

NISSHIN STEEL CO., LTD.

ANNUAL REPORT 2017

Contents

Consolidated Financial Highlights	1
To Our Shareholders and Investors	2
Management's Discussion and Analysis	5
Consolidated Balance Sheets	7
Consolidated Statements of Income	9
Consolidated Statements of Comprehensive Income	10
Consolidated Statements of Changes in Net Assets	11
Consolidated Statements of Cash Flows	13
Notes to Consolidated Financial Statements	14
Independent Auditor's Report	34
Board of Directors, Corporate Auditors and Executive Officers	35
Investor Information	35

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

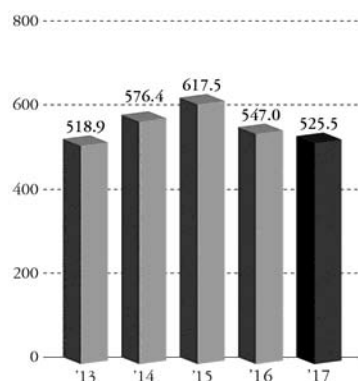
Years ended March 31, 2017, 2016 and 2015

	Millions of yen (except per share amounts)			Percent change 2017/2016	Thousands of U.S. dollars ¹ (except per share amounts)
	2017	2016	2015		2017
Net sales	¥ 525,563	¥ 547,026	¥ 617,525	(3.9)%	\$ 4,684,579
Profit (loss) attributable to owners of parent	1,672	(6,613)	16,947	-	14,903
Total assets	706,418	708,167	770,591	(0.2)%	6,296,621
Total net assets	226,223	217,978	271,997	3.8%	2,016,427
Profit (loss) attributable to owners of parent per share ²	¥ 15.26	¥ (60.33)	¥ 160.51	-	\$ 0.13
Cash dividends per share ²	5.00	40.00	40.00	(87.5)%	0.04

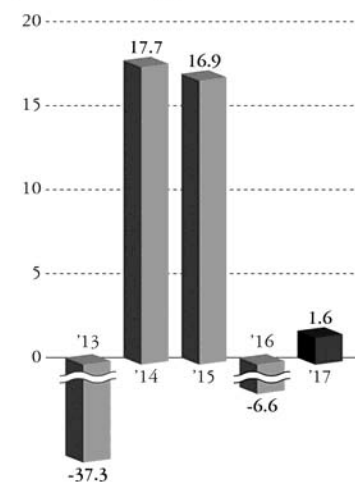
Notes: 1. Unless indicated otherwise, all dollar figures herein refer to U.S. currency. Yen amounts have been translated into U.S. dollars, for convenience only, at ¥112.19=US\$1, the effective rate of exchange at March 31, 2017.

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

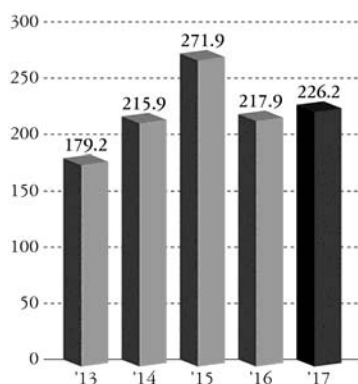
Net Sales
(Billions of yen)
(Years ended March 31)



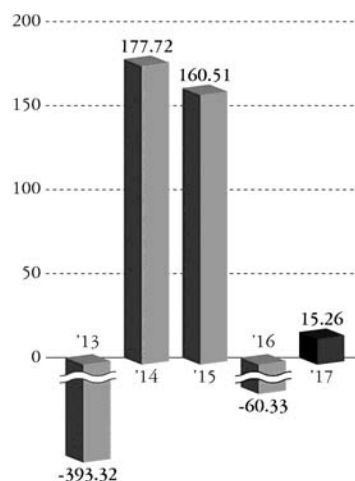
**Profit (Loss) Attributable to
Owners of Parent**
(Billions of yen)
(Years ended March 31)



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, 2017

During the first half of the fiscal year under review, the Japanese economy experienced a stall in consumption due to some confusion in the financial markets, mainly caused by the yen's appreciation and high stock prices. Nevertheless, corporate earnings increased for three consecutive quarters to a new record high, while the favorable employment and income environment continued. As a result, the economy made a gradual recovery through the second half, as noted with signs of a moderate pick-up in personal spending.

In the steel industry, domestic demand was brisk, mainly thanks to construction activities getting into full swing for the Tokyo Olympics and Paralympics, strong automobile production, and shift toward aggressive capital investment against a back drop of stable corporate earnings. On the other hand, however, such factors as wild fluctuations in the raw materials market led a situation of insecurity to persist.

Under this operating environment prevailing through the fiscal year under review, which was the final period of the 24th Medium-Term Consolidated Management Plan ("the 24th Medium-Term Plan"), the Nisshin Group worked to achieve the fullest effects of the measures implemented, including the scheme to maximize synergies from the management integration with Nippon Metal Industry Co., Ltd

First, with a view to strengthening our earning capabilities, we advanced our strategy to expand the Nisshin Group's profitable original core products (ZAM®, special steel, stainless steel, and pre-painted steel sheet), and earnestly promoted measures to increase corporate value through unified Group management with closer coordination between the production, sales, and development divisions.

In terms of production, in 2015 we completed both the renewal work on the steelmaking equipment at the Shunan Works to improve the production efficiency and quality of stainless steel, and the construction of the most-advanced ladle furnace (LF) at the Kure Works to enable production of high-cleanliness steel. In the fiscal year under review, we made proactive efforts to create new demand and expand sales for our product lineup enhanced through the introduction of these cutting-edge facilities.

We also focused on developing new products. As innovative functional products, we launched "BLACK ZAM®," a new item featuring refined designability in our ZAM® series of highly corrosion-resistant hot-dip coated steel sheet, and commercialized "Pla-tight®," a special surface modified steel sheet offering excellent adhesion to plastic in response to needs for multi-material combination.

Furthermore, in April 2016 we set up Nisshin Steel A&C Co., Ltd. through the merger of our coating and building materials businesses and our wholly owned subsidiary Nisshin A&C Co., Ltd., in a move for structural reform to facilitate us to boost sales and development programs in a position nearer to the market for proposing from a customer-centric perspective unique solutions not offered by the conventional steel manufacturing sector. At Nisshin Stainless Steel Tubing Co., Ltd. ("NSST"), which was founded prior to this as part of our reorganization of the Nisshin Group's stainless steel tubing business, we completed consolidation of the operating bases to the Amagasaki Works in July 2016, improving capacity utilization and streamlining personnel.

In our overseas businesses, we worked diligently to expand our business domains and earning capabilities with buttressed sales abilities through starting new businesses and integrating our existing network of overseas bases. For example, July 2016 saw the beginning of operations at our newly established special steel-sheet manufacturing base in China – Zhejiang Nisshin Worthington Precision Specialty Steel Co., Ltd. Here, by drawing on advantages of the LF facility at the Kure Works, we are vigorously taking orders and moving ahead with production to meet our customers' needs propped up by demand from China's automobile market, which is forecast to grow rapidly going forward. Likewise, in June 2016 we established Taiwan Nisshin Precision Steel Co., Ltd. in Taiwan (Republic of China) to expand sales of high quality precision-rolled stainless steel products, primarily for use in the automobile, electrical machinery, and IT equipment fields throughout East Asia and Southeast Asia. In February 2017 with necessary production facilities acquired, the Taiwanese subsidiary was restarted as a company involved in both manufacturing and sales.

On account of steady implementation of these measures, the ratio of core products to total product sales volume has exceeded the target of the 24th Medium-Term Plan, and we have achieved our envisioned integration synergies with Nippon Metal Industry.

Regarding rationalization and overall cost reduction programs to raise our price competitiveness, we have largely met our initial target as a result of concerted company-wide efforts in manufacturing, sales, logistics, procurement, and other areas. At the same time, by improving our profits we have bolstered our capital and generated cash flow to make a rated net debt to equity ratio of 1.0 or less, thereby largely achieving the 24th Medium-Term Plan.

