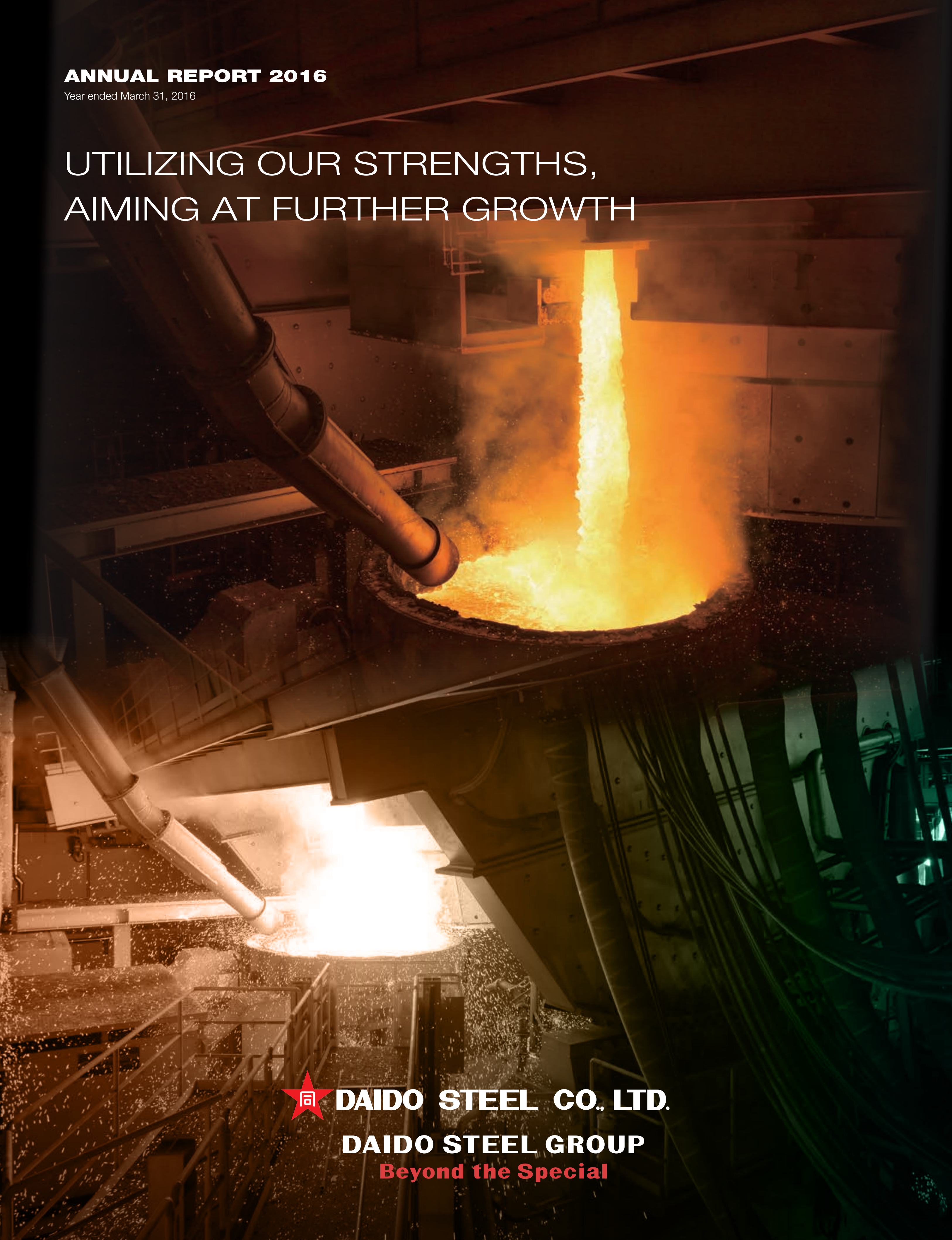
ANNUAL REPORT 2016

Year ended March 31, 2016

UTILIZING OUR STRENGTHS, AIMING AT FURTHER GROWTH



DAIDO STEEL CO., LTD.

DAIDO STEEL GROUP

Beyond the Special

THE COMPANY

DAIDO STEEL CO., LTD. ranks among the world's largest manufacturers of specialty steel. With a history dating back to 1916, the Company has accumulated extensive skills in combining steel scrap with other materials to achieve the strength, workability and other characteristics to match exacting requirements. Along with the manufacture of value-added steel, the Company offers many services that leverage its technological resources. Most services target high-end market sectors that demand the highest levels of quality and specialization. Daido Steel is one of the leading players worldwide in the manufacture of critical steel components where nothing less than absolute reliability is acceptable. These components include automobile transmissions and engine parts as well as components used in ships, aircraft and electric generators. Daido Steel shares are traded on the First Section of the Tokyo Stock Exchange under the securities code 5471.

CONTENTS

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements concerning DAIDO STEEL CO., LTD.'s and its Group companies' current plans, projections, strategies and performance. These forward-looking statements are not historical facts. Rather, they represent the assumptions and beliefs of Daido Steel's management based on information currently available.

They should therefore not be relied upon as the sole basis for evaluating the Company. Daido Steel also wishes to caution readers that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of risks and uncertainties.

FINANCIAL HIGHLIGHTS

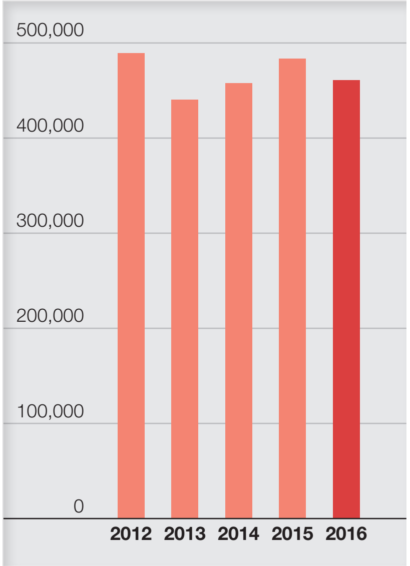
DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31

	Millions of Yen					Thousands of U.S. Dollars
	2016	2015	2014	2013	2012	**2016**
For the Year:						
Net Sales	**460,578**	483,633	457,731	440,428	489,155	**4,075,911**
Operating Income	**24,432**	20,409	18,977	15,426	31,534	**216,212**
Net Income Attributable to Owners of the Parent	**6,746**	10,886	12,616	10,983	22,718	**59,699**
R&D Expenses	**5,766**	5,301	5,160	4,560	4,360	**51,027**
Capital Expenditures	**23,205**	30,296	44,404	25,400	39,700	**205,354**
Depreciation and Amortization	**22,454**	22,437	20,052	19,229	20,464	**198,708**
At Year-end:						
Total Assets	**535,676**	588,590	557,522	511,159	512,969	**4,740,496**
Total Equity	**268,346**	292,406	232,152	211,921	198,654	**2,374,744**
Interest-Bearing Debt	**136,114**	146,208	143,085	146,999	156,336	**1,204,549**
Number of Employees (Consolidated)	**11,040**	10,855	10,709	10,447	10,365	**–**
Number of Consolidated Subsidiaries	**34**	34	33	32	33	**–**
Per Share of Common Stock (Yen and U.S. Dollars):						
Basic Net Income	**15.62**	25.10	29.09	25.32	52.37	**0.14**
Cash Dividends Applicable to the Year	**7.50**	6.50	5.00	4.50	7.50	**0.07**
ROA (%)	**4.5**	3.8	3.8	3.2	6.3	**–**
ROE (%)	**2.8**	4.5	5.7	5.4	12.1	**–**

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥113 to $1, the approximate rate of exchange at March 31, 2016.

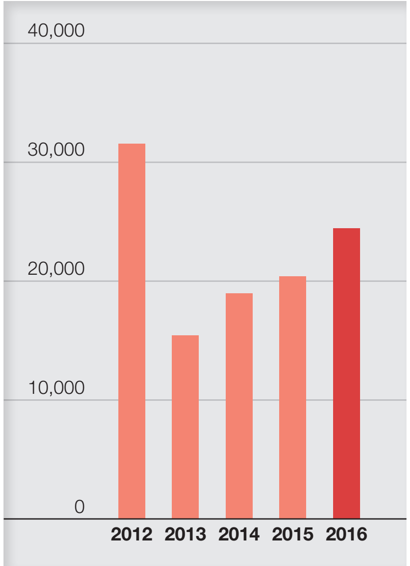
NET SALES
Years ended March 31

(millions of yen)



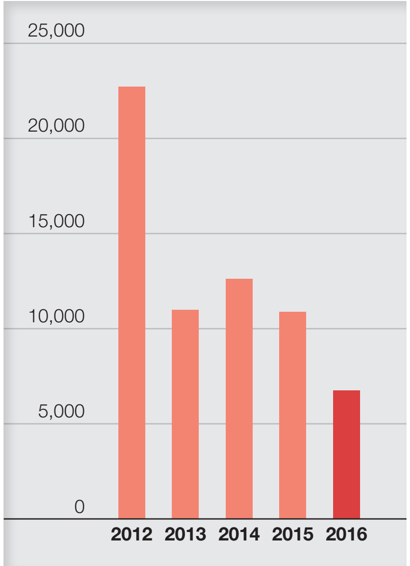
OPERATING INCOME
Years ended March 31

(millions of yen)



NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT
Years ended March 31

(millions of yen)



Overview of Results for Fiscal 2015

In fiscal 2015, the Japanese economy continued to tread water amid strong uncertainties for the future, stemming from slowing growth in the Chinese economy, a steep drop in natural resource prices, stronger signs of deceleration in emerging economies from the dollar appreciating against their currencies as a result of an interest rate hike in the U.S., and growing geopolitical risks.

Under these economic circumstances, the Daido Steel Group readied itself to address changes in the market as they arose, collaborated with its customers, focused on growth fields and strengthened its quality, cost and delivery (QCD) competitiveness with the aim of achieving the targets in its medium-term business plan.

As a result, the Group's net sales decreased by ¥23,055 million year on year to ¥460,578 million, reflecting a decline in sales volume and lower sales prices due to a drop in raw material prices. Ordinary income increased ¥3,378 million to ¥25,108 million due in part to a fall in scrap steel prices and lower energy costs. Net income attributable to owners of the parent declined by ¥4,140 million to ¥6,746 million, owing to the posting of ¥5,586 million in extraordinary losses for discontinuing software development and ¥5,308 million in provisions for environmental remediation.

Outlook for Fiscal 2016

The outlook for the Japanese economy in fiscal 2016 is clouded with increasing uncertainty with concerns about slowing growth in China and its ripple effects on the economies of neighboring Asian countries, stagnant growth in resource-rich countries due to the fall in crude oil and other commodity prices, currency fluctuation risk due to a variety of factors including a growing risk-off mentality, and increasing geopolitical risk. In the steel industry, excess production capacity in China has materialized as a serious problem. We recognize the risks entailed by these concerns, and their potential impact on the Group.

In this business environment, the Daido Steel Group is constantly monitoring trends in markets and at its customers, and is prepared to respond to any changes. The Group will steadily implement measures for expanding sales overseas, a target of its medium-term business plan. We are working diligently to strengthen QCD competitiveness as the foundation of our business, with measures to further improve quality, continuously reduce costs, and strengthen the delivery system.

Given these conditions, our segment forecasts for the coming fiscal year are as follows.

SPECIALTY STEEL

We expect demand for structural steel to decline for industrial machinery in tandem with slower growth in the Chinese economy. However, we project that sales volume will increase slightly on account of moderate growth in global demand for automobiles and a slight increase in the ratio of domestic production at Japanese automakers. Meanwhile, we anticipate a softening in overseas steel markets amid a global supply glut caused mainly by China. In addition, steel scrap prices have begun to increase recently. Under these circumstances, the Daido Steel Group will strive to reduce costs further, finish construction on the secondary melting facility at the Chita Plant, and thoroughly prepare to improve the product mix in the future.

HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS

We forecast a minor decline in sales volume of stainless steel due to weaker demand for HDD applications. Aiming to expand sales overseas, the Daido Steel Group is working to increase sales of products in which it excels by obtaining certifications in Europe and the U.S. In magnetic products, we are focusing on automotive applications amid the increasing use of electric motors and electronics in cars. We are concentrating on increasing sales of titanium products in the medical and biomaterial fields, which are likely to continue growing.

PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

In free forgings, Daido Steel aims to complete construction of one of the world's largest vacuum induction melting (VIM) on schedule in anticipation of growth in demand over the longer term amid continued robust demand for commercial aircraft applications. In die forgings, we are committed to launching operations at our Thailand subsidiary that was established to be a production base for Southeast Asia in the future. In turbo-related products, demand is likely to expand as the ratio of gasoline engines with turbos installed increases, so we will take steps to increase production of stainless steel turbine housing and other related products. In engine valves, we are preparing to launch operations at a new plant in Mexico and expand our supply capacity in North America.

ENGINEERING

The Daido Steel Group aims to expand sales of Premium STC® (Short Time Cycle), which is its mainstay STC® annealing furnace with a new combustion system installed, as well as increasing sales of vacuum carburizing furnaces to auto parts makers, and of vacuum sintering furnaces to magnet product makers.

TRADING AND SERVICE

In the trading and service segment, demand should generally remain around the same as in the year under review.

Based on the above, for fiscal 2016 Daido Steel forecasts consolidated net sales of ¥450.0 billion, operating income of ¥22.0 billion, ordinary income of ¥23.0 billion and net income attributable to owners of the parent of ¥15.0 billion. Although demand conditions and raw material prices are somewhat challenging, the Daido Steel Group is making steady progress on measures for future growth, such as launching large-scale production facilities, while preparing for sales growth and improvement in the product mix over the medium and long term.

Medium- to Long-Term Management Strategy

During the current medium-term business plan that continues through fiscal 2017, we are likely to see continued growth in emerging markets despite concerns about slower economic growth in China. Demand is therefore likely to strengthen over the medium and long term from the automobile, natural resource and energy sectors. Despite customers shifting more production offshore and increasing local procurement, among other factors that depress demand, we project that demand for specialty steel will continue to increase moderately overall.

Meanwhile, customers may also demand higher performance from specialty steel. For example, customers may demand unprecedented performance in terms of the heat resistance and thinness of specialty steel in order to maximize combustion efficiency in internal combustion engines amid tightening carbon dioxide regulations to combat global warming. The Daido Steel Group intends to work more closely with its customers to solve these challenging issues.

Daido Steel is celebrating its 100th anniversary in 2016. We aim to contribute to the development of the world over the next 100 years by continuing to produce new types of specialty steel while collaborating with our customers.

