

ANNUAL REPORT 2008

April 1.2007-March 31.2008

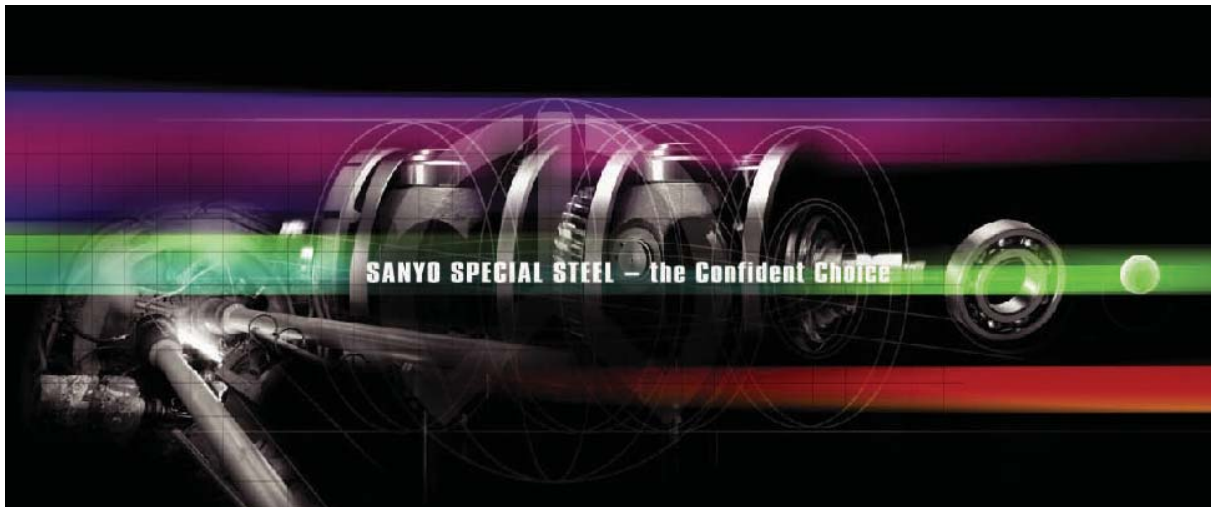
SANYO SPECIAL STEEL-THE CONFIDENT CHOICE



Profile

Sanyo Special Steel manufactures and distributes steel bars, wire rods and seamless steel tubes, which are made from special steels such as bearing steel, engineering steel and stainless steel, and formed and fabricated materials. What makes Sanyo Special Steel unique is the fact that it is Japan's only special steel manufacturer that has steel tube manufacturing equipment.

We enjoy a high level of market confidence in every aspect of our undertakings - development, product quality and stable supply - based on our high cleanliness steel manufacturing technology, which controls the size of inclusions in steel and reduces oxygen content to minimum. Featuring superior quality characteristics such as fatigue life, cold workability and impact resistance, our highly reliable steel is used in a broad range of industrial applications, most notably in automobile parts, for which a high level of reliability is required. Above all, the unmatched quality of our bearing steel means that Sanyo Special Steel is the world's leading bearing steel manufacturer.



Corporate Philosophy: Confidence-based Management

Confidence of Society

Through our "high-quality special steel manufacturing" and "harmony with local communities," we aim to acquire the confidence of society by contributing to the realization of an affluent and culturally rich society.

Confidence of Customers

We aim at acquiring the confidence of customers through our principle "to earnestly seek out customer needs and to solve them with speed and precision."

Confidence among People

We aim to build confidence among people by maintaining a corporate culture where individual employees can feel "the joy of creation" and realize job satisfaction.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

Sanyo Special Steel Co., Ltd. and consolidated subsidiaries
Years ended March 31

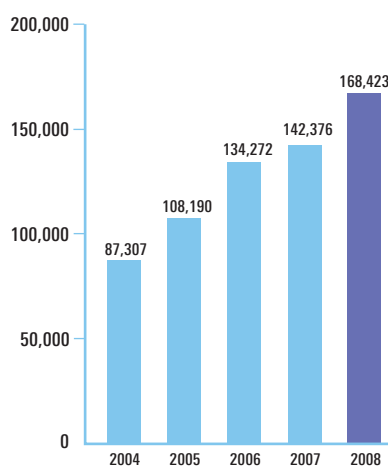
	2006	2007	2008	Change 2008/2007	2008
Operating Results (for the year)		(Millions of Yen)		(%)	(Thousands of US Dollars) * 1
Net Sales	¥134,272	¥142,376	¥168,423	18.3	\$1,681,035
Operating income	18,860	18,189	13,904	-23.6	138,775
Ordinary income	18,959	17,947	12,981	-27.7	129,561
Net income	11,345	8,665	7,232	-16.5	72,187
Per share data		(Yen)		(%)	(US Dollars) * 1
Net income	71.17	53.55	44.34	-17.2	0.44
Cash dividends	11.00	11.00	11.00	0.0	0.11
Financial Position (at year-end)		(Millions of Yen)		(%)	(Thousands of US Dollars) * 1
Net assets * 2	75,607	89,568	92,459	3.2	922,834
Total assets	140,655	152,709	157,489	3.1	1,571,901

* 1 US dollar amounts are converted, for convenience only, at the rate of ¥100.19=US\$1, the approximate rate of exchange on March 31, 2008.

* 2 Minority interests are presented as a component of net assets.

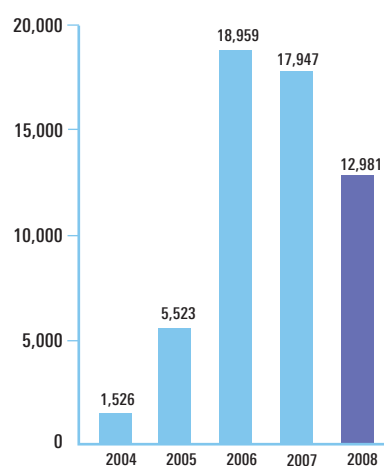
Net Sales

(Millions of Yen)



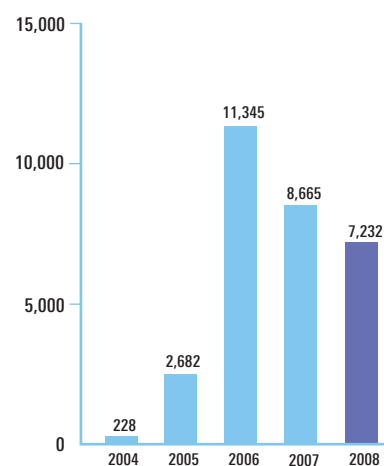
Ordinary income

(Millions of Yen)



Net income

(Millions of Yen)





Fiscal 2007 Overview

Looking back, first of all, at the overall condition of the special steel industry during fiscal 2007, domestic production of hot-rolled special steel products continued at a high level, even reaching an all-time high, thanks to robust production in key customer sectors including automobiles, industrial machinery and construction machinery, riding on the back of buoyant demand, especially from abroad.

