ANNUAL REPORT 2018

Year ended March 31, 2018

UTILIZING OUR STRENGTHS, AIMING AT FURTHER GROWTH

DAIDO STEEL CO., LTD.

DAIDO STEEL CO., LTD. UTILIZING OUR STRENGTHS, AIMING AT FURTHER GROWTH ANNUAL REPORT 2018

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.

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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

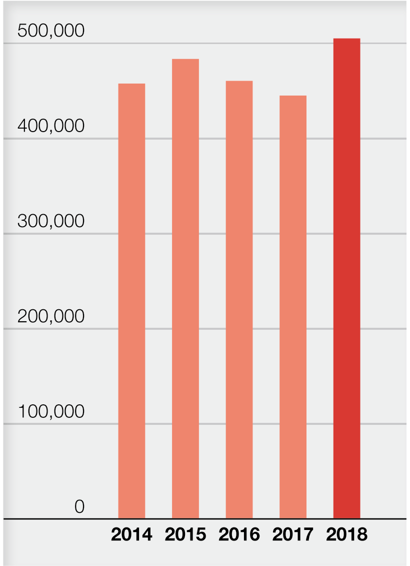
	Millions of Yen					Thousands of U.S. Dollars
	2018	2017	2016	2015	2014	**2018**
For the Year:						
Net Sales	**505,219**	445,123	460,578	483,633	457,731	**4,766,217**
Operating Income	**36,218**	25,514	24,432	20,409	18,977	**341,679**
Net Income Attributable to Owners of the Parent	**23,911**	16,386	6,746	10,886	12,616	**225,670**
R&D Expenses	**5,419**	6,206	5,766	5,301	5,160	**51,123**
Capital Expenditures	**35,606**	28,941	23,205	30,296	44,404	**335,906**
Depreciation and Amortization	**20,741**	23,276	22,454	22,437	20,052	**195,670**
At Year-End:						
Total Assets	**645,042**	574,169	535,676	588,590	557,522	**6,085,302**
Total Equity	**316,410**	290,501	268,346	292,406	232,152	**2,985,000**
Interest-Bearing Debt	**160,352**	142,599	136,114	146,208	143,085	**1,512,755**
Number of Employees (Consolidated)	**11,873**	11,498	11,040	10,855	10,709	**–**
Number of Consolidated Subsidiaries	**36**	34	34	34	33	**–**
Per Share of Common Stock (Yen and U.S. Dollars):						
Basic Net Income*	**561.08**	385.92	156.22	251.01	290.88	**5.29**
Cash Dividends Applicable to the Year*	**120.00**	100.00	75.00	65.00	50.00	**1.13**
ROA (%)	**5.9**	4.8	4.5	3.8	3.8	**–**
ROE (%)	**8.8**	6.7	2.8	4.5	5.7	**–**

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 ¥106 to $1, the approximate rate of exchange at March 31, 2018.

* See the footnote on page 24.

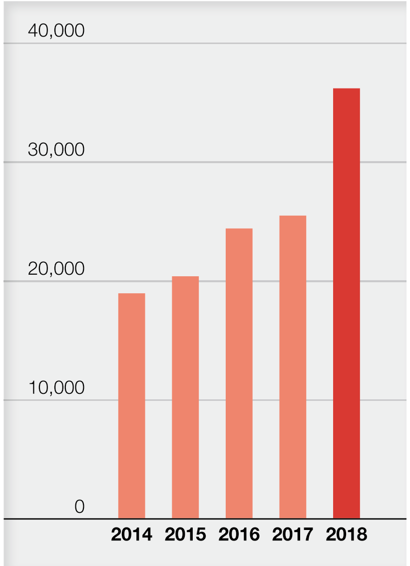
NET SALES
Years ended March 31

(millions of yen)



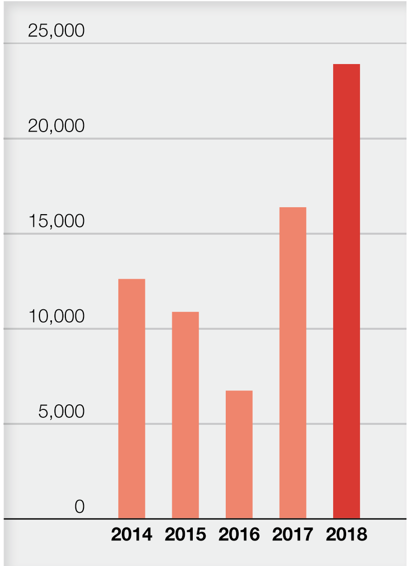
OPERATING INCOME
Years ended March 31

(millions of yen)



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

(millions of yen)



Overview of Results for Fiscal 2017

In fiscal 2017, the Japanese economy continued to exhibit a moderate recovery in consumer spending due to improvements in employment and income conditions, and the economy itself continued on a gradual recovery path, along with improved industrial production in the corporate sector. In the U.S., the steady economic recovery continued as consumer spending and capital expenditures increased. In Europe, the gradual economic recovery continued due to robust employment conditions. In China, exports have increased and there are continued signs of an economic upturn.

Under these economic circumstances, the Japanese automobile industry continued its strong performance because in addition to the recovery in domestic sales there was an increase in sales in China. Moreover, demand from China for construction equipment vigorously increased. There was a continued boom in capital expenditures related to semiconductors, and the associated demand continued to be robust. Prices of scrap steel, a key raw material, increased year on year mainly due to the impact of the rising prices of steel products in China.

As a result, the Daido Steel Group's net sales in fiscal 2017 increased by ¥60,096 million year on year to ¥505,219 million, due to a rise in sales prices in line with an increase in sales volumes and rises in raw material prices. Ordinary income rose by ¥9,757 million to ¥36,130 million, due to the positive contribution of higher sales volumes and other factors. Net income attributable to owners of the parent increased by ¥7,535 million to ¥23,921 million.

Outlook for Fiscal 2018

The global economy is likely to keep expanding at a moderate pace amid robust employment conditions in advanced countries. The Chinese economy should see relatively stable growth thanks to government stimulus measures, although there are latent risks related to real estate prices and excessive debt. Based on this outlook, the favorable environment should continue in terms of demand, including continued robust demand for our core customers in the automobile industry. However, there will be significant rises in raw material prices, such as for scrap steel and alloys and auxiliary materials including graphite electrodes used for manufacturing, and in energy costs. It is inevitable that we must pass on these increased costs in our sales prices.

Although we expect that the favorable demand environment will continue, there are uncertainties as well about factors that can impact the world economy, including the protectionist movement in the U.S. and the geopolitical risks of North Korea, the Middle East, Russia and elsewhere. We need to closely watch these factors. In addition, the Daido Steel Group recognizes the ongoing need to monitor risks that could impact the Group, such as the risk of weaker demand due to foreign exchange fluctuations and the risk of price fluctuations in raw materials and fuel.

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

SPECIALTY STEEL

We expect sales volume of structural steel in fiscal 2018 will continue to be favorable as in fiscal 2017, based on the outlook for continued robust global demand from the automotive sector, a major source of demand for this steel. In tool steel, we anticipate the favorable demand conditions of fiscal 2017 to continue. However, there will be significant rises in the costs of raw materials, such as for scrap steel and alloys and auxiliary materials including graphite electrodes used for manufacturing, and in energy costs. We will seek to obtain our customers' understanding as we review sales prices in order to secure a consistently sustainable profit margin.

HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS

We expect the sales volumes of high performance products, such as stainless steel, high alloys and powder metal, will increase, assuming robust demand continues in the automobile and semiconductor industries and improvements in the fuel economy of internal combustion engines for automobiles increase usage. In magnetic products, we are concentrating on the increasing use of electronics in automobiles and electrical applications.

PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

In free forgings, we are focusing on keeping up with ongoing brisk demand for civil aircraft and responding to strong demand related to semiconductor production. In turbo-related products, we will work on achieving mass production at the new plant for precision cast products (second plant for turbine housing) completed this year, considering the likelihood of continued growth in the expansion of demand from an increasing ratio of gasoline engines with turbos installed. In engine valves, we are working on launching the mass production of head hollow valves that contribute to improving the fuel consumption of automobiles.

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 increase sales of vacuum carburizing furnaces and suchlike to auto parts makers.

TRADING AND SERVICE

In the trading and service segment, demand should be at the same level as in 2017.

Based on the above, for fiscal 2018, the Daido Steel Group forecasts consolidated net sales of ¥550.0 billion, operating income of ¥36.5 billion, ordinary income of ¥37.0 billion, and net income attributable to owners of the parent of ¥24.0 billion.

Medium- to Long-Term Management Strategy

Private and public entities have begun initiatives to realize a sustainable society all over the world. Even among our customers, the reduction of emissions that contribute to global warming is a major topic for them, and they require high levels of efficiency for the internal combustion engines of automobiles and jet engines of aircraft.

In the automobile industry moreover, a major technological innovation is about to occur—the kind of innovation that occurs only once every 100 years, such as the diversification of power trains to proliferate the use of electronics and similar devices and the expanding use of automated cars and connected cars. Furthermore, the digital revolution marches onward, taking advantage of big data, AI (artificial intelligence) and IoT (Internet of Things), and ushering in transformations in a wide variety of industries. As a result, the Daido Steel Group expects that demand for semiconductors will increase and the automation of various processes and suchlike by robots will develop further.

In this business environment, we formulated our medium-term business plan (Daido Steel Group 2020 Mid-Term Management Plan), a three-year plan through fiscal 2020 (the fiscal year ending March 31, 2021), and publicly announced it in June 2018. By providing the high performance materials that our customers need, we aim to firmly support these evolutionary and technological innovations. The Group will put into practice its basic management policies and guidelines for corporate activities, and work to achieve the management performance indicators described in the pages that follow.

June 2018

Takeshi Ishiguro
President

Basic management policy

Beyond the Special

We support our customers' technological innovations by supplying high performance materials.

A big wave of technological innovation is occurring throughout many industries. The automobile sector, one of our major sources of customers, is bursting with new product possibilities, like highly efficient internal combustion engines, electric vehicles and self-driving cars.

DAIDO STEEL is providing an agile response to this astonishing revolution that comes only once every 100 years and the digital-age innovations that help drive it. We are committed to supporting our customers' technological innovations by supplying the high performance materials they need.

In consideration of the business environment points listed on the left, we have set forth the following three guidelines in order to reliably support increased demand for materials with excellent functionality, as well as our customers' technological innovations.

<Global issues>

- Global warming
- Destruction of the natural environment
- Increased populations in emerging countries and decline of the working-age population in Japan

<Changes in market, Technical innovation>

- Highly efficient internal combustion engines
- Electric vehicles and self-driving cars
- Digitalization (big data, AI, IoT, FA, etc.)

