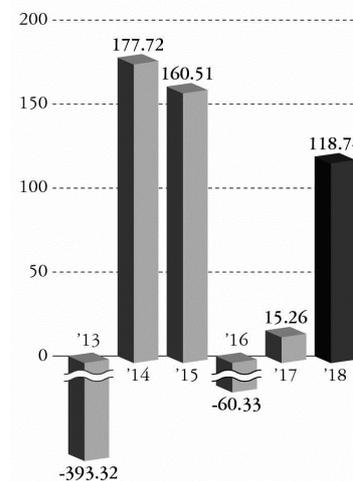
**Profit (Loss) Attributable to Owners of Parent**  
(Billions of yen)  
(Years ended March 31)



**Total Net Assets**  
(Billions of yen)  
(March 31)



**Profit (Loss) Attributable to Owners of Parent per Share**  
(Yen)  
(Years ended March 31)



## To Our Shareholders and Investors

### Overview of the Fiscal Year Ended March 31, 2018

During the fiscal year under review, the Japanese economy continued to perform well, as the continuation of the modest economic recoveries in the U.S., Europe, China, and other regions brought about a pick-up in domestic production and exports. As a result, personal consumption and private-sector capital investment were both brisk, helping corporate earnings to reach a new record high, and the employment environment continued to improve, with the unemployment rate falling to historically low levels.

In the steel industry, demand for steel materials was strong, centered on fields of demand including automobiles and industrial equipment supported by robust personal consumption and corporate activity. Although prices of key materials including iron ore and coal, which had been trending higher since the previous fiscal year, started to settle down in the second half of the fiscal year under review, prices of auxiliary materials such as zinc and fuel oil started rising towards the end of the fiscal year.

Under this operating environment prevailing in the fiscal year under review, the Nisshin Group engaged in developmental marketing bringing together development, production, and sales, which is the Group's strength, and diligently studied ways to create synergies with Nippon Steel & Sumitomo Metal Corporation (hereinafter, "NSSMC") as well as boost the Group's earnings capabilities.

In terms of sales, in addition to steadily grasping business opportunities under the favorable demand environment, we worked to secure profits by focusing on sales of more profitable products and on sales to more profitable fields. We also expanded sales of new products including BLACK ZAM® and Pla-tight® and worked with the development divisions to increase the value-added of existing products by developing new uses in response to our detailed understanding of customers' needs, and thereby increased profitability.

Also, concerning higher costs in conjunction with rising costs of key materials, which were a problem since the previous fiscal year, we talked with customers and gained their understanding about adjusting sales prices to address costs that we cannot deal with through our own efforts.

As to manufacturing, in the previous fiscal year we tried to operate with a priority on stable plant operations centered on upstream processes, but during the fiscal year under review we strengthened our efforts to establish an even more stable supply system by raising the level of our facilities management and operations.

With respect to creating synergies with NSSMC, we thoroughly studied all areas on a joint basis, and as a result we have started to see results emerge, including the provision of operating technologies and know-how, the establishment of a production back-up framework through the mutual utilization of production capacity and the supply of feedstock, and procurement of raw materials and equipment utilizing the economies of scale of the NSSMC Group.

In particular, we decided to utilize NSSMC's facilities technologies and operating technologies related to lengthening the life of blast furnaces to extend the operating periods of the Kure Works' No. 1 and No. 2 blast furnaces, the operation of which is a key theme in our business structural reforms. We will use the investment capacity freed up by this to quickly realize our core product strategy and further strengthen our earnings base.

Turning to consolidated operating results for the fiscal year under review, consolidated net sales were ¥614,196 million (US\$5,781,212 thousand), up ¥88,632 million year on year, ordinary profit was ¥18,873 million (US\$177,644 thousand), up ¥12,875 million, and profit attributable to owners of parent was ¥13,014 million (US\$122,496 thousand), up ¥11,342 million.

### Outlook for the Fiscal Year Ending March 31, 2019

Looking ahead, the Japanese economy is expected to continue along a recovery path, mainly supported by a continued pickup in consumer spending and corporate performance, and full-scale demand associated with the 2020 Tokyo Olympic and Paralympic Games. However, there are concerns over the impact on the economy of responses with protectionist trade policies among countries and other factors.

The steel industry is expected to see continued strength in steel supply and demand, while attention should be given to increasing production cost due to a rise in prices of auxiliary materials, etc., supply and demand trends in China where the highest level of crude steel production in the history has been continued, influx of steel to Asia following additional tariff measures imposed on steel products implemented by the United States, and others.

In this business climate, based on the "customer-centric approach" set under the Group management philosophy, the Company's development, manufacturing and sales divisions and Group companies will work together to promote detailed developmental marketing in line with customer needs, which is one of the Nisshin Group's strengths, in order to "please" customers as much as possible.

In addition, the Nisshin Group formulated the 2020 Medium-Term Management Plan, a plan for three years from fiscal 2018 to fiscal 2020, (hereinafter, "the 2020 Medium-Term Plan") in March 2018 and launched its full-scale efforts to achieve the plan.

Under the 2020 Medium-Term Plan, the Nisshin Group will accelerate sharing of management strategies within the NSSMC Group and aggressively promote the supply of value-addition to customers utilizing the Nissin Group's unique strengths to respond to the future market environment. Furthermore, the Nisshin Group will achieve enhanced competitiveness and increased profitability through these efforts to build a robust corporate structure, and will execute the following three strategies to acquire sustainable growth capability and establish its value in the domestic and international markets.

First, the Nisshin Group will strengthen its competitiveness by steadily realizing "maximization of synergies" through buildup of rapport with NSSMC in various areas throughout the entire operation and "business reform" including maximum use of existing blast furnaces and establishment of an optimal production system.

Next, the Nisshin Group will work to redefine its core product group as products with functionality, future potential and profitability that can supply high added value to customers thereby steadily acquiring monetary return for functions and promoting branding so as to make the core product group the main driver toward enhancing competitiveness and improving profitability for the Nisshin Group.

Moreover, the Nisshin Group will go back to the basics on its "customer-centric approach," which is one of its strength, and establish and promote the "CS (customer satisfaction)-pursuit strategy" with an eye to further evolving such approach. The Nisshin Group will amplify value-addition of products and services to "please" customers in all activities in its entire value chain from development, manufacturing and sales through Group companies' secondary and tertiary processing services.

To steadily implement these strategies, the Nisshin Group will forge ahead with the following initiatives.

On the sales and development aspects, the Nisshin Group will be equipped with "earning powers" by further strengthening sales and development capabilities through the diversification of value-addition by ensuring customer satisfaction, honing its core product strategy, enhancing services and other measures. In promoting this initiative, the Nisshin Group will introduce a "unit system" in which strategies and challenges are shared based on the product type of ordinary steel, special steel and stainless steel, in order to further increase profitability through strategies tailored to each product type that cover everything from materials to processing.

On the manufacturing aspect, the Nisshin Group will "rebuild the manufacturing base" by steadily making investments in upgrading aging facilities, investments in risk control and investments in core products, and further "boost cost competitiveness" through the utilization of the rapport within the NSSMC Group.

The Nisshin Group will also achieve an increase in its profitability by working to advance secondary and tertiary processing in Japan and enhance overseas market development with core products, etc. as well as to "further leverage the overall Nisshin Group capacity."

Moreover, the Nisshin Group will strive to further accelerate its efforts and propel its core product and CS-pursuit strategies through proactive training and deployment of personnel, aiming to "reinforce a corporate base" essential for ensuring stakeholder trust, such as safety, environment, security and disaster prevention, quality, and internal control.

Committed to upholding its corporate philosophy to "bring to life the dreams and visions of customers with the use of steel," the Nisshin Group will utilize its combined power to continue to evolve daily as a company that always creates new markets with the customer trust and solid presence.

Also, the Nisshin Group will contribute to the evolution of the NSSMC Group to be the "Best Steelmaker with World-Leading Capabilities," as a member of this group, through a sustainable growth and increase in corporate value.

**Kinya Yanagawa**

President & Chief Executive Officer  
and Representative Director

## Management's Discussion and Analysis

### Financial Position

Consolidated total assets at the close of the year ended March 31, 2018 stood at ¥716,693 million (US\$6,745,980 thousand), up ¥10,274 million from the end of the previous year. This was due mainly to decrease in cash on hand and in banks (down ¥1,945 million), increase in inventories (up ¥19,861 million) and net defined benefit asset (up ¥7,009 million).

Total liabilities declined ¥11,362 million to ¥468,833 million (US\$4,412,961 thousand). This was due mainly to decrease in interest-bearing debt (down ¥21,033 million).

Total net assets rose ¥21,636 million to ¥247,860 million (US\$2,333,019 thousand). This was due mainly to ¥13,014 million (US\$122,496 thousand) profit attributable to owners of parent, increase in retirement benefits asset and liability adjustments (up ¥5,610 million) and unrealized gain or loss on available-for-sale securities (up ¥3,677 million).

### Cash Flows

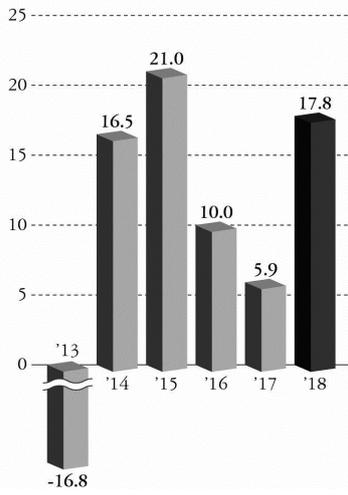
Net cash provided by operating activities totaled ¥44,384 million (US\$417,771 thousand), with ¥15,654 million (US\$147,345 thousand) from profit before provision for income taxes and ¥34,646 million (US\$326,110 thousand) from depreciation and amortization.

Net cash used in investing activities totaled ¥27,788 million (US\$261,558 thousand), with ¥33,174 million (US\$312,255 thousand) spent on acquisition of property, plant and equipment.

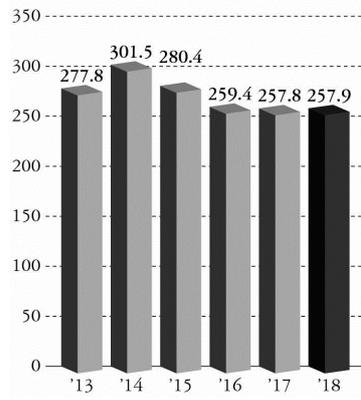
Net cash used in financing activities totaled ¥23,510 million (US\$221,291 thousand), mainly reflecting ¥21,021 million decrease in interest-bearing debt and ¥2,198 million (US\$20,689 thousand) in cash dividends.

As a result of these developments, and including an effect of foreign currency translation adjustment of cash and cash equivalents, the consolidated balance of cash and cash equivalents at the end of the year ended March 31, 2018 decreased by ¥2,185 million to ¥18,445 million (US\$173,616 thousand).