Against this backdrop, consolidated net sales for the Sanyo Special Steel Group (the "Company") for fiscal 2007 increased by ¥26,047 million from fiscal 2006 to ¥168,423 million, owing to higher selling prices and increased sales volume.

As for profitability, compared with fiscal 2006, ordinary income decreased by ¥4,966 million to ¥12,981 million, and net income decreased by ¥1,432 million to ¥7,232 million, affected by the spike in scrap iron and ferroalloy prices, increases in other raw material and fuel prices, and higher depreciation expenses due to the 2007 tax reform, although these negative factors were alleviated in part by higher

selling prices, cost-cutting efforts, and increased sales volume. The resultant ROS for fiscal 2007 stood at 7.7%.

Meanwhile, the Company's 6th Medium-term Consolidated Business Plan came to an end in fiscal 2007. Summarizing the results, the ROS target of 10% was not achieved because of such factors as net sales increased as a result of the increase in raw material and fuel prices. The sharp rise in raw material and fuel prices also called for an increase in working capital, resulting progress in reducing interest-bearing debt being delayed. By and large, however, targets for profit indicators were met.

Start of the 7th Medium-term Consolidated Business Plan

Following the completion of the 6th Business Plan, the 7th Medium-term Business Plan covering the period from 2008 through 2010 started in April this year.

The newly formulated Plan's basic management policy is to "achieve greater corporate value by enhancing the brand power of 'Sanyo Special Steel-the confident choice.'"

Under this policy, we seek to assist our customers in sharpening their competitive edge, while aiming to achieve profit growth and further solidify our business foundation, with a view to becoming a "special steel manufacturer that has a strong presence in the world market."

For details of the Plan such as financial targets and key action programs, please see pages 6 to 9.

Fiscal 2008 Outlook

We expect that production in key customer sectors such as automobiles, industrial machinery and construction machinery will remain high in fiscal 2008 and continue to drive demand for special steel. On the other hand, we expect our business environment to remain extremely tough because of concerns over further price escalation in iron scrap, ferroalloy, other raw materials and fuel. Under these circumstances, we at the Sanyo Special Steel Group will intensify our own efforts including cost reduction initiatives, and seek to enhance our corporate value by adjusting selling prices with customers' understanding, capturing growing demand on a timely basis in markets

both at home and abroad, and building a production system that enables an adequate and constant supply of high-quality special steel.

Taking all the above factors into consideration, we expect consolidated net sales of ¥220,000 million, ordinary income of ¥10,000 million, and net income of ¥6,000 million, for fiscal 2008.

To our shareholders and investors, we would like to ask for your continued support and understanding of the Sanyo Special Steel Group in the coming years.

July 2008



Nobuyoshi Fujiwara
President

Basic Management Policies

We have been guided by the corporate philosophy of “confidence-based management (confidence of society, confidence of customers, and confidence among people).”

With this corporate philosophy in mind, we aim to contribute to the realization of an affluent and culturally rich society, to earnestly seek out customer needs and solve them with speed and precision, and to continue to foster a corporate culture where individual employees can feel “the joy of creation” and realize job satisfaction through our “high-quality special steel manufacturing” and “harmony with local communities”. We also seek to reinforce and enhance our corporate value and the common interests of our shareholders by mobilizing group-wide efforts to promote our information processing services, as well as our special steel products and formed and fabricated materials businesses, thereby meeting the expectations of our customers in a wide range of industry sectors.

Distribution of Profits

Our basic policy on profit distribution is to reward our shareholders by strengthening our business foundation and increasing profits available for distribution. As for dividend payments, we intend to meet the expectations of our shareholders, primarily through the appropriate distribution of profits based on periodic business performance, with due attention to both the payout ratio and the amount of funds required for investments and other activities to increase our corporate value. As for the frequency of dividends, the Articles of Incorporation specify the record dates for interim and year-end dividends, on the basis of which we pay a dividend twice a year in principle. We also deal with repurchases of treasury stocks with due consideration for stock price movements, our financial position, and other relevant factors.

We will also utilize internal reserves to strengthen our management base in order to better adapt to our changing business environment.

Basic policy on corporate control

We at the Sanyo Special Steel Group (the “Company”) have been seeking to maintain and improve our corporate value and the common interests of our shareholders, guided by the corporate philosophy of confidence-based management with “confidence of society, confidence of customers, and confidence among people” at its core. We aim to contribute to the realization of an affluent and culturally rich society through “high-quality special steel manufacturing” and “harmony with local communities”, to earnestly seek out customer needs and solve them with speed and precision, and to continue to foster a corporate culture where individual employees can feel “the joy of creation” and realize job satisfaction. We believe that making these efforts is part of our corporate social responsibility, and at the same time, serves to maintain and improve our corporate value and the common interests of our shareholders.

We consider that anyone in a position that involves control over decisions on the Company’s financial and operating policies must fully understand the above philosophy, and must seek to maintain and improve our corporate value and the common interests of our shareholders in the future.

Consequently, in order to protect our corporate value and the common interests of our shareholders against possible damage caused by a substantial share acquisition by any third party, we consider it necessary to establish in advance proper rules on substantial share acquisitions to be observed by any third party that initiates such an acquisition.

In other words, we think that in the event of any large-scale purchase offer (buyout offer) from a third party, the decision as to whether or not to accept such an offer rests with the shareholders once the offer has been made. We also think that to maintain and enhance our corporate value and the common interests of our shareholders, we need to enable shareholders to make proper judgments on any buyout offer within a reasonable period of time, based on adequate information.

We have formulated a new medium-term business plan covering the period from 2008 through 2010. Under this plan, we aim to enhance the brand power of “Sanyo Special Steel -the Confident Choice” by achieving further technological advances, and eventually to improve our corporate value. The major schemes that form part of the plan are summarized below.

1 Basic Strategy

**Achieve greater corporate value by enhancing the brand power of
“Sanyo Special Steel - the Confident Choice”**

Through the stable supply of high-quality special steel, we assist our customers in sharpening their competitive edge. At the same time, we will achieve profit growth and further consolidate our business foundation with the aim of becoming a “special steel manufacturer that has a strong presence in the world market.”