Furthermore, so as to enhance our corporate governance systems, which underpin our corporate activities, at the General Meeting of Shareholders last year, we elected a second outside Director. In addition, we established an Executive Personnel and Compensation Committee in February 2017 as a body to enhance the objectivity and transparency of Board of Directors

resolutions regarding basic policies on nomination of Directors and Auditors as well as their compensation.

Moreover, in February 2016 the Nisshin Group decided to initiate bold business reforms and discussions regarding the Company becoming a subsidiary of Nippon Steel & Sumitomo Metal Corporation (“NSSMC”). Having obtained approvals from the relevant competition authorities, on March 13, 2017, NSSMC acquired 51% of the Company’s issued shares, including the portion that it had previously owned, by means of a tender offer. In this way, NSSMC completed making the Company a subsidiary and the Nisshin Group joined the NSSMC Group.

Turning to consolidated operating results for the fiscal year under review, the Nisshin Group steadily executed the strategies of the 24th Medium-Term Plan as described above, and diligently worked to maximize the results. Nevertheless, the Nisshin Group faced a rapid surge in prices for raw materials such as coking coal and was unable to fully reflect all of the cost increases in its sales prices. Other cost increase factors included prioritizing stable plant operations. Consequently, consolidated net sales were ¥525,563 million, down ¥21,463 million year on year, ordinary profit was ¥5,998 million, down ¥208 million, and profit attributable to owners of parent was ¥1,672 million, up ¥8,285 million.

Outlook for the Fiscal Year Ending March 31, 2018

Looking ahead, the Japanese economy is expected to continue along a gradual recovery path in line with the global trend. However, there are concerns over the impact on corporate performance of fluctuations in the financial and foreign currency markets associated with the policies and actions of the U.S. administration and the global spread of protectionism.

The steel industry is expected to see continued strength in demand supported with the ongoing recovery trend in the economy, while the market situation may remain unpredictable, with the unresolved problem of overproduction in China and volatility in raw materials prices, among other factors.

In this business climate, the Nisshin Group will join the NSSMC Group to combine NSSMC’s world-class technological excellence, product response capabilities, cost competitiveness primarily in feedstock, and global readiness with the Company’s strengths in customer and market response capabilities realized through detailed developmental marketing in line with customer needs. Working together as one entity under the NSSMC Group’s common business policies, the two groups will aggressively promote business operations in an integrated manner.

Under the new Group business structure, the Nisshin Group will further reinforce its strong suits in developmental marketing based on a customer-centric approach in fields such as automobiles, electrical machinery, and construction. Toward this end, we will perform timely and meticulous business activities tailored to customers’ needs, and pursue further development and sales expansion of our core products. Through collaborative initiatives with Group companies such as Nisshin Steel A&C and NSST, we will actively propose diverse and high-value added solutions matched to customers’ needs covering materials through processing technologies. We will undertake product development aiming to “please” our customers as much as possible. Furthermore, we will focus not only on sales of existing products, but also of new products such as BLACK ZAM® and Pla-tight® and products that make full use of the features of the LF facility at the Kure Works and the new steelmaking equipment at the Shunan Works. In doing so, we will diligently strive to pioneer new markets.

In our overseas businesses as well, we will increase our presence in markets such as China, Southeast Asia, and the U.S. by linking our bases, including the newly established Taiwan Nisshin Precision Steel.

In response to rising costs associated with higher raw materials prices, we will continue our incessant efforts to rationalize and reduce overall costs. These include expanding use of lower-priced raw materials, construction work in progress to switch the fuels for the heating furnace and to renew in-house power generation facilities at the Kure Works to slash costs of raw materials, fuel and energy. At the same time, we will exert ourselves to improve profits, with steps such as winning customer understanding so that we may reflect cost hikes in our sales pricing. In addition, by discussing and implementing coordinated measures with NSSMC, we will pursue efficiency gains in the fields of operations, technology, facilities, raw materials and resource and machinery procurement, and manufacturing management. Through these initiatives, we will bolster our cost competitiveness that will enable us to succeed in the global arena.

Going forward, the Nisshin Group will accelerate business reforms through restructuring our core product group and intensifying our core product strategy, and raising value of the Kure Works. Specifically, we have redefined core products as “those to satisfy the two objectives of dramatically creating our customers’ value-addition and of significantly contributing to the Company’s cash flow,” and we will seek to strengthen our stable earning capabilities by more distinctively distancing them from the price competition among general purpose products.

Meanwhile, we will cut down the investment burden of business reforms by way of shutting down the No. 2 blast furnace of the Kure Works, which would require early repair if left activated, and expanding and repairing the No. 1 blast furnace, and allocate the saved fund to investment resources for R&D and manufacturing in the Company’s strong fields of surface treatment, stainless steel, and specialty steel. For value-addition to the Kure Works as a key location for the core product strategy, we will promote measures to upgrade quality and operation efficiency.

The Nisshin Group has entered a new stage in fiscal 2017. By producing synergies in collaboration with NSSMC, we will work as a member of the NSSMC Group to further strengthen the business foundation while leveraging the technological and solution-proposing prowess that we have accumulated to date to reinforce the NSSMC Group's position as the "Best Steelmaker with World-Leading Capabilities," and aim to achieve sustainable growth and increase our corporate value over the medium to long term.

We are committed to upholding our corporate philosophy to "bring to life the dreams and visions of customers with the use of steel" by utilizing our combined power to create new markets in collaboration with our customers. To this end, we will mobilize all the available resources of the entire Nisshin Group as we continue to evolve daily for enhancing the customer trust and our presence in the market.

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, 2017 stood at ¥706,418 million, down ¥1,748 million from the end of the previous year. This was due mainly to decrease in cash on hand and in banks (down ¥14,723 million) and increase in inventories (up ¥7,363 million).

Total liabilities declined ¥9,993 million to ¥480,195 million. This was due mainly to decrease in interest-bearing debt (down ¥34,492 million).

Total net assets rose ¥8,244 million to ¥226,223 million. This was due mainly to increase in unrealized gain or loss on available-for-sale securities (up ¥5,990 million).

Cash Flows

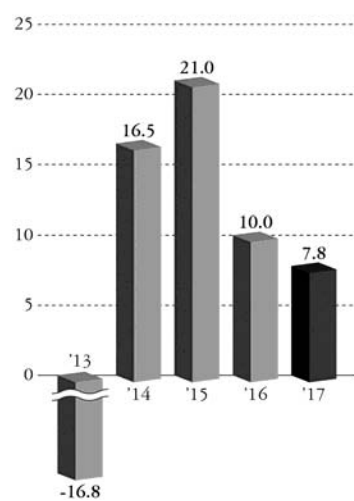
Net cash provided by operating activities totaled ¥57,591 million, with ¥27,819 million from depreciation and amortization.

Net cash used in investing activities totaled ¥37,570 million, with ¥31,580 million spent on acquisition of property, plant and equipment.

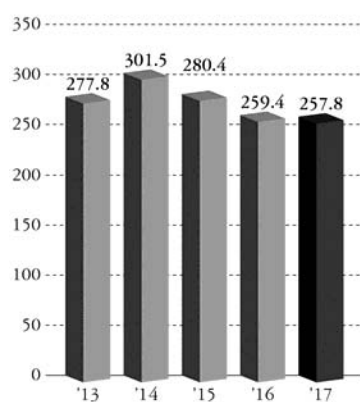
Net cash used in financing activities totaled ¥36,121 million, mainly reflecting ¥34,455 million decrease in interest-bearing debt and ¥2,744 million in cash dividends.

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, 2017 decreased by ¥10,713 million to ¥20,630 million.