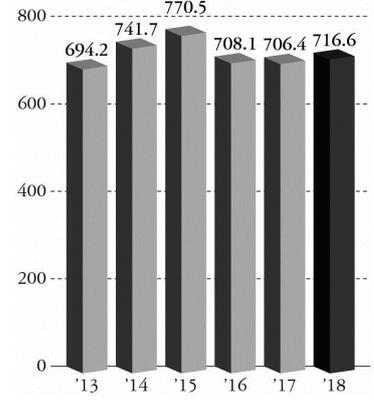
**Operating Profit (Loss)**  
(Billions of yen)  
(Years ended March 31)



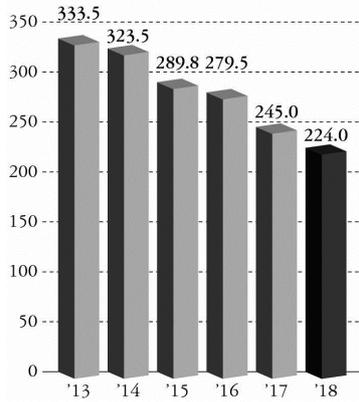
**Total Current Assets**  
(Billions of yen)  
(March 31)



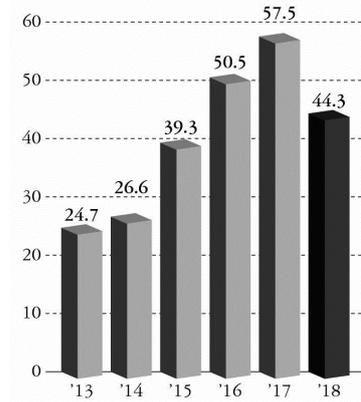
**Total Assets**  
(Billions of yen)  
(March 31)



**Interest-Bearing Debt**  
(Billions of yen)  
(March 31)



**Net Cash Provided  
by Operating Activities**  
(Billions of yen)  
(Years ended March 31)



## Consolidated Balance Sheets

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks (Notes 18 and 21)	¥ 14,772	¥ 16,717	\$ 139,043
Notes and accounts receivable (Note 21)	65,251	60,588	614,184
Marketable securities (Notes 21 and 22)	5,266	4,625	49,567
Inventories (Note 5)	152,001	132,139	1,430,732
Deferred income taxes (Note 8)	5,248	4,711	49,397
Other current assets	15,924	39,537	149,887
Allowance for doubtful accounts	(512)	(514)	(4,819)
Total current assets	257,952	257,805	2,428,012
Investments and long-term receivables:			
Investments in securities (Notes 6, 14, 21 and 22)	112,635	114,455	1,060,193
Deferred income taxes (Note 8)	3,360	3,537	31,626
Net defined benefit assets (Note 9)	30,117	23,108	283,480
Other (Note 6)	17,675	20,849	166,368
Allowance for doubtful accounts	(377)	(728)	(3,548)
Total investments and long-term receivables	163,410	161,223	1,538,121
Property, plant and equipment, at cost:			
Buildings and structures	304,407	295,195	2,865,276
Machinery, equipment and vessels (Note 13)	1,056,099	1,015,788	9,940,690
	1,360,506	1,310,984	12,805,967
Accumulated depreciation	(1,157,574)	(1,121,917)	(10,895,839)
	202,931	189,066	1,910,118
Land (Note 13)	72,700	71,803	684,299
Construction in progress	5,751	12,445	54,132
Total property, plant and equipment	281,383	273,314	2,648,559
Intangible assets	13,946	14,075	131,268
Total assets	¥ 716,693	¥ 706,418	\$ 6,745,980

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
<b>LIABILITIES</b>			
Current liabilities:			
Notes and accounts payable (Note 21)	¥ 115,770	¥ 112,309	\$ 1,089,702
Short-term loans (Notes 7 and 21)	30,288	32,953	285,090
Commercial paper (Note 21)	22,000	7,000	207,078
Current portion of long-term debt (Notes 7 and 21)	54,838	39,758	516,170
Provision for environmental remediation	147	76	1,383
Other current liabilities	46,954	42,697	441,961
Total current liabilities	270,000	234,795	2,541,415
Long-term liabilities:			
Long-term debt (Notes 7 and 21)	116,874	165,323	1,100,094
Deferred income taxes (Note 8)	21,340	19,222	200,865
Allowance for retirement benefits for directors and corporate auditors	328	265	3,087
Reserve for rebuilding furnaces	8,705	8,590	81,937
Provision for environmental remediation	1,098	1,181	10,335
Net defined benefit liabilities (Note 9)	47,871	48,191	450,592
Other liabilities	2,613	2,624	24,595
Total long-term liabilities	198,833	245,399	1,871,545
Total liabilities	468,833	480,195	4,412,961
Contingent liabilities (Note 10)			
<b>NET ASSETS</b>			
Shareholders' equity:			
Common stock, no par value at March 31, 2018 and 2017			
Authorized: 430,000 thousand shares at March 31, 2018 and 2017			
Issued: 109,843 thousand shares at March 31, 2018 and 2017			
(Note 16)	30,000	30,000	282,379
Capital Surplus	76,345	76,345	718,608
Retained earnings	89,820	77,107	845,444
Treasury stock, at cost (Note 16)	(573)	(565)	(5,393)
Total shareholders' equity	195,592	182,887	1,841,039
Accumulated other comprehensive income:			
Unrealized gain or loss on available-for-sale securities	24,001	20,324	225,913
Deferred gain or loss on hedges	(13)	(42)	(122)
Adjustment on revaluation of land (Note 15)	458	465	4,310
Foreign currency translation adjustment	10,103	11,815	95,096
Retirement benefits asset and liability adjustments	3,439	(2,171)	32,370
Total accumulated other comprehensive income	37,989	30,391	357,577
Non-controlling interests	14,278	12,944	134,393
Total net assets	247,860	226,223	2,333,019
Total liabilities and net assets	¥ 716,693	¥ 706,418	\$ 6,745,980

## Consolidated Statements of Income

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Net sales	¥ 614,196	¥ 525,563	\$ 5,781,212
Cost of sales (Note 5)	539,807	468,924	5,081,014
Gross profit	74,388	56,639	700,188
Selling, general and administrative expenses (Notes 11 and 12)	56,587	50,674	532,633
Operating profit	17,801	5,964	167,554
Non-operating profit and loss:			
Interest and dividend income	1,509	1,587	14,203
Interest expense	(3,123)	(3,894)	(29,395)
Earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	3,881	1,037	36,530
Foreign exchange loss	(49)	(329)	(461)
Personnel expenses for seconded employees	(406)	(436)	(3,821)
Gains on insurance	-	2,682	-
Gain on retirement adjustment	-	583	-
Other, net	(738)	(1,199)	(6,946)
Ordinary profit	18,873	5,998	177,644
Extraordinary items:			
Gain on sale of investments in securities	768	2,442	7,228
Extraordinary gains	768	2,442	7,228
Loss on sale and disposition of properties	654	771	6,155
Loss on impairment of fixed assets (Note 13)	514	813	4,838
Loss on devaluation of investments in securities	1,801	1,804	16,952
Expenses related to advanced repayment of loans	1,016	-	9,563
Extraordinary losses	3,986	3,389	37,518
Profit before provision for income taxes	15,654	5,051	147,345
Provision for income taxes (Note 8):			
Current	5,220	2,554	49,134
Deferred	(2,204)	1,323	(20,745)
Total provision for income taxes	3,015	3,877	28,379
Profit	12,639	1,173	118,966
Profit attributable to non-controlling interests	(375)	(498)	(3,529)
Profit attributable to owners of parent	¥ 13,014	¥ 1,672	\$ 122,496
		Yen	U.S. dollars (Note 4)
Profit attributable to owners of parent per share	¥ 118.74	¥ 15.26	\$ 1.11
Cash dividends per share	30.00	5.00	0.28
Weighted average number of shares issued and outstanding (thousands)	109,607	109,615	

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

## Consolidated Statements of Comprehensive Income

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of
	2018	2017	U.S. dollars (Note 4)
Profit	¥ 12,639	¥ 1,173	\$ 118,966
Other comprehensive income (Note 20):			
Unrealized gain or loss on available-for-sale securities	3,598	6,104	33,866
Deferred gain or loss on hedges	—	523	—
Foreign currency translation adjustment	476	(1,741)	4,480
Retirement benefits asset and liability adjustments	5,613	(50)	52,833
Share of other comprehensive income of companies accounted for using equity method	(1,626)	(2,616)	(15,304)
Other, net	—	(59)	—
Total other comprehensive income	8,062	2,159	75,884
Comprehensive income	¥ 20,701	¥ 3,332	\$ 194,851
Total comprehensive income attributable to:			
Owners of parent	¥ 20,612	¥ 4,263	\$ 194,013
Non-controlling interests	89	(931)	837

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

## Consolidated Statements of Changes in Net Assets

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Years ended March 31, 2018 and 2017

	Millions of yen				
	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2016	¥ 30,000	¥ 76,345	¥ 78,214	¥ (549)	¥ 184,010
Changes of items during the year					
Cash dividends	—	—	(2,744)	—	(2,744)
Profit attributable to owners of parent	—	—	1,672	—	1,672
Acquisition of treasury stock	—	—	—	(16)	(16)
Change in scope of consolidation	—	—	12	—	12
Change in scope of equity method	—	—	83	—	83
Decrease due to adjustment on revaluation of land	—	—	(59)	—	(59)
Other, net	—	—	(70)	—	(70)
Items other than changes in shareholders' equity	—	—	—	—	—
Total changes of items during the year	—	—	(1,106)	(16)	(1,122)
<b>Balance at April 1, 2017</b>	<b>¥ 30,000</b>	<b>¥ 76,345</b>	<b>¥ 77,107</b>	<b>¥ (565)</b>	<b>¥ 182,887</b>
Changes of items during the year					
Cash dividends	—	—	(2,195)	—	(2,195)
Profit attributable to owners of parent	—	—	13,014	—	13,014
Acquisition of treasury stock	—	—	—	(7)	(7)
Change in scope of consolidation	—	—	1,870	—	1,870
Increase due to adjustment on revaluation of land	—	—	7	—	7
Other, net	—	—	14	—	14
Items other than changes in shareholders' equity	—	—	—	—	—
Total changes of items during the year	—	—	12,712	(7)	12,704
<b>Balance at March 31, 2018</b>	<b>¥ 30,000</b>	<b>¥ 76,345</b>	<b>¥ 89,820</b>	<b>¥ (573)</b>	<b>¥ 195,592</b>

	Millions of yen							
	Accumulated other comprehensive income							
	Unrealized gain or loss on available-for-sale securities	Deferred gain or loss on hedges	Adjustment on revaluation of land	Foreign currency translation adjustment	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥ 14,333	¥ (651)	¥ 405	¥ 15,698	¥ (2,102)	¥ 27,684	¥ 6,283	¥ 217,978
Changes of items during the year								
Cash dividends	—	—	—	—	—	—	—	(2,744)
Profit attributable to owners of parent	—	—	—	—	—	—	—	1,672
Acquisition of treasury stock	—	—	—	—	—	—	—	(16)
Change in scope of consolidation	—	—	—	—	—	—	—	12
Change in scope of equity method	—	—	—	—	—	—	—	83
Decrease due to adjustment on revaluation of land	—	—	—	—	—	—	—	(59)
Other, net	—	—	—	—	—	—	—	(70)
Items other than changes in shareholders' equity	5,990	608	59	(3,882)	(68)	2,707	6,660	9,367
Total changes of items during the year	5,990	608	59	(3,882)	(68)	2,707	6,660	8,244
<b>Balance at April 1, 2017</b>	<b>¥ 20,324</b>	<b>¥ (42)</b>	<b>¥ 465</b>	<b>¥ 11,815</b>	<b>¥ (2,171)</b>	<b>¥ 30,391</b>	<b>¥ 12,944</b>	<b>¥ 226,223</b>
Changes of items during the year								
Cash dividends	—	—	—	—	—	—	—	(2,195)
Profit attributable to owners of parent	—	—	—	—	—	—	—	13,014
Acquisition of treasury stock	—	—	—	—	—	—	—	(7)
Change in scope of consolidation	—	—	—	—	—	—	—	1,870
Increase due to adjustment on revaluation of land	—	—	—	—	—	—	—	7
Other, net	—	—	—	—	—	—	—	14
Items other than changes in shareholders' equity	3,677	28	(7)	(1,711)	5,610	7,598	1,334	8,932
Total changes of items during the year	3,677	28	(7)	(1,711)	5,610	7,598	1,334	21,636
<b>Balance at March 31, 2018</b>	<b>¥ 24,001</b>	<b>¥ (13)</b>	<b>¥ 458</b>	<b>¥ 10,103</b>	<b>¥ 3,439</b>	<b>¥ 37,989</b>	<b>¥ 14,278</b>	<b>¥ 247,860</b>

Thousands of U.S. dollars (Note 4)					
Shareholders' equity					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance at April 1, 2017</b>	<b>\$ 282,379</b>	<b>\$ 718,608</b>	<b>\$ 725,781</b>	<b>\$ (5,318)</b>	<b>\$ 1,721,451</b>
Changes of items during the year					
Cash dividends	–	–	(20,660)	–	(20,660)
Profit attributable to owners of parent	–	–	122,496	–	122,496
Acquisition of treasury stock	–	–	–	(65)	(65)
Change in scope of consolidation	–	–	17,601	–	17,601
Increase due to adjustment on revaluation of land	–	–	65	–	65
Other, net	–	–	131	–	131
Items other than changes in shareholders' equity	–	–	–	–	–
<b>Total changes of items during the year</b>	<b>–</b>	<b>–</b>	<b>119,653</b>	<b>(65)</b>	<b>119,578</b>
<b>Balance at March 31, 2018</b>	<b>\$ 282,379</b>	<b>\$ 718,608</b>	<b>\$ 845,444</b>	<b>\$ (5,393)</b>	<b>\$ 1,841,039</b>