2 Financial Targets

(Billions of yen)

	FY2007(actual performance)	FY2010(plan)	Change
Net sales	168.4	200.0	31.6
Operating Income	13.9	20.0	6.1
Ordinary income	13.0	19.0	6.0
Net income	7.2	11.0	3.8
Total assets	157.5	210.0	52.5
Interest-bearing debts	32.9	43.0	10.1
ROS	7.7%	9.5%	1.8%
ROE	7.9%	9.2%	1.3%
Sales Tonnage	80,000 tons per month	90,000 tons per month	10,000 tons per month

[Major assumptions]

Iron scrap price: Stay at the fiscal 2007 average level

Unit product price: Stay at the fiscal 2007 average level

Margin: Constant

Exchange rate: ¥105/US\$

3 Key Action Programs

1

Achieve profit growth by constantly meeting the expanding demand in the domestic and international markets, and providing appropriate products

- Accurately ascertain the needs of customers that are developing/expanding businesses on a global scale, especially in BRICs and other resource-rich countries such as China and India, and provide these customers with high-quality special steel, thereby helping them to improve their competitiveness while pursuing our own profit growth.

2

Ensure adequate margins

- Constantly make efforts to cope with continuously escalating prices for iron scrap, other raw materials and fuel. For price increases that cannot be absorbed, adjust our selling prices by gaining our customers' understanding, thereby ensuring adequate margins.

3

Respond to increasingly sophisticated customer needs by increasing non-price competitiveness

- Promote the expansion of technological innovation through the development of highly functional, differentiated products and manufacturing technologies, and enhance non-price competitiveness by providing higher-level quality assurance and acquiring more agile production/delivery capabilities, thereby responding to the increasingly sophisticated needs of customers at home and abroad.

4

Establish a supply system capable of responding to steady demand (Realize a monthly production capacity of 100,000 tons)

- In order to make supplies responsive to steady demand over the medium term, improve the rate of capacity utilization to the full and boost production efficiency, and make capital expenditures to eliminate bottlenecks, thereby establishing a supply system that can constantly deliver an output of "100,000 tons per month." Also, we will further review our sales volume according to the demand situation.

5

Ensure implementation of environmental measures

- Conduct business with a view to creating a resource-recycling society through such measures as cutting carbon dioxide emissions, in addition to the measures we have already implemented, i.e., expanding the dust collecting capacity of the electric arc furnace and shifting energy sources from heavy oil to city gas (liquefied natural gas).

Reference

Net Sales/Operating Income by Business Segment

【Net sales】

(Billions of yen)

	FY2007(actual performance)	FY2010(plan)	Change
Steel Products	160.6	192.0	31.4
Formed & Fabricated Materials	16.8	18.0	1.2
Other Segments	3.1	3.0	-0.1
(Elimination)	-12.1	-13.0	-0.9
Total	168.4	200.0	31.6

【Operating income】

(Billions of yen)

	FY2007(actual performance)	FY2010(plan)	Change
Steel Products	13.3	18.2	4.9
Formed & Fabricated Materials	0.6	1.7	1.1
Other Segments	0.1	0.1	0.0
(Elimination)	-0.1	—	0.1
Total	13.9	20.0	6.1

Capital expenditure/Depreciation

(Billions of yen)

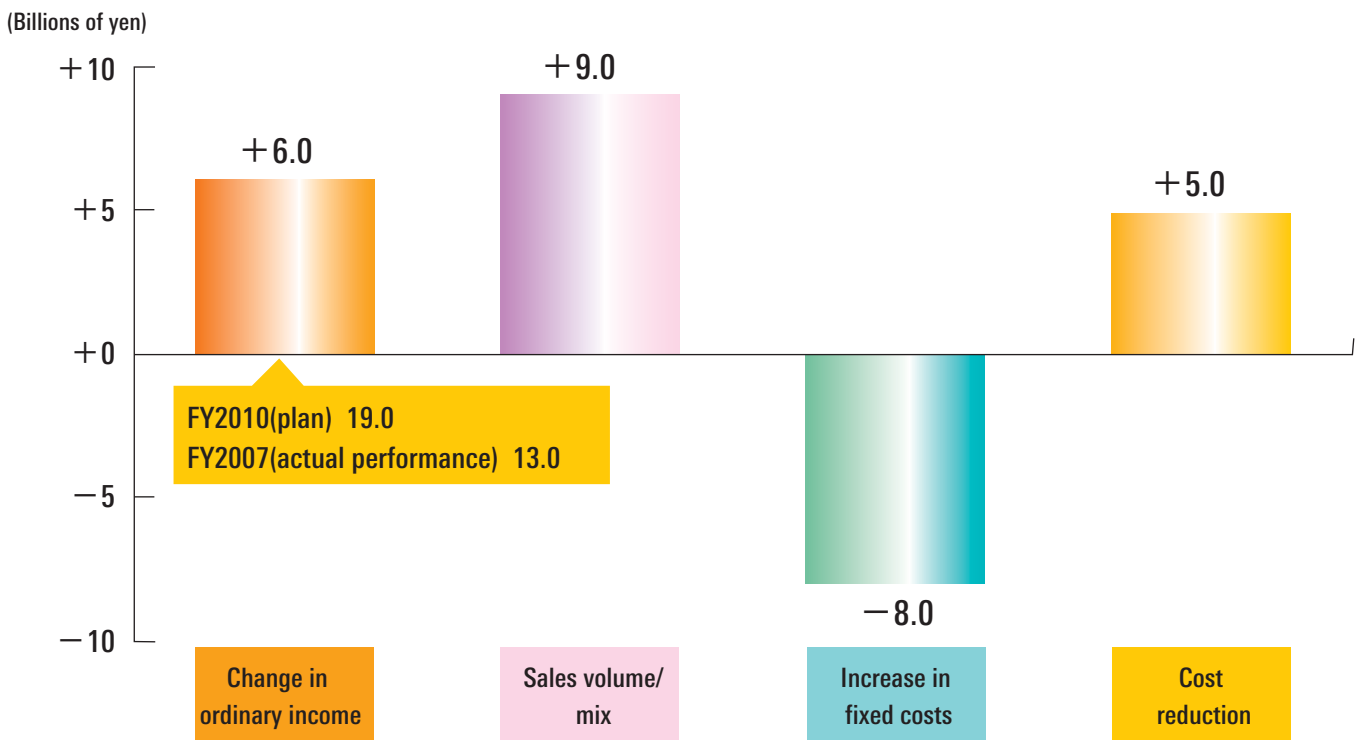
	FY2005-FY2007 cumulative total (actual performance)	FY2008-FY2010 cumulative total (plan)	Change
Capital expenditure	24.7	60.0	35.3
Depreciation	18.7	30.0	11.3

Non-consolidated sales volume (annual)

	FY2007(actual performance)	FY2010(plan)	Change
Sales volume	950,000 tons	1,080,000 tons	130,000 tons

*The figure for 2007 actual performance is rounded off to the nearest 10,000 tons.