June, 2016

T. Ishiguro

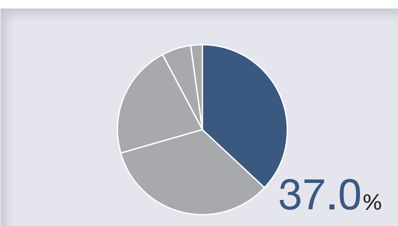
Takeshi Ishiguro
President

SPECIALTY STEEL

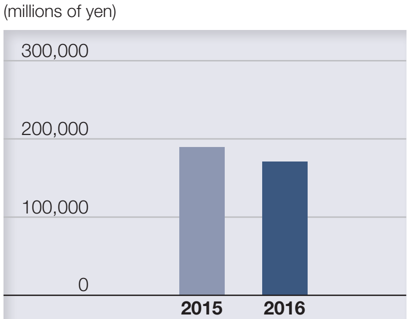
MAIN PRODUCTS

Specialty steel for automotive parts, industrial machinery parts, electrical machinery parts, construction, tool steel, etc.
Specialty steel products and materials manufacturing, distribution, raw materials sales, transportation and logistics

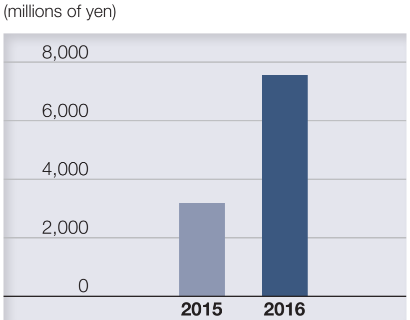
SHARE OF NET SALES
(%)



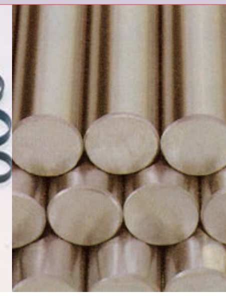
NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME Years ended March 31
(millions of yen)



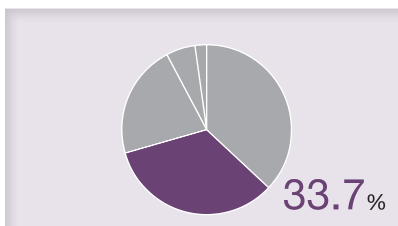
HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS



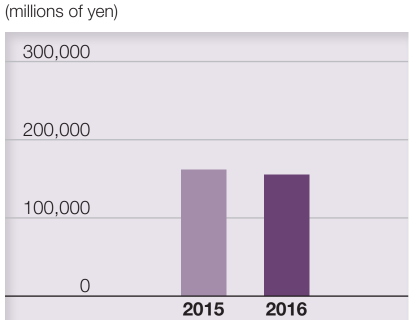
MAIN PRODUCTS

Stainless steel, nickel-based alloys, electrical and electronics parts, magnetic material products (OA·FA motors, automotive meters, sensors, measuring device components, etc.), Alloy powder (magnetic powder for HEV), Titanium products (medical titanium alloys, shape-memory alloys), welding wire

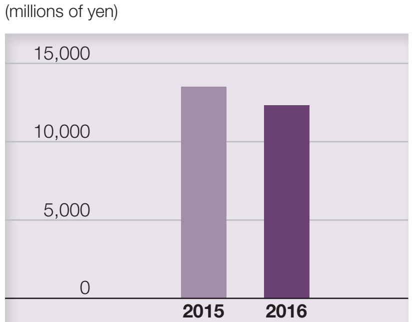
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME Years ended March 31
(millions of yen)

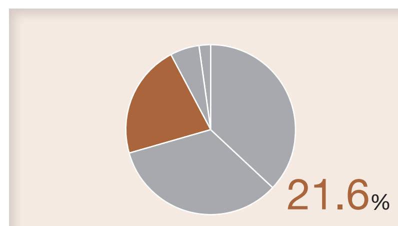


PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

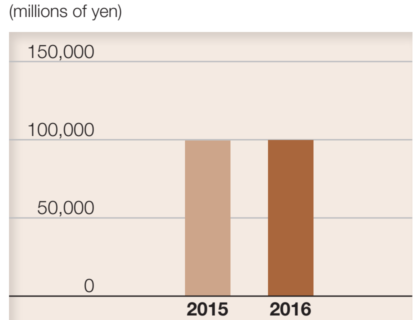
MAIN PRODUCTS

Die forging, precise hot forging, welded parts (automotive parts and bearing races) / Open die forging (parts for boats and ships, industrial machines, heavy electric machines, steel making equipment, chemical equipment, oil drilling rigs, and spacecraft and aircraft) / Casting (manganese railway rails, components for automobiles, industrial machines, electric machines and furnaces, advanced cast steel products, etc.) / Precision casting (automotive, industrial machines, electric machines, telecommunications equipment, etc.) / Engine valves, compressors, hydraulic equipment, machine tool parts

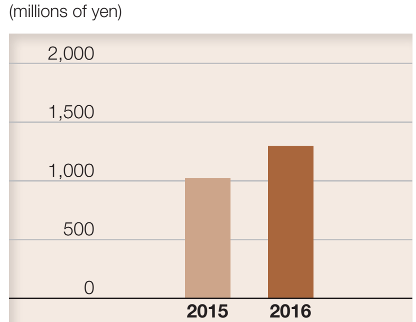
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME Years ended March 31
(millions of yen)

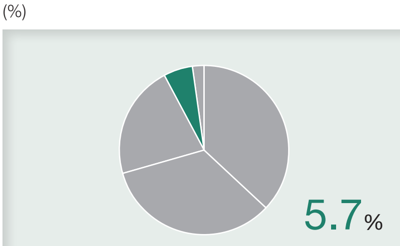


ENGINEERING

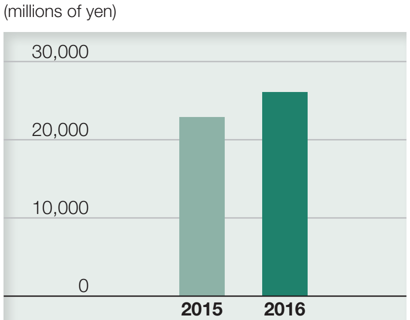
MAIN PRODUCTS

Steel making equipment, industrial furnaces and facilities, environmental equipment (for drain, exhaust, waste disposal and treatment facilities), machine tools, machine maintenance

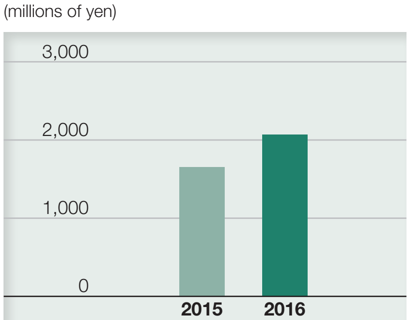
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME Years ended March 31
(millions of yen)

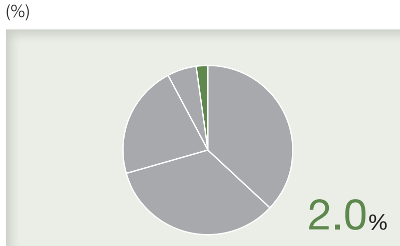


TRADING AND SERVICE

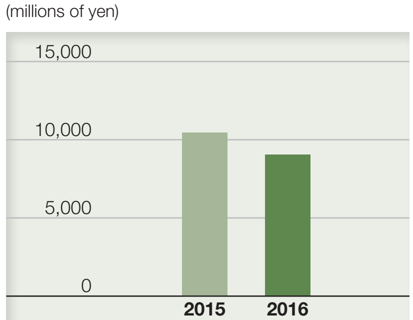
MAIN PRODUCTS

Sale of Group company products, welfare services, real estate and insurance business Golf course management, analysis business, outside software sales business

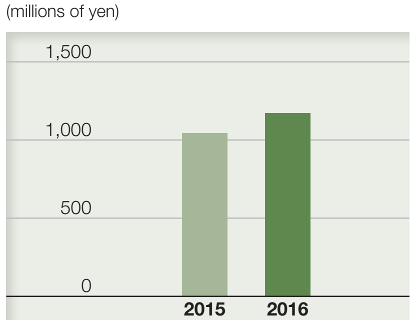
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



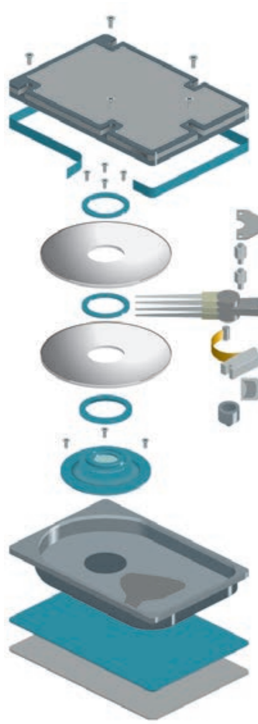
OPERATING INCOME Years ended March 31
(millions of yen)



SPECIALTY STEEL

Overview of Business

Specialty steel, the Company's core business, generates approximately 37% of consolidated net sales. Specialty steel is made by combining steel with alloys to add value in the form of properties such as resistance to heat, abrasions or rust. Because a range of special properties can be achieved by varying the type and amount of alloy, one of the special features of the business is that products are developed to meet the specific applications required by the user. The automobile and industrial machinery sectors are the primary users of specialty steel, accounting for about 80% of sales in this business segment.



HDD Spindle Motors
Daido Steel is the world's leading supplier of stainless steel for HDD spindle motors.

Results of Operations

Orders for mechanical construction steel started to recover gradually from the third quarter after inventory adjustments that began early on in the fiscal year in the automotive sector, a major source of demand for this steel, ran their course in the fall. However, due mainly to a decline in use of this steel in industrial and construction machinery from the summer onward, caused by the economic slowdown in China, sales volume declined from the previous fiscal year. Sales in tool steel remained robust, particularly from the automotive industry in Japan.

Meanwhile, the cost of steel scrap, the main raw material, declined substantially from the summer onward as overseas demand for steel scrap declined, particularly in South Korea, after an oversupply of steel drove China to ramp up its exports of cheaply priced intermediate steel.

As a result, the specialty steel segment's net sales in fiscal 2015 fell 9.8% year on year to ¥170,514 million, due primarily to a decline in sales volume and sales prices, which were driven down by the falling raw material costs. In contrast, operating income increased by ¥4,382 million to ¥7,561 million, with falling steel scrap prices and lower energy costs contributing to the increase.

HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS

Overview of Business

This segment, which accounts for roughly 34% of consolidated net sales, manufactures and sells high performance materials and magnetic materials used chiefly in computers, automobiles, mobile phones and consumer electronics. Notably, Daido Steel holds the world's largest market share as a supplier of magnets for spindle motors* for hard disk drives (HDD).

Key products include rare earth magnets (used in spindle motors for HDD and other products), high alloys, titanium products and high performance powder metal products, and electromagnetic materials.

* Spindle motor: The motor used to rotate hard disk drives installed in computers.

Results of Operations

Sales volume of stainless steel products declined year on year as demand was reduced by a decline in demand for HDDs in response to sluggish sales of PCs and expectations for lower nickel prices. On the other hand, net sales of electromagnetic materials increased, driven by robust demand for use in motors for electric power steering systems in automobiles, and strong sales of in titanium products for medical application in Japan and overseas. Another contributing factor was the consolidation of Intermetallics Japan Corporation as a subsidiary at the end of the previous fiscal year. Meanwhile, net sales of high alloys declined year on year. This was due mainly to persistently sluggish demand for use as lead frames for semiconductors. Other factors weighing on sales included a slump overseas in powder metal products for use in the automotive industry and lower sales prices driven down by a fall in the price of nickel and other raw materials.

As a result, net sales for high performance materials and magnetic materials in fiscal 2015 decreased 4.0% year on year to ¥155,250 million, while operating income decreased by ¥1,186 million to ¥12,331 million.

NEOQUENCH-P (NdFeB Polymer-bonded Magnets)
Magnets for precision, high-speed motors used in mobile phones, office automation (OA) equipment and other products; currently the world's most popular magnet for HDD spindle motors.

PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

Overview of Business

This segment contributes around 22% of consolidated net sales. It manufactures die forged parts such as crankshafts using specialty steel, precision cast parts for use in gears and turbochargers (used in diesel engines to improve fuel efficiency and reduce exhaust gases), as well as engine valves, jet engine shafts and parts for gas turbines. Most of the auto parts sold in this segment use materials that were developed through joint projects with automakers to meet their exacting requirements. These parts can therefore lower processing expenses at customers' factories as well as contribute to reducing the weight of finished products.

Many products in this segment are leading products in their respective market categories, such as aircraft jet engine shafts and marine diesel engine valves. Daido Steel also has a high market share in numerous other product categories, including automobile engine valves and turbine disks. We will continue to develop and launch new products that differentiate us from competitors and support our position as a provider of advanced products.

In addition to specialty steel supplied by the specialty steel segment of the Group, some steel materials used in this segment are manufactured in-house.

Hot, High-speed Precision Forgings
Daido Steel is one of the largest manufacturers of hot, high-speed precision forgings.

Results of Operations

Net sales of free forged products decreased year on year. Sluggish demand for use in oil rigs and plants caused by falling oil prices absorbed strong demand for use in civilian aircraft. Meanwhile, sales volume of die forged products declined, mainly as a result of sluggish truck sales in the emerging markets. On the other hand, net sales of engine valves increased year on year. This was attributable to a boost in orders received atop strong sales of automobiles in North America. Sales of engine-related castings and precision cast products rose, driven by an increase in turbo charger-related demand.

As a result, net sales in the parts for automobile and industrial equipment segment for fiscal 2015 rose 0.3% year on year to ¥99,679 million, while operating income increased by ¥274 million to ¥1,298 million.

ENGINEERING

Overview of Business

This segment generates about 6% of consolidated net sales. Major activities include the manufacture of steelmaking equipment, industrial furnaces, and associated equipment. This segment also manufactures environmental equipment for the treatment of wastewater, gas emissions and waste materials (mainly to public-sector clients with incinerated ash melting systems for urban waste) and machine tools.

With respect to environmental equipment in particular, the operation and engineering technologies we have fostered over the years support our cutting-edge engineering business, in which we constantly maintain a grasp of current market needs. The many new types of equipment and technologies that this segment has created contribute to environmental preservation and energy reduction in a wide variety of settings. Operations also include maintenance and management of this machinery and equipment.