Guidelines for corporate activities

Portfolio reform

Shift from structural materials to high performance materials

Enhance our business fundamentals

Improve the break-even point and strengthen our corporate structure

Rebuild our business

Stronger focus on die forging and turbine housing businesses

Portfolio reform

■ High performance materials and magnetic materials

- Expand our production capacity corresponding to the increase in demand
  Stainless steel, high alloys, high performance powder products, high performance LED products
- Promote a growth strategy for high performance neodymium magnets

■ Parts for automobile and industrial equipment

- Reliably support market growth for open free forgings
- Expand production capacity to increase global market share for engine valves

■ Engineering

- Reduce environmental impact by reducing the energy consumption of electric furnaces, Streamline automotive parts heat treatment and renovate the production line

Enhance our business fundamentals

■ Specialty steel

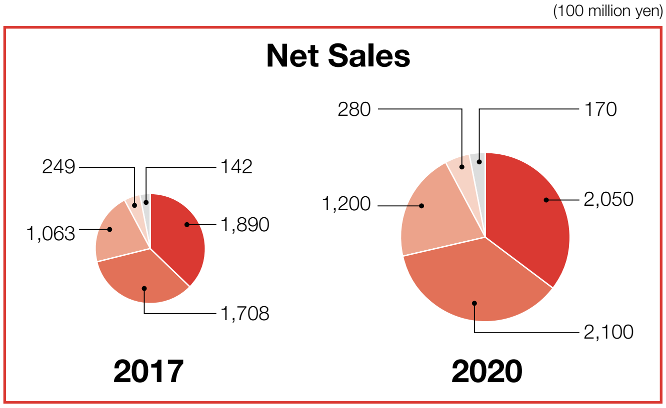
- Attract stable demand for specialty steel, implement initiatives for the near future
- Secure sustainable profit margins for structural steel by rethinking our selling price to account for the rising costs of materials
- Secure the Chita Plant's structural steel production capacity

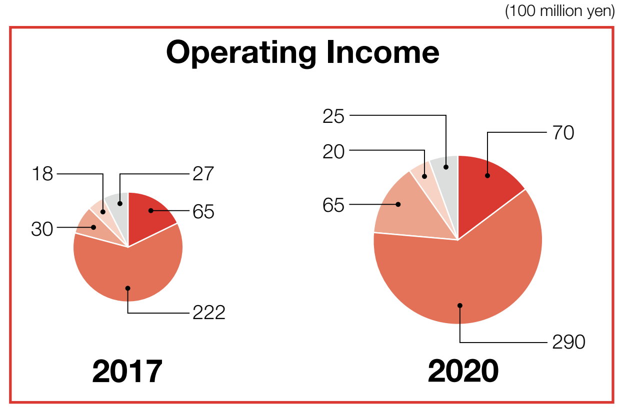
Rebuild our business

■ Parts for automobile and industrial equipment

- Rethink emphasis on domestic business and accelerate overseas growth for die forgings
- Respond to increases in demand for turbocharger components

Net Sales & Operating Income by Segment
(Compared to the last year of the Mid-Term Management Plan)





■ Specialty Steel ■ High Performance Materials & Magnetic Materials ■ Parts for Automobile & Industrial Equipment ■ Engineering ■ Trading & Service

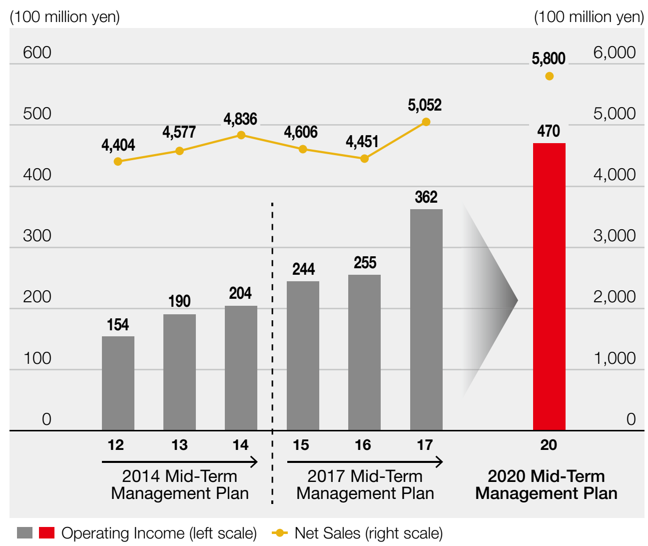
・Please refer to the presentation document for details regarding the 2020 Mid-Term Management Plan.
https://www.daido.co.jp/en/ir/presentation/2020mid.pdf

Objectives of the 2017 Mid-Term Management Plan
(Target vs Results)

(*:100 million yen)

	Results of FY2017	Target for FY2020
Net sales	5,052*	5,800*
Operating income	362*	470*
Net income	239*	300*
ROS	7.2%	8%
ROA	5.9%	7%
ROE	8.8%	9%
Capital investment (Three years total, Construction base)	877*	950*
Dividend payout ratio	21.4%	20~25%

Net Sales and Operating Income
(Consolidated)



[Capital investment (Total from fiscal 2018 to 2020)]

Continue vigorous investment in growing businesses

Capital investment (based on construction)	2017 Mid-Term Results 87.7 billion yen for 3 years	2020 Mid-Term Management Plan **95.0 billion yen** **for 3 years**

(Depreciation costs: 66.5 billion yen for 3 years 72 billion yen for 3 years)

[Enhance our ability to provide solutions]

To enhance our ability to provide solutions by collaborating with customers, we will integrate the proposing of specialty steel and solutions materials solutions to implement priority strategies as projects.

I) Electrification and self-driving products project

II) High performance turbocharger parts project

III) Semiconductor manufacturing equipment project

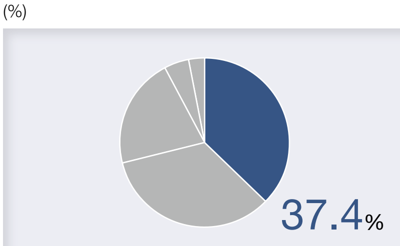
IV) High performance powder products project

SPECIALTY STEEL

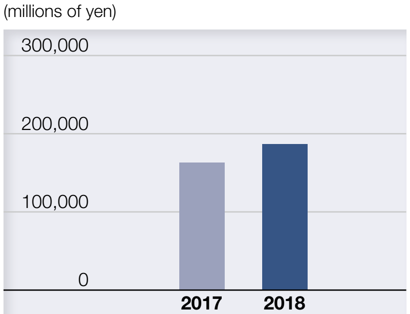
MAIN PRODUCTS

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

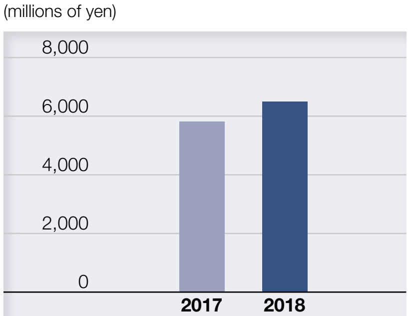
SHARE OF NET SALES
(%)



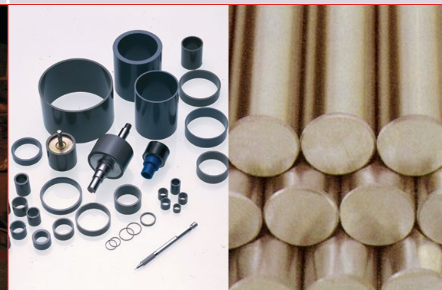
NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME Years ended March 31
(millions of yen)



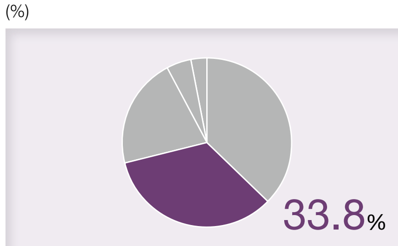
HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS



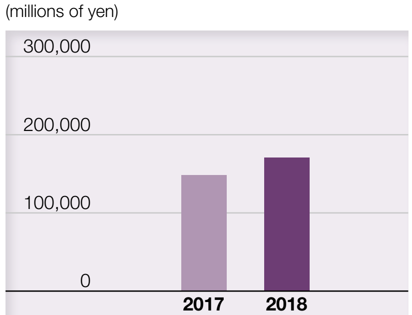
MAIN PRODUCTS

Stainless steel, nickel-based alloys, electrical and electronic 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

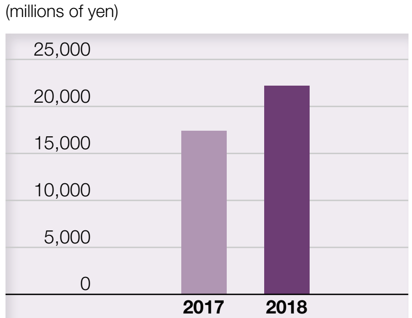
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME Years ended March 31
(millions of yen)

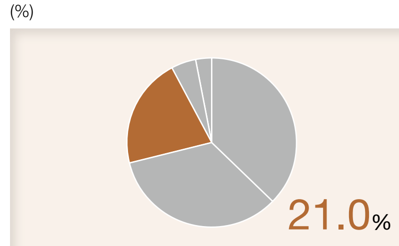


PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

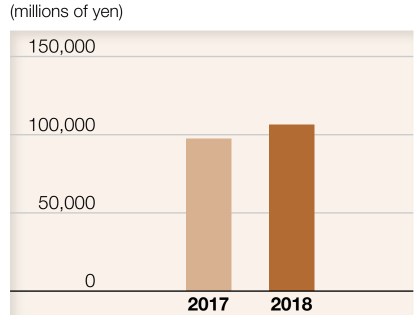
MAIN PRODUCTS

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, steelmaking 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

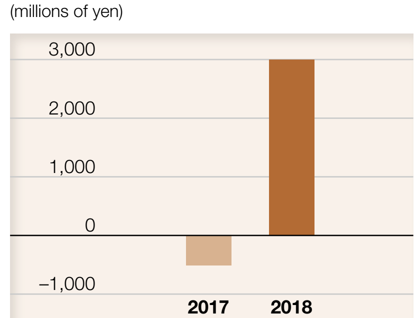
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME Years ended March 31
(millions of yen)

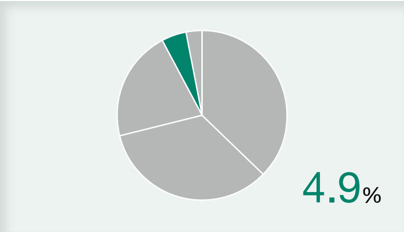


ENGINEERING

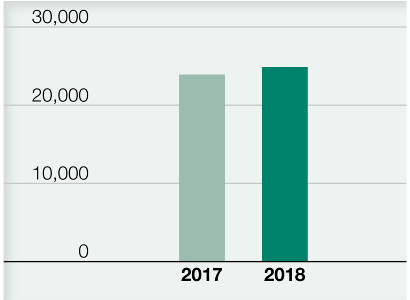
MAIN PRODUCTS

Steelmaking equipment, industrial furnaces and facilities, environmental equipment (for drainage, exhaust, waste disposal and treatment facilities), machine tools, machine maintenance

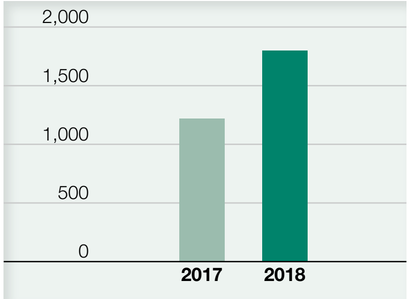
SHARE OF NET SALES
(%)



NET SALES Years ended March 31
(millions of yen)



OPERATING INCOME Years ended March 31
(millions of yen)

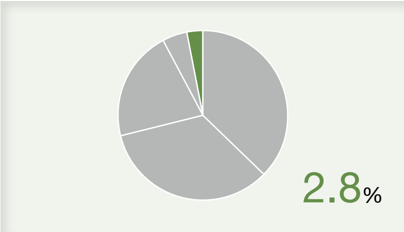


TRADING AND SERVICE

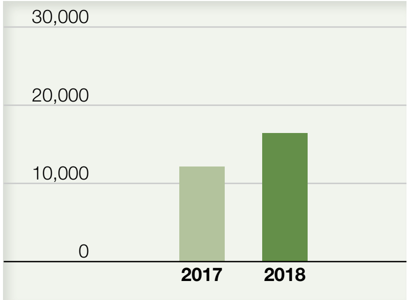
MAIN PRODUCTS

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

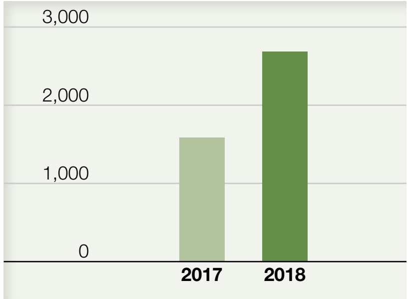
SHARE OF NET SALES
(%)



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 types and amount of alloy, one of the special features of the business is that products are developed to meet the specific applications required by users. The automobile and industrial machinery sectors are the primary users of specialty steel, accounting for about 80% of sales in this business segment.

Tool steel from Daido Steel

Results of Operations

Sales volume for structural steel increased year on year, mainly due to favorable sales in the automotive sector, a major source of demand for this steel, and a recovery in demand for industrial machines in China. Sales volume of tool steel increased year on year as inventory adjustments ended. The cost of steel scrap, the main raw material, rose year on year mainly due to the impact of the rising prices of steel products in China. Sales prices also increased year on year in line with this trend.