Thousands of U.S. dollars (Note 4)								
Accumulated other comprehensive income								
	Unrealized gain or loss on available-for-sale securities	Deferred gain or loss on hedges	Adjustment on revaluation of land	Foreign currency translation adjustment	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
<b>Balance at April 1, 2017</b>	<b>\$191,302</b>	<b>\$ (395)</b>	<b>\$ 4,376</b>	<b>\$ 111,210</b>	<b>\$ (20,434)</b>	<b>\$286,059</b>	<b>\$121,837</b>	<b>\$2,129,358</b>
Changes of items during the year								
Cash dividends	–	–	–	–	–	–	–	(20,660)
Profit attributable to owners of parent	–	–	–	–	–	–	–	122,496
Acquisition of treasury stock	–	–	–	–	–	–	–	(65)
Change in scope of consolidation	–	–	–	–	–	–	–	17,601
Increase due to adjustment on revaluation of land	–	–	–	–	–	–	–	65
Other, net	–	–	–	–	–	–	–	131
Items other than changes in shareholders' equity	34,610	263	(65)	(16,105)	52,804	71,517	12,556	84,073
<b>Total changes of items during the year</b>	<b>34,610</b>	<b>263</b>	<b>(65)</b>	<b>(16,105)</b>	<b>52,804</b>	<b>71,517</b>	<b>12,556</b>	<b>203,652</b>
<b>Balance at March 31, 2018</b>	<b>\$225,913</b>	<b>\$ (122)</b>	<b>\$ 4,310</b>	<b>\$ 95,096</b>	<b>\$ 32,370</b>	<b>\$357,577</b>	<b>\$134,393</b>	<b>\$2,333,019</b>

## Consolidated Statements of Cash Flows

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
<b>Cash flows from operating activities:</b>			
Profit before provision for income taxes	¥ 15,654	¥ 5,051	\$ 147,345
Depreciation and amortization	34,646	27,819	326,110
Loss on impairment of fixed assets	514	813	4,838
Increase in liability for retirement benefits	1,583	560	14,900
Increase in asset for retirement benefits	(1,495)	(1,340)	(14,071)
Increase in reserve for rebuilding furnaces	105	-	988
Earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	(3,881)	(1,037)	(36,530)
Interest and dividend income	(1,509)	(1,587)	(14,203)
Interest expense	3,123	3,894	29,395
Loss on sale and disposition of properties	664	769	6,250
Decrease in notes and accounts receivable	360	17,020	3,388
Increase in inventories	(17,619)	(7,279)	(165,841)
(Decrease) increase in notes and accounts payable	(55)	24,665	(517)
Other, net	17,158	(11,455)	161,502
	<b>49,248</b>	<b>57,893</b>	<b>463,554</b>
Receipt of interest and cash dividends	4,727	1,879	44,493
Payment of interest	(4,601)	(3,992)	(43,307)
(Payment) refund of income taxes	(4,990)	1,811	(46,969)
Net cash provided by operating activities	<b>44,384</b>	<b>57,591</b>	<b>417,771</b>
<b>Cash flows from investing activities:</b>			
Acquisition of investments in securities	(48)	(1,230)	(451)
Proceeds from sale of investments in securities	11,061	194	104,113
Acquisition of shares of subsidiaries and affiliates	-	(1,366)	-
Proceeds from sale of shares of subsidiaries and affiliates	-	376	-
Acquisition of property, plant and equipment	(33,174)	(31,580)	(312,255)
Proceeds from sale of property, plant and equipment	121	224	1,138
Other, net	(5,749)	(4,187)	(54,113)
Net cash used in investing activities	<b>(27,788)</b>	<b>(37,570)</b>	<b>(261,558)</b>
<b>Cash flows from financing activities:</b>			
Decrease in short-term loans, net	(2,664)	(17,367)	(25,075)
Increase in commercial paper, net	15,000	7,000	141,189
Proceeds from long-term debt	46,400	11,600	436,746
Repayment and redemption of long-term debt	(79,756)	(35,688)	(750,715)
Acquisition of treasury stock	(7)	(9)	(65)
Cash dividends	(2,198)	(2,744)	(20,689)
Cash dividends paid to non-controlling interests	(125)	(73)	(1,176)
Proceeds from share issuance to non-controlling interests	-	1,343	-
Other, net	(157)	(181)	(1,477)
Net cash used in financing activities	<b>(23,510)</b>	<b>(36,121)</b>	<b>(221,291)</b>
Foreign currency translation adjustment of cash and cash equivalents	(81)	(709)	(762)
Net decrease in cash and cash equivalents	(6,995)	(16,810)	(65,841)
Cash and cash equivalents at beginning of year	20,630	31,344	194,182
Net increase in cash and cash equivalents from newly consolidated subsidiaries	4,810	6,097	45,274
Cash and cash equivalents at end of year (Note 18)	¥ 18,445	¥ 20,630	\$ 173,616

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

# Notes to Consolidated Financial Statements

Nisshin Steel Co., Ltd. and its consolidated subsidiaries  
Years ended March 31, 2018 and 2017

## 1. Basis of Presenting the Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by the Nisshin Steel Co., Ltd. (hereinafter, the “Company”) and its subsidiaries in conformity with accounting principles generally accepted in Japan.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

As permitted, amount of less than one million yen are rounded down. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 50 consolidated subsidiaries. Principal subsidiaries are listed below (together, the “Companies”):

- Nisshin Steel A&C Co., Ltd.
- Nisshin Kokan Co., Ltd.
- Shinwa Kigyo Co., Ltd.
- Tsukiboshi Logistics Co., Ltd.
- Nisshin Stainless Steel Tubing Co., Ltd.
- Nisshin Stainless Steel Trading Co., Ltd.
- Nisshin Koki Co., Ltd.
- Tsukiboshi Art Co., Ltd.
- Osaka Stainless Center Co., Ltd.
- Tsukiboshi Shoji Co., Ltd.
- Nisshin Holding, Inc.
- Nisshin Steel USA, LLC
- Wheeling-Nisshin, Inc.
- Nisshin Automotive Tubing LLC
- Nisshin France S.A.
- NSA Metals Proprietary Limited
- Zhejiang Nisshin Worthington Precision Specialty Steel Co., Ltd.
- Taiwan Nisshin Precision Steel Co., Ltd.

Effective from fiscal year ended March 31, 2018, 10 unconsolidated subsidiaries were excluded from the scope of application of the equity method and became consolidated subsidiaries due to the increase of materiality. In addition, 22 unconsolidated subsidiaries those valued at cost due to the lack of materiality became consolidated subsidiaries due to the increase of materiality.

The fiscal year periods and the closing dates thereof for the financial statements of consolidated subsidiaries are in agreement with those of the Company, except for the 14 foreign consolidated subsidiaries (with fiscal years ending on December 31). In consolidating these foreign subsidiaries, the Company makes adjustments for any material transactions subsequent to December 31.

Investments in affiliates are accounted for using the equity method, except for those valued at cost due to the lack of materiality.

There were no unconsolidated subsidiaries accounted for using the equity method at March 31, 2018.

The number of affiliates accounted for using the equity method was 16 at March 31, 2018 and included:

- Nihon Teppan Co., Ltd.
- Sanko Metal Industrial Co., Ltd.
- Canox Corporation
- Ningbo Baoxin Stainless Steel Co., Ltd.
- Acerinox, S.A.

### **Foreign Currency Translation**

Foreign currency transactions are generally translated using foreign exchange rates prevailing at the respective transaction dates. Receivables and payables in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheets dates.

The assets and liabilities of overseas subsidiaries are translated into yen at the foreign exchange rates prevailing at the respective balance sheets dates, whereas net assets are translated at historical rates.

Items related to inter-company transactions with the Company which are subject to elimination on consolidation are translated in the amounts the Company recorded. The difference in the debits and credits in the balance sheets resulting from the translation in the above manner is shown as “Foreign currency translation adjustment” accumulated other comprehensive income of the accompanying consolidated balance sheets.

### **Investments in Securities**

Investments in securities are classified into four categories:

- (1) Trading securities are valued at their fair values on the balance sheets date, and any unrealized gain or loss is charged to income. The Companies had no trading securities at March 31, 2018.
- (2) Held-to-maturity securities are stated at cost.
- (3) Investments in affiliates are accounted for using the equity method, except for those valued at cost due to their lack of materiality.
- (4) Available-for-sale securities are valued at their fair values except for those valued at cost due to a lack of fair value information. Applicable unrealized net-of-tax gains and losses are included in accumulated other comprehensive income.

### **Inventory Valuation**

Inventories are valued at cost using the weighted average method (the amounts on the Consolidated Balance Sheets reflect the decrease in their value due to their decrease in profitability, if any), except for supplies which are valued at the moving-average cost (the amounts on the Consolidated Balance Sheets reflect the decrease in their value due to their decrease in profitability, if any).

### **Property, Plant and Equipment**

Depreciation is mainly calculated using the declining-balance method. However, depreciation of buildings is mainly calculated using the straight-line method. Furthermore, depreciation of facilities attached to buildings and structures acquired on and after April 1, 2016 is calculated using the straight-line method.

The cost of maintenance, repairs and minor renewals is charged to operating profit as incurred. Major renewals and improvements are capitalized. The cost of property, plant and equipment retired or otherwise disposed of and the corresponding accumulated depreciation are eliminated from the related accounts, and the resulting profit or loss is reflected in income.

### **Leased Assets**

Finance leases which do not involve the transfer of ownership rights are depreciated with the straight-line method, adopting the lease period as the useful life and assuming a residual value of zero.

### **Intangible Assets**

Amortization of intangible assets including software is computed using the straight-line method. Software is amortized over the internally estimated useful life, i.e., five years.

### **Allowance for Doubtful Accounts**

The allowance for doubtful accounts is evaluated based on the actual bad debt rate in the past. For doubtful receivables, etc., the likelihood of collection is evaluated in accounting for the allowance.

### **Employees' Retirement Benefits**

The employee retirement benefit obligations are computed primarily based on the benefit formula basis using the projected retirement benefit obligations at the end of the consolidated fiscal year under review.

Actuarial gain or loss is recognized in expenses using the straight-line method over mainly 18 years. Prior service cost is recognized in expenses using the straight-line method over mainly 17 years.

### **Allowance for Retirement Benefits for Directors and Corporate Auditors**

The allowance for retirement benefits for directors and corporate auditors is calculated based on internal rules.

### **Reserve for Rebuilding Furnaces**

Blast furnaces, including related machines, periodically require substantial component replacements and repairs. Such work occurs normally every 10 years after blast furnaces are put into operation. The estimated future costs of such work are provided for and charged to income on a straight-line basis over the periods to the date of the anticipated replacements and repairs. The difference between such estimated costs and the actual costs is charged or credited to income at the time the work takes place. In estimating such future costs for a specific furnace, the general price level increase and other economic factors are taken into consideration.

### **Provision for Environmental Remediation**

The provision for environmental remediation is estimated and recorded to provide for future potential costs, such as waste management costs for stored PCB (polychlorinated biphenyl).

### **Sales Recognition**

Sales of finished goods are generally recognized when goods are shipped to the customers.

### **Income Taxes**

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 basis of assets and liabilities.

### **Consumption Tax**

In Japan, consumption tax is imposed on domestic consumption of goods and services at the rate of 8%. The consumption tax imposed on the Companies' sales to customers is withheld by the Companies at the time of sale and paid to the national government. The consumption tax withheld upon sale is not included in the amount of "Net sales" in the accompanying Consolidated Statements of Income but is recorded as a liability. The balances of consumption tax withheld and consumption tax paid (an asset item), which are paid by the Companies on the purchase of products, merchandise and services from vendors, are offset, and the net balance is included in "Other current liabilities" in the Consolidated Balance Sheets.