Results of Operations

Engineering segment sales for fiscal 2015 rose 14.0% year on year to ¥26,104 million, while operating income increased by ¥419 million to ¥2,071 million. This was mainly attributable to strong overseas sales of STC® (Short Time Cycle) annealing furnaces, a main product for the segment, as well as an increase in sales of vacuum carburizing furnaces for automobile manufacturers and vacuum sintering furnaces for magnet manufacturers.

Daido Arc Process (DAP)

TRADING AND SERVICE

Overview of Business

The major activities of this segment, which accounts for approximately 2% of consolidated net sales, include the sale of products made by Group companies, employee benefits services, real estate and insurance services, golf course management, analytics, and sales of software to external customers.

Results of Operations

Net sales in the trading and service segment for fiscal 2015 fell 13.7% year on year to ¥9,029 million, while operating income increased by ¥129 million to ¥1,173 million. The decline in sales was mainly attributable to a fall in information system-related revenues.

RESEARCH AND DEVELOPMENT

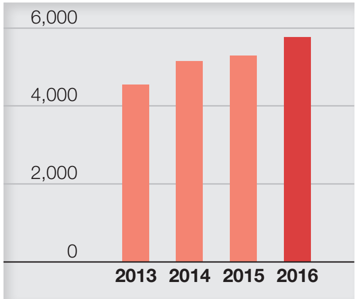
The Daido Steel Group's basic management policy is to leverage its advanced technology capabilities in specialty steel to "foster a corporate culture of creativity and originality that contributes to the 21st century society." Based on this policy, the Group conducts a proactive program of research and development (R&D) to expand new products and businesses and strengthen the foundations for existing businesses.

We are pursuing R&D for new products, materials and technologies, primarily through the Daido Corporate Research & Development Center, which houses the Special Steel Research Lab, Electromagnetic Material Research Lab, and Process Technology Research Lab. We employ a total of 275 researchers throughout the Daido Steel Group.

R&D expenses for the Daido Steel Group during the fiscal year under review amounted to ¥5,766 million. An explanation of our R&D efforts by segment, including purpose, major achievements, and expenditures follows.

R&D EXPENDITURES
Years ended March 31

(millions of yen)



(1) Specialty Steel

In this segment, R&D includes basic material development, such as automotive structural materials and tool steel, and process innovations ranging from steelmaking, refining and solidification to quality assurance.

R&D costs for the fiscal year under review in this segment totaled ¥1,459 million. The following is one of our major achievements in this area.

- **Development of bearing steel that resists hydrogen embrittlement**

Early-flaking contact fatigue of bearings used in automotive engine electrical components and continuously variable transmissions (CVT) is thought to be caused by the diffusion of hydrogen from the lubricant oil, and has been problematic in recent years. Carbonitriding is known to be effective for improving resistance to rolling contact fatigue caused by hydrogen embrittlement. At first, it was thought that minute nitride particles were behaving like a hydrogen trap site, and there were reports that durability could be improved by adding more chromium or manganese to the alloys. However, very little was known about the details of the hydrogen trap mechanism.

Daido Steel clarified the mechanism of this life-extending process by extracting data on the surface nitrides, on the hydrogen evolution curve, on the relationship between the volume of surface nitrides and resistance to rolling contact fatigue caused by hydrogen embrittlement, and on the hydrogen evolution curve of the nitride hydrogen trap site itself.

We aim to leverage this knowledge to commercialize bearing steel that resists hydrogen embrittlement.

(2) High Performance Materials and Magnetic Materials

In this segment the Daido Steel Group conducts R&D focusing on developing materials that resist corrosion and heat, high-grade strip steel, welding materials, magnetic materials and electronic devices.

R&D costs for the fiscal year under review in this segment totaled ¥2,695 million. The following are some of our major achievements in this area.

- **Enhancement of technology for mass producing ultra-high performance PLP magnets with low levels of heavy rare-earth elements**

Having developed the technology for mass producing PLP (Pressless Process) magnets, which provide both high magnetism and ultra-high thermal resistance with substantially reduced levels of heavy rare-earth elements, we began their manufacture in 2013 at Intermetallics Japan Corporation, a joint venture established with Mitsubishi Corporation and Molycorp, Inc. of the United States. Intermetallics Japan was consolidated as our wholly owned subsidiary in March 2015 and brought under new management, we improved the mass production technology to maximize yield and broaden the scope of application for the magnets.

- **Development of STARMESH as a copper-alloy target for producing metal mesh**

We developed a copper-alloy target material called STARMESH for producing metal mesh with excellent conductivity and a low reflectance ratio, for use as a wiring substrate in touch panels. At present, indium tin oxide (ITO) is the most commonly used transparent conductive film in the industry. However, materials with higher conductivity are now needed as the panels have begun to grow larger. One idea was to replace ITO using existing metal mesh technology that offers higher conductivity, but the characteristic reflective glare of metal mesh had to be reduced before this idea could work.

Daido Steel's solution, STARMESH offers a number of advantages. First, it can be used as a target material in the same sputtering process used to produce ITO films. Second, it has a reflectance ratio as low as 10% that can be used, without much modification to the process, to produce wiring with double-digit conductivity and good adhesion to glass and polyethylene terephthalate (PET) resin. Third, it is a copper-based alloy that can be etched easily with thin circuit lines.

However, the biggest advantage of all is that STARMESH can be used to produce touch panels at a lower cost than ITO because it contains no indium or other rare metals.

(3) Parts for Automobile and Industrial Equipment

R&D in this segment concentrates on development of turbochargers, engine valves and other automotive parts, as well as parts for various types of industrial machinery.

R&D costs for the fiscal year under review in this segment totaled ¥1,453 million. The following is one of our major achievements in this area.

- **Development of marine engine exhaust valves made with DSA760—a highly corrosion resistant nickel-based alloy that remains very hard at high temperatures**

Daido Steel developed the nickel based superalloy DSA760 possessing a high degree of hardness and high corrosion resistance as a material for variable mechanism components in diesel turbo chargers. We recently upgraded the manufacturing technology and heat treatment method of DSA760 to enable even larger mechanical products to obtain a benefit from its hardness at high temperatures and corrosion resistance. In demonstration trials conducted with a diesel engine manufacturer in Japan, we confirmed that marine engine exhaust valves made from this DSA760 reduced the speed of wear from high temperature corrosion compared to other conventional nickel-based alloys. After receiving evaluation that DSA760 was capable of extending the durability of the exhaust valves by approximately 2.5 times compared to conventional nickel-based alloys, we decided to commercialize DSA760 as a material for marine engine exhaust valves. A large-scale vacuum induction melting (25 t VIM) facility is scheduled to go into operation at our Shibukawa Plant in fiscal 2016, giving us the capacity to respond to an increase in demand for DSA760 ranging from small components to large components.

(4) Engineering

Engineering R&D focuses on the development of environmental conservation and recycling equipment, and a variety of energy-saving industrial furnaces.

R&D expenditures in this segment during the fiscal year under review amounted to ¥157 million. The following is one of our major achievements in this area.

- **Development and launch of DINCS, our new combustion system**

Our Machinery Division has been working to develop a line of clean-burning industrial furnaces in response to the increasing need to reduce greenhouse gas emissions. In 2012, the division began developing the Daido Innovative Neo Combustion System (DINCS). The goal behind DINCS was to acquire the manufacturing knowhow and establish the basic specifications for developing a new generation of radiant tube combustion systems as fuel efficient as the regenerative burners currently in use in our mainstay STC® furnaces.

DINCS is equipped with a heat exchanger manufactured using silicon carbide 3D printing technology. This heat exchanger is used to efficiently recover the sensible heat from combustion exhaust for conversion as preheated combustion air. The system will dramatically improve the fuel efficiency of our STC® furnaces while reducing their greenhouse gas emissions. With the aim of completing the development and launch of DINCS in fiscal 2015, we tested the new system in furnaces to obtain data on combustion performance. We also confirmed that DINCS was substantially less costly to maintain than regenerative burners and that it also contributed to improving the temperature distribution within the furnace. The tests confirmed that DINCS is more than sufficient for addressing market needs.

Looking ahead, we aim to protect the global environment and contribute to the sustainable growth of our customers through the further popularization of DINCS.

Basic Policy

The Daido Steel Group considers it extremely important for contemporary corporations to take on a role that extends beyond economic activities and to contribute to the sustainable development of society through environmentally conscious activities and involvement in the resolution of social issues.

The Daido Steel Group is playing a part in helping to create a recycling-oriented economy and society through its primary business operations: the manufacture and sale of specialty steel largely created from recycled scrap steel. Daido Steel is also engaged in a broad range of initiatives, including developing a variety of environmental activities, abiding firmly by our corporate ethics, striving for disclosure to increase the transparency of management, and creating a safe and pleasant place for employees to work.

Major Initiatives

Preventing Global Warming

The first commitment period for the Kyoto Protocol ran from 2008 to 2012. In that time frame, Daido Steel aimed to reduce its CO_2 emissions volume by 10% compared to the 1990 level in accordance with the guidelines of the Japan Iron and Steel Federation. We worked to achieve this goal by expanding the use of exhaust heat recovery in heating furnaces, shifting our fuel source from heavy oil to natural gas, and improving the yield ratio through an increase in the ratio of production by continuous casters. Due to the effects of cumulative investments of ¥5.0 billion made from 2006 to 2012, operational improvements and changes in production levels, annual CO_2 emissions from 2008 to 2012 decreased by 24.7% on average. In addition, in fiscal 2014 a cutting-edge, energy-efficient electric arc furnace was installed at the Chita Plant at a cost of ¥19.8 billion with rationalizing effects evident throughout the year, resulting in a 3% improvement in CO_2 emissions per ton of production with the same level maintained in fiscal 2015. Going forward, in accordance with the objectives of the Commitment to a Low Carbon Society ongoing plan for fiscal 2013 to fiscal 2020 formulated by the Japan Iron and Steel Federation and Japan Business Federation (Keidanren), we will continue implementing further reform measures, such as introduction of energy-saving advanced technologies, reductions in the number of heat exchangers, improvements in the yield ratio, and production in optimal areas.

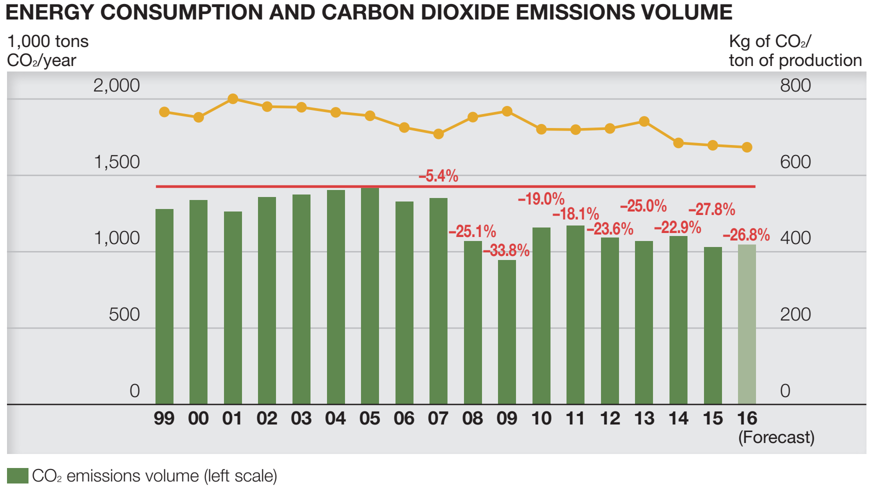
Strengthening the CSR Promotion Framework

The Daido Steel Group has responded to the needs of our various stakeholders by establishing the Human Resources Labor Committee and various other committees as parent organizations to support CSR activities, such as the Environment and Energy Committee. With a view to further strengthening this framework, in fiscal 2007, the CSR Committee was established to supervise general CSR activities. Members of the CSR Committee formulate Group-wide policies and action plans with the aim of unifying and expanding CSR activities across all Group companies and divisions.

Starting January 2013, the Environment and Energy Committee was split into two independent committees (namely, the Environment Committee and the Energy Committee) to promote CSR activities in a more fulfilling way.

For details, please refer to the annually issued CSR Report.
URL: http://www.daido.co.jp/csr/data/report.html
(Japanese only)

ENERGY CONSUMPTION AND CARBON DIOXIDE EMISSIONS VOLUME



CO_2 emissions coefficient for electric power: 0.374 kg of CO_2/kWh

Basic Policy

Daido Steel views corporate governance as one of the key issues for management in today's rapidly changing business environment. We strive to increase management efficiency, accelerate and improve decision-making, and ensure management transparency.

In addition, in order to clarify our responsibilities as a company contributing to society, Daido Steel has established a Risk Management Committee. The Company has also implemented the Daido Steel Corporate Code of Ethics, and is working to improve its basic structure as a company open to society. In order to ensure the reliability of its financial reporting, the Company has set up an Internal Control Committee.

Governance System

Daido Steel uses an Audit & Supervisory Board system. By using a system that supervises and oversees business execution through a Board of Directors, including two external directors, and an Audit & Supervisory Board, including two external Audit & Supervisory Board members, Daido Steel enhances its corporate governance, optimizes and accelerates decision-making and secures fair and transparent management.

At the 91st Shareholders' Meeting held on June 26, 2015, the Company also instituted an executive officer system to clearly distinguish the responsibilities of strategy formulation and management oversight functions and business execution.

Internal Control System

Risk Management Initiatives

Daido Steel emphasizes risk management and legal compliance in its management. To this end, the Company has set out basic points for risk management in the Risk Management Regulations. In addition, the Risk Management Committee discusses management of projected upcoming and latent risks within the Group. The Company has appointed a director who is responsible for the Company-wide supervision of risk management and compliance.

In preparation for a major accident or other problem, relevant information is shared with all concerned people, and speedy and smooth countermeasures are formulated. The Company has also formulated regulations for emergency countermeasures in the event of a major accident, aimed at minimizing the impact of the accident or other problem on business activities, and disseminated the regulations to all employees and Group companies.

Furthermore, in response to any major share-purchase activity (for example, purchases of the Company's shares aimed at increasing the voting rights of a specific shareholders' group to over 20%), Daido Steel will implement takeover defense measures from the perspective of ensuring and improving corporate value and, by extension, the shared beneficial interests of all shareholders.