 Improvements in Ordinary Income (FY2007→FY2010)





Specialty Steel



The specialty steel segment is involved in the manufacture and distribution of special steel products that draw upon our high cleanliness steel manufacturing technology. For example, we are Japan's largest producer of bearing steel, as well as of manufacturing engineering and stainless steels. We manufacture and distribute our products in the form of steel bars, wire rods and steel tubes.

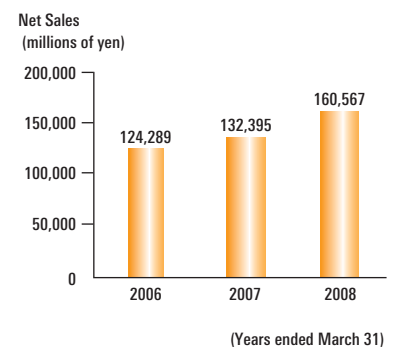
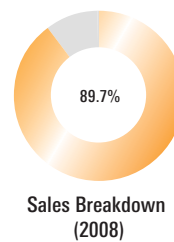
Our steel products have attained the world's highest level of cleanliness, which is supported by highly reliable steelmaking and operational technologies such as the Sanyo New Refining Process ("SNRP"), a steel refining process for premium cleanliness steel. This technology, unique to Sanyo, minimizes the size of the largest inclusions to bring out the inherent performance of the steel. Moreover, we are the only special steel manufacturer in Japan that has seamless steel tube manufacturing equipment.

Overview

Net sales rose to ¥160,567 million (an increase of ¥28,172 million over fiscal 2006) thanks to higher selling prices and increased sales volume in engineering steel, bearing steel and tool steel, backed by strong demand. Operating income declined to ¥13,250 million (a decrease of ¥4,138 million from fiscal 2006) due to the spike in scrap iron prices, price increases in other raw materials, fuel, and various materials, and a decline in sales volume for stainless steel.

As for capital investment, major projects under the previous medium-term business plan were completed by the end of fiscal 2006, and during fiscal 2007, we implemented various measures to achieve higher utilization rates, including ramping up No.1 Steelmaking Plant operations and minimizing facility troubles, so that the capacity of the existing facilities, including those that are newly completed, can be fully utilized.

We also promoted the development of nickel and molybdenum-independent, high-hardness alloy steels such as ECOMAX.



Formed & Fabricated Materials

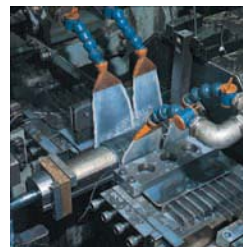
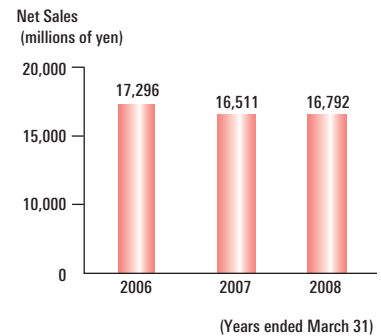
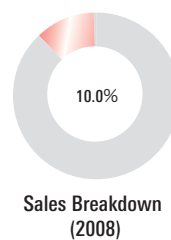


The Formed & Fabricated Materials segment uses an integrated, serial process to manufacture high-quality formed and fabricated materials from “steel you can count on,” which is produced using our high cleanliness manufacturing technology. Our formed and fabricated materials include cut rings produced by cutting special steel tubes with high precision, forged rings/die forged products/hot rolled rings made from steel bars, and cold roll formed rings made from ring materials.

Overview

Net sales grew to ¥16,792 million (an increase of ¥281 million from fiscal 2006) owing to higher selling prices and increased sales volume on the back of brisk production in the bearing industry. Operating income, however, declined to ¥615 million (a decrease of ¥66 million from fiscal 2006) due to the sharp rise in scrap iron prices and price increases in other raw materials, fuel, and various materials, although the negative impact of these factors was partly offset by the improvement in selling prices.

Meanwhile, we have been working on the project for the installation of an additional vertical-type hot forging machine at Ningbo Sanyo Special Steel Products Co., Ltd. (hereinafter referred to as “NSSP”), our Chinese subsidiary for parts manufacturing, in order to respond to growing automobile production in China, and this project is scheduled to be completed in fiscal 2008. In addition, we will continue to work on productivity improvement and cost rationalization for the entire Formed & Fabricated Materials business.

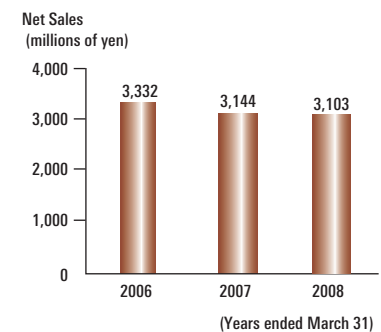
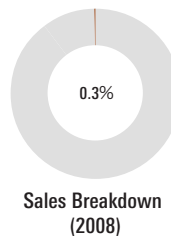


Other Segments

We provide information processing services through our subsidiaries.

Overview

Net sales declined to ¥3,103 million (down ¥41 million year-on-year) and operating income increased to ¥116 million (down ¥10 million year-on-year).



Notes:

Net sales for each business segment include intersegment transactions. However, the sales breakdown is calculated based on net sales by each segment to outside customers.

We identify actual customer needs through a thorough analysis of data on social and industrial developments collected through a customer satisfaction-oriented marketing approach and respond to such customer needs with fast-paced research and development.

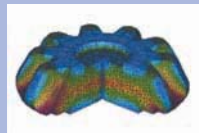
We promote R&D that contributes to the expansion of technological innovation with a view to preserving the global environment and coping with soaring resource/fuel prices and the depletion of fuel and other resources, thereby further enhancing the brand power of "Sanyo Special Steel - the confident choice."