As a result, the specialty steel segment's net sales in fiscal 2017 increased 14.9% year on year to ¥189,095 million, due primarily to higher sales volume and an increase in sales prices in connection with rising raw material prices. Operating income increased by ¥664 million to ¥6,478 million.

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 automobiles, computers, mobile phones and consumer electronics.

Key products include stainless steel products, rare earth magnets, high alloys, titanium products, and high performance powder metal products.

NEOQUENCH-DR (Nd-Fe-B ring magnets) for EPS motors

Results of Operations

Sales volume of stainless steel products increased year on year, driven by strong demand for use in automobiles and semiconductors. Sales volume of high alloys increased year on year atop higher automobile-related demand. Sales volume of magnetic products rose year on year primarily due to a continued increase in demand for use in electronic power steering systems, in addition to higher demand for use in the drive motors of hybrid vehicles. Powder metal products saw sales volume remain mostly unchanged from the previous fiscal year, as firm demand for use in hybrid vehicles and other applications was largely offset by some weakness in demand for overseas automobile components.

As a result, net sales for the high performance materials and magnetic materials segment in fiscal 2017 increased 15.0% year on year to ¥170,788 million, due primarily to higher sales volume and an increase in sales prices in connection with rising raw material prices. Operating income rose by ¥4,779 million to ¥22,196 million as higher sales volume and an improved sales composition contributed positively to earnings.

PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

Overview of Business

This segment contributes around 21% of consolidated net sales. It manufactures die forged parts such as crankshafts using specialty steel, precision cast parts for use in turbochargers, 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.

In this segment, Daido Steel has a high market share in numerous product categories, including aircraft jet engine shafts, automobile engine valves and turbine wheels. We will continue to develop and launch new products that differentiate us from competitors and support our position as a provider of advanced parts.

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

Results of Operations

Net sales of free forged products increased year on year, due to increased demand for use in semiconductors, along with solid aircraft-related demand. Net sales of die forged products and engine valves increased year on year, owing to favorable automobile sales. Net sales of precision cast products rose year on year, reflecting continuing growth in turbocharger-related demand.

As a result, net sales in the parts for automobile and industrial equipment segment for fiscal 2017 increased 9.0% year on year to ¥106,288 million. Operating income rose by ¥3,586 million to ¥3,070 million, as higher sales volume and an improved sales composition contributed positively to earnings.

Jet Engine Shaft

ENGINEERING

Overview of Business

This segment generates about 5% of consolidated net sales. Major activities include the design and manufacture of, and related after-sales services for, melting and refining equipment such as arc furnaces and ladle furnaces (LF), heat treatment furnaces for auto parts such as vacuum carburizing furnaces and STC® (Short Time Cycle) annealing furnaces, and environmental equipment such as sewage sludge carbonization furnaces and automobile tunnel filters, as well as machine tools.

With respect to heat treatment furnaces for auto parts in particular, the operation and engineering technologies we have fostered over the years support our cutting-edge engineering business worldwide, 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 improvements in quality for customers and energy reduction in a wide variety of settings.

Results of Operations

In the engineering segment, sales of vacuum carburizing furnaces and parts increased. As a result, engineering segment sales for fiscal 2017 increased 4.0% year on year to ¥24,865 million, while operating income increased by ¥617 million to ¥1,835 million.

Daido Arc Process (DAP)

TRADING AND SERVICE

Overview of Business

The major activities of this segment, which accounts for approximately 3% 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

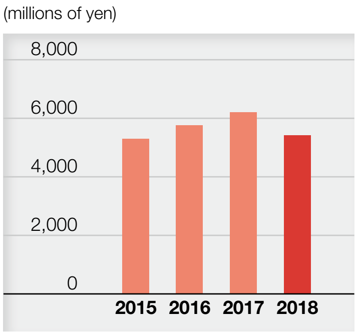
Net sales in the trading and service segment for fiscal 2017 rose 33.7% year on year to ¥14,182 million, while operating income increased by ¥1,103 million to ¥2,686 million. These increases partly reflected growth in transaction volume, mainly owing to higher sales volumes of specialty steel and high performance materials.

Leveraging its advanced technology capabilities in specialty steel, the Daido Steel Group has declared its management philosophy of "pursuing the potential of materials to support our future," and 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. We employ a total of 286 researchers throughout the Daido Steel Group.

R&D expenses for the Daido Steel Group during the fiscal year under review amounted to ¥5,419 million. An explanation of our R&D efforts by segment, including purpose, major achievements, and expenditures follows.

R&D EXPENDITURES
Years ended March 31



(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 ¥1,300 million. The following is one of our major achievements in this area.

- **1600 MPa class ultra-high-strength quenched and tempered bolts**

Daido Steel has developed 1600 MPa class quenched and tempered steel for bolts tightened in plastic regions, a first for the automotive field. Japanese automakers have adopted the material for use in engine parts, and we have begun mass producing it. We tackled the issue of increased susceptibility to delayed fractures caused by hydrogen when making steel stronger by adding an appropriate amount of alloying additives and establishing the proper processing conditions to spherically disperse carbides, which have a detrimental effect. In addition, we have secured stable, mass production quality capable of preventing quench cracking, which is a problem during manufacturing.

- **RPD815 steel for plastic molds**

Daido Steel has developed material for molds suitable for forming plastic optical products. By getting the composition just right, the material reduces rust formation on the mold while maintaining machinability. Having gained recognition for enabling detailed shape machining while reducing defects from optical products becoming contaminated by rust that forms on molds, the material has been selected for use in molds for LED light guide plates, which are increasingly being used in automotive lamps.

- **Phased array ultrasonic testing technology for high-attenuation steel billets**

Daido Steel uses ultrasonic testing to assure the internal quality of specialty steel products. To meet customer requests for strict quality control, Daido Steel has developed even more precise testing technologies for use in the manufacturing process. For steel billets, for which it had been difficult to conduct ultrasonic testing due to impact from the coarse crystalline structures, we have enhanced our quality assurance capabilities by introducing high-precision flaw inspection equipment.

(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 ¥2,653 million. The following are some of our major achievements in this area.

- **World-leading soft magnetic materials with high magnetic permeability: MENPC2-S and MENPB-S**

Daido Steel has developed world-class soft magnetic materials with high magnetic permeability, which can be used in increasingly sensitive sensors for which demand is growing as the electrification of automobiles and automated driving advance. We will take this opportunity to expand our lineup of soft magnetic materials with high magnetic permeability and sell them for use in various automotive sensors.

• **Heavy rare earth-free magnets for HEVs win Minister's Prize in the Monodzukuri Nippon Grand Awards**

The neodymium magnets that Daido Electronics Co., Ltd., a member of the Daido Steel Group, manufactures using its proprietary hot deformation method earned it the Ministry of Economy, Trade and Industry (METI) Minister's Prize in the Seventh Monodzukuri Nippon Grand Awards together with a Japanese automaker. The number of vehicle models using the magnets has been gradually expanding since the magnets were brought into use in September 2016, and we aim to further enhance performance to bring the magnets into even wider use.

(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 ¥1,334 million. The following is one of our major achievements in this area.

• **Heat-resistant titanium alloy DAT54 achieves AMS certification**

The heat-resistant titanium alloy DAT54 developed by Daido Steel passed inspections by the U.S. Aerospace Material Specifications (AMS) organization, and was issued the specification AMS6952 to cover the UNS R56643 titanium alloy sheet on March 3, 2018. DAT54's outstanding heat resistance enables its use in rotors, an especially important aircraft engine part. It is the first heat-resistant titanium alloy developed in Japan to earn the AMS certification. Moving ahead, we will work to expand its use in the aircraft field.

(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 costs for the fiscal year under review in this segment totaled ¥130 million.

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 such measures as 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 casting. Due to the benefits and operational improvements from cumulative investments of approximately ¥5.0 billion made from 2006 to 2012, and to changes in production levels, the 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. This led to rationalizing effects being evident throughout the year, and resulted in a 3% improvement in CO_2 emissions per ton of production. Subsequently, further improvements were made in fiscal 2017 as a result of the benefits from introducing ladle preheating oxygen combustion in the steelmaking process.

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 one company in the Japan Business Federation (Keidanren) and one company in the Japan Iron and Steel Federation, 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.

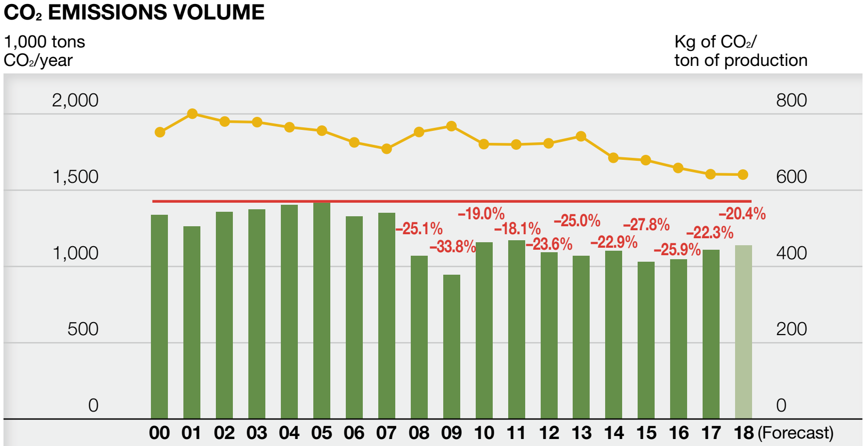
Strengthening the CSR Promotion Framework

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)

CO_2 EMISSIONS VOLUME



CO_2 emissions volume (left scale)
CO_2 emissions per ton of production (right scale)
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 to determining the Daido Steel Group Management Philosophy and Guidelines, the Company has also established the Daido Steel Corporate Code of Ethics to clarify its responsibilities as a corporation that contributes to society. Through these measures, the Company endeavors to maintain its foundation as a corporation that is open to society.

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.

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.

The Company has formulated regulations for emergency countermeasures in the event of a major accident or other issue, with the purpose of promptly sharing information with concerned parties, speedy and smooth response to the issue, and minimizing the impact on business activities. The Company disseminated the regulations to all employees and Group companies while determining rules for emergency countermeasures and contact systems with the Group companies. The Company and Group companies also participate in Group CRM study sessions for information exchange and the study of auditing techniques related to risk management, compliance, internal controls and other topics.

Efforts to Enhance Compliance

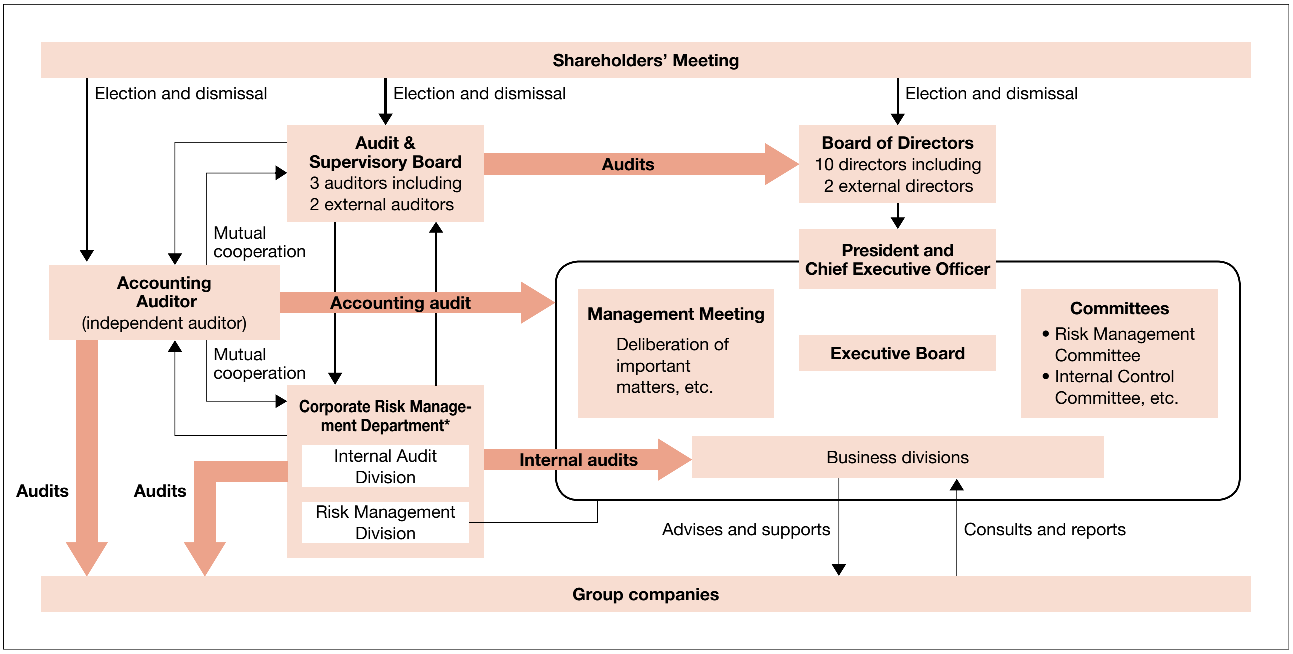
Daido Steel has established the Daido Steel Corporate Code of Ethics and the Daido Steel Code of Conduct, and works to disseminate them to all employees and Group companies. The Company also maintains a hotline for the purpose of consultation and reporting on compliance for employees in charge of risk management and compliance, as well as directors in charge of 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 27, 2018)



* As of June 28, 2017, Daido has realigned its organization to strengthen the auditing and risk management operations, and changed the Auditing Department to the Corporate Risk Management Department.