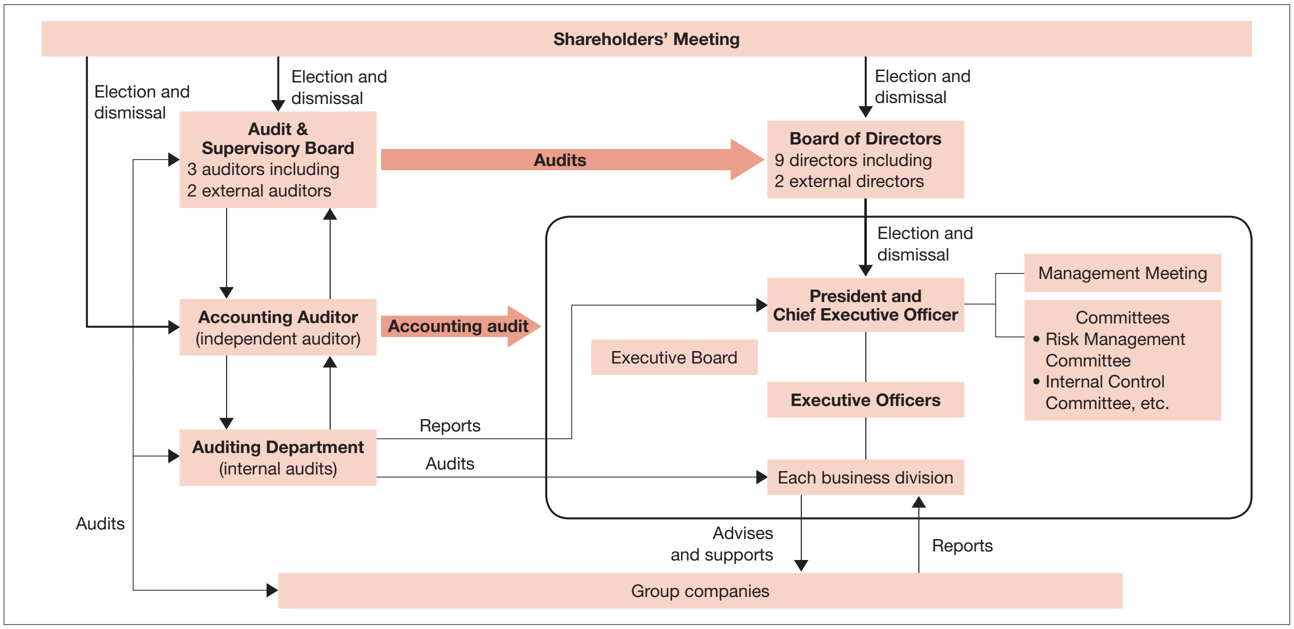
Efforts to Enhance Compliance

Daido Steel has established the Daido Steel Corporate Code of Ethics and the Daido Steel Code of Conduct, and works to disseminate them to all employees and Group companies. The Company also maintains a hotline for consultation and reporting by employees regarding compliance, as well as directors in charge of compliance and risk management, divisions in charge and outside attorneys.

Efforts to Ensure the Reliability of Financial Reporting

In order to ensure the reliability of financial reporting and enhance the level of response of the Company and Group companies to J-SOX, the Daido Steel Group prescribes the basic points for system improvement and operation in the Internal Control Regulations and has established an Internal Control Committee.

MECHANISM FOR BUSINESS EXECUTION, AUDIT, SUPERVISION AND INTERNAL CONTROL (As of June 28, 2016)



OFFICERS

CHAIRPERSON OF THE BOARD OF DIRECTORS, REPRESENTATIVE EXECUTIVE DIRECTOR

Tadashi Shimao

PRESIDENT & CEO, REPRESENTATIVE EXECUTIVE DIRECTOR

Takeshi Ishiguro

REPRESENTATIVE EXECUTIVE DIRECTORS, EXECUTIVE VICE PRESIDENTS

Michio Okabe

Tsukasa Nishimura

DIRECTOR, MANAGING EXECUTIVE OFFICER

Akira Miyajima

MANAGING EXECUTIVE OFFICER

Hajime Takahashi

DIRECTORS, MANAGING EXECUTIVE OFFICERS

Kazuto Tachibana

Satoshi Tsujimoto

MANAGING EXECUTIVE OFFICERS

Susumu Shimura

Takeshi Muto

Kazuhiko Hirabayashi

DIRECTORS (OUTSIDE DIRECTORS)

Tadashi Imai

Hitoshi Tanemura

EXECUTIVE OFFICERS

Hajime Amano
Yoshiaki Mori
Hirotaka Yoshinaga
Yuji Kamiya
Tomoki Hanyuda
Kimihiko Seki
Hiroshi Matsui
Kunihito Kawanishi
Takaaki Taketsuru
Tetsuya Shimizu

STANDING CORPORATE AUDITORS

Toshinori Koike
Shigenobu Tokuoka

CORPORATE AUDITOR

Yukichi Ozawa

CONTENTS

OVERVIEW OF OPERATING ENVIRONMENT AND PERFORMANCE

In fiscal 2015, ended March 31, 2016, the Japanese economy continued to tread water amid strong uncertainties for the future stemming from concerns about slowing growth in the Chinese economy, a steep drop in natural resource prices, stronger signs of deceleration in emerging economies from the dollar appreciating against their currencies as a result of an interest rate hike in the U.S., and growing geopolitical risks.

Under these economic circumstances, the Daido Steel Group readied itself to address changes in the market as they arose. The Group collaborated with its customers, focused on growth fields, and strengthened its quality, cost and delivery (QCD) competitiveness with the aim of achieving the targets in its medium-term management plan.

As a result, the Group's net sales in fiscal 2015 decreased by ¥23,055 million year on year to ¥460,578 million, mainly due to a decline in sales volume and lower sales prices due to the drop in raw material prices. Ordinary income rose ¥3,378 million to ¥25,108 million due in part to a fall in the price of steel scrap, a key raw material, and lower energy costs. Net income attributable to owners of the parent declined by ¥4,140 million to ¥6,746 million, owing to the posting of ¥5,586 million in extraordinary losses for discontinuing software development and ¥5,308 million in provisions for environmental remediation.

BUSINESS SEGMENT PERFORMANCE

Specialty Steel

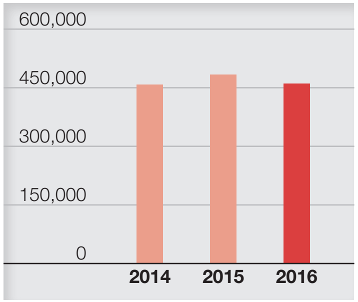
With regard to structural steel, inventory adjustments in the automobile sector, our key source of demand for specialty steel, that had continued since the beginning of the fiscal year slowed around autumn, before orders gradually recovered from the third quarter. However, the sales volume in the specialty steel segment decreased year on year, partly due to decreased demand for industrial machinery and construction machinery led by China's economic deceleration since the summer. Tool steel remained strong, centered on the domestic automobile sector.

Meanwhile, the price of steel scrap, a key raw material, declined substantially from the summer onward as overseas demand for steel scrap as a raw material declined, particularly in South Korea, after an oversupply of steel drove China to ramp up its exports of cheaply priced intermediate steel.

As a result, the specialty steel segment's net sales in fiscal 2015 fell 9.8% year on year to ¥170,514 million, due primarily to a decline in sales volume and sales prices, which were driven down by the falling raw material prices. In contrast, operating income increased by ¥4,382 million to ¥7,561 million, with falling steel scrap prices and lower energy costs contributing to the increase.

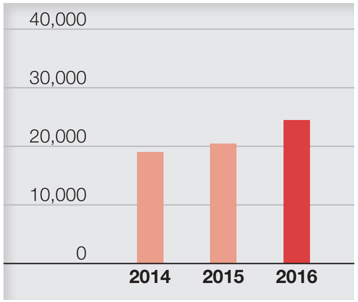
NET SALES
Years ended March 31

(millions of yen)

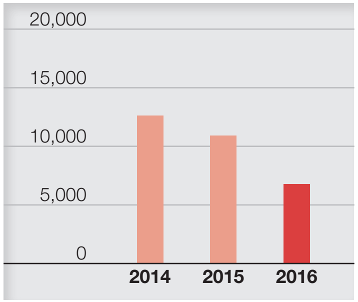


OPERATING INCOME
Years ended March 31

(millions of yen)



NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT
Years ended March 31
(millions of yen)



High Performance Materials and Magnetic Materials

Sales volume of stainless steel products declined year on year due to a reduced demand for HDDs in response to sluggish sales of PCs and expectations for lower nickel prices. On the other hand, net sales of electromagnetic materials increased, driven by robust demand for use in motors for electric power steering systems in automobiles, the consolidation of Intermetallics Japan Corporation at the end of the previous fiscal year, and strong sales of titanium products for use in medical services in Japan and overseas. Meanwhile, net sales of high alloys declined year on year. This was due mainly to persistently sluggish demand for use as lead frames for semiconductors, as well as a slump overseas in powder metal products for use in the automotive industry and lower sales prices driven down by a fall in the price of nickel and other raw materials.

As a result, net sales for high performance materials and magnetic materials in fiscal 2015 decreased 4.0% year on year to ¥155,251 million, while operating income decreased by ¥1,186 million to ¥12,331 million.

Parts for Automobile and Industrial Equipment

Net sales of free forged products decreased year on year. Sluggish demand for use in oil rigs and plants caused by falling oil prices absorbed strong demand for use in civilian aircraft. Meanwhile, sales volume of die forged products declined, mainly as a result of sluggish truck sales in emerging markets. On the other hand, net sales of engine valves increased year on year, mainly due to a boost in orders received atop strong sales of automobiles in North America. Sales of engine-related castings and precision cast products rose, driven by an increase in turbo charger-related demand.

As a result, net sales in the Parts for Automobile and Industrial Equipment segment for fiscal 2015 rose 0.3% year on year to ¥99,680 million, while operating income increased by ¥274 million to ¥1,299 million.

Engineering

The Engineering segment saw strong overseas sales of STC® (Short Time Cycle) annealing furnaces, a main product for the segment, as well as an increase in sales of vacuum carburizing furnaces for automobile manufacturers and vacuum sintering furnaces for magnet manufacturers. As a result, engineering segment sales for fiscal 2015 rose 14.0% year on year to ¥26,104 million, while operating income increased by ¥419 million to ¥2,071 million.

Trading and Service

Net sales in the trading and service segment for fiscal 2015 fell 13.7% year on year to ¥9,029 million, while operating income increased by ¥129 million to ¥1,173 million. The decline in sales was mainly attributable to a fall in information system-related revenues.

CAPITAL EXPENDITURES

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

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

RESEARCH AND DEVELOPMENT

R&D costs for the entire Daido Steel Group during the fiscal year under review totaled ¥5,766 million. The research objectives, main achievements and R&D costs in each business segment were as follows:

(1) Specialty Steel

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

Specialty steel R&D costs during the fiscal year under review totaled ¥1,459 million.

(2) High Performance Materials and Magnetic Materials

Development of materials that resist corrosion and heat, high-grade strip steel, welding materials, electromagnetic materials, and other basic materials, as well as R&D of electronic devices is conducted mainly by Daido Steel. R&D costs in this segment during the fiscal year under review amounted to ¥2,695 million.

CAPITAL EXPENDITURES BY SEGMENT

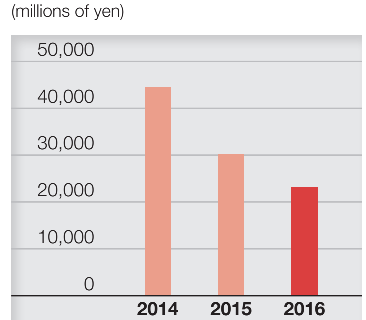
Years ended March 31

	Millions of Yen		
	2016	2015	Change (%)
Specialty Steel	**¥ 7,670**	¥ 9,173	–16,4
High Performance Materials and Magnetic Materials	**6,906**	9,162	–24.6
Parts for Automobile and Industrial Equipment	**7,044**	9,514	–26.0
Engineering	**245**	450	–45.6
Trading and Service	**1,340**	1,997	–32.9
Total	**¥23,205**	¥30,296	–23.4

CAPITAL EXPENDITURES

Years ended March 31

(millions of yen)



(3) Parts for Automobile and Industrial Equipment

Mainly the responsibility of Daido Steel, R&D in this segment concentrates on development of turbo chargers, engine valves and other automotive parts, and parts for various types of industrial machinery. R&D costs for the fiscal year under review in this segment totaled ¥1,453 million.

(4) Engineering

Engineering R&D is carried out primarily by Daido Steel, focused on development of environmental conservation and recycling equipment and a variety of energy-saving industrial furnaces. Engineering R&D costs during the fiscal year under review were ¥157 million.

(5) Trading and Service

There are no R&D activities in this segment.

FINANCIAL POSITION

Cash Flows

Cash and cash equivalents as of March 31, 2016, amounted to ¥33,774 million, representing an increase of ¥1,997 million year on year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥45,731 million, increasing by ¥19,992 million from the previous fiscal year. This mainly reflected income before income taxes of ¥14,980 million and a ¥12,444 million decrease in inventories.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥23,165 million, decreasing by ¥9,013 million from the previous fiscal year. The major cash outflows included ¥21,057 million in purchases of property, plant, and equipment.

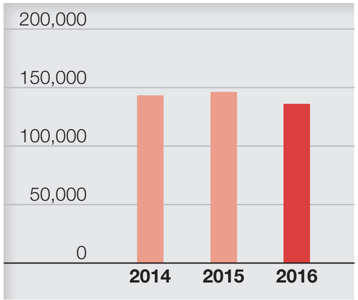
Cash Flows from Financing Activities

Net cash used in financing activities was ¥20,164 million, increasing by ¥17,371 million from the previous year. This was chiefly due to recording ¥20,000 million for the redemption of bonds.

The indicators related to the Group's cash flows are shown below.