Analytical Technology

- Analysis of inclusions and precipitates
- Rapid analysis of fatigue characteristics
- Advanced CAE simulation ranging from fluid dynamics and thermal analysis to deformation analysis



Ultrasonic fatigue testing equipment



Strain distribution of a cold forged gear

Technological Development

- Steelmaking process
- Manufacturing process
- Forming and fabricating process
- Powder-producing process



Electric furnace operation

SANYO SPECIAL STEEL
– the Confident Choice

Materials Development

- Development of state-of-the-art bearing steel
- Development of high-functional engineering steel
- Development of materials related to energy use and the environment
- Development of steel for highly functional dies
- Development of materials for electronics components
- Development of high-functional powder materials



Electron microscopic image of TiC in TMAX steel

Fundamental Research



High-resolution field emission scanning electron microscope

Our Major Original Products

SP Steel

“Premium cleanliness steel” with its characteristics improved to the limit

SP steel is the “premium” cleanliness steel which was developed based on our unique concept of “controlling the size of the largest inclusion in steel to utilize its essential characteristics to the full.” Its higher fatigue strength and reliability satisfy our customers’ needs, especially those of our customers in the automobile industry, who require “small, lightweight high-performance parts that are also friendly to the environment.”



Ball bearings

ECOMAX Steel

Nickel and molybdenum-independent high-hardness steel

ECOMAX delivers performance comparable to typical high-hardness nickel-molybdenum alloy steel, realized without the addition of such rare alloy resources. ECOMAX, as a material for parts requiring high hardness, such as automobile gears and shafts, addresses the needs of our customers for higher hardness and resource conservation, and is now in the final stage of development prior to commercialization.



QCM7

Cold working dies with a high-level balance between excellence of machinability and life

QCM7 provides outstanding machinability and dimensional stability in heat treatment as well as hardness and toughness superior to conventional steel (SKD11) through optimum control of carbide and sulfide. QCM7 contributes to reducing the total cost of dies by achieving a high-level balance between machinability in die production and die life.



Example of die application

QSX5

Stainless steel tubes offering excellent anti-corrosion performance for boiler tubes used in waste power generation

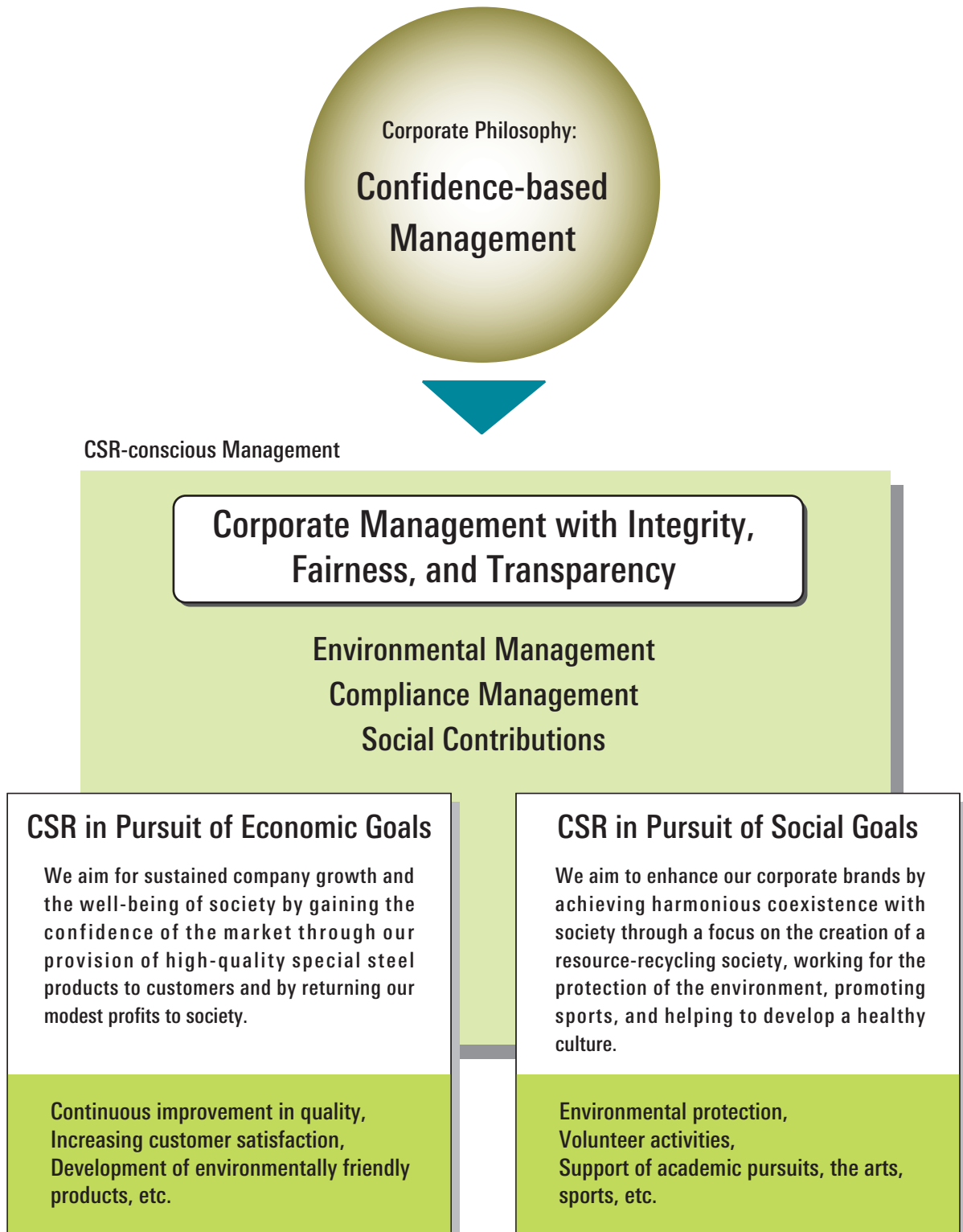
QSX5 provides excellent corrosion resistance against chlorine and other corrosive substances in waste incineration, realized through the addition of a good proportion of nickel, silicon and molybdenum to austenitic stainless steel.

QSX5 is widely used as a boiler tube material in waste power generation facilities where residual heat is used effectively.



While promoting corporate management with integrity, fairness, and transparency through the practice of our corporate philosophy, "confidence-based management," we fulfill our economic and social missions in order to gain the confidence of all our stakeholders and build a sustainable relationship with society.

Conceptual Diagram



In order to ensure compliance across the organization, we are working on developing, maintaining and improving our systems to familiarize personnel at all levels with compliance practice.