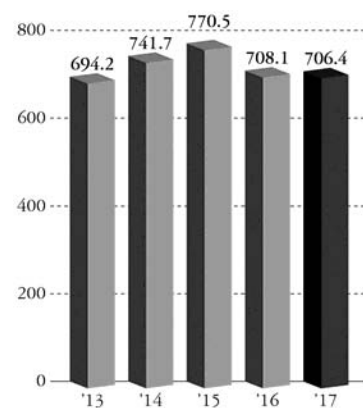
Operating Profit (Loss)
(Billions of yen)
(Years ended March 31)



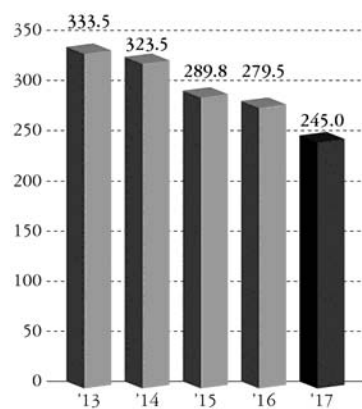
Total Current Assets
(Billions of yen)
(March 31)



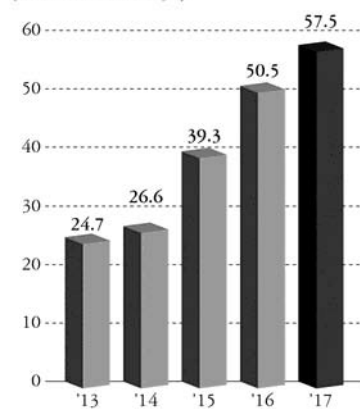
Total Assets
(Billions of yen)
(March 31)



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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
ASSETS			
Current assets:			
Cash on hand and in banks (Notes 17 and 19)	¥ 16,717	¥ 31,440	\$ 149,006
Notes and accounts receivable (Note 19)	60,588	77,581	540,048
Marketable securities (Notes 19 and 20)	4,625	-	41,224
Inventories (Note 5)	132,139	124,776	1,177,814
Deferred income taxes (Note 8)	4,711	5,811	41,991
Other current assets	39,537	20,248	352,411
Allowance for doubtful accounts	(514)	(457)	(4,581)
Total current assets	257,805	259,400	2,297,932
Investments and long-term receivables:			
Investments in securities (Notes 6, 13, 19 and 20)	114,455	115,066	1,020,188
Deferred income taxes (Note 8)	3,537	3,212	31,526
Asset for retirement benefits (Note 9)	23,108	22,585	205,972
Other (Note 6)	20,849	29,813	185,836
Allowance for doubtful accounts	(728)	(735)	(6,488)
Total investments and long-term receivables	161,223	169,942	1,437,053
Property, plant and equipment, at cost:			
Buildings and structures	295,195	290,061	2,631,205
Machinery, equipment and vessels	1,015,788	1,006,929	9,054,175
	1,310,984	1,296,990	11,685,390
Accumulated depreciation	(1,121,917)	(1,108,722)	(10,000,151)
	189,066	188,268	1,685,230
Land	71,803	71,828	640,012
Construction in progress	12,445	5,639	110,927
Total property, plant and equipment	273,314	265,736	2,436,170
Other assets	14,075	13,088	125,456
Total assets	¥ 706,418	¥ 708,167	\$ 6,296,621

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
LIABILITIES			
Current liabilities:			
Notes and accounts payable (Note 19)	¥ 112,309	¥ 87,436	\$ 1,001,060
Short-term loans (Notes 7 and 19)	32,953	50,338	293,724
Commercial paper (Note 19)	7,000	-	62,394
Current portion of long-term debt (Notes 7 and 19)	39,758	35,693	354,380
Provision for environmental remediation	76	134	677
Other current liabilities	42,697	45,713	380,577
Total current liabilities	234,795	219,316	2,092,833
Long-term liabilities:			
Long-term debt (Notes 7 and 19)	165,323	193,495	1,473,598
Deferred income taxes (Note 8)	19,222	16,437	171,334
Allowance for retirement benefits for directors and corporate auditors	265	244	2,362
Reserve for rebuilding furnaces	8,590	8,590	76,566
Provision for environmental remediation	1,181	1,165	10,526
Liability for retirement benefits (Note 9)	48,191	48,300	429,548
Other liabilities	2,624	2,637	23,388
Total long-term liabilities	245,399	270,872	2,187,351
Total liabilities	480,195	490,189	4,280,194
NET ASSETS			
Shareholders' equity:			
Common stock, no par value at March 31, 2017 and 2016			
Authorized: 430,000 thousand shares at March 31, 2017 and 2016			
Issued: 109,843 thousand shares at March 31, 2017 and 2016 (Note 15)	30,000	30,000	267,403
Additional paid-in capital	76,345	76,345	680,497
Retained earnings	77,107	78,214	687,289
Treasury stock, at cost (Note 15)	(565)	(549)	(5,036)
Total shareholders' equity	182,887	184,010	1,630,154
Accumulated other comprehensive income:			
Unrealized gain or loss on available-for-sale securities	20,324	14,333	181,156
Deferred gain or loss on hedges	(42)	(651)	(374)
Adjustment on revaluation of land (Note 14)	465	405	4,144
Foreign currency translation adjustment	11,815	15,698	105,312
Retirement benefits asset and liability adjustments	(2,171)	(2,102)	(19,351)
Total accumulated other comprehensive income	30,391	27,684	270,888
Non-controlling interests	12,944	6,283	115,375
Total net assets	226,223	217,978	2,016,427
Total liabilities and net assets	¥ 706,418	¥ 708,167	\$ 6,296,621

Consolidated Statements of Income

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Net sales	¥ 525,563	¥ 547,026	\$ 4,684,579
Cost of sales (Note 5)	468,924	489,145	4,179,730
Gross profit	56,639	57,881	504,848
Selling, general and administrative expenses (Notes 11 and 12)	48,805	47,794	435,020
Operating profit	7,834	10,087	69,827
Non-operating profit and loss:			
Interest and dividend income	1,587	2,310	14,145
Interest expense	(3,894)	(4,208)	(34,708)
Earnings (losses) of unconsolidated subsidiaries and affiliates accounted for using equity method	1,037	(1,666)	9,243
Foreign exchange loss	(329)	(153)	(2,932)
Gains on insurance	2,682	1,146	23,905
Gain on retirement adjustment	583	1,034	5,196
Service cost of temporarily transferred employees	(2,305)	(2,026)	(20,545)
Other, net	(1,199)	(318)	(10,687)
Ordinary profit	5,998	6,206	53,462
Special items:			
Gain on sale of investments in securities	2,442	-	21,766
Reversal of reserve for rebuilding furnaces	-	5,413	-
Special gains	2,442	5,413	21,766
Loss on sale and disposition of properties	771	709	6,872
Loss on impairment of fixed assets	813	7,093	7,246
Loss on devaluation of investments in securities	1,804	5,212	16,079
Loss on sale of investments in securities	-	104	-
Special losses	3,389	13,120	30,207
Profit (loss) before provision for income taxes	5,051	(1,499)	45,021
Provision for income taxes (Note 8):			
Current	2,554	1,614	22,764
Deferred	1,323	4,047	11,792
Total provision for income taxes	3,877	5,662	34,557
Profit (loss) attributable to :	1,173	(7,162)	10,455
Non-controlling interests	(498)	(548)	(4,438)
Owners of parent	¥ 1,672	¥ (6,613)	\$ 14,903
	Yen		U.S. dollars (Note 4)
Profit (loss) attributable to owners of parent per share	¥ 15.26	¥ (60.33)	\$ 0.13
Cash dividends per share	5.00	40.00	0.04
Weighted average number of shares issued and outstanding (thousands)	109,615	109,621	

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Profit (loss)	¥ 1,173	¥ (7,162)	\$ 10,455
Other comprehensive income (Note 18) :			
Unrealized gain or loss on available-for-sale securities	6,104	(9,004)	54,407
Deferred gain or loss on hedges	523	(976)	4,661
Foreign currency translation adjustment	(1,741)	(1,875)	(15,518)
Retirement benefits asset and liability adjustments	(50)	(28,526)	(445)
Share of other comprehensive income of companies accounted for using equity method	(2,616)	(792)	(23,317)
Other, net	(59)	23	(525)
Total other comprehensive income	2,159	(41,151)	19,244
Comprehensive income (loss)	¥ 3,332	¥ (48,314)	\$ 29,699
Total comprehensive income (loss) attributable to :			
Owners of parent	¥ 4,263	¥ (47,105)	\$ 37,998
Non-controlling interests	(931)	(1,208)	(8,298)