INTEREST-BEARING DEBT
Years ended March 31

(millions of yen)



CONSOLIDATED BALANCE SHEET

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2016**	2015	**2016**
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	**¥ 33,774**	¥ 31,776	**$ 298,885**
Time deposits (Notes 8 and 16)	**1,155**	851	**10,221**
Receivables:			
Trade (Note 16)	**98,800**	105,007	**874,336**
Other	**1,656**	1,928	**14,655**
Total receivables	**100,456**	106,935	**888,991**
Inventories (Note 4)	**95,131**	108,562	**841,867**
Deferred tax assets (Note 12)	**4,277**	4,900	**37,850**
Prepaid expenses and other current assets	**3,814**	3,324	**33,752**
Allowance for doubtful accounts	**(139)**	(166)	**(1,230)**
Total current assets	**238,468**	256,182	**2,110,336**
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 5, 6 and 8)	**35,302**	35,139	**312,407**
Buildings and structures (Notes 5, 6 and 8)	**164,903**	162,766	**1,459,319**
Machinery and equipment (Note 8)	**456,501**	450,951	**4,039,832**
Construction in progress	**9,916**	6,772	**87,752**
Total	**666,622**	655,628	**5,899,310**
Accumulated depreciation	**(477,844)**	(466,253)	**(4,228,708)**
Net property, plant, and equipment	**188,778**	189,375	**1,670,602**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 8, and 16)	**53,433**	72,846	**472,858**
Investments in unconsolidated subsidiaries and associated companies (Note 16)	**20,387**	17,910	**180,416**
Asset for employees' retirement benefits (Note 9)	**26,239**	39,208	**232,204**
Deferred tax assets (Note 12)	**1,002**	1,058	**8,867**
Other investments and assets (Note 5)	**7,369**	12,011	**65,213**
Total investments and other assets	**108,430**	143,033	**959,558**
TOTAL	**¥ 535,676**	¥ 588,590	**$ 4,740,496**

LIABILITIES AND EQUITY	Millions of Yen 2016	2015	Thousands of U.S. Dollars (Note 1) 2016
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 16)	**¥ 18,545**	¥ 22,656	**$ 164,115**
Current portion of long-term debt (Notes 7 and 16)	**24,648**	25,702	**218,124**
Payables:			
Trade (Notes 8 and 16)	**68,153**	78,040	**603,124**
Acquisitions of property, plant, and equipment	**8,354**	7,294	**73,929**
Total payables	**76,507**	85,334	**677,053**
Income taxes payable (Note 16)	**2,752**	3,883	**24,354**
Accrued expenses	**11,053**	10,995	**97,814**
Other current liabilities (Note 8)	**9,982**	10,812	**88,336**
Total current liabilities	**143,487**	159,382	**1,269,796**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 16)	**92,423**	97,850	**817,903**
Liability for employees' retirement benefits (Note 9)	**8,999**	8,003	**79,637**
Retirement allowance for directors and Audit & Supervisory Board members	**910**	957	**8,053**
Provision for environmental measures	**5,720**	1,247	**50,620**
Asset retirement obligations (Note 10)	**432**	426	**3,823**
Deferred tax liabilities (Note 12)	**12,862**	25,099	**113,823**
Other long-term liabilities	**2,497**	3,220	**22,097**
Total long-term liabilities	**123,843**	136,802	**1,095,956**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 18)			
EQUITY (Note 11)**:**			
Common stock:			
Authorized: 1,160,000 thousand shares			
Issued: 434,488 thousand shares in 2016 and 2015	**37,172**	37,172	**328,956**
Capital surplus	**28,722**	28,542	**254,177**
Retained earnings	**155,251**	152,131	**1,373,903**
Treasury stock, at cost:			
7,473 thousand shares in 2016 and 805 thousand shares in 2015	**(3,560)**	(382)	**(31,504)**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**13,826**	25,129	**122,354**
Deferred gain on derivatives under hedge accounting	**0**	1	**0**
Land revaluation surplus	**1,821**	1,758	**16,115**
Foreign currency translation adjustments	**2,044**	3,236	**18,088**
Defined retirement benefit plans	**(2,443)**	8,435	**(21,619)**
Total	**232,833**	256,022	**2,060,470**
Noncontrolling interests	**35,513**	36,384	**314,274**
Total equity	**268,346**	292,406	**2,374,744**
TOTAL	**¥535,676**	¥588,590	**$4,740,496**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
NET SALES	**¥460,578**	¥483,633	**$4,075,911**
COST OF SALES (Note 13)	**386,145**	413,536	**3,417,212**
Gross profit	**74,433**	70,097	**658,699**
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 13 and 14)	**50,001**	49,688	**442,487**
Operating income	**24,432**	20,409	**216,212**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**2,259**	2,181	**19,991**
Interest expense	**(1,309)**	(1,462)	**(11,584)**
Equity in earnings of associated companies	**418**	716	**3,699**
Gain on sales of investment securities and investments in unconsolidated subsidiaries and associated companies—net	**1,595**	2,624	**14,115**
Foreign exchange (loss) gain	**(570)**	799	**(5,044)**
Provision for environmental measures (Note 2 (n))	**(5,736)**	(877)	**(50,761)**
(Loss) gain on sales and disposals of property, plant, and equipment—net	**(884)**	1,254	**(7,823)**
Investment rents received	**547**	547	**4,841**
Loss on support for a consolidated subsidiary	**–**	(907)	**–**
Write-down of investment securities and investments in unconsolidated subsidiaries and associated companies (Note 3)	**(34)**	(4,030)	**(301)**
Loss on discontinued software development (Note 5)	**(5,586)**	–	**(49,434)**
Impairment loss on long-lived assets	**(436)**	(2,461)	**(3,858)**
Other—net	**284**	677	**2,513**
Other expenses—net	**(9,452)**	(939)	**(83,646)**
INCOME BEFORE INCOME TAXES	**14,980**	19,470	**132,566**
INCOME TAXES (Note 12)**:**			
Current	**6,377**	7,052	**56,434**
Deferred	**(500)**	(334)	**(4,425)**
Total income taxes	**5,877**	6,718	**52,009**
NET INCOME	**9,103**	12,752	**80,558**
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**2,357**	1,866	**20,858**
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	**¥ 6,746**	¥ 10,886	**$ 59,699**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2 (w))**:**			
Basic net income	**¥ 15.62**	¥ 25.10	**$ 0.14**
Cash dividends applicable to the year	**7.50**	6.50	**0.07**

	Thousands	
WEIGHTED-AVERAGE NUMBER OF OUTSTANDING SHARES OF COMMON STOCK	**431,829**	433,692

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
NET INCOME	**¥ 9,103**	¥12,752	**$ 80,558**
OTHER COMPREHENSIVE (LOSS) INCOME (Note 19)**:**			
Unrealized (loss) gain on available-for-sale securities	**(11,482)**	8,612	**(101,611)**
Deferred (loss) gain on derivatives under hedge accounting	**(2)**	1	**(18)**
Land revaluation surplus	**62**	104	**549**
Foreign currency translation adjustments	**(1,699)**	2,357	**(15,035)**
Defined retirement benefit plans	**(11,114)**	7,184	**(98,354)**
Share of other comprehensive (loss) income in associates	**(81)**	101	**(717)**
Total other comprehensive (loss) income	**(24,316)**	18,359	**(215,186)**
COMPREHENSIVE (LOSS) INCOME	**¥(15,213)**	¥31,111	**$(134,628)**
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:			
Owners of the parent	**¥(16,707)**	¥28,715	**$(147,849)**
Noncontrolling interests	**1,494**	2,396	**13,221**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Thousands	Millions of Yen					
						Accumulated Other Comprehensive Income	
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting
BALANCE, APRIL 1, 2014 (as previously reported)	433,704	¥37,172	¥28,542	¥146,079	¥ (370)	¥ 16,642	¥ 1
Cumulative effect of accounting change (Note 2 (m))	–	–	–	(2,448)	–	–	–
BALANCE, APRIL 1, 2014 (as restated)	433,704	37,172	28,542	143,631	(370)	16,642	1
Net income attributable to owners of the parent	–	–	–	**10,886**	–	–	–
Cash dividends, ¥5.5 per share	–	–	–	**(2,386)**	–	–	–
Purchase of treasury stock	**(26)**	–	–	–	**(13)**	–	–
Net change in treasury stock due to change in ownership of an associated company	**5**	–	–	–	**1**	–	–
Net change in the year	–	–	–	–	–	**8,487**	**0**
BALANCE, MARCH 31, 2015	**433,683**	**37,172**	**28,542**	**152,131**	**(382)**	**25,129**	**1**
Net income attributable to owners of the parent	–	–	–	**6,746**	–	–	–
Cash dividends, ¥8.5 per share	–	–	–	**(3,687)**	–	–	–
Purchase of treasury stock	**(6,671)**	–	–	–	**(3,179)**	–	–
Disposal of treasury stock	**2**	–	**(0)**	–	**1**	–	–
Adjustment of retained earnings for changes in the scope of consolidation	–	–	–	**61**	**0**	–	–
Change in the parent's ownership interest due to transactions with noncontrolling interests	–	–	**180**	–	–	–	–
Net change in the year	–	–	–	–	–	**(11,303)**	**(1)**
BALANCE, MARCH 31, 2016	**427,014**	**¥37,172**	**¥28,722**	**¥155,251**	**¥(3,560)**	**¥ 13,826**	**¥ 0**

	Millions of Yen					
	Accumulated Other Comprehensive Income					
	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2014 (as previously reported)	¥1,654	¥ 1,229	¥ 1,203	¥232,152	¥35,472	¥267,624
Cumulative effect of accounting change (Note 2 (m))	–	–	–	(2,448)	(101)	(2,549)
BALANCE, APRIL 1, 2014 (as restated)	1,654	1,229	1,203	229,704	35,371	265,075
Net income attributable to owners of the parent	–	–	–	**10,886**	–	**10,886**
Cash dividends, ¥5.5 per share	–	–	–	**(2,386)**	–	**(2,386)**
Purchase of treasury stock	–	–	–	**(13)**	–	**(13)**
Net change in treasury stock due to change in ownership of an associated company	–	–	–	**1**	–	**1**
Net change in the year	**104**	**2,007**	**7,232**	**17,830**	**1,013**	**18,843**
BALANCE, MARCH 31, 2015	**1,758**	**3,236**	**8,435**	**256,022**	**36,384**	**292,406**
Net income attributable to owners of the parent	–	–	–	**6,746**	–	**6,746**
Cash dividends, ¥8.5 per share	–	–	–	**(3,687)**	–	**(3,687)**
Purchase of treasury stock	–	–	–	**(3,179)**	–	**(3,179)**
Disposal of treasury stock	–	–	–	**1**	–	**1**
Adjustment of retained earnings for changes in the scope of consolidation	–	–	–	**61**	–	**61**
Change in the parent's ownership interest due to transactions with noncontrolling interests	–	–	–	**180**	–	**180**
Net change in the year	**63**	**(1,192)**	**(10,878)**	**(23,311)**	**(871)**	**(24,182)**
BALANCE, MARCH 31, 2016	**¥1,821**	**¥ 2,044**	**¥ (2,443)**	**¥232,833**	**¥35,513**	**¥268,346**

	Thousands of U.S. Dollars (Note 1)					
					Accumulated Other Comprehensive Income	
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting
BALANCE, MARCH 31, 2015	**$328,956**	**$252,584**	**$1,346,292**	**$ (3,380)**	**$ 222,381**	**$ 9**
Net income attributable to owners of the parent	**–**	**–**	**59,699**	**–**	**–**	**–**
Cash dividends, $0.08 per share	**–**	**–**	**(32,628)**	**–**	**–**	**–**
Purchase of treasury stock	**–**	**–**	**–**	**(28,133)**	**–**	**–**
Disposal of treasury stock	**–**	**(0)**	**–**	**9**	**–**	**–**
Adjustment of retained earnings for changes in the scope of consolidation	**–**	**–**	**540**	**–**	**–**	**–**
Change in the parent's ownership interest due to transactions with noncontrolling interests	**–**	**1,593**	**–**	**–**	**–**	**–**
Net change in the year	**–**	**–**	**–**	**–**	**(100,027)**	**(9)**
BALANCE, MARCH 31, 2016	**$328,956**	**$254,177**	**$1,373,903**	**$(31,504)**	**$ 122,354**	**$ 0**

	Thousands of U.S. Dollars (Note 1)					
	Accumulated Other Comprehensive Income					
	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2015	**$15,558**	**$ 28,637**	**$ 74,646**	**$2,265,683**	**$321,982**	**$2,587,665**
Net income attributable to owners of the parent	**–**	**–**	**–**	**59,699**	**–**	**59,699**
Cash dividends, $0.08 per share	**–**	**–**	**–**	**(32,628)**	**–**	**(32,628)**
Purchase of treasury stock	**–**	**–**	**–**	**(28,133)**	**–**	**(28,133)**
Disposal of treasury stock	**–**	**–**	**–**	**9**	**–**	**9**
Adjustment of retained earnings for changes in the scope of consolidation	**–**	**–**	**–**	**540**	**–**	**540**
Change in the parent's ownership interest due to transactions with noncontrolling interests	**–**	**–**	**–**	**1,593**	**–**	**1,593**
Net change in the year	**557**	**(10,549)**	**(96,265)**	**(206,293)**	**(7,708)**	**(214,001)**
BALANCE, MARCH 31, 2016	**$16,115**	**$ 18,088**	**$(21,619)**	**$2,060,470**	**$314,274**	**$2,374,744**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 14,980**	¥ 19,470	**$ 132,566**
Adjustments for:			
Income taxes paid	**(7,781)**	(6,506)	**(68,858)**
Depreciation and amortization	**22,454**	22,437	**198,708**
Loss on discontinued software development	**5,586**	–	**49,434**
Impairment loss on long-lived assets	**436**	2,461	**3,858**
Loss (gain) on sales and disposals of property, plant, equipment, and other—net	**842**	(607)	**7,451**
Gain on sales of investment securities and investments in unconsolidated subsidiaries and associated companies	**(1,553)**	(2,624)	**(13,743)**
Write-down of investment securities and investments in unconsolidated subsidiaries and associated companies	**38**	4,030	**336**
Equity in earnings of associated companies	**(418)**	(717)	**(3,699)**
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	**6,103**	(3,114)	**54,008**
Decrease in allowance for doubtful accounts	**(39)**	(45)	**(345)**
Decrease (increase) in inventories	**12,444**	(9,286)	**110,124**
Decrease in notes and accounts payable	**(9,929)**	(28)	**(87,867)**
Increase in provision for environmental measures	**4,473**	843	**39,584**
Increase in asset for retirement benefits	**(2,510)**	(3,336)	**(22,212)**
Decrease in liability for employees' retirement benefits	**246**	160	**2,177**
Other—net	**360**	2,602	**3,186**
Total adjustments	**30,752**	6,270	**272,142**
Net cash provided by operating activities	**45,732**	25,740	**404,708**
INVESTING ACTIVITIES:			
Payments for time deposits	**(963)**	(1,093)	**(8,522)**
Repayments from time deposits	**592**	1,160	**5,239**
Purchases of property, plant, and equipment	**(21,057)**	(36,035)	**(186,345)**
Proceeds from sales of property, plant and equipment	**204**	1,811	**1,805**
Purchases of investment securities and investments in unconsolidated subsidiaries	**(3,377)**	(3,139)	**(29,885)**
Proceeds from sales of investment securities and investments in associated companies	**4,175**	4,712	**36,947**
Proceeds from redemption of investment securities	**–**	3,000	**–**
Proceeds from purchase of shares of a consolidated subsidiary	**–**	184	**–**
Disbursements for originating loans	**(1,659)**	(703)	**(14,681)**
Proceeds from collection of loans	**212**	637	**1,876**
Other—net	**(1,292)**	(2,712)	**(11,434)**
Net cash used in investing activities	**(23,165)**	(32,178)	**(205,000)**
FINANCING ACTIVITIES:			
Net decrease in short-term bank loans	**(3,777)**	(1,256)	**(33,425)**
Proceeds from long-term debt	**19,264**	21,400	**170,478**
Repayments of long-term debt	**(5,496)**	(18,894)	**(48,637)**
Redemption of long-term debt	**(20,000)**	–	**(176,991)**
Acquisition of treasury stock	**(3,179)**	(13)	**(28,133)**
Acquisition of treasury stock by a subsidiary	**(881)**	(858)	**(7,796)**
Dividends paid, including payments to noncontrolling shareholders of subsidiaries	**(4,170)**	(2,919)	**(36,903)**
Liquidating dividends to noncontrolling shareholders of a subsidiary	**(1,122)**	–	**(9,929)**
Payments for transactions with noncontrolling interests	**(562)**	–	**(4,973)**
Other—net	**(241)**	(253)	**(2,133)**
Net cash used in financing activities	**(20,164)**	(2,793)	**(178,442)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(650)**	1,102	**(5,752)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,753**	(8,129)	**15,514**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR	**790**	–	**6,991**
CASH AND CASH EQUIVALENTS OF DECONSOLIDATED SUBSIDIARY	**(545)**	–	**(4,823)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**31,776**	39,905	**281,203**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 33,774**	¥ 31,776	**$ 298,885**

See notes to consolidated financial statements.