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

Tsukasa Nishimura

Kazuto Tachibana

DIRECTORS, MANAGING EXECUTIVE OFFICERS

Satoshi Yoshida

Susumu Shimura

Takeshi Muto

Hajime Amano

DIRECTORS (OUTSIDE DIRECTORS)

Tadashi Imai

Hitoshi Tanemura

MANAGING EXECUTIVE OFFICERS

Kazuhiko Hirabayashi
Yoshiaki Mori
Hirotaka Yoshinaga

EXECUTIVE OFFICERS

Tomoki Hanyuda
Kimihiko Seki
Hiroshi Matsui
Kunihito Kawanishi
Takaaki Taketsuru
Tetsuya Shimizu
Kazuhiro Toshimitsu
Akihito Kajita
Yuji Noguchi
Toshiaki Yamashita
Tadayuki Kashima
Tatsushi Iwata

AUDIT AND SUPERVISORY BOARD MEMBERS

Toshinori Koike
Shinichi Nishikawa
Kenji Matsuo

CONTENTS

OVERVIEW OF OPERATING ENVIRONMENT AND PERFORMANCE

In fiscal 2017, ended March 31, 2018, the Japanese economy remained on a gradual recovery path, supported by a continuing moderate recovery in consumer spending due to improvements in employment and income conditions, along with improved industrial production in the corporate sector. In the U.S., the steady economic recovery continued as consumer spending and capital expenditures increased. In Europe, the gradual economic recovery continued due to robust employment conditions. The Chinese economy has also been in a good condition thanks to increased exports.

Under these economic circumstances, the Japanese automobile industry, a key source of demand for specialty steel, continued its strong performance because in addition to the recovery in domestic sales there was an increase in sales in China. Moreover, demand from China for industrial machines vigorously increased. There was a continued boom in capital expenditures related to semiconductors, and the associated demand continued to be robust. Prices of scrap steel, a key raw material, increased year on year mainly due to the impact of the rising prices of steel products in China.

As a result, the Daido Steel Group's net sales in fiscal 2017 increased by ¥60,096 million year on year to ¥505,219 million, due to a rise in sales prices in line with an increase in sales volume and rises in raw material prices. Ordinary income rose by ¥9,757 million to ¥36,130 million, due to the positive contribution of higher sales volumes and other factors. Net income attributable to owners of the parent increased by ¥7,535 million to ¥23,921 million.

BUSINESS SEGMENT PERFORMANCE

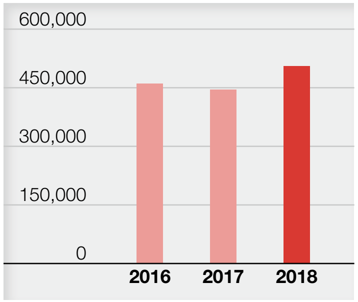
Specialty Steel

Sales volume for structural steel increased year on year, mainly due to favorable sales in the automotive sector, a major source of demand for this steel, and a recovery in demand for industrial machines in China. Sales volume of tool steel increased year on year as inventory adjustments ended. The cost of steel scrap, the main raw material, rose year on year mainly due to the impact of the rising prices of steel products in China. Sales prices also increased year on year in line with this trend.

As a result, the specialty steel segment's net sales in fiscal 2017 increased by 14.9% year on year to ¥189,095 million, due primarily to higher sales volume and an increase in sales prices in connection with rising raw material prices. Operating income increased by ¥664 million to ¥6,478 million.

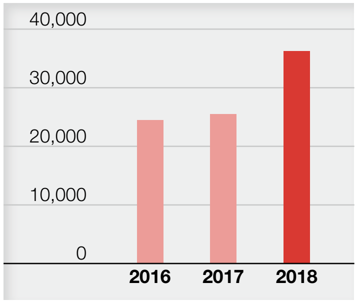
NET SALES
Years ended March 31

(millions of yen)

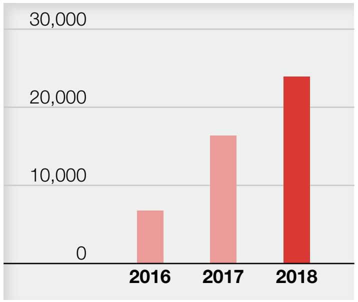


OPERATING INCOME
Years ended March 31

(millions of yen)



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



High Performance Materials and Magnetic Materials

Sales volume of stainless steel products increased year on year, driven by strong demand for use in automobiles and semiconductors. Sales volume of high alloys increased year on year atop higher automobile-related demand. Sales volume of magnetic products rose year on year primarily due to a continued increase in demand for use in electronic power steering systems, in addition to higher demand for use in the drive motors of hybrid vehicles. Powder metal products saw sales volume remain mostly unchanged from the previous fiscal year, as firm demand for use in hybrid vehicles and other applications was largely offset by some weakness in demand for overseas automobile components.

As a result, net sales for the high performance materials and magnetic materials segment in fiscal 2017 increased by 15.0% year on year to ¥170,788 million, due primarily to higher sales volume and an increase in sales prices in connection with rising raw material prices. Operating income rose by ¥4,779 million to ¥22,196 million as higher sales volume and an improved sales composition contributed positively to earnings.

Parts for Automobile and Industrial Equipment

Net sales of free forged products increased year on year, due to increased demand for use in semiconductors, along with solid aircraft-related demand. Net sales of die forged products and engine valves increased year on year, owing to favorable automobile sales. Net sales of precision cast products rose, reflecting continuing growth in turbocharger-related demand.

As a result, net sales in the parts for automobile and industrial equipment segment for fiscal 2017 increased by 9.0% year on year to ¥106,288 million. Operating income rose by ¥3,586 million to ¥3,070 million, as higher sales volume and an improved sales composition contributed positively to earnings.

Engineering

In the engineering segment, sales of vacuum carburizing furnaces and parts increased. As a result, engineering segment sales for fiscal 2017 increased by 4.0% year on year to ¥24,865 million, while operating income increased by ¥617 million to ¥1,836 million.

Trading and Service

Net sales in the trading and service segment for fiscal 2017 rose by 33.7% year on year to ¥14,182 million, while operating income increased by ¥1,103 million to ¥2,686 million. These increases partly reflected growth in transaction volume, mainly owing to higher sales volumes of specialty steel and high performance materials.

RESEARCH AND DEVELOPMENT

R&D costs for the entire Daido Steel Group during the fiscal year under review totaled ¥5,419 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 ¥1,300 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 ¥2,653 million.

CAPITAL EXPENDITURES BY SEGMENT

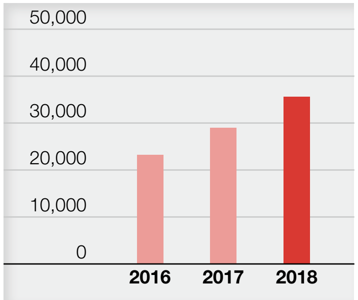
Years ended March 31

	Millions of Yen		
	2018	2017	Change (%)
Specialty Steel	**¥ 8,207**	¥ 7,528	9.0
High Performance Materials and Magnetic Materials	**12,087**	9,844	22.8
Parts for Automobile and Industrial Equipment	**14,139**	10,503	34.6
Engineering	**254**	273	(7.1)
Trading and Service	**919**	793	16.0
Total	**¥35,606**	¥28,941	23.0

CAPITAL EXPENDITURES

Years ended March 31

(millions of yen)



(3) Parts for Automobile and Industrial Equipment

Mainly the responsibility of Daido Steel, R&D in this segment concentrates on development of turbochargers, engine valves and other automotive parts, and parts for various types of industrial machinery. R&D costs for the fiscal year under review in this segment totaled ¥1,334 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 ¥130 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, 2018 (hereafter, "cash") amounted to ¥40,259 million, representing an increase of ¥6,573 million year on year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥31,044 million, increasing by ¥2,653 million from the previous fiscal year. This mainly reflected income before income taxes of ¥36,831 million.

Cash Flows from Investing Activities

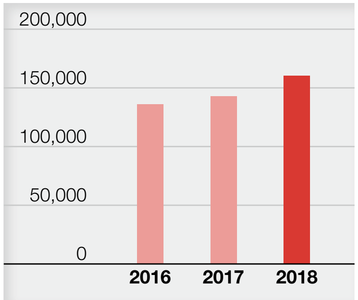
Net cash used in investing activities totaled ¥30,216 million, increasing by ¥3,766 million from the previous fiscal year. The major cash outflows included ¥30,254 million in purchases of property, plant, and equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥5,478 million, increasing by ¥7,320 million from net cash used in the previous fiscal year. The main cash inflow was a net increase in short-term bank loans of ¥17,419 million.

INTEREST-BEARING DEBT
Years ended March 31

(millions of yen)



CONSOLIDATED BALANCE SHEET

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2018**	2017	**2018**
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	**¥ 40,259**	¥ 33,686	**$ 379,802**
Time deposits (Notes 9 and 16)	**1,909**	1,281	**18,010**
Receivables:			
Trade (Note 16)	**134,153**	113,215	**1,265,594**
Other	**1,330**	1,278	**12,547**
Total receivables	**135,483**	114,493	**1,278,141**
Inventories (Note 5)	**115,064**	98,478	**1,085,509**
Deferred tax assets (Note 12)	**4,588**	4,276	**43,283**
Prepaid expenses and other current assets	**4,658**	5,160	**43,943**
Allowance for doubtful accounts	**(65)**	(165)	**(613)**
Total current assets	**301,896**	257,209	**2,848,075**
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 7 and 9)	**36,083**	35,474	**340,406**
Buildings and structures (Notes 6, 7 and 9)	**190,688**	173,103	**1,798,943**
Machinery and equipment (Notes 6 and 9)	**485,110**	469,941	**4,576,510**
Construction in progress	**5,953**	3,306	**56,160**
Total	**717,834**	681,824	**6,772,019**
Accumulated depreciation	**(505,805)**	(490,909)	**(4,771,745)**
Net property, plant, and equipment	**212,029**	190,915	**2,000,274**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4, 9 and 16)	**85,154**	76,310	**803,340**
Investments in unconsolidated subsidiaries and associated companies (Note 16)	**21,109**	22,617	**199,141**
Asset for employees' retirement benefits (Note 10)	**19,139**	21,091	**180,557**
Deferred tax assets (Note 12)	**829**	621	**7,821**
Other investments and assets	**4,886**	5,406	**46,094**
Total investments and other assets	**131,117**	126,045	**1,236,953**
TOTAL	**¥ 645,042**	¥ 574,169	**$ 6,085,302**