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, 2017 and 2016

	Millions of yen				
	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2015	¥ 30,000	¥ 91,099	¥ 74,160	¥ (541)	¥ 194,719
Changes of items during the year					
Transfer to retained earnings from additional paid-in capital		(12,310)	12,310		—
Cash dividends		(4,391)	(1,646)		(6,038)
Loss attributable to owners of parent	—	—	(6,613)	—	(6,613)
Acquisition of treasury stock	—	—	—	(8)	(8)
Changes in subsidiaries' equity	—	1,947	—	—	1,947
Change in scope of equity method	—	—	27	—	27
Decrease due to adjustment on revaluation of land	—	—	(0)	—	(0)
Other, net	—	—	(23)	—	(23)
Items other than changes in shareholders' equity	—	—	—	—	—
Total changes of items during the year	—	(14,754)	4,053	(8)	(10,708)
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
Other, net	—	—	(130)	—	(130)
Items other than changes in shareholders' equity	—	—	—	—	—
Total changes of items during the year	—	—	(1,106)	(16)	(1,122)
Balance at March 31, 2017	¥ 30,000	¥ 76,345	¥ 77,107	¥ (565)	¥ 182,887

	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, 2015	¥ 23,356	¥ 191	¥ 388	¥ 17,741	¥ 26,521	¥ 68,199	¥ 9,078	¥ 271,997
Changes of items during the year								
Transfer to retained earnings from additional paid-in capital	—	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	—	—	—	(6,038)
Loss attributable to owners of parent	—	—	—	—	—	—	—	(6,613)
Acquisition of treasury stock	—	—	—	—	—	—	—	(8)
Changes in subsidiaries' equity	—	—	—	—	—	—	—	1,947
Change in scope of equity method	—	—	—	—	—	—	—	27
Decrease due to adjustment on revaluation of land	—	—	—	—	—	—	—	(0)
Other, net	—	—	—	—	—	—	—	(23)
Items other than changes in shareholders' equity	(9,022)	(843)	16	(2,043)	(28,623)	(40,515)	(2,794)	(43,309)
Total changes of items during the year	(9,022)	(843)	16	(2,043)	(28,623)	(40,515)	(2,794)	(54,018)
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
Other, net	—	—	—	—	—	—	—	(130)
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
Balance at March 31, 2017	¥ 20,324	¥ (42)	¥ 465	¥ 11,815	¥ (2,171)	¥ 30,391	¥ 12,944	¥ 226,223

Thousands of U.S. dollars (Note 4)					
Shareholders' equity					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2016	\$ 267,403	\$ 680,497	\$ 697,156	\$ (4,893)	\$ 1,640,164
Changes of items during the year					
Cash dividends	—	—	(24,458)	—	(24,458)
Profit attributable to owners of parent	—	—	14,903	—	14,903
Acquisition of treasury stock	—	—	—	(142)	(142)
Change in scope of consolidation	—	—	106	—	106
Change in scope of equity method	—	—	739	—	739
Other, net	—	—	(1,158)	—	(1,158)
Items other than changes in shareholders' equity	—	—	—	—	—
Total changes of items during the year	—	—	(9,858)	(142)	(10,000)
Balance at March 31, 2017	\$ 267,403	\$ 680,497	\$ 687,289	\$ (5,036)	\$ 1,630,154

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
Balance at April 1, 2016	\$ 127,756	\$ (5,802)	\$ 3,609	\$ 139,923	\$ (18,736)	\$ 246,759	\$ 56,003	\$ 1,942,936
Changes of items during the year								
Cash dividends	—	—	—	—	—	—	—	(24,458)
Profit attributable to owners of parent	—	—	—	—	—	—	—	14,903
Acquisition of treasury stock	—	—	—	—	—	—	—	(142)
Change in scope of consolidation	—	—	—	—	—	—	—	106
Change in scope of equity method	—	—	—	—	—	—	—	739
Other, net	—	—	—	—	—	—	—	(1,158)
Items other than changes in shareholders' equity	53,391	5,419	525	(34,602)	(606)	24,128	59,363	83,492
Total changes of items during the year	53,391	5,419	525	(34,602)	(606)	24,128	59,363	73,482
Balance at March 31, 2017	\$ 181,156	\$ (374)	\$ 4,144	\$ 105,312	\$ (19,351)	\$ 270,888	\$ 115,375	\$ 2,016,427

Consolidated Statements of Cash Flows

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Cash flows from operating activities:			
Profit (loss) before provision for income taxes	¥ 5,051	¥ (1,499)	\$ 45,021
Depreciation and amortization	27,819	26,539	247,963
Loss on impairment of fixed assets	813	7,093	7,246
Increase (decrease) in liability for retirement benefits	560	(376)	4,991
Increase in asset for retirement benefits	(1,340)	(2,188)	(11,944)
Decrease in reserve for rebuilding furnaces	-	(5,320)	-
(Earnings) losses of unconsolidated subsidiaries and affiliates accounted for using equity method	(1,037)	1,666	(9,243)
Interest and dividend income	(1,587)	(2,310)	(14,145)
Interest expense	3,894	4,208	34,708
Loss on sale and disposition of properties	769	709	6,854
Decrease in notes and accounts receivable	17,020	1,063	151,706
(Increase) decrease in inventories	(7,279)	19,173	(64,881)
Increase (decrease) in notes and accounts payable	24,665	(698)	219,850
Other, net	(11,455)	3,755	(102,103)
	57,893	51,815	516,026
Receipt of interest and cash dividends	1,879	4,285	16,748
Payment of interest	(3,992)	(4,236)	(35,582)
Refund (payment) of income taxes	1,811	(1,332)	16,142
Net cash provided by operating activities	57,591	50,532	513,334
Cash flows from investing activities:			
Acquisition of investments in securities	(1,230)	(2,385)	(10,963)
Proceeds from sale of investments in securities	194	3,493	1,729
Acquisition of shares of subsidiaries and affiliates	(1,366)	(291)	(12,175)
Proceeds from sale of shares of subsidiaries and affiliates	376	45	3,351
Acquisition of property, plant and equipment	(31,580)	(24,813)	(281,486)
Proceeds from sale of property, plant and equipment	224	402	1,996
Other, net	(4,187)	(4,732)	(37,320)
Net cash used in investing activities	(37,570)	(28,281)	(334,878)
Cash flows from financing activities:			
Decrease in short-term loans, net	(17,367)	(8,795)	(154,799)
Increase in commercial paper, net	7,000	-	62,394
Proceeds from long-term debt	11,600	20,400	103,396
Repayment and redemption of long-term debt	(35,688)	(21,911)	(318,103)
Proceeds from share issuance to non-controlling interests	1,343	-	11,970
Acquisition of treasury stock	(9)	(8)	(80)
Cash dividends	(2,744)	(6,024)	(24,458)
Cash dividends paid to non-controlling interests	(73)	(77)	(650)
Other, net	(181)	(161)	(1,613)
Net cash used in financing activities	(36,121)	(16,579)	(321,962)
Foreign currency translation adjustment of cash and cash equivalents	(709)	(514)	(6,319)
Net (decrease) increase in cash and cash equivalents	(16,810)	5,156	(149,835)
Cash and cash equivalents at beginning of year	31,344	26,187	279,383
Net increase in cash and cash equivalents from newly consolidated subsidiaries	6,097	-	54,345
Cash and cash equivalents at end of year (Note 17)	¥ 20,630	¥ 31,344	\$ 183,884

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, 2017 and 2016

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, which are different in certain respects in so far as the application and disclosure requirements of International Financial Reporting Standards.

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.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 18 consolidated subsidiaries, 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, 2017, Taiwan Nisshin Precision Steel Co., Ltd. has been included in the scope of consolidation following its establishment. In addition, Zhejiang Nisshin Worthington Precision Specialty Steel Co., Ltd. has been included in the scope of consolidation due to the increase of materiality with the beginning of commercial production.

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 eight foreign consolidated subsidiaries: Nisshin Holding, Nisshin Steel USA, Wheeling-Nisshin, Nisshin Automotive Tubing, Nisshin France, NSA Metals, Zhejiang Nisshin Worthington and Taiwan Nisshin (with fiscal years ending on December 31). In consolidating these foreign subsidiaries, the Company makes adjustments for any material transactions subsequent to December 31.