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which DAIDO STEEL CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥113 to $1, the approximate rate of exchange at March 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company had 67 (64 in 2015) subsidiaries and 17 (17 in 2015) associated companies at March 31, 2016. The consolidated financial statements as of March 31, 2016, include the accounts of the Company and 34 (34 in 2015) significant subsidiaries (together, the "Group").

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

Investments in six associated companies were accounted for by the equity method for the years ended March 31, 2016 and 2015. Investments in other unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

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

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

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

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

In May 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the accounting principles generally accepted in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: a) amortization of goodwill; b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; c) expensing capitalized development costs of research and development; and d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting.

(c) Business Combinations

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) *Transactions with noncontrolling interests*—A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) *Presentation of the consolidated balance sheet*—In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interests" under the revised accounting standard.

(c) *Presentation of the consolidated statement of income*—In the consolidated statement of income, "income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) *Provisional accounting treatments for a business combination*—If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) *Acquisition-related costs*—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied prospectively.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

The effect of the application of the revised accounting standards and guidance was immaterial to the consolidated financial statements for the year ended March 31, 2016.

(d) Cash and Cash Equivalents

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

(e) Investment Securities

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

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

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

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

(f) Inventories

Inventories are stated at the lower of cost, mainly determined by the weighted average method for each period of a year, or net selling value. Write-down of inventories in the amounts of ¥604 million ($5,345 thousand) and ¥63 million for the years ended March 31, 2016 and 2015, respectively, were included in cost of sales.

(g) Allowance for Doubtful Accounts

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

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less gains on grant receipts, etc. Under certain conditions, such as government grant receipt, exchanges of fixed assets of similar kinds, and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section. The acquisition costs of property, plant, and equipment were reduced in the amounts of ¥4,678 million ($41,398 thousand) and ¥2,708 million at March 31, 2016 and 2015, respectively.

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

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

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

(i) Land Revaluation

Under the "Law of Land Revaluation," Nippon Drop Forge Co., Ltd., a consolidated subsidiary, elected a one-time revaluation of its own-use land to a value based on real estate appraisal information at March 31, 1999. The resulting land revaluation surplus represented unrealized appreciation of land and was stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted, unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation surplus account and related deferred tax liabilities. At March 31, 2016, the carrying amount of the land after the above one-time revaluation and impairment exceeded the market value by ¥943 million ($8,345 thousand).

(j) Long-Lived Assets

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

(k) Other Assets

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

(l) Bond Issue Costs

Bond issue costs are charged to income as incurred.

(m) Retirement and Pension Plans

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

Effective April 1, 2000, the Group adopted a new accounting standard for retirement benefits and accounted for the liability for employees' retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations had been attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years. Past service costs are amortized on a straight-line basis over 10 years. Certain small consolidated subsidiaries apply the simplified method to state the liability based on the amount which would be paid if employees retired at the consolidated balance sheet date.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for employees' retirement benefits) or asset (asset for employees' retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period, are treated as reclassification adjustments (see Note 19).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014, and for (c) above, effective April 1, 2014.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis, and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of April 1, 2014, in retained earnings in the amount of ¥2,448 million. The effects on the statement of income and net income per share were immaterial.

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

(n) Provision for Environmental Measures

Provision for environmental measures is provided to accrue the estimated costs of PCB (Polychlorinated Biphenyl) waste disposals and the estimated costs of removal of steel slag products sold in reserve for future expenses. For the year ended March 31, 2016, the estimated costs of removal of steel slag products used in construction projects by Ministry of Land, Infrastructure, Transport and Tourism, Gunma Prefecture, and municipalities in Gunma were accrued in the amount of ¥5,308 million ($46,973 thousand) and included in the provision for environmental measures in the consolidated statement of income.

(o) Asset Retirement Obligations

In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(p) Research and Development Costs

Research and development costs are charged to income as incurred.

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

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

(r) Construction Contracts

In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts," and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

(s) Income Taxes

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

(t) Foreign Currency Transactions

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

(u) Foreign Currency Financial Statements

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

(v) Derivatives and Hedging Activities

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

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and, except for those derivatives which qualify for hedge accounting, gains or losses are recognized in the consolidated statement of income and b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions.

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

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

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

(w) Per Share Information

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

Diluted net income per share is not disclosed because the Group had no dilutive shares at March 31, 2016 and 2015.

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

(x) Changes in Presentations

(Consolidated statement of income)

Prior to April 1, 2015, the provision for environmental measures was included in the other long-term liabilities among the long-term liabilities section of the consolidated balance sheet. Since during this fiscal year ended March 31, 2016, the materiality of the amount increased significantly and such amount is disclosed separately in the long-term liabilities section of the consolidated balance sheet as of March 31, 2016. ¥4,467 million of the other long-term liabilities as of March 31, 2015, was reclassified to the provision for environmental measures of ¥1,247 million and to the other long-term liabilities of ¥3,220 million.

(Consolidated statement of cash flows)

Prior to April 1, 2015, the provision for environmental measures was included in the other—net among operating activities section of the consolidated statement of cash flows. Since during this fiscal year ended March 31, 2016, the materiality of the amount increased significantly and such amount is disclosed separately in the operating activities section of the consolidated statement of cash flows for the year ended March 31, 2016. ¥3,445 million of other—net for the year ended March 31, 2015 was reclassified to provision for environmental measures of ¥843 million and to other—net of ¥2,602 million.

Prior to April 1, 2015, the acquisition of treasury stock and the acquisition of treasury stock by a subsidiary were included in other—net among the financing activities section of the consolidated statement of cash flows. Since during this fiscal year ended March 31, 2016, the materiality of the amounts increased significantly and such amounts are disclosed separately in the operating activities section of the consolidated statement of cash flows for the year ended March 31, 2016. ¥1,124 million of other—net for the year ended March 31, 2015 was reclassified to the acquisition of treasury stock and the acquisition of treasury stock by a subsidiary, and other—net in the amounts of ¥13 million, ¥858 million and ¥253 million, respectively.

(y) Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and the guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied with a revision of accounting standards, the new policy is applied retrospectively, unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

3. INVESTMENT SECURITIES

Investment securities at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Noncurrent:			
Equity securities	**¥53,433**	¥72,846	**$472,858**
Total	**¥53,433**	¥72,846	**$472,858**

The costs and aggregate fair values of investment securities at March 31, 2016 and 2015, were as follows:

	Millions of Yen			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥32,383**	**¥20,701**	**¥1,596**	**¥51,488**

	Millions of Yen			
March 31, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥34,438	¥36,817	¥387	¥70,868

	Thousands of U.S. Dollars			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$286,575**	**$183,195**	**$14,124**	**$455,646**

Information for available-for-sale securities that were sold during the years ended March 31, 2016 and 2015, was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
March 31, 2016	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale:						
Equity securities	**¥2,503**	**¥467**	**¥52**	**$22,150**	**$4,133**	**$460**

	Millions of Yen		
March 31, 2015	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥3,873	¥1,971	¥1

Impairment losses on equity securities and investments in associated companies for the years ended March 31, 2016 and 2015, were ¥34 million ($301 thousand) and ¥4,030 million, respectively.

4. INVENTORIES

Inventories held by the Group at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Merchandise	**¥18,764**	¥ 19,779	**$166,053**
Finished products	**11,803**	12,380	**104,451**
Semifinished products	**15,976**	22,695	**141,380**
Work in process	**21,738**	24,823	**192,372**
Raw materials	**16,207**	18,688	**143,425**
Supplies	**10,643**	10,197	**94,186**
Total	**¥95,131**	¥108,562	**$841,867**

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2016 and 2015. As a result, the Group recognized an impairment loss of ¥436 million ($3,858 thousand) as other expense for property, plant and equipment in Nagano due to devaluation and the carrying amount of the relevant assets was written down to the recoverable amount for the year ended March 31, 2016. Also, the Group recognized an impairment loss of ¥5,162 million ($45,681 thousand) as other expense for discontinued software development costs for internal use and the carrying amount of the relevant assets was written down to the recoverable amount for the year ended March 31, 2016. Such amount is included in loss on discontinued software development of ¥5,586 million ($49,434 thousand).

The Group recognized an impairment loss of ¥2,461 million as other expense for unused land and certain property, plant and equipment in Nagano due to the devaluation of land and the carrying amount of the relevant assets was written down to the recoverable amount for the year ended March 31, 2015. The recoverable amount of the assets in Nagano was measured at its value in use and the discount rate used for computation of present value of future cash flows was 6.5%.

6. INVESTMENT PROPERTY

In November 2008, the ASBJ issued ASBJ Statement No. 20, "Accounting Standard for Investment Property and Related Disclosures," and ASBJ Guidance No. 23, "Guidance on Accounting Standard for Investment Property and Related Disclosures."

The Company holds some rental properties, such as office buildings and land in Aichi and other areas. The net amounts of rental income and operating expenses for those rental properties were ¥892 million ($7,894 thousand) and ¥846 million for the years ended March 31, 2016 and 2015, respectively.

The carrying amounts, changes in such balances and market prices of such properties at March 31, 2016 and 2015, were as follows:

Millions of Yen				Thousands of U.S. Dollars			
Carrying Amount			Fair Value	Carrying Amount			Fair Value
April 1, 2015	Increase, net	March 31, 2016	March 31, 2016	April 1, 2015	Increase, net	March 31, 2016	March 31, 2016
¥5,197	**¥458**	**¥5,655**	**¥24,805**	**$45,991**	**$4,053**	**$50,044**	**$219,513**

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2014	Decrease, net	March 31, 2015	March 31, 2015
¥5,910	¥713	¥5,197	¥24,090

Notes:
1) The carrying amount recognized in the consolidated balance sheet was net of accumulated depreciation and accumulated impairment losses, if any.
2) The increase during the fiscal year ended March 31, 2016, primarily represents the acquisition of certain properties of ¥565 million ($5,000 thousand). The decrease during the fiscal year ended March 31, 2016, primarily represents depreciation of ¥145 million ($1,283 thousand).
The increase during the fiscal year ended March 31, 2015, primarily represents the acquisition of certain properties of ¥493 million. The decrease during the fiscal year ended March 31, 2015, primarily represents the effect of the changes in scope of consolidation of ¥1,057 million and depreciation of ¥123 million.
3) The fair value of properties was primarily measured by the Group in accordance with its Real-Estate Appraisal Standard.

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

Short-term bank loans consisted of notes to banks and bank overdrafts. The weighted-average rates of annual interest applicable to short-term bank loans at March 31, 2016 and 2015, were 0.78% and 0.81%, respectively.

Long-term debt at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Loans from banks and other financial institutions due serially to 2022 with weighted-average interest rates of 0.68% in 2016 and 0.79% in 2015	**¥ 96,141**	¥ 82,415	**$ 850,805**
1.08% unsecured bonds due December 18, 2015	**–**	20,000	**–**
0.68% unsecured bonds due December 1, 2016	**10,000**	10,000	**88,496**
0.335% unsecured bonds due May 27, 2019	**10,000**	10,000	**88,496**
Obligations under finance leases	**930**	1,137	**8,230**
Total	**117,071**	123,552	**1,036,027**
Less: Portion due within one year	**(24,648)**	(25,702)	**(218,124)**
Total long-term debt	**¥ 92,423**	¥ 97,850	**$ 817,903**

Annual maturities of long-term debt at March 31, 2016, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 24,648	$ 218,124
2018	15,747	139,354
2019	26,352	233,204
2020	24,926	220,584
2021	15,196	134,478
2022 and thereafter	10,202	90,283
Total	¥117,071	$1,036,027

The Company and a consolidated subsidiary entered into line-of-credit agreements with 9 banks. The details of the agreements were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Line-of-credit amount	**¥24,700**	**$218,584**
Balance used at March 31, 2016	**–**	**–**

8. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral for notes and accounts payable of ¥11 million ($97 thousand) and other current liabilities of ¥8 million ($71 thousand) at March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	**¥ 17**	**$ 150**
Land	**2,179**	**19,283**
Buildings and structures	**1,696**	**15,009**
Machinery and equipment	**1,311**	**11,602**
Investment securities	**239**	**2,115**
Total	**¥5,442**	**$48,159**

9. RETIREMENT AND PENSION PLANS

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

The Group has employee retirement benefit trusts.