LIABILITIES AND EQUITY	Millions of Yen 2018	2017	Thousands of U.S. Dollars (Note 1) 2018
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 16)	**¥ 50,156**	¥ 31,108	**$ 473,170**
Current portion of long-term debt (Notes 8, 9 and 16)	**30,909**	16,127	**291,594**
Payables:			
Trade (Notes 9 and 16)	**90,381**	75,160	**852,651**
Acquisitions of property, plant, and equipment	**13,866**	8,895	**130,811**
Total payables	**104,247**	84,055	**983,462**
Income taxes payable (Note 16)	**7,447**	4,636	**70,255**
Accrued expenses	**12,915**	11,429	**121,840**
Provision for environmental measures (Note 2 (m))	**653**	402	**6,160**
Other current liabilities (Note 9)	**5,812**	5,034	**54,830**
Total current liabilities	**212,139**	152,791	**2,001,311**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 16)	**78,981**	94,979	**745,104**
Liability for employees' retirement benefits (Note 10)	**9,642**	9,220	**90,962**
Retirement allowance for directors and Audit & Supervisory Board members	**798**	832	**7,529**
Provision for environmental measures (Note 2 (m))	**3,086**	3,428	**29,113**
Deferred tax liabilities (Note 12)	**21,293**	19,517	**200,877**
Other long-term liabilities	**2,693**	2,901	**25,406**
Total long-term liabilities	**116,493**	130,877	**1,098,991**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 18)			
EQUITY (Note 11)**:**			
Common stock*:			
Authorized: 116,000 thousand shares			
Issued: 43,448 thousand shares in 2018 and 2017	**37,172**	37,172	**350,679**
Capital surplus	**30,337**	29,928	**286,198**
Retained earnings	**187,799**	169,497	**1,771,689**
Treasury stock*, at cost:			
817 thousand shares in 2018 and 813 thousand shares in 2017	**(3,644)**	(3,613)	**(34,377)**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**27,498**	21,236	**259,415**
Deferred gain on derivatives under hedge accounting	**0**	1	**0**
Land revaluation surplus	**1,805**	1,814	**17,028**
Foreign currency translation adjustments	**1,756**	1,452	**16,566**
Defined retirement benefit plans	**1,712**	2,365	**16,151**
Total	**284,435**	259,852	**2,683,349**
Noncontrolling interests	**31,975**	30,649	**301,651**
Total equity	**316,410**	290,501	**2,985,000**
TOTAL	**¥645,042**	¥574,169	**$6,085,302**

* Shares have been restated, as appropriate, to reflect a one-for-ten reverse stock split effected October 1, 2017.
See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	**2018**
NET SALES	**¥505,219**	¥445,123	**$4,766,217**
COST OF SALES (Note 13)	**412,713**	366,688	**3,893,519**
Gross profit	**92,506**	78,435	**872,698**
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 13 and 14)	**56,288**	52,921	**531,019**
Operating income	**36,218**	25,514	**341,679**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**1,936**	1,870	**18,264**
Interest expense	**(941)**	(967)	**(8,877)**
Equity in earnings of associated companies	**978**	811	**9,226**
Gain on transfer of assets from employee retirement benefit trust (Note 10)	**–**	2,524	**–**
Gain on sales of investment securities and investments in unconsolidated subsidiaries and associated companies—net	**–**	152	**–**
Foreign exchange loss	**(127)**	(423)	**(1,198)**
Provision for environmental measures (Note 2 (m))	**(747)**	(444)	**(7,047)**
Expenses for environmental measures	**(550)**	(443)	**(5,189)**
Loss on sales and disposals of property, plant, and equipment—net	**(322)**	(111)	**(3,038)**
Investment rents received	**75**	547	**708**
Write-down of investment securities and investments in associated companies (Note 4)	**–**	(75)	**–**
Impairment loss on long-lived assets (Note 6)	**–**	(1,957)	**–**
Other—net	**311**	(86)	**2,934**
Other income (expenses)—net	**613**	1,841	**5,783**
INCOME BEFORE INCOME TAXES	**36,831**	27,355	**347,462**
INCOME TAXES (Note 12)**:**			
Current	**11,218**	7,515	**105,830**
Deferred	**(1,075)**	1,576	**(10,142)**
Total income taxes	**10,143**	9,091	**95,688**
NET INCOME	**26,688**	18,264	**251,774**
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**2,767**	1,878	**26,104**
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	**¥ 23,921**	¥ 16,386	**$ 225,670**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2 (u))**:**			
Basic net income*	**¥ 561.08**	¥ 385.92	**$ 5.29**
Cash dividends applicable to the year*	**120.00**	100.00	**1.13**

	Thousands	
WEIGHTED-AVERAGE NUMBER OF OUTSTANDING SHARES OF COMMON STOCK*	**42,633**	42,459

* Per share figures and shares have been restated, as appropriate, to reflect a one-for-ten reverse stock split effected October 1, 2017.
See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	**2018**
NET INCOME	**¥26,688**	¥18,264	**$251,774**
OTHER COMPREHENSIVE INCOME (Note 19)**:**			
Unrealized gain on available-for-sale securities	**6,188**	7,339	**58,377**
Deferred (loss) gain on derivatives under hedge accounting	**(1)**	1	**(9)**
Foreign currency translation adjustments	**621**	(855)	**5,858**
Defined retirement benefit plans	**(628)**	4,866	**(5,924)**
Share of other comprehensive income in associates	**79**	41	**745**
Total other comprehensive income	**6,259**	11,392	**59,047**
COMPREHENSIVE INCOME	**¥32,947**	¥29,656	**$310,821**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	**¥29,987**	¥27,875	**$282,896**
Noncontrolling interests	**2,960**	1,781	**27,925**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2018

	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, 2016	42,701	¥37,172	¥28,722	¥155,251	¥(3,560)	¥13,826	¥ 0
Net income attributable to owners of the parent	–	–	–	16,386	–	–	–
Cash dividends, ¥65 per share	–	–	–	(2,736)	–	–	–
Purchase of treasury stock	(1,204)	–	–	–	(4,988)	–	–
Disposal of treasury stock	1,138	–	(0)	–	1	–	–
Adjustment of retained earnings for changes in the scope of consolidation	–	–	–	590	–	–	–
Increase due to stock exchange	–	–	311	–	4,934	–	–
Change in the parent's ownership interest due to transactions with noncontrolling interests	–	–	895	–	–	–	–
Reversal of land revaluation surplus	–	–	–	6	–	–	–
Net change in the year	–	–	–	–	–	7,410	1
BALANCE, MARCH 31, 2017	42,635	37,172	29,928	169,497	(3,613)	21,236	1
Net income attributable to owners of the parent	**–**	**–**	**–**	**23,921**	**–**	**–**	**–**
Cash dividends, ¥120 per share	**–**	**–**	**–**	**(5,118)**	**–**	**–**	**–**
Purchase of treasury stock	**(4)**	**–**	**–**	**–**	**(31)**	**–**	**–**
Disposal of treasury stock	**0**	**–**	**–**	**–**	**0**	**–**	**–**
Adjustment of retained earnings for changes in the scope of consolidation	**–**	**–**	**–**	**(510)**	**–**	**–**	**–**
Change in the parent's ownership interest due to transactions with noncontrolling interests	**–**	**–**	**409**	**–**	**–**	**–**	**–**
Reversal of land revaluation surplus	**–**	**–**	**–**	**9**	**–**	**–**	**–**
Net change in the year	**–**	**–**	**–**	**–**	**–**	**6,262**	**(1)**
BALANCE, MARCH 31, 2018	**42,631**	**¥37,172**	**¥30,337**	**¥187,799**	**¥(3,644)**	**¥27,498**	**¥ 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, 2016	¥1,821	¥2,044	¥(2,443)	¥232,833	¥35,513	¥268,346
Net income attributable to owners of the parent	–	–	–	16,386	–	16,386
Cash dividends, ¥65 per share	–	–	–	(2,736)	–	(2,736)
Purchase of treasury stock	–	–	–	(4,988)	–	(4,988)
Disposal of treasury stock	–	–	–	1	–	1
Adjustment of retained earnings for changes in the scope of consolidation	–	–	–	590	–	590
Increase due to stock exchange	–	–	–	5,245	–	5,245
Change in the parent's ownership interest due to transactions with noncontrolling interests	–	–	–	895	–	895
Reversal of land revaluation surplus	–	–	–	6	–	6
Net change in the year	(7)	(592)	4,808	11,620	(4,864)	6,756
BALANCE, MARCH 31, 2017	1,814	1,452	2,365	259,852	30,649	290,501
Net income attributable to owners of the parent	**–**	**–**	**–**	**23,921**	**–**	**23,921**
Cash dividends, ¥120 per share	**–**	**–**	**–**	**(5,118)**	**–**	**(5,118)**
Purchase of treasury stock	**–**	**–**	**–**	**(31)**	**–**	**(31)**
Disposal of treasury stock	**–**	**–**	**–**	**0**	**–**	**0**
Adjustment of retained earnings for changes in the scope of consolidation	**–**	**–**	**–**	**(510)**	**–**	**(510)**
Change in the parent's ownership interest due to transactions with noncontrolling interests	**–**	**–**	**–**	**409**	**–**	**409**
Reversal of land revaluation surplus	**–**	**–**	**–**	**9**	**–**	**9**
Net change in the year	**(9)**	**304**	**(653)**	**5,903**	**1,326**	**7,229**
BALANCE, MARCH 31, 2018	**¥1,805**	**¥1,756**	**¥ 1,712**	**¥284,435**	**¥31,975**	**¥316,410**

	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, 2017	$350,679	$282,340	$1,599,028	$(34,085)	$200,340	$ 9
Net income attributable to owners of the parent	–	–	**225,670**	–	–	–
Cash dividends, $1.13 per share	–	–	**(48,283)**	–	–	–
Purchase of treasury stock	–	–	–	**(292)**	–	–
Disposal of treasury stock	–	–	–	**0**	–	–
Adjustment of retained earnings for changes in the scope of consolidation	–	–	**(4,811)**	–	–	–
Change in the parent's ownership interest due to transactions with noncontrolling interests	–	**3,858**	–	–	–	–
Reversal of land revaluation surplus	–	–	**85**	–	–	–
Net change in the year	–	–	–	–	**59,075**	**(9)**
BALANCE, MARCH 31, 2018	**$350,679**	**$286,198**	**$1,771,689**	**$(34,377)**	**$259,415**	**$ 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, 2017	$17,113	$13,698	$22,311	$2,451,433	$289,142	$2,740,575
Net income attributable to owners of the parent	–	–	–	**225,670**	–	**225,670**
Cash dividends, $1.13 per share	–	–	–	**(48,283)**	–	**(48,283)**
Purchase of treasury stock	–	–	–	**(292)**	–	**(292)**
Disposal of treasury stock	–	–	–	**0**	–	**0**
Adjustment of retained earnings for changes in the scope of consolidation	–	–	–	**(4,811)**	–	**(4,811)**
Change in the parent's ownership interest due to transactions with noncontrolling interests	–	–	–	**3,858**	–	**3,858**
Reversal of land revaluation surplus	–	–	–	**85**	–	**85**
Net change in the year	**(85)**	**2,868**	**(6,160)**	**55,689**	**12,509**	**68,198**
BALANCE, MARCH 31, 2018	**$17,028**	**$16,566**	**$16,151**	**$2,683,349**	**$301,651**	**$2,985,000**