### **Cash and Cash Equivalents**

Cash and cash equivalents included in the Consolidated Statements of Cash Flows comprise cash on hand and in banks, deposits that can be withdrawn upon demand and cashable short-term investments with a three-month or shorter redemption term that carry a negligible risk of fluctuation in value.

### **Profit (loss) and Cash Dividends per Share**

The computation of profit (loss) per share is based on the weighted average number of common shares issued and outstanding during each year. Cash dividends per share shown for each year in the accompanying Consolidated Statements of Income are based on cash dividends applicable to the profit (loss) of each year.

## **Standard Issue but not yet Effective**

### **(Implementation Guidance on Accounting Standard for Tax Effect Accounting)**

On February 16, 2018, the Accounting Standard Board of Japan ("ASBJ") revised "Implementation Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).

#### (1) Overview

When the practical guidelines on tax effect accounting issued by the Japanese Institute of Certified Public Accountants (JICPA) were transferred to the ASBJ, the ASBJ made necessary changes mentioned below to the practical guidelines while maintaining the basic framework and issued the "Implementation Guidance on Accounting Standard for Tax Effect Accounting" and the other above.

#### Major changes to accounting treatments

- Treatment of taxable temporary differences pertaining to shares of subsidiaries and associates in non-consolidated financial statements
- Treatment of recoverability of deferred tax assets for an entity classified as type 1

(2) Scheduled date of adoption

Effective from the beginning of the fiscal year ending March 31, 2019.

(3) Impact of adopting revised accounting standards and guidance

The impact of adopting the Implementation Guidance on Accounting Standard for Tax Effect Accounting and the other above on these consolidated financial statements is being evaluated.

**(Accounting Standard for Revenue Recognition)**

On March 30, 2018, the Accounting Standard Board of Japan (“ASBJ”) issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

(1) Overview

The International Accounting Standards Board (“IASB”) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued “Revenue from Contracts with Customers” in May 2014 (IASB’s International Financial Reporting Standards (“IFRS”) 15 and FASB’s Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been performed in Japan.

(2) Scheduled date of adoption

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of adopting issued accounting standards and guidance

The impact of adopting the Accounting Standard for Revenue Recognition and Implementation Guidance on Accounting Standard for Revenue Recognition on these consolidated financial statements is being evaluated.

### 3. Accounting Changes

**(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)**

The Company and its domestic consolidated subsidiaries changed the depreciation method of property, plant and equipment, excluding some of buildings, facilities attached to buildings and structures, from the straight-line method to the declining-balance method from the fiscal year ended March 31, 2018.

This change was made in order to unify accounting treatments in conjunction with the Company becoming a consolidated subsidiary of Nippon Steel & Sumitomo Metal Corporation and to prepare for a future increase in productivity of facilities through optimal allocation in production among a same type of facilities, etc. under the business reform promoted by the Nippon Steel & Sumitomo Metal Corporation Group.

As a result of the change, for the fiscal year ended March 31, 2018, depreciation increased by ¥4,639 million (US\$43,665 thousand), and operating profit, ordinary profit and profit before income taxes decreased by ¥3,996 million (US\$37,612 thousand), respectively, compared with those by the previous method.

**(Changes in Presentation)**

*Consolidated Statements of Income*

“Personnel expenses for seconded employees” was previously accounted in a lump-sum as “non-operating expenses.” However, such cost for consolidated subsidiaries has been accounted for in “cost of sales” or “selling, general and administrative expenses” from the fiscal year ended March 31, 2018.

This change was made in order to present consolidated operating profit or loss more appropriately, because this cost has been becoming closely linked to the Nisshin Group’s operating activities due to promotion of split-up of the Company’s core businesses. To reflect this change in presentation, the Company has reclassified the consolidated financial statements for the previous fiscal year.

This change resulted in a reclassification of the cost for consolidated subsidiaries of ¥1,869 million (US\$17,592 thousand) in “service cost of temporarily transferred employees” under “non-operating expenses” to “selling, general and administrative expenses.”

#### 4. U.S. Dollar Amounts

U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars on the basis of ¥106.24 = US\$1, the effective rate of exchange at March 31, 2018. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that the yen amounts have been or could be readily converted, realized or settled in dollars at ¥106.24 = US\$1 or at any other rate.

#### 5. Inventories

Details of “Inventories” in the Consolidated Balance Sheets at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Finished and half-finished goods	¥ 65,868	¥ 51,155	\$ 619,992
Work in process	41,731	40,965	392,799
Raw materials and other supplies	44,402	40,018	417,940
Total	¥ 152,001	¥ 132,139	\$ 1,430,732

The amounts of inventories on the Consolidated Balance Sheets at March 31, 2018 and 2017 reflect the decrease in their value due to their decrease in profitability (after setting off the reversal amount of the book value written off at the end of the previous consolidated fiscal year). “Cost of sales” in the Consolidated Statements of Income for the year ended March 31, 2018 and 2017 include ¥892 million (US\$8,396 thousand) of such unrealized net profit of inventories and ¥1,379 million of such unrealized net profit of inventories, respectively.

#### 6. Investments in Unconsolidated Subsidiaries and Affiliates

“Investments in securities” in the Consolidated Balance Sheets at March 31, 2018 and 2017 include investments in unconsolidated subsidiaries and affiliates as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Stocks of unconsolidated subsidiaries and affiliates	¥ 52,295	¥ 57,192	\$ 492,234

“Other” in “Investments and long-term receivables” in the Consolidated Balance Sheets at March 31, 2018 and 2017 include investments in unconsolidated subsidiaries and affiliates as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Equity in unconsolidated subsidiaries and affiliates	¥ 12,858	¥ 14,485	\$ 121,027

#### 7. Short-term Loans and Long-term Debt

Short-term loans at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Bank loans	¥ 30,288	¥ 32,953	\$ 285,090

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans from banks and other financial institutions	¥ 151,712	¥ 165,081	\$ 1,428,012
19th 2.20% unsecured bond of the Company due Jun. 2018	10,000	10,000	94,126
21st 0.62% unsecured bond of the Company due Jun. 2017	–	20,000	–
23rd 0.64% unsecured bond of the Company due Mar. 2019	10,000	10,000	94,126
Total long-term debt	171,712	205,081	1,616,265
“Current portion of long-term debt” in the Consolidated Balance Sheets*1	(54,838)	(39,758)	(516,170)
“Long-term debt” in the Consolidated Balance Sheets*2	¥ 116,874	¥ 165,323	\$ 1,100,094

\*1. The following is the financial covenants in the syndicated loan contract that the Company agreed with a group of financial institutes (signed on September 28, 2012, ¥5,882 million included in current portion of long-term debt).  
(Financial Covenants)

- (1) The amount of shareholders' equity in the Consolidated Balance Sheets at March 31, 2013, at the end of the following fiscal years, and at the end of the following second quarters shall be maintained at least 75% of the amount at the end of the latest fiscal year or of the latest second quarter. Note that the above shareholders' equity includes a portion judged as equity credit attributes by the Japan Credit Rating Agency of early redeemable subordinated bonds solely for qualified institutional investors.
- (2) "Ordinary profit" in the Consolidated Statements of Income for the fiscal year ended March 31, 2013 and for the following fiscal years shall not record loss for two consecutive years.
- \*2. The following is the financial covenants in the syndicated loan contract that the Company agreed with a group of financial institutes (signed on September 29, 2017, ¥40,000 million included in long-term debt).
- (Financial Covenants)
- (1) The amount of total net assets in the Consolidated Balance Sheets at the date of conclusion, or at the end of the following fiscal years, and at the end of the following second quarters shall be maintained at least 75% of the amount at the end of the latest fiscal year or of the latest second quarter.
- (2) "Ordinary profit" in the Consolidated Statements of Income including the date of conclusion, or for the following fiscal years shall not record loss for two consecutive years.
- At March 31, 2018 Nisshin Steel Co., Ltd. had not breached the financial covenants.

Estimated amount of bonds, long-term debt, and other interest-bearing debt subsequent to March 31, 2018 and 2017 are as follows:

(Year ended March 31, 2018)	Millions of yen					
	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
Short-term loans	¥ 30,288	¥ -	¥ -	¥ -	¥ -	¥ -
Commercial paper	22,000	-	-	-	-	-
Bonds	20,000	-	-	-	-	-
Long-term debt	34,838	19,657	20,659	18,561	21,983	36,012

(Year ended March 31, 2018)	Thousands of dollars					
	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
Short-term loans	\$ 285,090	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial paper	207,078	-	-	-	-	-
Bonds	188,253	-	-	-	-	-
Long-term debt	327,917	185,024	194,455	174,708	206,918	338,968

(Year ended March 31, 2017)	Millions of yen					
	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
Short-term loans	¥ 32,953	¥ -	¥ -	¥ -	¥ -	¥ -
Commercial paper	7,000	-	-	-	-	-
Bonds	20,000	20,000	-	-	-	-
Long-term debt	19,758	34,440	19,259	20,961	18,563	52,098

## 8. Income Taxes

Components of the Companies' deferred income tax assets and liabilities at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred income tax assets:			
Tax loss carry forwards	¥ 35,828	¥ 39,040	\$ 337,236
Retirement benefit liability	15,265	15,554	143,684
Loss on devaluation of investments in securities	7,106	6,532	66,886
Loss on impairment of fixed assets	4,171	4,506	39,260
Non-deductible portion of reserve for rebuilding furnaces	2,649	2,637	24,934
Other	8,587	8,195	80,826
Preliminary deferred income tax assets	73,609	76,468	692,855
Valuation allowance	(61,063)	(65,677)	(574,764)
Total deferred income tax assets	12,545	10,790	118,081
Deferred income tax liabilities:			
Unrealized gain or loss on available-for-sale securities	9,174	7,495	86,351
Gain on securities contribution to employees' retirement benefits trust	6,326	6,367	59,544
Reserve for postponement of taxation on capital gains from property	1,524	1,578	14,344
Other	8,251	6,321	77,663
Total deferred income tax liabilities	25,277	21,763	237,923
Net deferred income tax liabilities	¥ 12,731	¥ 10,972	\$ 119,832

The reconciliation of the statutory tax rate to the income tax rate reflected in the Consolidated Statements of Income for the fiscal year ended March 31, 2018 and 2017 are as follows:

	2018	2017
Statutory tax rate	30.7%	30.7%
Reconciliation:		
Permanent non-taxable income	(2.7)	(8.1)
Elimination of dividend income	11.5	25.2
Permanent non-deductible expense	2.3	2.0
Equity in earnings of affiliates	(7.6)	(6.3)
Valuation allowance	(16.8)	29.9
Other	1.9	3.4
Effective rate of income tax expense	19.3%	76.8%

## 9. Employees' Retirement Benefits

### (Defined benefit plan)

The Company and most of its domestic consolidated subsidiaries have defined benefit plans, i.e., lump-sum severance benefit payments and defined benefit pension plans.

The changes in the retirement benefit obligation during the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligation at the beginning of the year	¥ 91,131	¥ 92,462	\$ 857,784
Service cost	3,703	3,716	34,855
Interest cost	272	277	2,560
Actuarial (gain) loss	(3,045)	308	(28,661)
Retirement benefit paid	(4,339)	(5,957)	(40,841)
Prior service cost	–	87	–
Net increase from newly consolidated subsidiaries	590	–	5,553
Other	213	237	2,004
Retirement benefit obligation at the end of the year	¥ 88,525	¥ 91,131	\$ 833,254

The changes in plan assets during the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at the beginning of the year	¥ 66,048	¥ 66,747	\$ 621,686
Expected return on plan assets	1,311	1,325	12,339
Actuarial gain	5,644	823	53,125
Contribution by the Companies	259	264	2,437
Retirement benefit paid	(2,724)	(3,352)	(25,640)
Other	233	240	2,193
Plan assets at the end of the year	¥ 70,772	¥ 66,048	\$ 666,152

The funded status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2018 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligation	¥ 40,751	¥ 43,278	\$ 383,574
Plan assets at fair value	(70,772)	(66,048)	(666,152)
	(30,020)	(22,769)	(282,567)
Unfunded retirement benefit obligation	47,774	47,853	449,679
Net balance of liability and asset recognized on the Consolidated Balance Sheets	17,753	25,083	167,102
Net defined benefit liabilities	47,871	48,191	450,592
Net defined benefit assets	(30,117)	(23,108)	(283,480)
Net balance of liability and asset recognized on the Consolidated Balance Sheets	¥ 17,753	¥ 25,083	\$ 167,102

The components of retirement benefit expense for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 3,703	¥ 3,716	\$ 34,855
Interest cost	272	277	2,560
Expected return on plan assets	(1,311)	(1,325)	(12,339)
Amortization of actuarial loss	76	376	715
Amortization of prior service cost	(752)	(970)	(7,078)
Retirement benefit expense	¥ 1,988	¥ 2,074	\$ 18,712

Note: Retirement benefit expense for consolidated subsidiaries adopting the simplified method are included in "Service cost."