Regarding the elimination of investments in the stock of consolidated subsidiaries, together with the underlying equity in the net assets of such subsidiaries, the Company follows the step-by-step acquisition approach to include equity in the profit (loss) of subsidiaries, subsequent to the date of acquisition, in the Consolidated Statements of Income and the Consolidated Statements of Changes in Net Assets.

Valuation of the assets and liabilities of consolidated subsidiaries is made at their fair values in proportion to the parent company’s equity in the subsidiaries upon each acquisition.

The difference between the cost of an investment in a subsidiary and the amount of underlying equity in the net assets of the subsidiary is deferred as an asset or a liability as the case may be and amortized over a period of five years on a straight-line basis.

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

The number of unconsolidated subsidiaries accounted for using the equity method was 10 at March 31, 2017 and included:
Nisshin Metal Working Co., Ltd.

One unconsolidated subsidiary which completed liquidation during the fiscal year ended March 31, 2017 was excluded from the scope of application of the equity method.

The number of affiliates accounted for using the equity method was 16 at March 31, 2017 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.

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, 2017.
- (2) Held-to-maturity securities are stated at cost after the amortization of premiums or discounts on acquisition, which are amortized over the period to maturity. The Companies had no held-to-maturity securities at March 31, 2017.
- (3) Investments in unconsolidated subsidiaries and major 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 computed 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.

Other 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 retirement benefit obligation for employees is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

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 18 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.

Loss on impairment of fixed assets

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 (US\$7,246 thousand)) in special loss. The loss on impairment of fixed assets consisted of ¥788 million (US\$7,023 thousand) of machinery and equipment and ¥24 million (US\$213 thousand) of buildings and structures.

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

In the year ended March 31, 2016, the Nisshin Group recognized loss on impairment of fixed assets for the following asset group.

Location	Purpose	Type
Ichikawa, Chiba Prefecture	Business assets (production facilities of building material)	Machinery and equipment
Kure, Hiroshima Prefecture	Business assets (No. 2 blast furnace and related facilities)	Machinery and equipment, etc.
Shunan, Yamaguchi Prefecture	Business assets (continuous casting facilities)	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, 2016, their book value has been reduced to recoverable amounts largely because the Companies have decided to discontinue use of some facilities in the future in accordance with business reforms. 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 (¥7,093 million) in special loss. The loss on impairment of fixed assets consisted of ¥6,166 million of machinery and equipment, ¥488 million of buildings and structures and ¥437 million of others. Value in use is calculated by applying a discount rate of 7% to future cash flows.

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 easily 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.

3. Accounting Changes

(Changes in Accounting Estimates)

The Company's steel plate production and sales business which engages in the coatings and building materials market and includes the Ichikawa Works, was succeeded to the Company's consolidated subsidiary, Nisshin Steel A&C Co., Ltd. on April 1, 2016. In light of this, we made a comprehensive evaluation of the business environment surrounding Nisshin Steel A&C Co., Ltd., and the residual value of a portion of the facilities owned by that company has been changed to the memorandum value since the fiscal year ended March 31, 2017.

As a result of the change, for the fiscal year ended March 31, 2017, depreciation increased by ¥433 million (US\$3,859 thousand), operating profit decreased by ¥386 million (US\$3,440 thousand), and ordinary profit and profit before provision for income taxes decreased by ¥425 million (US\$3,788 thousand), respectively, compared with those by the previous method.

(Additional Information)

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year ended March 31, 2017, the Company and its domestic subsidiaries have applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

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 ¥112.19 = US\$1, the effective rate of exchange at March 31, 2017. 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 ¥112.19 = US\$1 or at any other rate.

5. Inventories

Details of “Inventories” in the Consolidated Balance Sheets at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Finished goods	¥ 51,155	¥ 49,953	\$ 455,967
Work in process	40,965	37,846	365,139
Raw materials and other supplies	40,018	36,975	356,698
Total	¥ 132,139	¥ 124,776	\$ 1,177,814

The amounts of inventories on the Consolidated Balance Sheets at March 31, 2017 and 2016 reflect the decrease in their value due to their decrease in profitability (after setting off the reversal amount of reducing the book value at the end of the previous consolidated fiscal year). “Cost of sales” in the Consolidated Statements of Income for the year ended March 31, 2017 and 2016 include ¥1,379 million (US\$12,291 thousand) of such unrealized net profit of inventories and ¥2,665 million of such unrealized net loss of inventories, respectively.

6. Investments in Unconsolidated Subsidiaries and Affiliates

“Investments in securities” in the Consolidated Balance Sheets at March 31, 2017 and 2016 include investments in unconsolidated subsidiaries and affiliates as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Stocks of unconsolidated subsidiaries and affiliates	¥ 57,192	¥ 57,696	\$ 509,778

“Other” in “Investments and long-term receivables” in the Consolidated Balance Sheets at March 31, 2017 and 2016 include investments in unconsolidated subsidiaries and affiliates as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Equity in unconsolidated subsidiaries and affiliates	¥ 14,485	¥ 23,134	\$ 129,111

7. Short-term Loans and Long-term Debt

Short-term loans at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Bank loans	¥ 32,953	¥ 50,338	\$ 293,724

It is a normal business custom in Japan for short-term loans to be rolled over.

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans from banks and other financial institutions	¥ 165,081	¥ 179,188	\$ 1,471,441
19th 2.20% unsecured bond of the Company due Jun. 2018	10,000	10,000	89,134
21st 0.62% unsecured bond of the Company due Jun. 2017	20,000	20,000	178,269
22nd 0.33% unsecured bond of the Company due Mar. 2017	-	10,000	-
23rd 0.64% unsecured bond of the Company due Mar. 2019	10,000	10,000	89,134
Total long-term debt	205,081	229,188	1,827,979
“Current portion of long-term debt” in the Consolidated Balance Sheets	(39,758)	(35,693)	(354,380)
“Long-term debt” in the Consolidated Balance Sheets*1	¥ 165,323	¥ 193,495	\$ 1,473,598

*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, ¥11,764 million included in 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.

At March 31, 2017 Nisshin Steel Co., Ltd. had not breached the financial covenants.

8. Income Taxes

Components of the Companies’ deferred income tax assets and liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred income tax assets:			
Tax loss carry forwards	¥ 39,040	¥ 38,890	\$ 347,981
Retirement benefit liability	15,554	16,106	138,639
Loss on devaluation of investments in securities	6,532	5,864	58,222
Loss on impairment of fixed assets	4,506	4,645	40,164
Investment book value adjustment	4,114	829	36,669
Non-deductible portion of reserve for rebuilding furnaces	2,637	2,637	23,504
Other	8,195	7,802	73,045
Preliminary deferred income tax assets	80,583	76,776	718,272
Valuation allowance	(69,792)	(65,155)	(622,087)
Total deferred income tax assets	10,790	11,620	96,176
Deferred income tax liabilities:			
Unrealized gain or loss on available-for-sale securities	7,495	5,317	66,806
Loss on securities contribution to employees’ retirement benefits trust	6,367	6,557	56,751
Reserve for postponement of taxation on capital gains from property	1,578	1,629	14,065
Other	6,321	5,530	56,341
Total deferred income tax liabilities	21,763	19,034	193,983
Net deferred income tax liabilities	¥ 10,972	¥ 7,413	\$ 97,798

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, 2017 is as follows:

	2017
Statutory tax rate	30.7%
Reconciliation:	
Permanent non-taxable income	17.1
Permanent difference	2.0
Equity in earnings of unconsolidated subsidiaries and affiliates	(6.3)
Valuation allowance	29.9
Other	3.4
Effective rate of income tax expense	76.8%

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, 2016 is omitted because the Company recorded a loss before provisions for income taxes.