* Shares have been restated, as appropriate, to reflect a one-for-ten reverse stock split effected October 1, 2017.
See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	**2018**
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 36,831**	¥ 27,355	**$ 347,462**
Adjustments for:			
Income taxes paid	**(8,263)**	(6,185)	**(77,953)**
Depreciation and amortization	**20,741**	23,276	**195,670**
Impairment loss on long-lived assets	**–**	1,957	**–**
Gain on transfer of assets from employee retirement benefit trust	**–**	(2,524)	**–**
Loss on sales and disposals of property, plant, equipment, and other—net	**270**	95	**2,547**
Loss (gain) on sales of investment securities and investments in unconsolidated subsidiaries and associated companies	**1**	(152)	**9**
Write-down of investment securities and investments in unconsolidated subsidiaries and associated companies	**1**	75	**9**
Equity in earnings of associated companies	**(978)**	(811)	**(9,226)**
Changes in assets and liabilities:			
Increase in notes and accounts receivable	**(20,750)**	(14,182)	**(195,755)**
(Decrease) increase in allowance for doubtful accounts	**(132)**	22	**(1,245)**
Increase in inventories	**(16,346)**	(3,479)	**(154,208)**
Increase in notes and accounts payable	**15,146**	6,795	**142,887**
Decrease in provision for environmental measures	**(91)**	(1,891)	**(858)**
Decrease in asset for retirement benefits	**1,039**	2,310	**9,802**
Increase in liability for employees' retirement benefits	**422**	446	**3,981**
Other—net	**3,152**	(4,716)	**29,736**
Total adjustments	**(5,788)**	1,036	**(54,604)**
Net cash provided by operating activities	**31,044**	28,391	**292,858**
INVESTING ACTIVITIES:			
Payment for time deposits	**(1,057)**	(318)	**(9,972)**
Repayment from time deposits	**464**	534	**4,377**
Purchases of property, plant, and equipment	**(30,254)**	(27,894)	**(285,415)**
Proceeds from sales of property, plant and equipment	**1,353**	693	**12,764**
Purchases of investment securities and investments in unconsolidated subsidiaries and associated companies	**(19)**	(1,182)	**(179)**
Proceeds from sales of investment securities and investments in unconsolidated subsidiaries and associated companies	**6**	587	**57**
Disbursements for originating loans	**(123)**	(193)	**(1,160)**
Proceeds from collection of loans	**124**	1,941	**1,170**
Other—net	**(710)**	(617)	**(6,698)**
Net cash used in investing activities	**(30,216)**	(26,449)	**(285,057)**
FINANCING ACTIVITIES:			
Net increase in short-term bank loans	**17,419**	12,818	**164,330**
Proceeds from long-term debt	**10,654**	18,578	**100,509**
Repayments of long-term debt	**(15,894)**	(14,365)	**(149,943)**
Redemption of long-term debt	**–**	(10,000)	**–**
Acquisition of treasury stock	**(31)**	(4,988)	**(292)**
Acquisition of treasury stock by a subsidiary	**(588)**	(23)	**(5,547)**
Dividends paid, including payments to noncontrolling shareholders of subsidiaries	**(5,750)**	(3,352)	**(54,245)**
Payments for transactions with noncontrolling interests	**–**	(15)	**–**
Other—net	**(332)**	(496)	**(3,132)**
Net cash provided by (used in) financing activities	**5,478**	(1,843)	**51,679**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(173)**	(203)	**(1,632)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,132**	(104)	**57,849**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR	**442**	404	**4,170**
DECREASE IN CASH AND CASH EQUIVALENTS DUE TO COMPANY DEVESTITURE	**–**	(388)	**–**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**33,685**	33,774	**317,783**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 40,259**	¥ 33,686	**$ 379,802**

See notes to consolidated financial statements.

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2018

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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥106 to $1, the approximate rate of exchange at March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company had 67 (67 in 2017) subsidiaries and 13 (13 in 2017) associated companies at March 31, 2018. The consolidated financial statements as of March 31, 2018, include the accounts of the Company and 36 (34 in 2017) 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, 2018 and 2017. 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.

Effective April 1, 2017, Daido Steel (Thailand) Co., Ltd. and a silent partnership which makes TAKAKURA FUNDING CORPORATION LTD. a business operator are newly consolidated due to increased materiality.

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

The difference between the cost of acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition is 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

Under the Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," 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—"FASB ASC") tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: a) amortization of goodwill; b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; c) expensing capitalized development costs of research and development; and d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting.

(c) Business Combinations

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

(d) Cash and Cash Equivalents

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

(e) Investment Securities

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

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

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

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

(f) Inventories

Inventories are stated at the lower of cost, mainly determined by the weighted-average method or net selling value. A write down of inventory of ¥69 million ($651 thousand) for the year ended March 31, 2018, and a reversal of allowance for inventory valuation of ¥523 million for the year ended March 31, 2017, were included in cost of sales.

(g) Allowance for Doubtful Accounts

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

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less gains on grant receipts, etc. Under certain conditions, such as government grant receipts, exchanges of fixed assets of similar kinds, and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section. The acquisition costs of property, plant, and equipment were reduced by ¥4,611 million ($43,500 thousand) and ¥4,585 million at March 31, 2018 and 2017, respectively.

Prior to April 1, 2017, depreciation of certain plants of the Company and certain domestic and foreign subsidiaries was computed by the straight-line method. Depreciation of other plants of the Company and other subsidiaries was computed by the declining-balance method, while the straight-line method was applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016, for domestic companies. Effective the fiscal year ended March 31, 2018, depreciation of property, plant and equipment of the Company and domestic consolidated subsidiaries is computed by the straight-line method. The Group constructed production systems as part of its medium- to long-term business plan and the Company and domestic consolidated subsidiaries reviewed the pattern of usage and expected benefits of property, plant and equipment. As a result of the review, the Company deems the change appropriate because the straight-line method will more accurately reflect the pattern of usage and the expected benefits of such assets. The effect of the change was to increase operating income and income before income taxes by ¥2,306 million ($21,755 thousand) and ¥2,348 ($22,151 thousand), respectively, for the year ended March 31, 2018.

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

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

(i) Land Revaluation

Under the "Law of Land Revaluation," Nippon Drop Forge Co., Ltd., a consolidated subsidiary, elected a one-time revaluation of its own-use land to a value based on real estate appraisal information at March 31, 1999. The resulting land revaluation surplus represented unrealized appreciation of land and was stated, net of income taxes, as a component of equity. Continuous readjustment is not permitted, unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation surplus account and related deferred tax liabilities. At March 31, 2018, the carrying amount of the land after the above one-time revaluation and impairment exceeded the market value by ¥953 million ($8,991 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) Retirement and Pension Plans

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

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

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

(m) Provision for Environmental Measures

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

(n) Research and Development Costs

Research and development costs are charged to income as incurred.

(o) 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.

(p) Construction Contracts

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

(q) 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.

(r) 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.

(s) 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.

(t) Derivatives and Hedging Activities

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

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

Foreign currency forward contracts are measured at fair value, and the unrealized gains (losses) are recognized in the consolidated statement of income. Forward contracts used to hedge forecasted (or committed) transactions are also measured at fair value, but the unrealized gains (losses) are deferred until the underlying transactions are completed. Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

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

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

(u) 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, 2018 and 2017.

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.

On October 1, 2017, the Company effected a one-for-ten reverse stock split based on the resolution of the shareholders' meeting held on June 28, 2018. All prior year share and per share figures have been restated to reflect the impact of the reverse stock split and to provide data on a basis comparable to the year ended March 31, 2018. Such restatements included calculations regarding the Company's weighted-average number of common shares, basic net income per share, and cash dividends per share.

(v) New Accounting Pronouncements

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Group expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

(w) Change in Presentation

Prior to April 1, 2017, expenses for environmental measures was included in other—net in other income (expenses) of the consolidated statement of income. Since during the fiscal year ended March 31, 2018, the amount increased significantly, such amount is disclosed separately in other income (expenses) of the consolidated statement of income for the year ended March 31, 2018. The amount included in other income (expenses) for the year ended March 31, 2017 was ¥165 million, which has been reclassified to expenses for environmental measures.

3. BUSINESS COMBINATIONS

Year Ended March 31, 2017

(Transaction under common control)

On October 1, 2016, the Company acquired stocks of Daido Kogyo Co., Ltd. ("Daido Kogyo"), a consolidated subsidiary of the Company, by issuing the Company's shares to all of the shareholders of Daido Kogyo in exchange for all of the outstanding shares of Daido Kogyo. As a result, Daido Kogyo became a 100%-owned subsidiary of the Company.

a. Outline of the business combination

(1) Name of combined company and its business outline

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

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

(2) Date of business combination

October 1, 2016

(3) Legal form of business combination

Stock exchange

(4) Name of the company after the combination

No change

(5) Outline of the business combination

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

b. Accounting method

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

c. Acquisition of subsidiaries stocks

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

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

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

The Company and Daido Kogyo determined the exchange ratio by referencing the stock valuation of Daido Kogyo by The Bank of Tokyo Mitsubishi UFJ, Ltd, a third party. The discounted cash flow method was used in the valuation. 11,379,417 shares were allotted to noncontrolling shareholders of Daido Kogyo.

d. Transactions with noncontrolling shareholders

As a result of the transactions with noncontrolling shareholders, capital surplus was increased by ¥715 million.

4. INVESTMENT SECURITIES

Investment securities at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Noncurrent:			
Equity securities	**¥85,154**	¥76,310	**$803,340**
Total	**¥85,154**	¥76,310	**$803,340**

The costs and aggregate fair values of investment securities at March 31, 2018 and 2017, were as follows:

	Millions of Yen			
March 31, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥44,818**	**¥39,661**	**¥1,297**	**¥83,182**

	Millions of Yen			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥44,604	¥30,258	¥526	¥74,336

	Thousands of U.S. Dollars			
March 31, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$422,811**	**$374,160**	**$12,235**	**$784,736**

Information for available-for-sale securities that were sold during the years ended March 31, 2018 and 2017, was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
March 31, 2018	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale:						
Equity securities	**¥6**	**–**	**¥1**	**$57**	**–**	**$9**

	Millions of Yen		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥26	¥6	¥0

Impairment losses on equity securities and investments in associated companies for the years ended March 31, 2018 and 2017, were nil and ¥75 million, respectively.

5. INVENTORIES

Inventories held by the Group at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Merchandise	**¥ 19,426**	¥18,151	**$ 183,264**
Finished products	**12,637**	11,724	**119,217**
Semifinished products	**21,792**	18,201	**205,585**
Work in process	**26,180**	22,060	**246,981**
Raw materials	**22,322**	17,081	**210,585**
Supplies	**12,707**	11,261	**119,877**
Total	**¥115,064**	¥98,478	**$1,085,509**

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2018 and 2017. As a result, the Group recognized no impairment loss for the year ended March 31, 2018. The Group recognized an impairment loss of ¥1,957 million as other expense for property, plant and equipment located in Gifu due to devaluation, and the carrying amount of the relevant assets was written down to the recoverable amount for the year ended March 31, 2017.

7. INVESTMENT PROPERTY

The Company and certain consolidated subsidiaries hold some rental properties, such as office buildings and land in Aichi and other areas. The net amounts of rental income and operating expenses for those rental properties were ¥1,355 million ($12,783 thousand) and ¥848 million for the years ended March 31, 2018 and 2017, respectively. Gains on sales of rental property were nil and ¥194 million for the years ended March 31, 2018 and 2017, respectively.

The carrying amounts, changes in such balances, and market prices of such properties at March 31, 2018 and 2017, were as follows:

Millions of Yen				Thousands of U.S. Dollars			
Carrying Amount			Fair Value	Carrying Amount			Fair Value
March 31, 2017	Increase, net	March 31, 2018	March 31, 2018	March 31, 2017	Increase, net	March 31, 2018	March 31, 2018
¥5,422	**¥4,092**	**¥9,514**	**¥38,646**	$51,151	**$38,604**	**$89,755**	**$364,585**

Millions of Yen			
Carrying Amount			Fair Value
March 31, 2016	Increase, net	March 31, 2017	March 31, 2017
¥5,655	¥233	¥5,422	¥24,692

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, 2018, primarily represents the effect of the newly consolidated subsidiaries of ¥4,513 million ($42,575 thousand). The decreases during the fiscal year ended March 31, 2017, primarily represent depreciation of ¥168 million.
(3) The fair value of properties was primarily measured by the Group in accordance with its Real Estate Appraisal Standard.

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

Short-term bank loans consisted of notes to banks and bank overdrafts. The weighted-average rates of annual interest applicable to short-term bank loans at March 31, 2018 and 2017, were 0.50% and 0.56%, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Loans from banks and other financial institutions due serially to 2024 with weighted-average interest rate of 0.58% in 2018 and 2017	**¥ 89,339**	¥ 90,291	**$ 842,820**
0.335% unsecured bonds due May 27, 2019	**10,000**	10,000	**94,340**
0.150% unsecured bonds due March 7, 2022	**10,000**	10,000	**94,340**
Obligations under finance leases	**551**	815	**5,198**
Total	**109,890**	111,106	**1,036,698**
Less: Portion due within one year	**(30,909)**	(16,127)	**(291,594)**
Total long-term debt	**¥ 78,981**	¥ 94,979	**$ 745,104**

Annual maturities of long-term debt at March 31, 2018, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 30,909	$ 291,594
2020	26,422	249,264
2021	16,909	159,519
2022	14,250	134,434
2023	17,830	168,208
2024 and thereafter	3,570	33,679
Total	¥109,890	$1,036,698

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

	Millions of Yen	Thousands of U.S. Dollars
Line of credit amount	**¥23,010**	**$217,075**
Balance used at March 31, 2018	**–**	**–**

9. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral for notes and accounts payable of ¥6 million ($57 thousand), current portion of long-term debt of ¥4,140 million ($39,057 thousand), and other current liabilities of ¥8 million ($75 thousand) at March 31, 2018, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	¥ 648	$ 6,113
Land	5,061	47,745
Buildings and structures	6,348	59,887
Machinery and equipment	979	9,236
Investment securities	60	566
Total	¥13,096	$123,547

10. RETIREMENT AND PENSION PLANS

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

The Group has employee retirement benefit trusts.