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Prior service cost	¥ (752)	¥ (1,058)	\$ (7,078)
Actuarial difference	8,766	891	82,511
Total	¥ 8,014	¥ (166)	\$ (75,432)

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized prior service cost	¥ 1,684	¥ 2,437	\$ 15,850
Unrecognized actuarial difference	3,555	(5,211)	33,461
Total	¥ 5,239	¥ (2,774)	\$ 49,312

The fair value of plan assets by major category as a percentage of total plan assets at March 31, 2018 and 2017 are as follows:

	Millions of yen	
	2018	2017
Stocks	69%	67%
Bonds	21	21
Cash on hand and in banks	1	4
Other	9	8
Total	100%	100%

Assumptions used in the calculation of the above information are as follows:

	2018	2017
Discount rate:	0.6%	0.3%
Expected rate of return on plan assets:	2.0%	2.0%

#### (Defined Contribution plan)

The required contribution of the consolidated subsidiaries of the Company amounts to ¥152 million (US\$1,430 thousand) and ¥121 million for the years ended March 31, 2018 and 2017.

### 10. Contingent Liabilities

Contingent liabilities at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Guarantee of bank loans for employees	¥ 217	¥ 282	\$ 2,042
Guarantee of loans for others in the ordinary course of business	334	2,293	3,143
The Companies issued letters of guarantee for the future for others in the ordinary course of business	19	19	178

### 11. Research and Development Expenses

Research and development expenses for the years ended March 31, 2018 and 2017 totaled ¥4,346 million (US\$40,907 thousand) and ¥3,851 million, respectively.

### 12. Selling, General and Administrative Expenses

Principal selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Freight out	¥ 18,410	¥ 16,962	\$ 173,286
Salaries, bonuses and allowances	13,063	9,977	122,957
Research and development expenses	4,346	3,851	40,907

### 13. Loss on impairment of fixed assets

In the year ended March 31, 2018, the Nisshin Group recognized loss on impairment of fixed assets for the following asset groups.

Location	Purpose	Type
Nantong, Jiangsu, China	Business assets (production facilities of copper-plated steel)	Machinery and equipment, etc.
Amagasaki, Hyogo Prefecture	Business assets (production facilities of laser welded steel)	Machinery and equipment, etc.
Kirishima, Kagoshima Prefecture	Idle properties	Land
Shunan, Yamaguchi Prefecture	Idle properties	Land
Yamanakako, Yamanashi Prefecture	Idle properties	Land

The Group principally categorizes assets by segment for managerial accounting (by product group) for which cash flows continue to be measured. Idle properties that are not expected to be used in the future are measured at an individual asset group level.

For the year ended March 31, 2018, regarding to the business assets their book value has been reduced to recoverable amounts largely due to deteriorated profitability arising from sudden change in the business environment. Recoverable amounts have

been calculated by estimating the value in use, and the difference between the book values and the recoverable amounts has been recorded as loss on impairment of fixed assets (¥491 million (US\$4,621 thousand)) in extraordinary loss. The loss on impairment of fixed assets consisted of ¥364 million (US\$3,426 thousand) of machinery and equipment, ¥106 million (US\$997 thousand) of buildings and structures and ¥20 million (US\$188 thousand) of others.

Value in use is calculated by applying a discount rate of 7% in Japan, and 11% in China to future cash flows.

In addition, the book value of idle properties has been reduced to recoverable amounts. Recoverable amounts have been calculated by net realizable value, and the difference between the book values and the recoverable amounts has been recorded as loss on impairment of fixed assets (¥22 million (US\$207 thousand)) in extraordinary loss. The loss on impairment of fixed assets consisted of ¥22 million (US\$207 thousand) of land.

In the year ended March 31, 2017, the Nisshin Group recognized loss on impairment of fixed assets for the following asset group.

Location	Purpose	Type
Shimotsuma, Ibaraki Prefecture	Business assets (production facilities of building material)	Machinery and equipment
Versailles, Kentucky, U.S.A	Business assets (stainless steel pipe & tube line)	Machinery and equipment, etc.

The Group principally categorizes assets by segment for managerial accounting (by product group) for which cash flows continue to be measured. Idle properties that are not expected to be used in the future are measured at an individual asset group level.

For the year ended March 31, 2017, their book value has been reduced to recoverable amounts largely due to deteriorated profitability arising from sudden change in the business environment. Recoverable amounts have been calculated by estimating the value in use, and the difference between the book values and the recoverable amounts has been recorded as loss on impairment of fixed assets (¥813 million) in extraordinary loss. The loss on impairment of fixed assets consisted of ¥788 million of machinery and equipment and ¥24 million of buildings and structures.

Value in use is calculated by applying a discount rate of 7% to future cash flows.

#### 14. Mortgaged Properties

Breakdown of properties pledged as collateral at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Properties pledged as collateral:			
Investments in securities	¥ 11	¥ 16	\$ 103

#### 15. Adjustment on Revaluation of Land

At March 31, 2002, some of the affiliates accounted for using the equity method revalued land in accordance with the Law concerning Revaluation of Land. The Company's share of a net-of-tax unrealized gains at March 31, 2018 and 2017 have been recorded as a separate component of accumulated other comprehensive income.

#### 16. Net Assets

Number and types of stock at March 31, 2018 and 2017 are as follows:

	Thousands of shares	
	Number of common stocks, issued	Number of treasury stocks
March 31, 2017	109,843	233
Increase during the year	–	5
Decrease during the year	–	0
March 31, 2018	109,843	238

Increase in the number of five thousand shares in treasury stock consists of five thousand shares due to purchase of shares less than one unit.

Decrease in the number of treasury stocks consists of less than one thousand shares due to the sales of the shares less than one unit by the Company upon requests by its shareholders.

## 17. Cash Dividends

Cash dividends declared are as follows:

Cash dividends payment in the year ending March 31, 2019

	Amount of cash dividends paid	Cash dividends per share	Record date	Effective date
May 16, 2018 Board of Directors' Meeting	<b>¥1,646 million</b> <b>US\$15,493 thousand</b>	<b>¥15.0</b> <b>US\$0.14</b>	Mar. 31, 2018	Jun. 5, 2018

Cash dividends payment in the year ended March 31, 2018

	Amount of cash dividends paid	Cash dividends per share	Record date	Effective date
May 12, 2017 Board of Directors' Meeting	<b>¥548 million</b> <b>US\$5,158 thousand</b>	<b>¥5.0</b> <b>US\$0.04</b>	Mar. 31, 2017	Jun. 6, 2017
Oct 27, 2017 Board of Directors' Meeting	<b>¥1,646 million</b> <b>US\$15,493 thousand</b>	<b>¥15.0</b> <b>US\$0.14</b>	Sep. 30, 2017	Nov. 22, 2017

Cash dividends payment in the year ended March 31, 2017

	Amount of cash dividends paid	Cash dividends per share	Record date	Effective date
May 13, 2016 Board of Directors' Meeting	¥2,744 million	¥25.0	Mar. 31, 2016	Jun. 3, 2016

## 18. Supplementary Cash Flow Information

The reconciliation of "Cash on hand and in banks" in the Consolidated Balance Sheets at March 31, 2018 and 2017 to "Cash and cash equivalents at end of year" in the Consolidated Statements of Cash Flows for the years then ended are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash on hand and in banks	¥ 14,772	¥ 16,717	\$ 139,043
Time deposits and short-term investments with deposit terms or maturity periods exceeding three months	(494)	(5)	(4,649)
Securities due within three months	4,166	4,135	39,213
Other	0	(217)	0
Cash and cash equivalents at end of year	¥ 18,445	¥ 20,630	\$ 173,616

## 19. Lease Commitments

### 1. Finance leases

(Years ended March 31, 2018 and 2017)

Finance lease contracts other than those under which the ownership of the leased assets are to be transferred to lessees

Leased assets are mainly machinery and vehicles. Accounting method for the depreciation and amortization of leased assets is included in Notes 2, "Summary of Significant Accounting Policies".

### 2. Operating leases (non-cancelable)

The amount of outstanding future lease payments due at March 31, 2018 and 2017 are as follows:

Future lease payments:	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Within one year	¥ 180	¥ 233	\$ 1,694
Over one year	80	261	753
Total	¥ 261	¥ 494	\$ 2,456

## 20. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gain or loss on available-for-sale securities:			
Amount arising during the year	¥ 6,035	¥ 10,734	\$ 56,805
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	(768)	(2,442)	(7,228)
Amount before tax effect	5,267	8,292	49,576
Tax effect	(1,668)	(2,188)	(15,700)
Unrealized gain or loss on available-for-sale securities	3,598	6,104	33,866
Deferred gain or loss on hedges:			
Amount arising during the year	–	(115)	–
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	–	13	–
Acquisition adjustment	–	857	–
Amount before tax effect	–	755	–
Tax effect	–	(231)	–
Deferred gain or loss on hedges	–	523	–
Foreign currency translation adjustment:			
Amount arising during the year	476	(1,741)	4,480
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	–	–	–
Amount before tax effect	476	(1,741)	4,480
Tax effect	–	–	–
Foreign currency translation adjustment	476	(1,741)	4,480
Retirement benefits asset and liability adjustments:			
Amount arising during the year	8,690	427	81,795
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	(676)	(594)	(6,362)
Amount before tax effect	8,014	(166)	75,432
Tax effect	(2,400)	116	(22,590)
Retirement benefits asset and liability adjustments	5,613	(50)	52,833
Share of other comprehensive income of companies accounted for with the equity method:			
Amount arising during the year	(1,720)	(2,512)	(16,189)
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	93	(103)	875
Share of other comprehensive income of companies accounted for with the equity method	(1,626)	(2,616)	(15,304)
Other, net:			
Amount arising during the year	–	(104)	–
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	–	9	–
Amount before tax effect	–	(94)	–
Tax effect	–	35	–
Other, net	–	(59)	–
Total other comprehensive income	¥ 8,062	¥ 2,159	\$ 75,884

## 21. Financial Instruments

### 1. Status of financial instruments

#### (1) Policy regarding financial instruments

The Companies' cash is put mainly into short-term deposits, and temporary surplus is invested in highly secure financial assets.

The Company obtains funds, which are deemed necessary according to its loan and investment plan, mainly from bank loans and bond issues. It also obtains short-term operating funds mainly from bank loans and commercial paper. A group cash management system has been implemented among the Company and major subsidiaries, which enables lending and borrowing of funds in both directions in a recurrent and continuous manner.

Derivatives are used to avoid interest rate risk for loans and foreign exchange risk for transactions in foreign currency. The policy on derivatives of the Company and its consolidated subsidiaries restricts the use of derivative transactions to those related to actual demands and forbids their use for the purpose of speculation.

#### (2) Types of financial instruments, their risk and risk management system

The Company is exposed to credit risk of customers arising from notes and accounts receivable. In order to manage such risk, due dates and account balances of customers are controlled in accordance with the corporate management rules. The credit status of major customers is also monitored in necessity.

Marketable securities and investment in securities are exposed to market value risk. Such securities are mainly those of the corporations with which the Company has a business relationship. The Company monitors the market value as well as financial situations of the issuing companies on a regular basis.

As loans and bonds have interest rate risk, the Company uses interest rate swap transactions for some loans, which meet the exceptional requirements defined in Japanese generally accepted accounting principles for financial instruments.

Derivative transactions are made in accordance with the corporate management rules. The Company makes transactions only with financial institutions with high ratings in order to reduce credit risk.

Liquidity risk of operating credit and loans is managed according to a method in which each group company prepares its own cash-flow projections on a timely basis, etc.