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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligation at the beginning of the year	¥ 92,462	¥ 83,306	\$ 824,155
Service cost	3,716	3,127	33,122
Interest cost	277	1,000	2,469
Actuarial loss	308	11,112	2,745
Retirement benefit paid	(5,957)	(6,360)	(53,097)
Prior service cost	87	-	775
Contribution by the Companies	(2)	(16)	(17)
Other	240	291	2,139
Retirement benefit obligation at the end of the year	¥ 91,131	¥ 92,462	\$ 812,291

The changes in plan assets during the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets at the beginning of the year	¥ 66,747	¥ 84,001	\$ 594,946
Expected return on plan assets	1,325	1,672	11,810
Actuarial gain (loss)	823	(16,651)	7,335
Contribution by the Companies	264	565	2,353
Retirement benefit paid	(3,352)	(3,193)	(29,877)
Other	240	352	2,139
Plan assets at the end of the year	¥ 66,048	¥ 66,747	\$ 588,715

The funded status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligation	¥ 43,278	¥ 44,605	\$ 385,756
Plan assets at fair value	(66,048)	(66,747)	(588,715)
	(22,769)	(22,141)	(202,950)
Unfunded retirement benefit obligation	47,853	47,856	426,535
Net balance of liability and asset recognized on the Consolidated Balance Sheets	25,083	25,715	223,576
Liability for Retirement benefits	48,191	48,300	429,548
Asset for retirement benefits	(23,108)	(22,585)	(205,972)
Net balance of liability and asset recognized on the Consolidated Balance Sheets	¥ 25,083	¥ 25,715	\$ 223,576

The components of retirement benefit expense for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 3,716	¥ 3,127	\$ 33,122
Interest cost	277	1,000	2,469
Expected return on plan assets	(1,325)	(1,672)	(11,810)
Amortization of actuarial loss	376	(307)	3,351
Amortization of prior service cost	(970)	(975)	(8,646)
Other	-	11	-
Retirement benefit expense	¥ 2,074	¥ 1,183	\$ 18,486

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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Prior service cost	¥ (1,058)	¥ (975)	\$ (9,430)
Actuarial difference	891	(27,998)	7,941
Total	¥ (166)	¥ (28,974)	\$ (1,479)

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized prior service cost	¥ 2,437	¥ 3,495	\$ 21,722
Unrecognized actuarial difference	(5,211)	(6,103)	(46,447)
Total	¥ (2,774)	¥ (2,607)	\$ (24,725)

The fair value of plan assets by major category as a percentage of total plan assets at March 31, 2017 and 2016 are as follows:

	Millions of yen	
	2017	2016
Stocks	67%	64%
Bonds	21	22
Cash on hand and in banks	4	6
Other	8	8
Total	100%	100%

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

	2017	2016
Discount rate:	0.3%	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 ¥121 million (US\$1,078 thousand) and ¥125 million for the years ended March 31, 2017 and 2016.

10. Contingent Liabilities

Contingent liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Guarantee of bank loans for employees	¥ 282	¥ 385	\$ 2,513
Guarantee of loans for others in the ordinary course of business	2,293	4,712	20,438
The Companies issued letters of guarantee for the future for others in the ordinary course of business	19	17	169

11. Research and Development Expenses

Research and development expenses for the years ended March 31, 2017 and 2016 totaled ¥3,851 million (US\$34,325 thousand) and ¥3,941 million, respectively. They were included in manufacturing cost, selling, general and administrative expenses.

12. Selling, General and Administrative Expenses

Principal selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Freight out	¥ 16,962	¥ 16,769	\$ 151,189
Salaries, bonuses and allowances	9,977	10,250	88,929
Research and development expenses	3,851	3,941	34,325
Retirement benefit expense	636	558	5,668

13. Mortgaged Properties

Breakdown of properties pledged as collateral at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Properties pledged as collateral:			
Investments in securities	¥ 16	¥ 16	\$ 142

14. 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, 2017 and 2016 have been recorded as a separate component of accumulated other comprehensive income.

15. Net Assets

Number and types of stock at March 31, 2017 and 2016 are as follows:

	Thousands of shares	
	Number of common stocks, issued	Number of treasury stocks
March 31, 2016	109,843	225
Increase during the year	—	8
Decrease during the year	—	0
March 31, 2017	109,843	233

Increase in the number of eight thousand shares in treasury stock consists of six thousand shares due to purchase of shares less than one unit, and one thousand shares due to the change of the ownership ratio for an affiliate accounted for using the equity method of the Company.

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.

Number and types of stock at March 31, 2016 and 2015 are as follows:

	Thousands of shares	
	Number of common stocks, issued	Number of treasury stocks
March 31, 2015	109,843	219
Increase during the year	—	6
Decrease during the year	—	0
March 31, 2016	109,843	225

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

The decrease of less than one thousand shares in treasury stock consists of less than one thousand shares due to the change of the ownership ratio for an affiliate accounted for using the equity method and less than one thousand shares due to the sales of the shares less than one unit by the Company upon requests by its shareholders.

16. Cash Dividends

Cash dividends declared are as follows:

Cash dividends payment in the year ending March 31, 2018

		Amount of cash dividends paid	Cash dividends per share	Record date	Effective date
May 12, 2017	Board of Directors' Meeting	¥548 million US\$4,884 thousand	¥5.0 US\$0.04	Mar. 31, 2017	Jun. 6, 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 US\$24,458 thousand	¥25.0 US\$0.22	Mar. 31, 2016	Jun. 3, 2016

Cash dividends payment in the year ended March 31, 2016

		Amount of cash dividends paid	Cash dividends per share	Record date	Effective date
May 15, 2015	Board of Directors' Meeting	¥4,391 million	¥40.0	Mar. 31, 2015	Jun. 3, 2015
Nov. 13, 2015	Board of Directors' Meeting	¥1,646 million	¥15.0	Sep. 30, 2015	Nov. 30, 2015

17. Supplementary Cash Flow Information

The reconciliation of “Cash on hand and in banks” in the Consolidated Balance Sheets at March 31, 2017 and 2016 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
	2017	2016	2017
Cash on hand and in banks	¥ 16,717	¥ 31,440	\$ 149,006
Time deposits and short-term investments with deposit terms or maturity periods exceeding three months	(5)	(5)	(44)
Securities due within three months	4,135	-	36,857
Other	(217)	(91)	(1,934)
Cash and cash equivalents at end of year	¥ 20,630	¥ 31,344	\$ 183,884

18. 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, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gain or loss on available-for-sale securities:			
Amount arising during the year	¥ 10,734	¥ (12,932)	\$ 95,676
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	(2,442)	384	(21,766)
Amount before tax effect	8,292	(12,547)	73,910
Tax effect	(2,188)	3,543	(19,502)
Unrealized gain or loss on available-for-sale securities	6,104	(9,004)	54,407
Deferred gain or loss on hedges:			
Amount arising during the year	(115)	(901)	(1,025)
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	13	(54)	115
Acquisition adjustment	857	(474)	7,638
Amount before tax effect	755	(1,430)	6,729
Tax effect	(231)	453	(2,059)
Deferred gain or loss on hedges	523	(976)	4,661
Foreign currency translation adjustment:			
Amount arising during the year	(1,741)	(1,875)	(15,518)
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	—	—	—
Amount before tax effect	(1,741)	(1,875)	(15,518)
Tax effect	—	—	—
Foreign currency translation adjustment	(1,741)	(1,875)	(15,518)
Retirement benefits asset and liability adjustments:			
Amount arising during the year	427	(27,691)	3,806
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	(594)	(1,283)	(5,294)
Amount before tax effect	(166)	(28,974)	(1,479)
Tax effect	116	448	1,033
Retirement benefits asset and liability adjustments	(50)	(28,526)	(445)
Share of other comprehensive income of companies accounted for with the equity method:			
Amount arising during the year	(2,512)	(680)	(22,390)
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	(103)	(111)	(918)
Share of other comprehensive income of companies accounted for with the equity method	(2,616)	(792)	(23,317)
Other, net:			
Amount arising during the year	(104)	33	(926)
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	9	3	80
Amount before tax effect	(94)	36	(837)
Tax effect	35	(13)	311
Other, net	(59)	23	(525)
Total other comprehensive income	¥ 2,159	¥ (41,151)	\$ 19,244

19. 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 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, 2017 and 2016 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, 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	60,588	–
(3) Marketable securities and investments in securities			
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)

(Year ended March 31, 2017)