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

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

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

1. The changes in defined benefit obligation for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥51,262	¥47,739	$453,646
Cumulative effect of accounting change	–	3,925	–
Balance at beginning of year (as restated)	51,262	51,664	453,646
Current service cost	1,815	1,745	16,062
Interest cost	575	585	5,088
Actuarial losses	5,484	1,322	48,531
Benefits paid	(4,102)	(4,069)	(36,301)
Past service cost	95	–	841
Others	(6)	15	(53)
Balance at end of year	¥55,123	¥51,262	$487,814

2. The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥84,671	¥71,450	$749,301
Expected return on plan assets	1,467	1,354	12,982
Actuarial (losses) gains	(9,171)	12,631	(81,159)
Contributions from the employer	798	2,748	7,062
Benefits paid	(3,112)	(3,519)	(27,540)
Others	(3)	7	(27)
Balance at end of year	¥74,650	¥84,671	$660,619

3. The changes in liability for employees' retirement benefits for which the simplified method was applied to record the liability for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥2,204	¥2,239	$19,504
Pension costs	740	477	6,549
Benefits paid	(359)	(199)	(3,177)
Contributions to pension funds	(295)	(317)	(2,611)
Others	(5)	4	(44)
Balance at end of year	¥2,285	¥2,204	$20,221

4. Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Funded defined benefit obligation	¥ 55,043	¥ 51,506	$ 487,106
Plan assets	(77,536)	(87,397)	(686,159)
Total	(22,493)	(35,891)	(199,053)
Unfunded defined benefit obligation	5,253	4,686	46,486
Net asset arising from defined benefit obligation	¥(17,240)	¥(31,205)	$(152,567)

5. The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥ 1,815	¥ 1,745	$ 16,062
Interest cost	575	585	5,088
Expected return on plan assets	(1,467)	(1,354)	(12,982)
Amortization of prior service benefit	(1,432)	(661)	(12,672)
Recognized actuarial gains	(54)	(157)	(478)
Retirement benefits for which simplified method was applied	740	478	6,549
Additional severance payments	92	115	814
Net periodic benefit costs	¥ 269	¥ 751	$ 2,381

6. Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Prior service cost	¥ (149)	¥ (157)	$ (1,319)
Actuarial (losses) gains	(16,087)	10,648	(142,362)
Total	¥(16,236)	¥10,491	$(143,681)

7. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized prior service cost	¥ 305	¥ 453	$ 2,699
Unrecognized actuarial (losses) gains	(4,349)	11,738	(38,487)
Total	¥(4,044)	¥12,191	$(35,788)

8. Plan assets:

(1) Components of plan assets

Plan assets consisted of the following:

	2016	2015
Debt investments	15%	12%
Equity investments	65	69
Assets in an insurer's general account	19	16
Others	1	3
Total	100%	100%

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

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

9. Assumptions used for the years ended March 31, 2016 and 2015, are set forth as follows:

	2016	2015
Discount rate	0.3%	1.1%
Expected rate of return on plan assets	2.0	2.0

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

The contributions to such multi-employer plan, which are accounted for using the same method as a defined contribution plan, were ¥317 million ($2,805 thousand) and ¥353 million for the years ended March 31, 2016 and 2015, respectively.

(1) The funded status of the multi-employer plan as of March 31, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Plan assets	¥263,436	¥238,997	$2,331,292
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	268,703	255,077	2,377,903
Net balance	¥ (5,267)	¥ (16,080)	$ (46,611)

(2) The contribution ratio of the Group in the multi-employer plan for the years ended March 31, 2016 and 2015, was as follows:

	2016	2015
The contribution ratio of the Group in the multi-employer plan	2.28%	2.38%

10. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥426	¥426	$3,770
Additional provisions associated with the change in the estimated costs of PCB waste disposal	6	–	53
Reconciliation associated with passage of time	0	–	–
Balance at end of year	¥432	¥426	$3,823

11. EQUITY

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

(a) Dividends

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

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

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of the legal reserve and additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

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

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 33% and 35% for the years ended March 31, 2016, and 2015, respectively.

The tax effects of significant temporary differences and loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Deferred tax assets:			
Accrued bonuses	**¥ 2,079**	¥ 2,090	**$ 18,398**
Liability for employees' retirement benefits	**2,763**	2,550	**24,451**
Allowance for doubtful accounts	**53**	77	**469**
Write-down of securities and other assets	**2,663**	1,944	**23,566**
Net loss carryforwards	**2,996**	2,325	**26,513**
Elimination of unrealized gain on inventories	**883**	943	**7,814**
Provision for environmental measures	**1,737**	407	**15,372**
Enterprise tax	**285**	377	**2,522**
Other	**4,542**	4,839	**40,195**
Less valuation allowance	**(7,727)**	(6,805)	**(68,380)**
Total deferred tax assets	**10,274**	8,747	**90,920**
Deferred tax liabilities:			
Deferred gain on property, plant, and equipment	**1,830**	1,978	**16,195**
Land revaluation surplus	**1,230**	1,293	**10,885**
Unrealized gain on securities	**5,774**	11,634	**51,097**
Asset for employees' retirement benefits	**6,215**	10,868	**55,000**
Unrealized gain on lands resulting from consolidation of a subsidiary	**1,057**	1,116	**9,354**
Other	**1,751**	999	**15,495**
Total deferred tax liabilities	**17,857**	27,888	**158,026**
Net deferred tax liabilities	**¥ 7,583**	¥19,141	**$ 67,106**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2016, with the corresponding figures for 2015 is as follows:

	2016	2015
Normal effective statutory tax rates	**33.0%**	35.0%
Expenses not deductible for income tax purposes	**1.9**	3.2
Revenues not recognized for income tax purposes	**(9.9)**	(7.1)
Per capita tax	**0.7**	0.6
Net change in valuation allowance	**9.0**	6.6
Effects of elimination of dividends for consolidation purposes	**6.9**	4.0
Effect of accounting by the equity method	**(0.9)**	(1.3)
Lower income tax rates applicable to income in certain foreign countries	**(0.9)**	(1.1)
Tax credit	**(4.8)**	(2.9)
Effect of change in statutory tax rate	**(0.8)**	(1.9)
Investments in subsidiaries	**4.2**	–
Other – net	**0.8**	(0.6)
Actual effective tax rates	**39.2%**	34.5%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 31% and for the fiscal year beginning on or after April 1, 2018, to approximately 30%. The effect of these changes was to decrease deferred tax liabilities, net of deferred tax assets, by ¥414 million ($3,664 thousand), accumulated other comprehensive income for defined retirement benefit plan by ¥74 million ($655 thousand) in the consolidated balance sheet as of March 31, 2016 and income taxes—deferred in the consolidated statement of income for the year then ended by ¥125 million ($1,106 thousand), and to increase accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥363 million ($3,212 thousand).

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,766 million ($51,027 thousand) and ¥5,301 million for the years ended March 31, 2016 and 2015, respectively.

14. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses for the years ended March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Freight expenses	**¥12,948**	¥13,290	**$114,584**
Salaries and welfare expenses	**21,944**	21,419	**194,195**
Provision for bonuses to employees	**2,340**	2,231	**20,708**
Provision for bonuses to directors and Audit & Supervisory Board members	**159**	271	**1,407**
Net periodic retirement benefit costs	**154**	377	**1,363**
Depreciation	**1,227**	1,377	**10,858**
Other	**11,229**	10,723	**99,372**
Total	**¥50,001**	¥49,688	**$442,487**

15. LEASES

(As lessor)

Expected revenues from noncancelable operating leases at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	**¥ 507**	¥ 497	**$ 4,487**
Due after one year	**3,116**	3,516	**27,575**
Total	**¥3,623**	¥4,013	**$32,062**

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

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

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

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

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

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

Derivatives mainly include forward foreign currency contracts, which are used to manage future cash flows, currency swaps and interest rate swaps, which are used to manage risks from changes in interest rates of bank loans. Please see Note 17 for more detail about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. To reduce the counterparty risk, the Group enters into derivative transactions only with highly rated financial institutions. Please see Note 17 for detail about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2016.

Market risk management (foreign exchange risk and interest rate risk)

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

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

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

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

Liquidity risk management

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

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Please see Note 17 for the details of the fair value of derivatives.

(a) Fair value of financial instruments

	Millions of Yen			Thousands of U.S. Dollars		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	**¥ 33,774**	**¥ 33,774**	**–**	**$ 298,885**	**$ 298,885**	**–**
Time deposits	**1,155**	**1,155**	**–**	**10,221**	**10,221**	**–**
Receivables—trade	**98,800**	**98,800**	**–**	**874,336**	**874,336**	**–**
Investment securities	**51,488**	**51,488**	**–**	**455,646**	**455,646**	**–**
Investment in associates	**4,414**	**2,447**	**¥(1,967)**	**39,062**	**21,655**	**$(17,407)**
Total	**¥189,631**	**¥187,664**	**¥(1,967)**	**$1,678,150**	**$1,660,743**	**$(17,407)**
Short-term bank loans	**¥ 18,545**	**¥ 18,545**	**–**	**$ 164,115**	**$ 164,115**	**–**
Current portion of long-term debt	**24,648**	**24,683**	**¥ (35)**	**218,124**	**218,434**	**$ (310)**
Payables—trade	**68,153**	**68,153**	**–**	**603,124**	**603,124**	**–**
Income taxes payable	**2,752**	**2,752**	**–**	**24,354**	**24,354**	**–**
Long-term debt	**92,423**	**92,845**	**(422)**	**817,903**	**821,638**	**(3,735)**
Total	**¥206,521**	**¥206,978**	**¥ (457)**	**$1,827,620**	**$1,831,665**	**$ (4,045)**

	Millions of Yen		
March 31, 2015	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 31,776	¥ 31,776	–
Time deposits	851	851	–
Receivables—trade	105,007	105,007	–
Investment securities	70,868	70,868	–
Investment in associates	4,419	3,620	¥(799)
Total	¥212,921	¥212,122	¥(799)
Short-term bank loans	¥ 22,656	¥ 22,656	–
Current portion of long-term debt	25,702	25,832	¥(130)
Payables—trade	78,040	78,040	–
Income taxes payable	3,883	3,883	–
Long-term debt	97,850	98,216	(366)
Total	¥228,131	¥228,627	¥(496)

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

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

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 3.

Long-Term Debt with Fixed Interest Rates

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

Derivatives

Fair value information for derivatives is included in Note 17.

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Securities that do not have a quoted market price in an active market:			
Investment securities	**¥ 1,945**	¥ 1,978	**$ 17,212**
Investments in unconsolidated subsidiaries and associated companies	**15,973**	13,491	**141,354**

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

	Millions of Yen			
March 31, 2016	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	**¥ 33,774**	–	–	–
Time deposits	**1,155**	–	–	–
Receivable—trade	**98,800**	–	–	–
Total	**¥133,729**	–	–	–

	Thousands of U.S. Dollars			
March 31, 2016	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	**$ 298,885**	–	–	–
Time deposits	**10,221**	–	–	–
Receivable—trade	**874,336**	–	–	–
Total	**$1,183,442**	–	–	–

Please see Note 7 for annual maturities of long-term debt and the current portion of long-term debt.

17. DERIVATIVES

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

(a) Derivative transactions to which hedge accounting is not applied at march 31, 2016 and 2015

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

At March 31, 2015	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value	 Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Buying:				
U.S. dollar	¥ 239	–	¥ (1)	¥ (1)
Euro	139	–	(7)	(7)
Yen	385	–	(15)	(15)
Thai Baht	0	–	0	0
H.K. dollar	0	–	(0)	(0)
RMB	0	–	0	0
Selling:				
U.S. dollar	5,970	–	(49)	(49)
Euro	113	–	3	3
Thai Baht	146	–	(5)	(5)
RMB	86	–	(2)	(2)

At March 31, 2016	Thousands of U.S. Dollars Contract Amount	 Contract Amount Due after One Year	 Fair Value	 Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Buying:				
U.S. dollar	**$ 1,752**	**–**	**$ (44)**	**$ (44)**
Euro	**1,867**	**–**	**(9)**	**(9)**
Yen	**4,248**	**–**	**44**	**44**
Thai Baht	**0**	**–**	**(0)**	**(0)**
RMB	**434**	**–**	**(27)**	**(27)**
Selling:				
U.S. dollar	**30,991**	**–**	**319**	**319**
Euro	**1,637**	**–**	**(9)**	**(9)**
Thai Baht	**2,398**	**–**	**35**	**35**
RMB	**655**	**–**	**0**	**0**

(b) Derivative transactions to which hedge accounting is applied at march 31, 2016 and 2015

At March 31, 2016	Hedged Item	Contract Amount (Millions of Yen)	Contract Amount Due after One Year (Millions of Yen)	Fair Value (Millions of Yen)
Foreign currency forward contracts:				
Hedge accounting:				
Selling:				
U.S. dollar	Receivables—trade	**¥ 3**	**–**	**¥ 0**
Euro	Receivables—trade	**0**	**–**	**(0)**
Qualified for hedge accounting not remeasured at market value:				
Selling:				
U.S. dollar	Receivables—trade	**1**	**–**	See Note on the following page
Euro	Receivables—trade	**10**	**–**	
Currency swaps:				
Yen payment, U.S. dollar receipt	Short-term bank loans and long-term debt	**2,000**	**¥ 2,000**	
Interest rate swaps:				
Fixed rate payment, floating rate receipt		**37,300**	**33,900**	

At March 31, 2015	Hedged Item	Contract Amount (Millions of Yen)	Contract Amount Due after One Year (Millions of Yen)	Fair Value (Millions of Yen)
Foreign currency forward contracts:				
Hedge accounting:				
Buying:				
U.S. dollar	Payables—trade	¥ 303	–	¥ 23
Pound Sterling	Payables—trade	54	–	2
Selling:				
U.S. dollar	Receivables—trade	169	–	(22)
Qualified for hedge accounting not remeasured at market value:				
Buying:				
U.S. dollar	Payables—trade	45	–	See Note on the following page
Pound Sterling	Payables—trade	46	–	
Selling:				
U.S. dollar	Receivables—trade	102	–	
Currency swaps:				
Yen payment, U.S. dollar receipt		2,000	¥ 2,000	
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Short-term bank loans and long-term debt	37,300	37,300	

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At March 31, 2016	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Hedge accounting:				
Selling:				
U.S. dollar	Receivables—trade	**$ 27**	**–**	**$0**
Euro	Receivables—trade	**0**	**–**	**(0)**
Qualified for hedge accounting not remeasured at market value:				
Selling:				
U.S. dollar	Receivables—trade	**9**	**–**	See Note below
Euro	Receivables—trade	**88**	**–**	See Note below
Currency swaps:				
Yen payment, U.S. dollar receipt	Short-term bank loans and long-term debt	**17,699**	**$ 17,699**	See Note below
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Short-term bank loans and long-term debt	**330,088**	**300,000**	See Note below

Note: Fair values of derivatives qualified for hedge accounting, which are not remeasured at market value, are included in the fair values of hedged items in Note 16.

18. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2016, the Group was contingently liable for ¥5,838 million ($51,664 thousand) for guarantees of loans and payables of unconsolidated subsidiaries, associated and other companies and employees, including borrowings of ¥3,600 million ($31,858 thousand) by Yugen Kaisha Takakura Founding Corporation ("Takakura").