### 2. Estimated fair value of financial instruments

Book value, estimated fair value and unrealized gains (losses) of financial instruments on the Consolidated Balance Sheets at March 31, 2018 and 2017 are as follows. The table below does not include financial instruments for which it is extremely difficult to determine the fair value.

(Year ended March 31, 2018)

	Millions of yen		
	Book value	Estimated fair value	Unrealized gain (loss)
(1) Cash on hand and in banks	¥ 14,772	¥ 14,772	–
(2) Notes and accounts receivable	65,251		
Allowance for doubtful accounts	(512)		
	64,739	64,739	–
(3) Marketable securities and investments in securities			
Held-to-maturity securities	5,266	5,274	8
Available-for-sale securities	59,440	59,440	–
(4) Notes and accounts payable	(115,770)	(115,770)	–
(5) Short-term loans	(30,288)	(30,288)	–
(6) Commercial paper	(22,000)	(22,000)	–
(7) Bonds	(20,000)	(20,080)	(80)
(8) Long-term loans			
Loans from banks and other financial institutions	(151,712)	(152,492)	(779)

(Year ended March 31, 2018)

	Thousands of U.S. dollars		
	Book value	Estimated fair value	Unrealized gain (loss)
(1) Cash on hand and in banks	\$ 139,043	\$ 139,043	\$ –
(2) Notes and accounts receivable	614,184		
Allowance for doubtful accounts	(4,819)		
	<b>609,365</b>	<b>609,365</b>	–
(3) Marketable securities and investments in securities			
Held-to-maturity securities	49,567	49,642	75
Available-for-sale securities	559,487	559,487	–
(4) Notes and accounts payable	(1,089,702)	(1,089,702)	–
(5) Short-term loans	(285,090)	(285,090)	–
(6) Commercial paper	(207,078)	(207,078)	–
(7) Bonds	(188,253)	(189,006)	(753)
(8) Long-term loans			
Loans from banks and other financial institutions	(1,428,012)	(1,435,353)	(7,332)

(Year ended March 31, 2017)

	Millions of yen		
	Book value	Estimated fair value	Unrealized gain (loss)
(1) Cash on hand and in banks	¥ 16,717	¥ 16,717	¥ –
(2) Notes and accounts receivable	60,588		
Allowance for doubtful accounts	(514)		
	60,074	60,074	–
(3) Marketable securities and investments in securities			
Held-to-maturity securities	4,625	4,628	2
Available-for-sale securities	54,600	54,600	–
(4) Notes and accounts payable	(112,309)	(112,309)	–
(5) Short-term loans	(32,953)	(32,953)	–
(6) Commercial paper	(7,000)	(7,000)	–
(7) Bonds	(40,000)	(40,356)	(356)
(8) Long-term loans			
Loans from banks and other financial institutions	(165,081)	(169,441)	(4,359)

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

(1) Cash on hand and in banks and (2) Notes and accounts receivable

Since these are settled in a short period of time and their fair value is almost equal to the book value, they are based on the book value.

(3) Marketable securities and investments in securities

Fair value of stocks is based on the price presented by stock exchanges, while bonds are based on the price presented by stock exchanges or financial institutions.

(4) Notes and accounts payables, (5) Short-term loans and (6) Commercial paper

Since these are settled in a short period of time and their fair value is almost equal to the book value, they are based on the book value.

(7) Bonds

Fair value of bonds is based on the market price. The fair value of the 1st Series Unsecured, Interest Deferrable and Early Redeemable Subordinated Bonds Solely for Qualified Institutional Investors is calculated by discounting the principal and interest payments by the assumed discount rate for bonds of the same rating.

(8) Long-term loans

Fair value of long-term loans is calculated by discounting the principal and interest payments by the assumed discount rates for similar new loans.

2. Financial instruments for which it is extremely difficult to determine the fair value

In “(3) Marketable securities and investments in securities: Available-for-sale securities,” the fair value for unlisted stocks (¥899 million (US\$8,461 thousand) and ¥2,662 million in the Consolidated Balance Sheets at March 31, 2018 and 2017 respectively.) and others (¥0 million (US\$0 thousand) and ¥0 million in the Consolidated Balance Sheets at March 31, 2018

and 2017, respectively.) does not have to be disclosed because there is no market price for them, their future cash flow cannot be estimated, and because it is deemed very difficult to determine their fair value.

The redemption schedule for receivables and marketable securities with maturities at March 31, 2018 and 2017 are as follows:  
(Year ended March 31, 2018)

	Millions of yen			
	Within one year	Over one year and within five years	Over five years and within ten years	Over ten years
Cash on hand and in banks	¥ 14,621	¥ –	¥ –	¥ –
Notes and accounts receivable	65,251	–	–	–
Marketable securities and investments in securities				
Held-to-maturity-securities				
Corporate bonds	873	–	–	–
Negotiable certificates of deposit	4,392	–	–	–
Available-for-sale securities with maturity dates				
National and local governmental bonds, etc.	–	11	–	–
<b>Total</b>	<b>¥ 85,139</b>	<b>¥ 11</b>	<b>¥ –</b>	<b>¥ –</b>

(Year ended March 31, 2018)

	Thousands of U.S. dollars			
	Within one year	Over one year and within five years	Over five years and within ten years	Over ten years
Cash on hand and in banks	\$ 137,622	\$ –	\$ –	\$ –
Notes and accounts receivable	614,184	–	–	–
Marketable securities and investments in securities				
Held-to-maturity-securities				
Corporate bonds	8,217	–	–	–
Negotiable certificates of deposit	41,340	–	–	–
Available-for-sale securities with maturity dates				
National and local governmental bonds, etc.	–	103	–	–
<b>Total</b>	<b>\$ 801,383</b>	<b>\$ 103</b>	<b>\$ –</b>	<b>\$ –</b>

(Year ended March 31, 2017)

	Millions of yen			
	Within one year	Over one year and within five years	Over five years and within ten years	Over ten years
Cash on hand and in banks	¥ 16,621	¥ –	¥ –	¥ –
Notes and accounts receivable	60,588	–	–	–
Marketable securities and investments in securities				
Held-to-maturity-securities				
National and local governmental bonds, etc.	489	–	–	–
Negotiable certificates of deposit	4,135	–	–	–
Available-for-sale securities with maturity dates				
National and local governmental bonds, etc.	4	–	11	–
<b>Total</b>	<b>¥ 81,840</b>	<b>¥ –</b>	<b>¥ 11</b>	<b>¥ –</b>

## 22. Securities

### Held-to-maturity securities

(Year ended March 31, 2018)

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Differences	Book value	Fair value	Differences
Securities whose fair value exceeds their book value:						
Bonds						
Corporate bonds	¥ 873	¥ 876	¥ 2	\$ 8,217	\$ 8,245	\$ 18
Negotiable certificates of deposit	1,921	1,926	5	18,081	18,128	47
Subtotal	¥ 2,794	¥ 2,802	¥ 8	\$ 26,298	\$ 26,374	\$ 75
Securities whose fair value does not exceed their book value:						
Bonds						
Negotiable certificates of deposit	2,471	2,471	–	23,258	23,258	–
Total	¥ 5,266	¥ 5,274	¥ 8	\$ 49,567	\$ 49,642	\$ 75

(Year ended March 31, 2017)

	Millions of yen		
	Book value	Fair value	Differences
Securities whose fair value exceeds their book value:			
Bonds			
National and local government bonds	¥ 489	¥ 492	¥ 2
Securities whose fair value does not exceed their book value:			
Bonds			
Negotiable certificates of deposit	4,135	4,135	–
Total	¥ 4,625	¥ 4,628	¥ 2

### Available-for-sale securities

(Year ended March 31, 2018)

	Millions of yen			Thousands of U.S. dollars		
	Book value	Acquisition cost	Unrealized gain (loss)	Book value	Acquisition cost	Unrealized gain (loss)
Securities whose book value exceeds their acquisition cost:						
Stocks	¥ 58,865	¥ 25,809	¥ 33,056	\$ 554,075	\$ 242,931	\$ 311,144
Bonds						
National and local governmental bonds, etc.	11	11	0	103	103	0
Subtotal	¥ 58,877	¥ 25,820	¥ 33,057	\$ 554,188	\$ 243,034	\$ 311,153
Securities whose book value does not exceed their acquisition cost:						
Stocks	¥ 551	¥ 808	¥ (257)	\$ 5,186	\$ 7,605	\$ (2,419)
Bonds						
Other	11	11	–	103	103	–
Subtotal	¥ 562	¥ 819	¥ (257)	\$ 5,289	\$ 7,708	\$ (2,419)
Total	¥ 59,440	¥ 26,640	¥ 32,799	\$ 559,487	\$ 250,753	\$ 308,725

(Year ended March 31, 2017)

	Millions of yen		
	Book value	Acquisition cost	Unrealized gain (loss)
Securities whose book value exceeds their acquisition cost:			
Stocks	¥ 48,278	¥ 20,284	¥ 27,993
Bonds			
National and local governmental bonds, etc.	12	11	0
Subtotal	¥ 48,290	¥ 20,295	¥ 27,994
Securities whose book value does not exceed their acquisition cost:			
Stocks	¥ 6,039	¥ 6,706	¥ (667)
Bonds			
National and local governmental bonds, etc.	4	4	(0)
Other	266	267	(1)
Subtotal	¥ 6,310	¥ 6,979	¥ (669)
Total	¥ 54,600	¥ 27,274	¥ 27,325

Regarding available-for-sale securities for which fair value information was not available, their aggregate book value on the Consolidated Balance Sheets was ¥899 million (US\$8,461 thousand) and ¥2,662 million at March 31, 2018 and 2017, respectively.

Sale of securities classified as available-for-sale securities and the aggregate gain and loss for the years ended March 31, 2018 and 2017 are as follows:

(Year ended March 31, 2018)

	Millions of yen	Thousands of U.S. dollars
Sale proceeds	¥ 1,286	\$ 12,104
Aggregate gain	768	7,228
Aggregate loss	—	—

(Year ended March 31, 2017)

	Millions of yen
Sale proceeds	¥ 9,964
Aggregate gain	2,442
Aggregate loss	—

### 23. Derivative Transactions

The policy on derivatives of the Company and its consolidated subsidiaries restricts the use of derivative transactions to those related to actual demands and forbids their use for the purpose of speculation. The Company and its consolidated subsidiaries use derivative transactions for the purpose of reducing the impact on earnings caused by future market fluctuations, hedging losses, reducing procurement costs and fixing costs. In the years ended March 31, 2018 and 2017, the Company and its consolidated subsidiaries used interest rate swaps, forward exchange contracts and currency options to hedge the risk against rate fluctuations or reduce the interest rates of bank loans, bonds and other means of financing.

Under the hedge accounting method, hedging instruments and hedged items for the year ended March 31, 2018 and 2017 are as follows:

- The deferral hedge accounting method is adopted for hedging transactions. As for interest swaps, when the amounts, index and period meet the conditions for hedged items, the exceptional method defined in Japanese generally accepted accounting principles for financial instruments is applied.
- Hedging instruments are interest rate swaps, forward exchange contracts, currency options and currency swaps.
- Hedged items are the interest of bank loans, bonds and other means of financing and forecasted foreign currency denominated transactions.

(1) Interest-related transactions  
(Year ended March 31, 2018)

		Millions of yen			
		Principle hedged items	Contract amount	Contract amount over one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps: Receive floating/pay fixed	Interest of bank loans, bonds and other means of financing	¥ 23,882	¥ 10,300	¥ *
Total			¥ 23,882	¥ 10,300	¥ *

\* Fair value of interest rate swaps which are accounted for using special treatment is included in that of corresponding hedged long-term borrowings as those interest rate swaps are recorded as an adjustment to interest expense of hedged instruments under the special treatment.

(Year ended March 31, 2018)

		Thousands of U.S. dollars			
		Principle hedged items	Contract amount	Contract amount over one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps: Receive floating/pay fixed	Interest of bank loans, bonds and other means of financing	\$ 224,792	\$ 96,950	\$ *
Total			\$ 224,792	\$ 96,950	\$ *

(Year ended March 31, 2017)

		Millions of yen			
		Principle hedged items	Contract amount	Contract amount over one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps: Receive floating/pay fixed	Interest of bank loans, bonds and other means of financing	¥ 30,184	¥ 29,764	¥ *
Total			¥ 30,184	¥ 29,764	¥ *

\* Fair value of interest rate swaps which are accounted for using special treatment is included in that of corresponding hedged long-term borrowings as those interest rate swaps are recorded as an adjustment to interest expense of hedged instruments under the special treatment.