	Thousands of U.S. dollars		
	Book value	Estimated fair value	Unrealized gain (loss)
(1) Cash on hand and in banks	\$ 149,006	\$ 149,006	\$ –
(2) Notes and accounts receivable	540,048	540,048	–
(3) Marketable securities and investments in securities			
Available-for-sale securities	486,674	486,674	–
(4) Notes and accounts payable	(1,001,060)	(1,001,060)	–
(5) Short-term loans	(293,724)	(293,724)	–
(6) Commercial paper	(62,394)	(62,394)	–
(7) Bonds	(356,538)	(359,711)	(3,173)
(8) Long-term loans			
Loans from banks and other financial institutions	(1,471,441)	(1,510,303)	(38,853)

(Year ended March 31, 2016)

	Millions of yen		
	Book value	Estimated fair value	Unrealized gain (loss)
(1) Cash on hand and in banks	¥ 31,440	¥ 31,440	¥ –
(2) Notes and accounts receivable	77,581	77,581	–
(3) Marketable securities and investments in securities			
Stocks of subsidiaries and affiliates	41,721	56,388	14,667
Available-for-sale securities	52,631	52,631	–
(4) Notes and accounts payable	(87,436)	(87,436)	–
(5) Short-term loans	(50,338)	(50,338)	–
(6) Bonds	(50,000)	(50,696)	(696)
(7) Long-term loans			
Loans from banks and other financial institutions	(179,189)	(186,566)	(7,376)
(8) Derivative transactions	(755)	(755)	–

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 (¥2,662 million (US\$23,727 thousand) and ¥4,738 million in the Consolidated Balance Sheets at March 31, 2017 and 2016 respectively.) and others (¥0 million (US\$0 thousand) and ¥0 million in the Consolidated Balance Sheets at March 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

(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				
National and local governmental bonds, etc.	4	–	11	–
Total	¥ 77,214	¥ –	¥ 11	¥ –

(Year ended March 31, 2017)

	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	\$ 148,150	\$ —	\$ —	\$ —
Notes and accounts receivable	540,048	—	—	—
Marketable securities and investments in securities				
National and local governmental bonds, etc.	35	—	98	—
Total	\$ 688,243	\$ —	\$ 98	\$ —

(Year ended March 31, 2016)

	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	¥ 31,233	¥ —	¥ —	¥ —
Notes and accounts receivable	77,581	—	—	—
Marketable securities and investments in securities				
National and local governmental bonds, etc.	—	4	11	—
Total	¥ 108,814	¥ 4	¥ 11	¥ —

20. Securities

Available-for-sale securities

(Year ended March 31, 2017)

	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	¥ 48,278	¥ 20,284	¥ 27,993	\$ 430,323	\$ 180,800	\$ 249,514
Bonds						
National and local governmental bonds, etc	12	11	0	106	98	0
Subtotal	¥ 48,290	¥ 20,295	¥ 27,994	\$ 430,430	\$ 180,898	\$ 249,523
Securities whose book value does not exceed their acquisition cost:						
Stocks	¥ 6,039	¥ 6,706	¥ (667)	\$ 53,828	\$ 59,773	\$ (5,945)
Bonds						
National and local governmental bonds, etc	4	4	(0)	35	35	0
Other	266	267	(1)	2,370	2,379	(8)
Subtotal	¥ 6,310	¥ 6,979	¥ (669)	\$ 56,243	\$ 62,206	\$ (5,963)
Total	¥ 54,600	¥ 27,274	¥ 27,325	\$ 486,674	\$ 243,105	\$ 243,560

(Year ended March 31, 2016)

	Millions of yen		
	Book value	Acquisition cost	Unrealized gain (loss)
Securities whose book value exceeds their acquisition cost:			
Stocks	¥ 41,873	¥ 20,924	¥ 20,949
Bonds			
National and local governmental bonds, etc	12	11	0
Subtotal	¥ 41,886	¥ 20,935	¥ 20,950
Securities whose book value does not exceed their acquisition cost:			
Stocks	¥ 10,373	¥ 12,090	¥ (1,717)
Bonds			
National and local governmental bonds, etc	4	4	(0)
Other	367	401	(33)
Subtotal	¥ 10,745	¥ 12,496	¥ (1,750)
Total	¥ 52,631	¥ 33,432	¥ 19,199

Regarding available-for-sale securities for which fair value information was not available, their aggregate book value on the Consolidated Balance Sheets was ¥2,662 million (US\$23,727 thousand) and ¥4,738 million at March 31, 2017 and 2016, respectively.

Sale of securities classified as available-for-sale securities and the aggregate gain and loss for the years ended March 31, 2017 and 2016 are as follows:

(Year ended March 31, 2017)

	Millions of yen	Thousands of U.S. dollars
Sale proceeds	¥ 11,001	\$ 98,056
Aggregate gain	2,442	21,766
Aggregate loss	-	-

(Year ended March 31, 2016)

	Millions of yen
Sale proceeds	¥ 1,677
Aggregate gain	8
Aggregate loss	104

21. 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, 2017 and 2016, 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, 2017 and 2016 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) Currency-related transactions

(Year ended March 31, 2017)

No relevant information.

(Year ended March 31, 2016)

		Millions of yen			
		Principle hedged items	Contract amount	Contract amount over one year	Fair value
Deferral hedge accounting	Forward exchange contracts and currency options Buy: U.S. dollars	Forecasted foreign currency denominated transactions	¥ 14,685	¥ –	¥ (755)
Total			¥ 14,685	¥ –	¥ (755)

* Measurement method for fair value

Fair values are calculated based on price presented by correspondent financial institutions.

(2) Interest-related transactions

(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.

(Year ended March 31, 2017)

		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	\$ 269,043	\$ 265,299	\$ *
Total			\$ 269,043	\$ 265,299	\$ *

(Year ended March 31, 2016)

		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	¥ 36,407	¥ 36,107	¥ *
Total			¥ 36,407	¥ 36,107	¥ *

* 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.

22. Segment Information

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

Products and services information

(Year ended March 31, 2017)

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

(Year ended March 31, 2017)

	Thousands of U.S. dollars		
	Steel Products	Other	Total
Sales to third parties	\$ 4,410,170	\$ 274,400	\$ 4,684,579

(Year ended March 31, 2016)

	Millions of yen		
	Steel Products	Other	Total
Sales to third parties	¥ 514,409	¥ 32,617	¥ 547,026

Geographical information

(Year ended March 31, 2017)

	Millions of yen				
	Japan	North America	East Asia	Other	Total
Sales to third parties	¥ 417,373	¥ 55,313	¥ 32,162	¥ 20,713	¥ 525,563

(Year ended March 31, 2017)

	Thousands of U.S. dollars				
	Japan	North America	East Asia	Other	Total
Sales to third parties	\$ 3,720,233	\$ 493,029	\$ 286,674	\$ 184,624	\$ 4,684,579

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

(Year ended March 31, 2016)

	Millions of yen				
	Japan	North America	East Asia	Other	Total
Sales to third parties	¥ 435,422	¥ 51,505	¥ 35,566	¥ 24,532	¥ 547,026

23. 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, 2017 and 2016 are as follows:

(1) Transactions with the parent company

(Year ended March 31, 2017)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2017	Millions of yen/Thousands of U.S. dollars			
				Transaction	Resulting accounting balance		
				Description of the transactions	2017	Account	2017
Nippon Steel & Sumitomo Metal Corporation	¥419,524 million \$3,739,406 thousand	Manufacturing and sales of steel products, etc.	51.3%	Purchase of steel billets, etc.	¥ - \$ -	Accounts payable	¥583 \$5,196

(Year ended March 31, 2016)

No relevant information.