The Company had an obligation to invest additionally in Takakura via an anonymous association contract with an upper limit of ¥524 million ($4,637 thousand) in the event that buildings owned by Takakura are destroyed or impaired by natural disaster.

19. OTHER COMPREHENSIVE (LOSS) INCOME

The components of other comprehensive (loss) income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Unrealized gain on available-for-sale securities:			
(Loss) gains arising during the year	**¥(17,029)**	¥13,353	**$(150,699)**
Reclassification adjustments to profit or loss	**(318)**	(1,816)	**(2,814)**
Amount before income tax effect	**(17,347)**	11,537	**(153,513)**
Income tax effect	**5,865**	(2,925)	**51,902**
Total	**(11,482)**	8,612	**(101,611)**
Deferred gain on derivatives under hedge accounting:			
(Loss) gains arising during the year	**(3)**	2	**(27)**
Reclassification adjustments to profit or loss	**–**	(1)	**–**
Amount before income tax effect	**(3)**	1	**(27)**
Income tax effect	**1**	(0)	**9**
Total	**(2)**	1	**(18)**
Land revaluation surplus:			
Income tax effect	**62**	104	**549**
Total	**62**	104	**549**
Foreign currency translation adjustments:			
Adjustments arising during the year	**(1,699)**	2,357	**(15,035)**
Total	**(1,699)**	2,357	**(15,035)**
Defined retirement benefit plans:			
Adjustments arising during the year	**(14,750)**	11,308	**(130,531)**
Reclassification adjustments to profit or loss	**(1,486)**	(817)	**(13,150)**
Amount before income tax effect	**(16,236)**	10,491	**(143,681)**
Income tax effect	**5,122**	(3,307)	**45,327**
Total	**(11,114)**	7,184	**(98,354)**
Share of other comprehensive (loss) income in associates:			
Gain arising during the year	**(81)**	101	**(717)**
Reclassification adjustments to profit or loss	**(0)**	–	**(0)**
Total	**(81)**	101	**(717)**
Total other comprehensive (loss) income	**¥(24,316)**	¥18,359	**$(215,186)**

20. SUBSEQUENT EVENT

a. Appropriations of retained earnings

The following appropriation of retained earnings at March 31, 2016, was approved at the Company's shareholders' meeting held on June 28, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥2.5 ($0.02) per share	**¥1,067**	**$9,442**

b. Share exchange with noncontrolling shareholders of Daido Kogyo

On May 31, 2016, the Board of Directors approved a plan for acquisition of shares of Daido Kogyo Co., Ltd. ("Daido Kogyo"), a consolidated subsidiary of the Company, by issuing the Company's shares to all the shareholders of Daido Kogyo in exchange for the shares of Daido Kogyo. The Company entered into the share exchange agreement with Daido Kogyo on the same day.

The share exchange is planned on October 1, 2016 based on the assumption that the share exchange is approved by the shareholders' meeting of Daido Kogyo on June 29, 2016. This share exchange is made in order to strengthen the marketing initiatives in foreign countries and to establish efficient business models for turbo materials business, magnetic and high alloy business.

The exchange ratio will be determined by the following formula:

Exchange ratio = ¥696 yen ($6.16) / the average of daily volume weighted average price of the Company during the period from August 22, 2016 to September 16, 2016.

As a result of the transactions, the Company will own 100% of issued shares of Daido Kogyo.

c. Acquisition of treasury stocks

On May 31, 2016, the Board of Directors approved a plan for the acquisition of common stocks of the Company up to 10,000 thousand shares in the amount of ¥5,000 million ($44,248 thousand) maximum, which represent 2.34% of the Company's issued stocks (excluding treasury stock), during the period from June 1, 2016 to August 19, 2016. The Company is to acquire shares from Tokyo Stock Exchange.

21. SEGMENT INFORMATION

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

1. Description of Reportable Segments

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

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

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

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

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

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

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

2. Methods of Measurement for the Amounts of Sales, Profit, Assets, and Other Items for Each Reportable Segment

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

Reportable segment profit represents operating income.

3. Information about Sales, Profit, Assets, and Other Items is as Follows:

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

	Millions of Yen							
	Reportable Segment							
2015	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total	Reconciliations	Consolidated
Sales								
Sales to external customers	¥189,125	¥161,758	¥ 99,386	¥22,904	¥10,460	¥483,633	–	¥483,633
Intersegment sales or transfers	73,313	16,756	30,907	2,532	10,630	134,138	¥(134,138)	–
Total	¥262,438	¥178,514	¥130,293	¥25,436	¥21,090	¥617,771	¥(134,138)	¥483,633
Segment profit	¥ 3,178	¥ 13,518	¥ 1,024	¥ 1,652	¥ 1,043	¥ 20,415	¥ (6)	¥ 20,409
Segment assets	199,313	185,699	119,238	19,249	17,799	541,298	47,292	588,590
Other:								
Depreciation and amortization	7,831	7,213	6,037	351	1,005	22,437	–	22,437
Investments in associated companies accounted for by the equity method	4,612	4,753	366	78	–	9,809	330	10,139
Increase in property, plant, and equipment and intangible assets	9,173	9,162	9,514	450	1,997	30,296	–	30,296

2016	Thousands of U.S. Dollars							
	Reportable Segment							
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total	Reconciliations	Consolidated
Sales								
Sales to external customers	**$1,508,973**	**$1,373,903**	**$ 882,124**	**$231,009**	**$ 79,902**	**$4,075,911**	**–**	**$4,075,911**
Intersegment sales or transfers	**740,150**	**155,177**	**277,867**	**22,177**	**93,655**	**1,289,026**	**$(1,289,026)**	**–**
Total	**$2,249,123**	**$1,529,080**	**$1,159,991**	**$253,186**	**$173,557**	**$5,364,937**	**$(1,289,026)**	**$4,075,911**
Segment profit	**$ 66,911**	**$ 109,124**	**$ 11,496**	**$ 18,327**	**$ 10,381**	**$ 216,239**	**$ (27)**	**$ 216,212**
Segment assets	**1,633,354**	**1,457,593**	**1,122,080**	**158,903**	**146,681**	**4,518,611**	**221,885**	**4,740,496**
Other:								
Depreciation and amortization	**69,124**	**59,850**	**57,274**	**2,973**	**9,487**	**198,708**	**–**	**198,708**
Investments in associated companies accounted for by the equity method	**42,823**	**41,133**	**3,611**	**743**	**–**	**88,310**	**3,345**	**91,655**
Increase in property, plant, and equipment and intangible assets	**67,876**	**61,115**	**62,336**	**2,168**	**11,859**	**205,354**	**–**	**205,354**

Notes: 1. Reconciliations of segment profit consisted of elimination of intersegment transactions.
2. Reconciliations of segment assets and investments in associated companies consisted of corporate assets that were not allocated to any reportable segments.
3. Segment profit was reconciled to operating income in the consolidated statement of income.

4. Associated Information

(1) Information about geographical areas

Sales

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

2015	Millions of Yen				
	Japan	North America	Asia	Other	Total
	¥372,854	¥21,497	¥82,387	¥6,895	¥483,633

2016	Thousands of U.S. Dollars				
	Japan	North America	Asia	Other	Total
	$3,176,230	**$184,009**	**$637,876**	**$77,796**	**$4,075,911**

(2) Information about impairment loss

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

2015	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
	Millions of Yen					
Impairment loss	¥2	¥2	¥0	¥0	¥2,457	¥2,461

2016	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
	Thousands of U.S. Dollars					
Impairment loss	**$20,513**	**$13,513**	**$10,522**	**$1,133**	**$3,850**	**$49,531**

(3) Information about goodwill

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

2015	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
	Millions of Yen					
Amortization of goodwill	¥ 51	–	–	–	–	¥ 51
Balance of goodwill	114	–	–	–	–	114

2016	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
	Thousands of U.S. Dollars					
Amortization of goodwill	**$451**	**–**	**–**	**–**	**–**	**$451**
Balance of goodwill	**549**	**–**	**–**	**–**	**–**	**549**

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Daido Steel Co., Ltd. and its consolidated subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daido Steel Co., Ltd. and its consolidated subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 28, 2016

Member of
Deloitte Touche Tohmatsu Limited

FINANCIAL SECTION

Offices & Branches

	Address	Phone (Facsimile)
Head Office	Urbannet Nagoya Building,1-10, Higashisakura 1-chome, Higashi-ku, Nagoya, Aichi 461-8581, Japan	81-52-963-7501 (81-52-963-4386)
Tokyo Head Office	Daido Shinagawa Building, 6-35, Konan 1-chome, Minato-ku, Tokyo 108-8478, Japan	81-3-5495-1253 (81-3-5495-6733)
Osaka Branch	Kogin Building, 1-1, Koraibashi 4-chome, Chuo-ku, Osaka 541-0043, Japan	81-6-6229-6530 (81-6-6202-8663)
Fukuoka Sales Office	13-2, Tenjin 1-chome, Chuo-ku, Fukuoka 810-0001, Japan	81-92-771-4481 (81-92-771-9384)

Research Institute & Plants

Daido Corporate Research & Development Center	30, Daido-cho 2-chome, Minami-ku, Nagoya, Aichi 457-8545, Japan	81-52-611-2522 (81-52-611-9004)
Chita Plant	39, Motohama-machi, Tokai, Aichi 477-0035, Japan	81-562-33-3101 (81-562-33-1570)
Chita Forging Plant		81-562-33-7461 (81-562-33-1550)
Chita Steel Strip Plant		81-562-33-7465 (81-562-33-1019)
Hoshizaki Plant	30, Daido-cho 2-chome, Minami-ku, Nagoya, Aichi 457-8545, Japan	81-52-611-2512 (81-52-614-2492)
Shibukawa Plant	500, Ishihara, Shibukawa, Gunma 377-0007, Japan	81-279-25-2000 (81-279-25-2040)
Kawasaki Techno Center	4-1, Yako 2-chome, Kawasaki-ku, Kawasaki, Kanagawa 210-0863, Japan	81-44-266-3760 (81-44-266-3768)
Tsukiji Techno Center	10, Ryugu-cho, Minato-ku, Nagoya, Aichi 455-0022, Japan	81-52-691-5181 (81-52-691-5212)
Metal Powder Plant		81-52-691-5186 (81-52-691-5195)
Oji Plant	9-3, Kamiya 3-chome, Kita-ku, Tokyo 115-0043, Japan	81-3-3901-4161 (81-3-3901-8211)
Kimitsu Plant	1, Kimitsu, Kimitsu, Chiba 299-1141, Japan	81-439-52-1541 (81-439-54-1280)
Takiharu Techno Center	9, Takiharu-cho, Minami-ku, Nagoya, Aichi 457-8712, Japan	81-52-613-6801 (81-52-613-6840)
Nakatsugawa Techno Center	1642-144, Nasubigawa, Nakatsugawa, Gifu 509-9132, Japan	81-573-68-6171 (81-573-68-6188)

Specialty Steel

DAIDO PDM (Thailand) CO., LTD.
Daido Die & Mold Solutions Co., Ltd.
Daido Tienwen Steel Co., Ltd.
DAIDO AMISTAR (M) SDN. BHD.
DAIDO AMISTAR (S) PTE LTD
Daido Shizai Service Co., Ltd.
Daido Technica Co., Ltd.
Daido EcoMet Co., Ltd.
Riken Seiko Co., Ltd.
Tohoku Steel Co., Ltd.
Maruta Transport Co., Ltd.
Sakurai Kosan Co., Ltd.
Izumi Denki Kogyo Co., Ltd.
Kawaichi Sangyo Co., Ltd.

High Performance Materials and Magnetic Materials

Nippon Seisen Co., Ltd.
THAI SEISEN Co., Ltd.
Daido Electronics Co., Ltd.
Daido Electronics (Suzhou) Co., Ltd.
Daido Electronics (Thailand) Co., Ltd.
Shimomura Tokushu Seiko Co., Ltd.
Intermetallics Japan Corporation
Nissei Seiko Co., Ltd.

Parts for Automobile and Industrial Equipment

Daido Castings Co., Ltd.
Fuji OOZX Inc.
FUJI VALVE (GUANGDONG) CORPORATION
Japan Drop Forge Co., Ltd.
Toyo Sangyo Co., Ltd.
Daido Star Techno Co., Ltd
Daido Precision Industries Ltd.
OHIO STAR FORGE CO.

Engineering

Daido Machinery Co., Ltd.
Daido Environment Engineering Co., Ltd.
Daido Plant Industries Co., Ltd.

Trading and Service

Daido Kogyo Co., Ltd.
Daido Life Service Co., Ltd.
Daido Bunseki Research Inc.
Star Info Tech Co., Ltd.
Life Support Co., Ltd.
Kisokoma Heights Co., Ltd.
Daido Steel (America) Inc.

(As of March 31, 2016)

CORPORATE DATA (As of March 31, 2016)

Corporate Name:	Daido Steel Co., Ltd.
Founded:	August 19, 1916
Incorporated:	February 1, 1950
Office:	(Head Office) Urbannet Nagoya Building, 1-10, Higashisakura 1-chome, Higashi-ku, Nagoya, Aichi 461-8581, Japan Phone: 81-52-963-7501 Facsimile: 81-52-963-4386 (Tokyo Head Office) Daido Shinagawa Building, 6-35, Konan 1-chome, Minato-ku, Tokyo 108-8478, Japan Phone: 81-3-5495-1253 Facsimile: 81-3-5495-6733
Internet Address:	http://www.daido.co.jp/en/index.html
Number of Employees (Non-Consolidated:	3,210
Common Stock:	¥37,172 million
Number of Authorized Shares:	1,160,000,000
Number of Issued Shares:	434,487,693
Number of Shareholders:	23,425
Independent Auditor:	Deloitte Touche Tohmatsu LLC
Stock Exchange Listings:	Tokyo, Nagoya
Transfer Agent of Common Stock:	The Chuo Mitsui Trust and Banking Company, Limited
Principal Shareholders:	NIPPON STEEL & SUMITOMO METAL CORPORATION Meiji Yasuda Life Insurance Company Japan Trustee Services Bank, Ltd. (Trust Account) Mizuho Bank, Ltd. NHK Spring Co., Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. HONDA MOTOR CO., LTD. TOYOTA MOTOR CORPORATION The Master Trust Bank of Japan, Ltd. (Trust Account) DENSO CORPORATION
For Further Information, Please Contact:	Investor Relations (Head Office) Phone: 81-52-963-7516 Facsimile: 81-52-963-4386

DAIDO STEEL CO., LTD.

DAIDO STEEL GROUP

Beyond the Special

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