Furthermore, additional severance payments, which are not included in liability for employees' retirement benefits, 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 the subsidiaries participate in multi-employer contributory funded plans, and the plans are accounted for as if the plans were defined contribution plans if the plan assets attributable to the contributions by the subsidiaries cannot be reliably determined.

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

1. The changes in defined benefit obligation for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Balance at beginning of year	¥53,246	¥55,123	$502,321
Current service cost	2,218	2,139	20,924
Interest cost	168	168	1,585
Actuarial losses (gains)	708	(60)	6,679
Benefits paid	(3,214)	(4,123)	(30,321)
Past service cost	101	–	953
Others	13	(1)	123
Balance at end of year	¥53,240	¥53,246	$502,264

2. The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Balance at beginning of year	¥67,357	¥ 74,650	$635,443
Expected return on plan assets	1,278	1,427	12,057
Actuarial (losses) gains	(1,884)	6,447	(17,774)
Contributions from the employer	819	802	7,726
Benefits paid	(2,549)	(3,746)	(24,047)
Redemption of employee retirement benefit trust assets	–	(12,223)	–
Others	4	–	38
Balance at end of year	¥65,025	¥ 67,357	$613,443

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, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥2,240	¥2,286	$21,132
Pension costs	598	564	5,641
Benefits paid	(252)	(271)	(2,377)
Contributions to pension funds	(308)	(339)	(2,906)
Others	11	(0)	104
Balance at end of year	¥2,289	¥2,240	$21,594

4. A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2018 and 2017, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded defined benefit obligation	¥ 53,225	¥ 53,203	$ 502,122
Plan assets	(68,414)	(70,501)	(645,415)
Total	(15,189)	(17,298)	(143,293)
Unfunded defined benefit obligation	5,692	5,427	53,698
Net asset arising from defined benefit obligation	¥ (9,497)	¥(11,871)	$ (89,595)

5. The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥ 2,218	¥ 2,139	$ 20,924
Interest cost	169	168	1,594
Expected return on plan assets	(1,278)	(1,427)	(12,057)
Amortization of prior service benefit	1,858	3,181	17,528
Recognized actuarial gains	(70)	(80)	(660)
Retirement benefits for which simplified method was applied	598	564	5,642
Additional severance payments	181	97	1,708
Gain on transfer of assets from retirement benefit trust	–	(2,524)	–
Net periodic benefit costs	¥ 3,676	¥ 2,118	$ 34,679

6. Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service cost	¥(171)	¥ (80)	$(1,613)
Actuarial (losses) gains	(734)	7,164	(6,925)
Total	¥(905)	¥7,084	$(8,538)

7. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Unrecognized prior service cost	**¥ 54**	¥ 225	**$ 509**
Unrecognized actuarial gains	**2,081**	2,815	**19,632**
Total	**¥2,135**	¥3,040	**$20,141**

8. Plan assets

(1) Components of plan assets

Plan assets consisted of the following:

	2018	2017
Debt investments	**14%**	14%
Equity investments	**62**	64
Assets in an insurer's general account	**22**	21
Others	**2**	1
Total	**100%**	100%

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

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

9. Assumptions used for the years ended March 31, 2018 and 2017, are set forth as follows:

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

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

The contributions to such multi-employer plan, which are accounted for using the same method as a defined contribution plan, were ¥317 million ($2,991 thousand) and ¥265 million for the years ended March 31, 2018 and 2017, respectively.

(1) The funded status of the multi-employer plan as of March 31, 2018 and 2017, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Plan assets	**¥178,928**	¥251,436	**$1,688,000**
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	**178,704**	253,982	**1,685,888**
Net balance	**¥ 224**	¥ (2,546)	**$ 2,112**

(2) The contribution ratio of the Group in the multi-employer plan for the years ended March 31, 2018 and 2017, was as follows:

	2018	2017
The contribution ratio of the Group in the multi-employer plan	**2.75%**	2.29%

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 (non-cash assets) to shareholders subject to certain limitations and additional requirements.

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

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

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

(c) Treasury Stock and Treasury Stock Acquisition Rights

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

On October 1, 2017, the Company effected a one-for-ten reverse stock split based on the resolution of the shareholders' meeting held on June 28, 2017.

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 31% for each of the years ended March 31, 2018, and 2017.

The tax effects of significant temporary differences and loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Deferred tax assets:			
Accrued bonuses	**¥ 2,371**	¥ 2,142	**$ 22,368**
Liability for employees' retirement benefits	**2,981**	2,803	**28,123**
Allowance for doubtful accounts	**22**	56	**208**
Write-down of securities and other assets	**2,732**	2,726	**25,774**
Net loss carryforwards	**3,154**	3,327	**29,755**
Elimination of unrealized gain on inventories	**939**	884	**8,858**
Provision for environmental measures	**1,121**	1,153	**10,575**
Enterprise tax	**467**	420	**4,406**
Other	**3,665**	4,106	**34,575**
Less valuation allowance	**(8,375)**	(9,045)	**(79,010)**
Total deferred tax assets	**9,077**	8,572	**85,632**
Deferred tax liabilities:			
Deferred gain on property, plant, and equipment	**1,700**	1,757	**16,038**
Land revaluation surplus	**1,219**	1,230	**11,500**
Unrealized gain on securities	**11,494**	8,868	**108,434**
Asset for employees' retirement benefits	**4,323**	5,026	**40,783**
Unrealized gain on land resulting from consolidation of a subsidiary	**1,079**	1,076	**10,179**
Transfer of investment securities from retirement benefit trust	**3,342**	3,342	**31,528**
Other	**1,796**	1,893	**16,943**
Total deferred tax liabilities	**24,953**	23,192	**235,405**
Net deferred tax liabilities	**¥15,876**	¥14,620	**$149,773**

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, 2018, with the corresponding figures for 2017 is as follows:

	2018	2017
Normal effective statutory tax rates	**31.0 %**	31.0 %
Expenses not deductible for income tax purposes	**0.7**	1.2
Revenues not recognized for income tax purposes	**(4.2)**	(4.7)
Per capita tax	**0.3**	0.4
Net change in valuation allowance	**(1.6)**	5.8
Effects of elimination of dividends for consolidation purposes	**4.1**	4.2
Effect of accounting by the equity method	**(0.8)**	(0.9)
Lower income tax rates applicable to income in certain foreign countries	**(1.0)**	(0.2)
Tax credit	**(1.2)**	(3.6)
Effect of change in statutory tax rate	**–**	–
Investments in subsidiaries	**0.5**	0.3
Other—net	**(0.3)**	(0.3)
Actual effective tax rates	**27.5 %**	33.2 %

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,419 million ($51,123 thousand) and ¥6,206 million for the years ended March 31, 2018 and 2017, respectively.

14. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Freight expenses	**¥14,771**	¥13,175	**$139,349**
Salaries and welfare expenses	**22,936**	22,002	**216,377**
Provision for bonuses to employees	**2,772**	2,475	**26,151**
Provision for bonuses to directors and Audit & Supervisory Board members	**279**	230	**2,632**
Net periodic retirement benefit costs	**1,660**	2,059	**15,661**
Depreciation	**1,256**	1,226	**11,849**
Other	**12,614**	11,754	**119,000**
Total	**¥56,288**	¥52,921	**$531,019**

15. LEASES

(As lessor)

Expected revenues from noncancelable operating leases at March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Due within one year	**¥ 508**	¥ 508	**$ 4,793**
Due after one year	**2,132**	2,631	**20,113**
Total	**¥2,640**	¥3,139	**$24,906**

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 portion of such bank loans and commercial paper, excluding bonds, is exposed to risk of changes in variable interest rates, that risk is mitigated by using interest rate swaps. Bonds are not exposed to risk of changes in interest rates as interest rates are fixed.

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

(3) Risk Management for Financial Instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. To reduce 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, 2018.

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

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

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

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

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

Liquidity Risk Management

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

(4) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

	Millions of Yen			Thousands of U.S. Dollars		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain (Loss)	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	**¥ 40,259**	**¥ 40,259**	**–**	**$ 379,802**	**$ 379,802**	**–**
Time deposits	**1,909**	**1,909**	**–**	**18,010**	**18,010**	**–**
Receivables—trade	**134,153**	**134,153**	**–**	**1,265,594**	**1,265,594**	**–**
Investment securities	**83,182**	**83,182**	**–**	**784,736**	**784,736**	**–**
Investment in an associated company	**5,038**	**5,080**	**¥ 42**	**47,528**	**47,924**	**$ 396**
Total	**¥264,541**	**¥264,583**	**¥ 42**	**$2,495,670**	**$2,496,066**	**$ 396**
Short-term bank loans	**¥ 50,156**	**¥ 50,156**	**–**	**$ 473,170**	**$ 473,170**	**–**
Current portion of long-term debt	**30,909**	**30,909**	**–**	**291,594**	**291,594**	**–**
Payables—trade	**90,381**	**90,381**	**–**	**852,651**	**852,651**	**–**
Income taxes payable	**7,447**	**7,447**	**–**	**70,255**	**70,255**	**–**
Long-term debt	**78,981**	**78,782**	**¥199**	**745,104**	**743,226**	**$1,878**
Total	**¥257,874**	**¥257,675**	**¥199**	**$2,432,774**	**$2,430,896**	**$1,878**

March 31, 2017	Millions of Yen Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 33,686	¥ 33,686	–
Time deposits	1,281	1,281	–
Receivables—trade	113,215	113,215	–
Investment securities	74,336	74,336	–
Investment in an associated company	4,575	3,748	¥(827)
Total	¥227,093	¥226,266	¥(827)
Short-term bank loans	¥ 31,108	¥ 31,108	–
Current portion of long-term debt	16,127	16,127	–
Payables—trade	75,160	75,160	–
Income taxes payable	4,636	4,636	–
Long-term debt	94,979	94,730	¥ 249
Total	¥222,010	¥221,761	¥ 249

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 amounts 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. Carrying amounts and fair values of receivables—trade include those hedged by foreign currency forward contracts and translated at the contracted rates. Carrying amounts and fair values of short-term bank loans include those hedged by interest rate swaps which are not remeasured at market value but the differential paid or received under the swap agreement is recognized and included in interest expense.

Investment Securities

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

Long-Term Debt with Fixed Interest Rates

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

* For long-term borrowings hedged by interest rate swaps, principal and interest is determined by the interest rate swap contracts.
* For long-term borrowings hedged by foreign currency forward contracts, principal and interest are assumed to be fixed in Japanese yen.

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 2018	2017	Thousands of U.S. Dollars 2018
Securities that do not have a quoted market price in an active market:			
Investment securities	**¥ 1,972**	¥ 1,974	**$ 18,604**
Investments in unconsolidated subsidiaries and associated companies	**16,070**	18,042	**151,604**

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

	Millions of Yen			
March 31, 2018	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 40,259	–	–	–
Time deposits	1,909	–	–	–
Receivable—trade	134,153	–	–	–
Total	¥176,321	–	–	–

	Thousands of U.S. Dollars			
March 31, 2018	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	$ 379,802	–	–	–
Time deposits	18,010	–	–	–
Receivable—trade	1,265,594	–	–	–
Total	$1,663,406	–	–	–

Please see Note 8 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 shown in the following table do not measure the Group's exposure to market risk.