(2) Transactions with unconsolidated subsidiaries and associates
(Year ended March 31, 2017)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2017	Millions of yen/Thousands of U.S. dollars			
				Transaction		Resulting accounting balance	
				Description of the transactions	2017	Account	2017
Nihon Teppan Co., Ltd.	¥1,300 million \$11,587 thousand	Sale of coated steel	50.0%	Sale of the Company's coated steel products to the related party	¥48,205 \$429,672	Accounts receivable	¥2,670 \$23,798
Canox Corporation	¥2,310 million \$20,590 thousand	Sale of coated steel	16.0%	Sale of the Company's coated steel products to the related party	¥34,680 \$309,118	Accounts receivable	¥1,522 \$13,566

(Year ended March 31, 2016)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2016	Millions of yen			
				Transaction		Resulting accounting balance	
				Description of the transactions	2016	Account	2016
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	¥64,296	Accounts receivable	¥7,608
Canox Corporation	¥2,310 million	Sale of coated steel	16.0%	Sale of the Company's coated steel products to the related party	¥37,973	Accounts receivable	¥4,425

Material transactions of the Company and 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, 2017 and 2016 are as follows:

(Year ended March 31, 2017)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2017	Millions of yen/Thousands of U.S. dollars			
				Transaction		Resulting accounting balance	
				Description of the transactions	2017	Account	2017
Nihon Teppan Co., Ltd.	¥1,300 million \$11,587 thousand	Sale of coated steel	50.0%	Purchase of the steel products by Tsukiboshi Shoji Co., Ltd.	¥17,162 \$152,972	Accounts payable	¥7,178 \$63,980

(Year ended March 31, 2016)

Name of Related company	Paid-in capital	Principal business	Equity ownership percentage at Mar. 31, 2016	Millions of yen/Thousands of U.S. dollars			
				Transaction		Resulting accounting balance	
				Description of the transactions	2016	Account	2016
Nihon Teppan Co., Ltd.	¥1,300 million	Sale of coated steel	50.0%	Purchase of the steel products by Tsukiboshi Shoji Co., Ltd.	¥18,232	Accounts payable	¥6,855

The significant related company in the year ended March 31, 2017 and 2016 is Acerinox, S.A. Summary of the consolidated financial condition of Acerinox, S.A. are as follows:

	Millions of euros	
	2017	2016
Total current assets	€ 2,079	€ 1,808
Total non-current assets	2,297	2,317
Total current liabilities	1,095	1,106
Total non-current liabilities	1,191	995
Total equity	2,090	2,023
Revenues	3,968	4,221
Profit from ordinary activities	126	66
Net profit attributable to the Group	79	32

24. Business Combinations

(Transactions under Common Control)

1. Outline of the company split

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

The Company's steel plate production and sales business which engages in the coatings and building materials market and includes the Ichikawa Works

(2) Date of the business combination

April 1, 2016

(3) Legal form of the business combination

Absorption-type company split whereby the Company is the splitting company, and Nisshin A&C Co., Ltd. is the succeeding company in the absorption-type split

(4) New trade name

Nisshin Steel A&C Co., Ltd.

(5) Main reason for the business combination

The business combination is being undertaken so that in the steel plate production and sales business serving the coatings and building materials market, which is the Company's founding business, the Company will be able to swiftly address needs and create a business structure that makes product and market development possible. To that end, the Group will strengthen the Combined Entity's cost competitiveness, development prowess and marketing strengths, by launching a company that provides one-stop solutions which enlist the materials development prowess, cost competitiveness and sales channels of the Combined Entity held by the Company, and accordingly bringing such strengths together with Nisshin A&C Co., Ltd.'s capacity for serving manufacturers of housing materials through its light-gauge steel shapes, and its appeal to building contractors and other such entities, which it has amassed through its operations involving sales of metal siding.

The newly launched company will create construction demand on its own by offering new forms of value to customers, and will accordingly strive to act as an innovative steel building materials manufacturer that conceives new features and added value with respect to buildings.

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).

25. Other

Information on the consolidated cumulative and quarterly results for the year ended March 31, 2017 is as follows:

	Millions of yen (except per share)			
	1Q	2Q	3Q	4Q
Cumulative results				
Net sales	¥ 119,408	¥ 251,700	¥ 381,708	¥ 525,563
Profit (loss) before provision for income taxes	(1,445)	692	1,971	5,051
Profit (loss) attributable to owners of parent	(1,544)	32	231	1,672
Profit (loss) attributable to owners of parent per share ^{*1}	¥ (14.09)	¥ 0.30	¥ 2.11	¥ 15.26
Quarterly results				
Profit (loss) attributable to owners of parent per share ^{*1}	¥ (14.09)	¥ 14.39	¥ 1.82	¥ 13.15

	Thousands of U.S. dollars (except per share)			
	1Q	2Q	3Q	4Q
Cumulative results				
Net sales	\$ 1,064,337	\$ 2,243,515	\$ 3,402,335	\$ 4,684,579
Profit (loss) before provision for income taxes	(12,879)	6,168	17,568	45,021
Profit (loss) attributable to owners of parent	(13,762)	285	2,059	14,903
Profit (loss) attributable to owners of parent per share ^{*1}	\$ (0.12)	\$ 0.00	\$ 0.01	\$ 0.13
Quarterly results				
Profit (loss) attributable to owners of parent per share ^{*1}	\$ (0.12)	\$ 0.12	\$ 0.01	\$ 0.11

*1. Per share amounts are in yen and U.S. dollars.

26. Major Subsequent Events

(Company split)

On April 1, 2017, the Company conducted an absorption-type company split in which the assets, liabilities, and rights and obligations related to the Company's stainless steel pipe and tube production business were split and succeeded to its wholly owned subsidiary, Nisshin Stainless Steel Tubing Co., Ltd.

Transactions under Common Control

1. Outline of the company split

(1) Name of the Combined Entity 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, we further enhance the competitiveness of the Group's stainless steel pipe and tube business by succeeding the assets, etc. related to the stainless steel pipe and tube production business owned by the Company to Nisshin Stainless Steel Tubing Co., Ltd., which was newly launched on April 1, 2014 by spinning off the stainless steel pipe and tube business, one of the Company's core businesses, as an independent company.

2. Summary of planned accounting method

This acquisition will be 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).



Ernst & Young ShinNihon LLC
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Fax: +81 3 3503 1197
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Independent Auditor's Report

The Board of Directors
Nisshin Steel Co., Ltd.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 27, 2017
Tokyo, Japan

Board of Directors, Corporate Auditors and Executive Officers

(As of June 27, 2017)

Directors

Toshinori Miki Kinya Yanagawa *¹

Katsuhisa Miyakusu *¹ Hideo Tanaka *¹

Nobuhiro Miyoshi *¹ Naoki Konno

Toshiaki Naganuma Tetsuo Kaharu

Sonoko Hatchoji Isao Endo

Kazuhisa Obama *² Yukihiro Ito

Tatsu Katayama Manabu Uehara

Kinya Yanagawa

Katsuhisa Miyakusu Hideo Tanaka

Nobuhiro Miyoshi

Naoki Konno Toshiaki Naganuma

Tetsuo Kaharu Masahiro Sasaki

Takayuki Kondo Junya Hayakawa

Shigeru Matsunaga Kiyoshi Yasui

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, 2017)	Authorized: 430,000 thousand shares Issued: 109,843 thousand shares Capital: ¥30,000,000 thousand																																	
Common Stock Price Range (Tokyo Stock Exchange)	<table><tr><td></td><td colspan="2">2017</td><td colspan="2">2016</td></tr><tr><td></td><td>High</td><td>Low</td><td>High</td><td>Low</td></tr><tr><td>First Quarter</td><td>¥ 1,539</td><td>¥ 1,238</td><td>¥ 1,757</td><td>¥ 1,423</td></tr><tr><td>Second Quarter</td><td>1,387</td><td>1,213</td><td>1,559</td><td>991</td></tr><tr><td>Third Quarter</td><td>1,553</td><td>1,308</td><td>1,425</td><td>1,049</td></tr><tr><td>Fourth Quarter</td><td>1,660</td><td>1,406</td><td>1,446</td><td>1,077</td></tr></table>					2017		2016			High	Low	High	Low	First Quarter	¥ 1,539	¥ 1,238	¥ 1,757	¥ 1,423	Second Quarter	1,387	1,213	1,559	991	Third Quarter	1,553	1,308	1,425	1,049	Fourth Quarter	1,660	1,406	1,446	1,077
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Fourth Quarter	1,660	1,406	1,446	1,077																														
	Note: Years ended March 31.																																	
Number of Shareholders	37,283																																	
Independent Certified Public Accountants	Ernst & Young ShinNihon LLC																																	

Inquiries:

Secretariat & Public Relations Team

General Administration Department

Nisshin Steel Co., Ltd.

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