## 24. Segment Information

The Companies operate solely in the steel business segment, and the disclosure of business segment information has been omitted.

### Products and services information

(Year ended March 31, 2018)

	Millions of yen		
	Steel Products	Other	Total
Sales to third parties	¥ 574,807	¥ 39,389	¥ 614,196

(Year ended March 31, 2018)

	Thousands of U.S. dollars		
	Steel Products	Other	Total
Sales to third parties	\$ 5,410,457	\$ 370,754	\$ 5,781,212

(Year ended March 31, 2017)

	Millions of yen		
	Steel Products	Other	Total
Sales to third parties	¥ 494,777	¥ 30,785	¥ 525,563

## Geographical information

(Year ended March 31, 2018)

	Millions of yen				
	Japan	United States	East Asia	Other	Total
Sales to third parties	¥ 488,078	¥ 61,788	¥ 38,301	¥ 26,027	¥ 614,196

(Year ended March 31, 2018)

	Thousands of U.S. dollars				
	Japan	United States	East Asia	Other	Total
Sales to third parties	\$ 4,594,107	\$ 581,588	\$ 360,513	\$ 244,983	\$ 5,781,212

Notes: Net sales information above is based on customer location.

(Year ended March 31, 2017)

	Millions of yen				
	Japan	United States	East Asia	Other	Total
Sales to third parties	¥ 417,373	¥ 54,780	¥ 32,162	¥ 21,247	¥ 525,563

## 25. Related Party Transactions

Material transactions of the Company with related companies and individuals, excluding transactions with consolidated subsidiaries which are removed from the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2018 and 2017 are as follows:

### (1) Transactions with the parent company

(Year ended March 31, 2018)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2018	Description of the transactions	Millions of yen/Thousands of U.S. dollars		
					Transaction	Resulting accounting balance	
					2018	Account	2018
Nippon Steel & Sumitomo Metal Corporation	¥419,524 million (US\$3,948,832 thousand)	Manufacturing and sales of steel products, etc.	51.3%	Purchase of steel billets, etc.	¥27,420 (US\$258,094)	Accounts payable	¥1,503 (US\$14,147)

(Year ended March 31, 2017)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2017	Description of the transactions	Millions of yen		
					Transaction	Resulting accounting balance	
					2017	Account	2017
Nippon Steel & Sumitomo Metal Corporation	¥419,524 million	Manufacturing and sales of steel products, etc.	51.3%	Purchase of steel billets, etc.	¥ —	Accounts payable	¥583

### (2) Transactions with unconsolidated subsidiaries and associates

(Year ended March 31, 2018)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2018	Description of the transactions	Millions of yen/Thousands of U.S. dollars		
					Transaction	Resulting accounting balance	
					2018	Account	2018
Nihon Teppan Co., Ltd.	¥1,300 million (US\$12,236 thousand)	Sale of coated steel	50.0%	Sale of the Company's coated steel products to the related party	¥56,822 (US\$534,845)	Accounts receivable	¥3,248 (US\$30,572)
Canox Corporation	¥2,310 million (US\$21,743 thousand)	Sale of coated steel	16.0%	Sale of the Company's coated steel products to the related party	¥41,161 (US\$387,434)	Accounts receivable	¥138 (US\$1,298)

(Year ended March 31, 2017)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2017	Description of the transactions	Millions of yen			
					Transaction		Resulting accounting balance	
					2017	Account	2017	
Nihon Teppan Co., Ltd.	¥1,300 million	Sale of coated steel	50.0%	Sale of the Company's coated steel products to the related party	¥48,205	Accounts receivable	¥2,670	
Canox Corporation	¥2,310 million	Sale of coated steel	16.0%	Sale of the Company's coated steel products to the related party	¥34,680	Accounts receivable	¥1,522	

Material transactions of the consolidated subsidiaries with related companies and individuals, excluding transactions with consolidated subsidiaries which are removed from the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2018 and 2017 are as follows:

(Year ended March 31, 2018)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2018	Description of the transactions	Millions of yen/Thousands of U.S. dollars			
					Transaction		Resulting accounting balance	
					2018	Account	2018	
Nihon Teppan Co., Ltd.	¥1,300 million (US\$12,236 thousand)	Sale of coated steel	50.0%	Purchase of the steel products by Tsukiboshi Shoji Co., Ltd.	<b>¥19,135</b> <b>(US\$180,111)</b>	Accounts payable	<b>¥9,617</b> <b>(US\$90,521)</b>	

(Year ended March 31, 2017)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2017	Description of the transactions	Millions of yen			
					Transaction		Resulting accounting balance	
					2017	Account	2017	
Nihon Teppan Co., Ltd.	¥1,300 million	Sale of coated steel	50.0%	Purchase of the steel products by Tsukiboshi Shoji Co., Ltd.	¥17,162	Accounts payable	¥7,178	

The significant related company in the year ended March 31, 2018 and 2017 is Acerinox, S.A. Summary of the consolidated financial condition of Acerinox, S.A. are as follows:

	Millions of euros	
	2018	2017
Total current assets	€ 2,256	€ 2,097
Total non-current assets	2,147	2,357
Total current liabilities	1,284	1,095
Total non-current liabilities	1,149	1,191
Total equity	1,970	2,168
Revenues	4,626	3,968
Profit from ordinary activities	298	127
Net profit attributable to the Group	234	80

## **26. Business Combinations**

### **(Transactions under Common Control)**

#### 1. Outline of the company split

(1) Name of the Combined Business and nature of its business operations

The assets, liabilities, and rights and obligations related to the Company's stainless steel pipe and tube production business

(2) Date of the business combination

April 1, 2017

(3) Legal form of the business combination

Absorption-type company split whereby the Company is the splitting company, and Nisshin Stainless Steel Tubing Co., Ltd. is the succeeding company

(4) New trade name

Nisshin Stainless Steel Tubing Co., Ltd.

(5) Other items related to the outline of the transaction

To respond to the drastically changing steel business environment, the Company further enhance the competitiveness of the Group's stainless steel pipe and tube business by succeeding the relating assets, etc. owned by the Company to Nisshin Stainless Steel Tubing Co., Ltd., which was newly launched on April 1, 2014 by spinning off one of the Company's core businesses.

#### 2. Accounting Method

This acquisition is accounted for as transactions under common control pursuant to the "Accounting Standard for Business Combination" (ASBJ Statement No. 21, September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

## 27. Major Subsequent Events

### (Conclusion of key contracts)

Regarding the execution of a share exchange agreement to make the Company a wholly owned subsidiary of Nippon Steel & Sumitomo Metal Corporation, the full acquisition of the Company implemented by Nippon Steel & Sumitomo Metal Corporation, and the execution of a basic agreement for the integration of the stainless steel sheet businesses of Nippon Steel & Sumitomo Metal Corporation, the Company and Nippon Steel & Sumikin Stainless Steel Corporation

Nippon Steel & Sumitomo Metal Corporation (“NSSMC”) and the Company resolved at our respective board of directors’ meetings held on May 16, 2018 to conduct a share exchange effective as of January 1, 2019 wherein NSSMC will become a wholly owning parent company and the Company will become a wholly owned subsidiary (the “Share Exchange”), making the Company a wholly owned subsidiary of NSSMC (the “Conversion into a Wholly Owned Subsidiary”), in order to realize the maximum effects of synergies at an early stage by accelerating the mutual utilization of management resources and further promoting deeper alliances in the NSSMC group. NSSMC and the Company entered into a share exchange agreement regarding the Share Exchange as of May 16, 2018 (the “Share Exchange Agreement”). Overview of the Share Exchange is as follows.

The Share Exchange will be conducted effective as of January 1, 2019 in the following manner: The Share Exchange will be conducted through a short-form share exchange procedure under Article 796, paragraph 2 of the Companies Act, under which no approval at a shareholders meeting is required, with respect to NSSMC. With respect to the Company, the Share Exchange Agreement will be approved at the Company’s extraordinary shareholders meeting to be held around December 2018.

Prior to the effective date of the Share Exchange, common shares of the Company will be delisted from the First Section of Tokyo Stock Exchange, Inc. on December 26, 2018 (the last day of trading will be December 25, 2018).

In connection with the Share Exchange, NSSMC will file a registration statement on Form F-4 with the U.S. Securities and Exchange Commission, pursuant to the U.S. Securities Act of 1933, prior to the Company’s extraordinary shareholders meeting to approve the Share Exchange.

Further, in order to maximize synergy in the NSSMC group’s stainless steel business at an early stage, NSSMC, the Company, and Nippon Steel & Sumikin Stainless Steel Corporation (“NSSC”) resolved at our respective board of directors’ meetings held on May 16, 2018 that NSSC will assume part of the steel sheet business contained within the special stainless steel business (steel sheets, shaped steel) of NSSMC and the steel sheet business contained within the stainless steel business (steel sheets, steel pipes and tubes) of the Company (the “Integration of Stainless Steel Sheet Business”) around April 1, 2019, after the Conversion into a Wholly Owned Subsidiary, resulting from the Share Exchange, and the three companies entered into a basic agreement regarding the Integration of Stainless Steel Sheet Business as of May 16, 2018.

The details of the Share Exchange and the Integration of Stainless Steel Sheet Business are as follows.

#### 1. Share exchange to make the Company a wholly owned subsidiary of NSSMC

##### (1) Objective of the Share Exchange

In March 2017, NSSMC successfully made the Company its subsidiary (the “Conversion into a Subsidiary”), in order to provide better products, technologies and services to consumers in and outside Japan, build cost competitiveness to survive global competition and build strong finances through efficient utilization of funds and assets, thereby facilitating various measures to maximize corporate value and creating synergies.

Since the Conversion into a Subsidiary, NSSMC and the Company have constantly realized synergistic effects through the mutual utilization of our management resources and deepening of our sales alliance and optimization of our production system by using technological advancement and flexible merchandizing at a global top level, cost competitiveness and global responsiveness focusing on steel scrap, which are the strengths of NSSMC, and customer and market responsiveness through attentive business development based on consumer needs, which are the strengths of the Company.

The two companies recognize that, while global demands for steel products are expected to constantly expand in the long run, the environment surrounding the steel-making industry is at a turning point for long-term and structural changes, exemplified by: changes in the steel supply-demand structure such as domestic depopulation, movements toward protectionism, a shift to domestic production by emerging countries; changes in social and industrial structures such as rapid progress of IT, increased needs of auto-manufacturers for lighter and stronger vehicle bodies, the spread of cars powered by new and alternative sources of energy, such as electric vehicles, and automated driving; and expectation from companies for measures toward the realization of a sustainable society.

Under these circumstances, in order to respond to the future business environment surrounding the ordinal steel and stainless steel industries, NSSMC and the Company reached the conclusion that it would be necessary to enhance

our respective strengths and realize the maximum effects of synergies at an early stage by accelerating the mutual utilization of management resources and further promoting alliances within the NSSMC group, and agreed to conduct the Conversion into a Wholly Owned Subsidiary. NSSMC believes that the Conversion into a Wholly Owned Subsidiary will enable it to more speedily enact intercompany measures including those for pursuit of an optimized production system and business restructuring of its group companies in a more expeditious and flexible manner in line with the changes in the business environment, without creating concern for conflict between the shareholders of each company. The Company is also convinced that, by becoming a wholly owned subsidiary of NSSMC, it will be able to further show the strength of our customer and market responsiveness, and reinforce our brand power, which has been built under customer-centric principles through the promotion of our alliances within the NSSMC group, because the Conversion into a Wholly Owned Subsidiary will allow the Company to make the most of the NSSMC group's management resources, and that this will contribute to the improvement of the Company's corporate value.

(2) The terms and conditions for the Share Exchange, etc.

(i) Method of the Share Exchange

The Share Exchange will be in the form of a share exchange wherein NSSMC will become a wholly owning parent company and the Company will become a wholly owned subsidiary. The Share Exchange will be conducted effective as of January 1, 2019 in the following manner: The Share Exchange will be conducted through a short-form share exchange under Article 796, paragraph 2 of the Companies Act, under which no approval at a shareholders meeting is required, with respect to NSSMC. With respect to the Company, the Share Exchange Agreement will be approved at the Company's extraordinary shareholders meeting to be held around December 2018.