Derivative transactions to which hedge accounting is not applied at March 31, 2018 and 2017

	Millions of Yen			
At March 31, 2018	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Buying:				
U.S. dollar	**¥ 470**	**–**	**¥ (7)**	**¥ (7)**
Euro	**71**	**–**	**(1)**	**(1)**
Yen	**588**	**–**	**(6)**	**(6)**
Chinese yuan	**101**	**–**	**(1)**	**(1)**
Korean won	**–**	**–**	**–**	**–**
Thai baht	**0**	**–**	**0**	**0**
Singapore dollar	**–**	**–**	**–**	**–**
HK dollar	**0**	**–**	**0**	**0**
Selling:				
U.S. dollar	**5,949**	**–**	**23**	**23**
Euro	**292**	**–**	**6**	**6**
Thai baht	**176**	**–**	**(1)**	**(1)**
Chinese yuan	**262**	**–**	**(1)**	**(1)**
British pound	**–**	**–**	**–**	**–**
Indian rupiah	**201**	**–**	**4**	**4**

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

At March 31, 2018	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	**$ 4,434**	**–**	**$ (66)**	**$ (66)**
Euro	**670**	**–**	**(9)**	**(9)**
Yen	**5,547**	**–**	**(57)**	**(57)**
Chinese yuan	**953**	**–**	**(9)**	**(9)**
Korean won	**–**	**–**	**–**	**–**
Thai baht	**0**	**–**	**0**	**0**
Singapore dollar	**–**	**–**	**–**	**–**
HK dollar	**0**	**–**	**0**	**0**
Selling:				
U.S. dollar	**56,123**	**–**	**226**	**226**
Euro	**2,755**	**–**	**57**	**57**
Thai baht	**1,660**	**–**	**(9)**	**(9)**
Chinese yuan	**2,472**	**–**	**(19)**	**(19)**
British pound	**–**	**–**	**–**	**–**
Indian rupiah	**1,896**	**–**	**38**	**38**

Derivative transactions to which hedge accounting is applied at March 31, 2018 and 2017

At March 31, 2018	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Hedge accounting:				
Selling:				
U.S. dollar	Receivables—trade	**¥ 156**	**–**	**¥ 2**
Euro	Receivables—trade	**40**	**–**	**0**
Chinese yuan	Receivables—trade	**73**	**–**	**(1)**
Qualified for hedge accounting not remeasured at market value:				
Selling:				
U.S. dollar	Receivables—trade	**88**	**–**	See Note on the following page
Chinese yuan	Receivables—trade	**59**	**–**	
Currency swaps:				
Yen payment, U.S. dollar receipt	Short-term bank loans and long-term debt	**5,500**	**¥ 4,500**	
Interest rate swaps:				
Fixed rate payment, floating rate receipt		**24,400**	**10,900**	

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

At March 31, 2018	Hedged Item	Thousands of U.S. Dollars Contract Amount	Thousands of U.S. Dollars Contract Amount Due after One Year	Thousands of U.S. Dollars Fair Value
Foreign currency forward contracts:				
Hedge accounting:				
Selling:				
U.S. dollar	Receivables—trade	**$ 1,472**	**–**	**$19**
Euro	Receivables—trade	**377**	**–**	**0**
Chinese yuan	Receivables—trade	**689**	**–**	**(9)**
Qualified for hedge accounting not remeasured at market value:				
Selling:				
U.S. dollar	Receivables—trade	**830**	**–**	See Note below
Chinese yuan	Receivables—trade	**557**	**–**	
Currency swaps:				
Yen payment, U.S. dollar receipt	Short-term bank loans and long-term debt	**51,887**	**$ 42,453**	
Interest rate swaps:				
Fixed rate payment, floating rate receipt		**230,189**	**102,830**	

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, 2018, the Group was contingently liable for ¥4,123 million ($38,896 thousand) for guarantees of loans and payables of unconsolidated subsidiaries, associated and other companies, and employees.

19. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Unrealized gain on available-for-sale securities:			
Gains arising during the year	**¥ 8,810**	¥10,422	**$ 83,113**
Reclassification adjustments to profit or loss	**(0)**	7	**(0)**
Amount before income tax effect	**8,810**	10,429	**83,113**
Income tax effect	**(2,622)**	(3,090)	**(24,736)**
Total	**6,188**	7,339	**58,377**
Deferred (loss) gain on derivatives under hedge accounting:			
(Losses) gains arising during the year	**(2)**	2	**(19)**
Reclassification adjustments to profit or loss	**–**	–	**–**
Amount before income tax effect	**(2)**	2	**(19)**
Income tax effect	**1**	(1)	**10**
Total	**(1)**	1	**(9)**
Foreign currency translation adjustments:			
Adjustments arising during the year	**621**	(855)	**5,858**
Total	**621**	(855)	**5,858**
Defined retirement benefit plans:			
Adjustments arising during the year	**(2,693)**	6,508	**(25,406)**
Reclassification adjustments to profit or loss	**1,788**	577	**16,868**
Amount before income tax effect	**(905)**	7,085	**(8,538)**
Income tax effect	**277**	(2,219)	**2,614**
Total	**(628)**	4,866	**(5,924)**
Share of other comprehensive income in associates:			
Gains arising during the year	**86**	42	**811**
Reclassification adjustments to profit or loss	**(7)**	(1)	**(66)**
Total	**79**	41	**745**
Total other comprehensive income	**¥ 6,259**	¥11,392	**$ 59,047**

20. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2018, was approved at the Company's shareholders' meeting held on June 27, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥60 ($0.57) per share	**¥2,558**	**$24,132**

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 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 industries. 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." The "Specialty Steel" industry consists of manufacturing of specialty steel for automotive and industrial machinery parts. The "High Performance Materials and Magnetic Materials" industry consists of manufacturing of stainless steel, high alloy and magnetic materials, titanium products, powder metals for automotive and industrial machinery, and electrical and electronic parts. The "Parts for Automobile and Industrial Equipment" industry consists of manufacturing of die-forged parts, forging products, and other products for automotive and industrial machinery parts. The "Engineering" industry consists of manufacturing and maintenance of steelmaking and environmental equipment, industrial furnaces, and associated equipment. The "Trading and Service" industry consists of real estate-related services and welfare and other services.

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

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

Reportable segment profit represents operating income.

As discussed in Note 2 (h) to the consolidated financial statements, the Company and domestic consolidated subsidiaries changed the depreciation method. The effect of the change was to increase segment profit of Specialty Steel, High Performance Materials and Magnetic Materials, Parts for Automobile and Industrial Equipment, Engineering, and Trading and Service by ¥409 million ($3,858 thousand), ¥860 million ($8,113 thousand), ¥942 million ($8,887 thousand), ¥11 million ($104 thousand) and ¥86 million ($811 thousand), respectively, for the year ended March 31, 2018.

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

	Millions of Yen							
	Reportable Segment							
2018	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	¥189,096	¥170,788	¥106,288	¥24,865	¥14,182	¥505,219	–	¥505,219
Intersegment sales or transfers	65,712	16,022	24,519	2,110	11,430	119,793	¥(119,793)	–
Total	¥254,808	¥186,810	¥130,807	¥26,975	¥25,612	¥625,012	¥(119,793)	¥505,219
Segment profit (loss)	¥ 6,478	¥ 22,196	¥ 3,070	¥ 1,836	¥ 2,686	¥ 36,266	¥ (48)	¥ 36,218
Segment assets	211,866	205,127	142,667	19,614	21,389	600,663	44,379	645,042
Other:								
Depreciation and amortization	7,238	6,307	5,564	271	1,361	20,741	–	20,741
Investments in associated companies accounted for by the equity method	5,273	5,607	462	138	–	11,480	523	12,003
Increase in property, plant, and equipment and intangible assets	8,207	12,087	14,139	254	919	35,606	–	35,606

	Millions of Yen							
	Reportable Segment							
2017	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	¥164,637	¥148,468	¥ 97,492	¥23,918	¥10,608	¥445,123	–	¥445,123
Intersegment sales or transfers	64,329	15,027	22,839	1,670	11,889	115,754	¥(115,754)	–
Total	¥228,966	¥163,495	¥120,331	¥25,588	¥22,497	¥560,877	¥(115,754)	¥445,123
Segment profit (loss)	¥ 5,813	¥ 17,417	¥ (516)	¥ 1,219	¥ 1,583	¥ 25,516	¥ (2)	¥ 25,514
Segment assets	198,352	177,788	127,249	18,143	16,613	538,145	36,024	574,169
Other:								
Depreciation and amortization	7,642	7,667	6,598	289	1,080	23,276	–	23,276
Investments in associated companies accounted for by the equity method	4,946	5,109	433	126	–	10,614	468	11,082
Increase in property, plant, and equipment and intangible assets	7,528	9,844	10,503	273	793	28,941	–	28,941

2018	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	$1,783,915	$1,611,208	$1,002,717	$234,575	$133,792	$4,766,207	–	$4,766,217
Intersegment sales or transfers	619,925	151,151	231,311	19,906	107,830	1,130,123	$(1,130,122)	–
Total	$2,403,840	$1,762,359	$1,234,028	$254,481	$241,622	$5,896,330	$(1,130,122)	$4,766,217
Segment profit (loss)	$ 61,113	$ 209,396	$ 28,962	$ 17,321	$ 25,340	$ 342,132	$ (453)	$ 341,679
Segment assets	1,998,736	1,935,160	1,345,915	185,038	201,783	5,666,632	418,670	6,085,302
Other:								
Depreciation and amortization	68,283	59,500	52,491	2,557	12,840	195,670	–	195,670
Investments in associated companies accounted for by the equity method	49,745	52,896	4,358	1,303	–	108,302	4,934	113,236
Increase in property, plant, and equipment and intangible assets	77,425	114,028	133,387	2,396	8,670	335,906	–	335,906

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

	Millions of Yen				
2018	Japan	North America	Asia	Other	Total
	¥390,792	**¥19,998**	**¥86,551**	**¥7,878**	**¥505,219**

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

	Thousands of U.S. Dollars				
2018	Japan	North America	Asia	Other	Total
	$3,686,717	**$188,660**	**$816,519**	**$74,321**	**$4,766,217**

(2) Information about impairment loss

2018	Millions of Yen					
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
Impairment loss	**–**	**–**	**–**	**–**	**–**	**–**

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

2018	Thousands of U.S. Dollars					
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
Impairment loss	**–**	**–**	**–**	**–**	**–**	**–**

(3) Information about goodwill

2018	Millions of Yen					
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
Amortization of goodwill	**¥11**	**–**	**–**	**–**	**–**	**¥11**
Balance of goodwill	**–**	**–**	**–**	**–**	**–**	**–**

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

2018	Thousands of U.S. Dollars					
	Specialty Steel	High Performance Materials and Magnetic Materials	Parts for Automobile and Industrial Equipment	Engineering	Trading and Service	Total
Amortization of goodwill	**$104**	**–**	**–**	**–**	**–**	**$104**
Balance of goodwill	**–**	**–**	**–**	**–**	**–**	**–**

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, 2018, 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, 2018, 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 27, 2018

Member of
Deloitte Touche Tohmatsu Limited

Offices & Branches

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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 DMS (THAILAND) CO., LTD.
Daido Die & Mold Solutions Co., Ltd.
Daido Tienwen Steel Co., Ltd.
DAIDO DMS MALAYSIA SDN. BHD.
DAIDO DMS SINGAPORE 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.
Nissei Seiko Co., Ltd.

Parts for Automobile and Industrial Equipment

Daido Castings Co., Ltd.
Daido Steel (Thailand) 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.
The silent partnership which makes TAKAKURA FUNDING CORPORATION LTD. a business operator
Daido Life Service Co., Ltd.
Daido Steel (Shanghai) 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, 2018)

CORPORATE DATA (As of March 31, 2018)

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
Website:	http://www.daido.co.jp/en/index.html
Number of Employees (Non-Consolidated):	3,340
Common Stock:	¥37,172 million
Number of Authorized Shares:	1,160,000,000
Number of Issued Shares:	43,448,769
Number of Shareholders:	18,174
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 Japan Trustee Services Bank, Ltd. (Trust Account) Meiji Yasuda Life Insurance Company The Master Trust Bank of Japan, Ltd. (Trust Account) Mizuho Bank, Ltd. NHK Spring Co., Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. HONDA MOTOR CO., LTD. TOYOTA MOTOR CORPORATION 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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