Clearly-defined Company Rules

Guidelines for Corporate Behavior

The Guidelines for Corporate Behavior indicate how we should behave as a corporation and underpin all corporate activities.

Code of Conduct

The Code of Conduct provides "guidance on conduct" to be observed in the course of our business activities within the framework set by the Guidelines for Corporate Behavior.

Corporate Behavior and Ethics Regulations

The Corporate Behavior and Ethics Regulations specify the systems and structure used to ensure compliance.

Establishment of a Corporate Behavior and Ethics Special Committee

The Committee discusses compliance policies and specific measures based on these policies. If any situation or behavior deviates or is likely to deviate from laws and regulations, etc., the Committee investigates the actual situation, deliberates on appropriate corrective measures and takes other relevant actions.

Establishment of a Whistle-blowing System

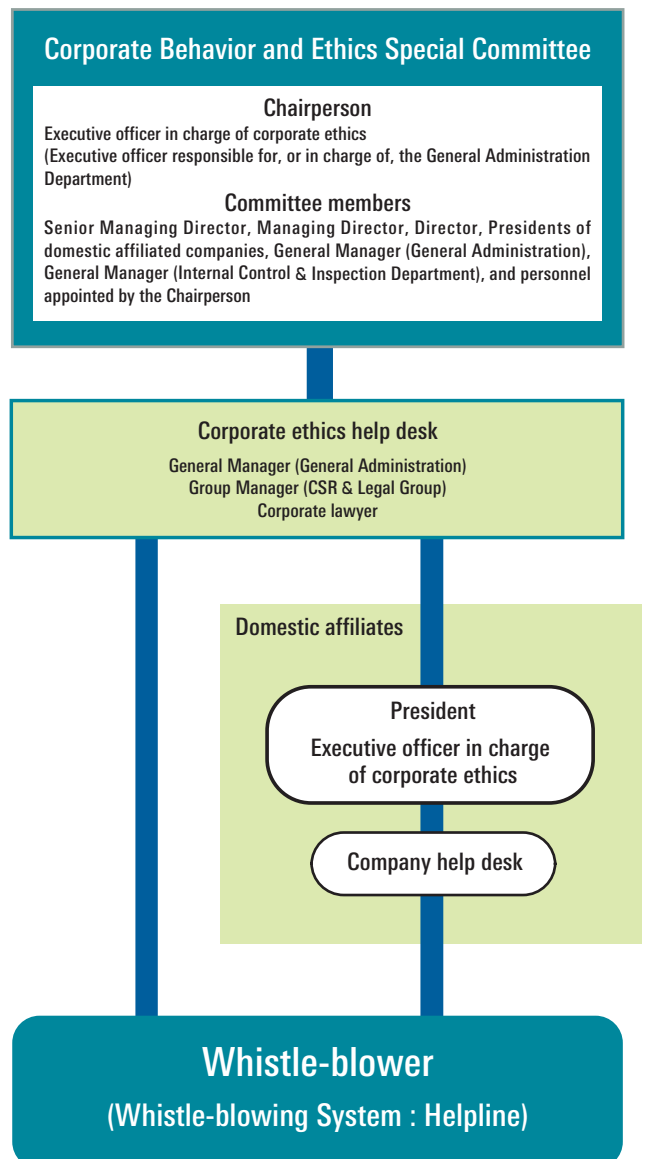
We have initiated a "Helpline," a whistle-blowing system designed to help prevent the occurrence or recurrence of misconduct.

The "Helpline" is aimed at detecting at an early stage any apparent or probable circumstances/acts which are deemed inappropriate in light of laws and regulations, social norms, and/or company rules, and allowing prompt and appropriate action to be taken to prevent misconduct.

Implementation of Compliance Education Programs

We arrange lectures to improve compliance awareness and provide e-learning programs for compliance education.

Compliance Structure



We conduct our business keeping environmental conservation in mind, and seek to create a recycling society.

Environmental policy

philosophy

We are aware that environmental conservation is an important issue common to all mankind. With this in mind, and as a company operating in a rich environment with a wonderful view of Himeji Castle, a designated UNESCO World Heritage Site and our national treasure, to the north, and the Seto Inland Sea National Park to the south, we seek to contribute to the creation of a recycling society by promoting eco-friendly practices throughout all stages of our operations.

Environmental policy

Based on our company mission statements, which are listed below, we, Sanyo Special Steel, promote environmental management as a producer and seller of special steels and nonferrous metals.

- 1 We contribute to the recycling of metal as we manufacture steel products from steel scrap.
- 2 We abide by laws, regulations, and agreements related to the environment, constantly work hard to improve our environmental preservation systems, and strictly control its business activities that may impact the environment.
- 3 In order to reduce the environmental burden at every stage of our operations and contribute to environmental conservation, we promote resource and energy savings, the recycling of by-products, waste reduction and pollutant discharge control, and strive to prevent environmental pollution.
- 4 We set environmental goals and targets, review these environmental aims at least once a year and make revisions as necessary in order to accomplish these environmental missions.
- 5 The general manager of the Environmental Management Department is designated as the chief administrator of the environmental system, with the purpose of making these environmental missions known to all of our employees and ensuring the environmental system is implemented.

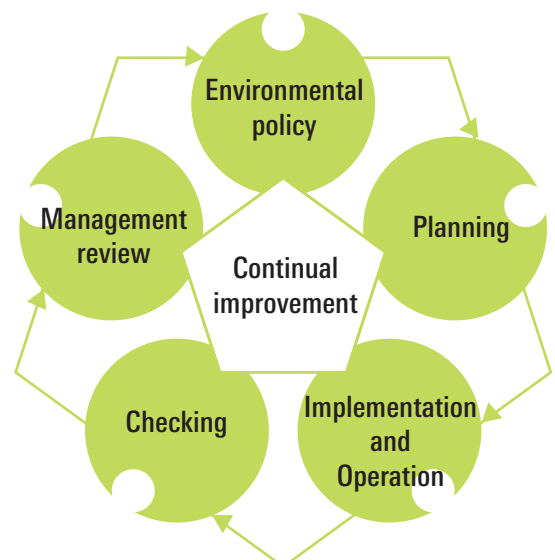
Environmental Management System

We are ISO14001 certified, the international standard for environmental management systems. We perform internal audits and undergo examinations by external institutions every year.

We involve younger employees in internal audits and encourage them to deepen their understanding of the environmental management system and work on its improvement. We also send out managerial-level staff to participate in external training programs in order to continuously develop our internal audit staff.