(ii) Allotment in the Share Exchange

	NSSMC (Wholly owning parent company in share exchange)	The Company (Wholly owned subsidiary in share exchange)
Allocation ratio in the Share Exchange	1	0.71

(Notes 1) Share allocation ratio

0.71 common shares of NSSMC will be allocated and delivered against one common share of the Company. However, 56,020,563 common shares of the Company held by NSSMC (as of May 16, 2018) will not be allocated in the Share Exchange.

(Notes 2) Number of the Company's shares to be delivered in the Share Exchange

NSSMC will allocate and deliver 38,161,032 common shares of NSSMC stock through the Share Exchange. However, the common shares to be delivered will be sourced from treasury shares (66,436,595 shares as of March 31, 2018) held by it, and no new shares will be issued.

The Company will, by a resolution at the board of directors' meeting to be held before or on the day preceding the effective date of the Share Exchange, cancel all of the treasury shares held by it (including the treasury shares to be acquired through the purchase of such shares upon a share purchase request of any dissenting shareholder to be exercised in relation to the Share Exchange pursuant to Article 785, paragraph 1 of the Companies Act) at the time immediately before NSSMC's acquisition of all the issued shares of the Company in the Share Exchange (excluding the common shares of the Company held by NSSMC). Therefore, regarding the number of common shares (38,161,032 shares) to be allocated and delivered in the Share Exchange above, common shares of NSSMC are not supposed to be allocated and delivered to the treasury shares held by the Company (75,427 shares as of March 31, 2018). Additionally, the number of said common shares (38,161,032 shares) is subject to change due to acquisition or cancellation of its treasury shares by the Company.

(iii) The effective date of the Share Exchange

January 1, 2019

(3) Basis and reasons for particulars of allotment of shares relating to the Share Exchange

In order to ensure the fairness and reasonableness of the calculation of the share allocation ratio (the "Share Exchange Ratio") to be used in the Share Exchange and stated in "2. (2) Allotment in the Share Exchange" above, NSSMC and the Company agreed to ask third-party valuation organizations independent of both companies to

calculate the Share Exchange Ratio. NSSMC appointed Nomura Securities Co., Ltd. and the Company appointed Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. to be our respective third-party valuation organizations.

NSSMC and the Company deliberated based on the results of our respective due diligence investigations into the other company, making reference to the calculation result of the Share Exchange Ratio submitted by our respective third-party valuation organizations, and engaged in repeated negotiations and consultations, comprehensively taking into account such factors as financial conditions, asset conditions and the future prospects of NSSMC and the Company. As a result, NSSMC and the Company reached the conclusion that the Share Exchange Ratio is reasonable and not detrimental to the interests of our respective shareholders. Therefore, NSSMC and the Company resolved at our respective board of directors' meetings held on May 16, 2018 to execute the Share Exchange Agreement between the companies to conduct the Share Exchange using the Share Exchange Ratio.

If there is any material change in the conditions used as a basis for the calculation, the Share Exchange Ratio is subject to change upon mutual consultation between the companies.

(4) Capital, description of business activities, etc. of company after the Share Exchange

Trade name	Nippon Steel & Sumitomo Metal Corporation
Location of head office	Chiyoda-ku, Tokyo
Name and title of representative	Kosei Shindo Representative Director and President
Capital	419.5 billion yen
Net asset	Yet to be determined.
Total asset	Yet to be determined.
Description of business activities	Steelmaking and steel fabrication, engineering, chemicals, new materials, and system solutions

2. Regarding the Integration of the Stainless Steel Sheet Businesses of Nippon Steel & Sumitomo Metal Corporation, the Company, and Nippon Steel & Sumikin Stainless Steel Corporation

(1) Purpose of the integration of stainless steel sheet business

After the Conversion into a Subsidiary, NSSMC, the Company and NSSC have proceeded to develop our alliance and complement each other's respective stainless steel businesses in the areas of production, sale and procurement. However, in order to respond to harsh business circumstances such as the substantial over-supply in the Asian market and future changes in social and industrial structure, and to further develop and grow, NSSMC, the Company and NSSC reached the conclusion that it is imperative that we work toward the maximization of synergy by uniting forces in the stainless steel business of the NSSMC group, sharing and expanding the respective strengths of the three companies, and addressing our weaknesses.

At this time, NSSMC, the Company and NSSC have agreed to integrate the stainless steel sheet business of each company around April 1, 2019, after the Conversion into a Wholly Owned Subsidiary, aiming for future growth and development by increasing the competitiveness of the stainless steel sheet business of the NSSMC group as follows: by bringing together management resources for the stainless steel sheet business cultivated so far by each company, integrating respective business strategies, and creating further synergy effects not only through more efficient organizational and operational system but also by creation of value to our customers by providing appropriate products and processing technology, facilitating world-leading technical developments, thoroughly pursuing best practices and increasing cost competitiveness through the optimized production systems.

(2) Summary of the integration of stainless steel sheet business

(i) Details and method of the integration of stainless steel sheet business

After the Conversion into a Wholly Owned Subsidiary, the three companies, namely NSSMC, the Company and NSSC, will have NSSC assume a part of the steel sheet business contained within NSSMC's special stainless steel business (steel sheets, shaped steel), by way of a company split wherein NSSMC will be the split company and

NSSC will be the successor company, and will have NSSC assume the steel sheet business contained within the Company's stainless steel business (steel sheets, steel pipes and tubes), by way of a company split wherein the Company will be the split company and NSSC will be the successor company.

The specific scope of the stainless steel sheet business that NSSC will assume, the integration method, and other details of the Integration of Stainless Steel sheet Business will be separately discussed between the three companies, and will be stipulated in a definitive agreement for the Integration of Stainless Steel sheet Business, around January 2019.

(ii) Schedule for the integration of stainless steel sheet business

Board of directors' meeting to approve execution of the basic agreement	May 16, 2018
Execution of the basic agreement	May 16, 2018
Board of directors' meeting to approve execution of the definitive agreement	Around January 2019 (planned)
Execution of the definitive agreement	Around January 2019 (planned)
Planned date of the Integration of Stainless Steel Sheet Business (the effective date)	April 1, 2019 (planned)

(iii) Trade name and location of head office of the integrated company

The trade name and location of the head office of NSSC (the integrated company) after the Integration of Stainless Steel Sheet Business will be stipulated in the definitive agreement for the Integration of Stainless Steel Sheet Business.

3. Miscellaneous item

When NSSMC conducts the Share Exchange with Nisshin Steel, in relation thereto, NSSMC will file a registration statement on Form F-4 with the SEC. Form F-4 will include a prospectus and other documents. When Form F-4 is filed and becomes effective, the prospectus filed as part of Form F-4 will be sent to the U.S. shareholders of Nisshin Steel before the date of shareholders meeting wherein voting rights are scheduled to be exercised to approve the Share Exchange. Form F-4 and the prospectus to be filed will contain important information, such as information on NSSMC and Nisshin Steel, information on the Share Exchange, and other related information. The U.S. shareholders of Nisshin Steel are kindly requested to carefully read Form F-4, the prospectus, and other documents that will be filed with the SEC in relation to the Share Exchange, before exercising their voting rights relating to the Share Exchange at the shareholders meeting. All documents to be filed with the SEC in relation to the Share Exchange will be publicized free of charge on the SEC website at [www.sec.gov](http://www.sec.gov) after filing thereof. Furthermore, such documents will be mailed free of charge upon request. Below is the contact information for mailing such a request.

Contact for inquiries about the Share Exchange:

Company name:	Nippon Steel & Sumitomo Metal Corporation	Company name:	Nisshin Steel Co., Ltd.
Address:	6-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo	Address:	4-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo
Contact person:	Fumiaki Onishi, General Manager, Public Relations Center	Contact person:	Mitsuhiro Murashita, PR Team and Secretary of General Administration Dept.
TEL:	03-6867-2130	TEL:	03-3216-5566
E-mail:	ohnishi.x97.fumiaki@jp.nssmc.com	E-mail:	murashita.m977@nisshin-steel.co.jp



## **Independent Auditor's Report**

To the Board of Directors of Nisshin Steel Co., Ltd.

We have audited the accompanying consolidated financial statements of Nisshin Steel Co., Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statement of income, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### **Opinion**

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

### **Emphasis of Matter**

1. We draw attention to Note 3 to the consolidated financial statements, which describes that the Company and its domestic consolidated subsidiaries have changed their depreciation method of property, plant and equipment, excluding some of buildings, facilities attached to buildings and structures, from the year ended March 31 2018.
2. We draw attention to Note 27 to the consolidated financial statements, which describes that the Company resolved at the board of directors' meeting held on May 16, 2018 to conduct a share exchange by which Nippon Steel & Sumitomo Metal Corporation will become a wholly owning parent company and the Company will become a wholly owned subsidiary, and at the same date, Nippon Steel & Sumitomo Metal Corporation and
3. We draw attention to Note 27 to the consolidated financial statements, which describes that the Company resolved at the board of directors' meeting held on May 16, 2018 that Nippon Steel & Sumikin Stainless Steel Corporation will assume part of the steel sheet business contained within the stainless steel business (steel sheets, steel pipes and tubes) of the Company around April 1, 2019, after the Conversion into a Wholly Owned Subsidiary, resulting from the Share Exchange, and Nippon Steel & Sumitomo



Metal Corporation, the Company and Nippon Steel & Sumikin Stainless Steel Corporation entered into the basic agreement regarding the Integration of Stainless Steel Sheet Business as of May 16, 2018.

Our opinion is not modified in respect of these matters.

**Other Matter**

The consolidated financial statements of the Company and its consolidated subsidiaries as at and for the year ended March 31, 2017, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on June 27, 2017.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

KPMG AZSA LLC

June 26, 2018  
Tokyo, Japan

## Board of Directors, Corporate Auditors and Executive Officers

(As of June 26, 2018)

### Directors

Toshinori Miki Kinya Yanagawa \*<sup>1</sup>

Katsuhisa Miyakusu \*<sup>1</sup> Hideo Tanaka \*<sup>1</sup>

Nobuhiro Miyoshi \*<sup>1</sup> Naoki Konno

Toshiaki Naganuma Tetsuo Kaharu

Sonoko Hatchoji Isao Endo

Kiyoshi Yasui \*<sup>2</sup> Yukihiro Ito

Tatsu Katayama Manabu Uehara

### Audit and Supervisory Board Members

### President and Chief Executive Officer

Kinya Yanagawa

### Vice-President and Executive Officers

Katsuhisa Miyakusu Hideo Tanaka

Nobuhiro Miyoshi

### Managing Executive Officers

Naoki Konno Toshiaki Naganuma

Tetsuo Kaharu Takayuki Kondo

Junya Hayakawa Shigeru Matsunaga

Naoto Hiramatsu Atsushi Tsuchiya

Yoichi Tsunoda

\*1 Representative Director

\*2 Senior Audit and Supervisory Board Member

## Investor Information

### Nisshin Steel Co., Ltd.

#### Registered Head Office

Shin Kokusai Building, 4-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-8366, Japan

Telephone: (81)-3 3216-5566 Facsimile: (81)-3 3216-5546

#### Year of Establishment

2012

#### Common Stock

(As of March 31, 2018)

Authorized: 430,000 thousand shares

Issued: 109,843 thousand shares

Capital: ¥30,000,000 thousand

#### Common Stock Price Range

(Tokyo Stock Exchange)

	2018		2017	
	High	Low	High	Low
First Quarter	¥ 1,474	¥ 1,155	¥ 1,539	¥ 1,238
Second Quarter	1,496	1,234	1,387	1,213
Third Quarter	1,881	1,439	1,553	1,308
Fourth Quarter	1,998	1,224	1,660	1,406

Note: Years ended March 31.

#### Number of Shareholders

35,666

#### Independent Certified Public Accountants

KPMG AZSA LLC

#### Inquiries:

Secretariat & Public Relations Team

General Administration Department

Nisshin Steel Co., Ltd.

Shin Kokusai Building, 4-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-8366, Japan

Telephone: (81)-3 3216-5566 Facsimile: (81)-3 3216-5546