Among our affiliated companies, Santoku Tech. Co., Ltd. obtained ISO 14001 certification in September 2005. We will continue to assist our affiliates in developing environmental management systems and acquiring environmental ISO certification.

■ Environmental management system model



We have been actively promoting our social contribution programs, which include cleanup and beautification activities in the surrounding area, registration as a Community Disaster Prevention Cooperating Business Place, as well as other programs implemented by the Sanyo Special Steel Cultural Promotion Foundation which assists with the development of regional culture including arts, academic research, and sports through the donation of books to local elementary schools, sponsorship of track and field meets, and other support activities. Through these activities, we strive to gain the strong confidence of all our stakeholders and grow as a corporate citizen.

Community Activities

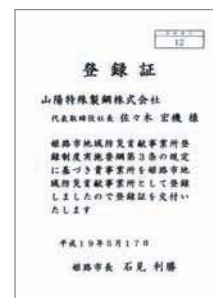
Beautification of the surrounding area

In September 2007, we conducted a cleanup in the area surrounding our plant. The cleanup activity is an annual event organized as part of our community contribution programs. About 260 employees participated in it and gathered garbage discarded in the surrounding streets, center dividers, and green belts.



Registration as a Community Disaster Prevention Cooperating Business Place

We agreed with the concept of the “Himeji City Community Disaster Prevention Cooperating Business Place Registration System” established by the city government, and signed up as a member in May 2007. In the event of disaster, we cooperate with the city government on request by providing equipment and supplies, human resources, our technical capabilities, organizational power, and evacuation shelters which are necessary for rescue operations for disaster victims.



Certificate of Registration

Donation of books to local elementary schools (Cultural Promotion Foundation program)

Since 2006, we have been donating books to local elementary schools, hoping that reading books can help children to build a foundation for personality development. In April 2008 we donated 265 books, the third time the donation program was implemented.



Sponsorship of the Himeji Athletic Sports Championships (Cultural Promotion Foundation program)

We have been sponsoring the Himeji Athletic Sports Championships held in September of each year. A great number of athletes including the general public and students from junior and senior high schools participate and demonstrate the results of their daily practice. We hope that this event will help to raise youth interest in sports.



FINANCIAL SECTION

Overview

During fiscal 2007, the Japanese economy was on a gradual recovery track, supported by increased exports and strong corporate earnings, but in the latter half of the year, the financial market turmoil triggered by subprime loan problems, the downturn in housing construction, and the sharp rise in raw material and fuel prices heightened the sense of uncertainty about the future.

In the special steel industry, production of hot-rolled special steel products remained at a high level due to robust production in key customer sectors including automobiles, industrial machinery, and construction machinery, riding on the back of buoyant demand, especially from abroad.

Against this backdrop, the Sanyo Special Steel Group posted consolidated net sales of ¥168,423 million for fiscal 2007 (an increase of ¥26,047 million from fiscal 2006) thanks to higher selling prices and increased sales volume.

As for profitability, ordinary income declined to ¥12,981 million (a year-on-year decrease of ¥4,966 million), and net income declined to ¥7,232 million (a year-on-year decrease of ¥1,432 million), affected by the spike in scrap iron and ferroalloy prices, increases in other raw material and fuel prices, and higher depreciation expenses due to the 2007 tax reform, although these negative factors were alleviated in part by higher selling prices, cost-cutting efforts, and increased sales volume.

The Company paid an annual dividend of ¥11 per share.

Cash Flows

Net cash provided by operating activities totaled ¥11,494 million (an increase of ¥3,256 million from fiscal 2006), which resulted from the combined effects of net income before income taxes of ¥12,463 million (¥3,159 million lower than fiscal 2006), decreased depreciation expenses and trade receivables, increased trade payables, higher inventories, and the payment of income tax.

Net cash used in investing activities totaled ¥12,127 million (¥1,291 million higher than fiscal 2006) due to capital investments for productivity improvements, environmental measures, the replacement of equipment, and share acquisitions.

Net cash provided by financing activities totaled ¥1,483 million (¥1,261 million higher than fiscal 2006) due to the issuance of commercial paper and an increase in borrowings.

As a result, cash and cash equivalents at the end of fiscal 2007 stood at ¥4,945 million (an increase of ¥769 million from the end of fiscal 2006).

FINANCIAL SECTION

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of March 31, 2007 and 2008

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2007	2008	2008
Current Assets:			
Cash and bank deposits (Note 15)	¥ 4,184	¥ 4,951	\$ 49,418
Notes and accounts receivable, trade (Notes 7 and 18)	33,688	29,909	298,524
Less: Allowance for doubtful accounts	(244)	(229)	(2,289)
Inventories (Note 5)	38,974	47,176	470,862
Deferred income taxes (Note 10)	1,573	1,507	15,039
Other current assets	852	1,318	13,160
Total current assets	79,027	84,632	844,714
Property, Plant and Equipment:			
Land (Note 6)	7,771	7,718	77,035
Buildings and structures (Note 6)	41,760	43,056	429,745
Machinery and equipment (Note 6)	152,446	158,307	1,580,070
Construction in progress	2,217	911	9,090
	204,194	209,992	2,095,940
Less: Accumulated depreciation	(148,221)	(154,037)	(1,537,452)
Total property, plant and equipment	55,973	55,955	558,488
Intangibles	983	1,042	10,398
Investments and Other Assets:			
Investments in securities (Note 4)	12,744	11,936	119,134
Long-term loans receivable	410	280	2,792
Deferred income taxes (Note 10)	185	280	2,797
Prepaid pension cost (Note 9)	2,439	2,495	24,909
Other investments and assets	1,330	1,200	11,976
Less: Allowance for doubtful accounts	(382)	(331)	(3,307)
Total investments and other assets	16,726	15,860	158,301
Total assets	¥ 152,709	¥ 157,489	\$ 1,571,901

These accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2007	2008	2008
Current Liabilities:			
Short-term loans (Note 8)	¥ 17,368	¥ 10,697	\$ 106,775
Current portion of long-term debt (Notes 6 and 8)	2,519	9,352	93,342
Commercial papers	—	2,496	24,912
Notes and accounts payable, trade (Note 7)	14,019	15,482	154,528
Accounts payable, other	3,890	3,907	38,997
Accrued income taxes (Note 10)	4,027	2,493	24,881
Deferred income taxes (Note 10)	13	16	159
Accrued expenses	6,976	7,701	76,864
Other current liabilities (Note 7)	624	592	5,907
Total current liabilities	49,436	52,736	526,365
Long-term Liabilities:			
Long-term debt (Notes 6 and 8)	9,724	10,360	103,399
Accrued employees' retirement benefits (Note 9)	1,121	990	9,885
Accrued directors' retirement benefits	557	104	1,036
Provision for environmental measures	376	376	3,753
Deferred income taxes (Note 10)	1,809	135	1,343
Other long-term liabilities	118	329	3,286
Total long-term liabilities	13,705	12,294	122,702
Total liabilities	63,141	65,030	649,067
Contingent Liabilities (Note 18)			
Net Assets (Note 11)			
Shareholders' Equity:			
Common stock:			
Authorized - 474,392,000 shares			
Issued - 167,124,036 shares	¥ 20,183	¥ 20,183	\$ 201,444
Capital surplus	22,591	22,594	225,507
Retained earnings	43,085	48,523	484,313
Less: Treasury stock, at cost (2007: 3,979,082 shares, 2008: 4,042,602 shares)	(664)	(720)	(7,187)
Total shareholders' equity	85,195	90,580	904,077
Valuation, Translation Adjustments and Others:			
Unrealized holding gains on securities, net of taxes	4,175	1,357	13,543
Unrealized losses on hedging derivatives, net of taxes	(6)	(1)	(5)
Foreign currency translation adjustments	(51)	32	320
Valuation, Translation Adjustments and Others	4,118	1,388	13,858
Minority Interests	255	491	4,899
Total net assets	89,568	92,459	922,834
Total liabilities and net assets	¥ 152,709	157,489	\$ 1,571,901

These accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2007	2008	2008
Net Sales	¥ 142,376	¥ 168,423	\$ 1,681,035
Cost of Sales (Note 12)	112,820	142,631	1,423,609
Gross profit	29,556	25,792	257,426
Selling, General and Administrative Expenses (Note 12)	11,367	11,888	118,651
Operating income	18,189	13,904	138,775
Other Income:			
Interest and dividends	167	258	2,570
Other	421	381	3,812
	588	639	6,382
Other Expenses:			
Interest	(501)	(549)	(5,477)
Other	(329)	(1,013)	(10,119)
	(830)	(1,562)	(15,596)
Ordinary income	17,947	12,981	129,561
Special Items:			
Loss on sale and disposition of property, plant and equipment	(491)	(225)	(2,250)
Loss on impairment of fixed assets (Note 13)	(1,454)	(91)	(912)
Gain on sale of investments in securities and others	0	21	213
Loss on devaluation of investments in securities and others	(3)	(264)	(2,635)
Allowance for doubtful accounts	(2)	—	—
Reversal of allowance for doubtful accounts	—	41	414
Expenses for environmental measures	(376)	—	—
	(2,326)	(518)	(5,170)
Income before income taxes and minority interests	15,621	12,463	124,391
Income Taxes (Note 10):			
Current	7,030	4,947	49,377
Deferred	117	188	1,873
	7,147	5,135	51,250
Minority Interests in Income (Loss) of Consolidated Subsidiaries	191	(96)	954
Net income	¥ 8,665	¥ 7,232	\$ 72,187
	Yen		U.S. Dollars (Note 3)
	2007	2008	2008
Per Share:			
Net income (Note 14)	¥ 53.55	¥ 44.34	\$ 0.44
Cash dividends	¥ 11.00	¥ 11.00	\$ 0.11
Net assets	¥ 547.44	¥ 563.94	\$ 5.63

These accompanying notes are an integral part of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31, 2007

	Number of outstanding common shares	Millions of Yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at March 31, 2006:	167,124,036	¥ 20,183	¥ 17,594	¥ 36,455	¥ (1,467)
Net income	—	—	—	8,665	—
Cash dividends paid	—	—	—	(1,920)	—
Directors' and corporate auditors' bonuses	—	—	—	(115)	—
Acquisition of treasury stock	—	—	—	—	(59)
Disposal of treasury stock	—	—	4,997	—	862
Other change for fiscal 2006, net	—	—	—	—	—
Total change for this fiscal 2006	—	—	4,997	6,630	803
Balance at March 31, 2007:	167,124,036	¥ 20,183	¥ 22,591	¥ 43,085	¥ (664)

	Millions of Yen				
	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2006:	¥ 2,687	¥ —	¥ (271)	¥ 426	¥ 75,607
Net income	—	—	—	—	8,665
Cash dividends paid	—	—	—	—	(1,920)
Directors' and corporate auditors' bonuses	—	—	—	—	(115)
Acquisition of treasury stock	—	—	—	—	(59)
Disposal of treasury stock	—	—	—	—	5,859
Other change for fiscal 2006, net	1,488	(6)	220	(171)	1,531
Total change for this fiscal 2006	1,488	(6)	220	(171)	13,961
Balance at March 31, 2007:	¥ 4,175	¥ (6)	¥ (51)	¥ 255	¥ 89,568

These accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31, 2008

	Number of outstanding common shares	Millions of Yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at March 31, 2007:	167,124,036	¥ 20,183	¥ 22,591	¥ 43,085	¥ (664)
Net income	—	—	—	7,232	—
Cash dividends paid	—	—	—	(1,794)	—
Acquisition of treasury stock	—	—	—	—	(57)
Disposal of treasury stock	—	—	3	—	1
Other change for fiscal 2007, net	—	—	—	—	—
Total change for this fiscal 2007	—	—	3	5,438	(56)
Balance at March 31, 2008:	167,124,036	¥ 20,183	¥ 22,594	¥ 48,523	¥ (720)

	Millions of Yen				
	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2007:	¥ 4,175	¥ (6)	¥ (51)	¥ 255	¥ 89,568
Net income	—	—	—	—	7,232
Cash dividends paid	—	—	—	—	(1,794)
Acquisition of treasury stock	—	—	—	—	(57)
Disposal of treasury stock	—	—	—	—	4
Other change for fiscal 2007, net	(2,818)	5	83	236	(2,494)
Total change for this fiscal 2007	(2,818)	5	83	236	2,891
Balance at March 31, 2008:	¥ 1,357	¥ (1)	¥ 32	¥ 491	¥ 92,459

	Number of outstanding common shares	Thousands of U.S. Dollars (Note3)			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at March 31, 2007:	167,124,036	\$ 201,444	\$ 225,478	\$ 430,036	\$ (6,626)
Net income	—	—	—	72,187	—
Cash dividends paid	—	—	—	(17,910)	—
Acquisition of treasury stock	—	—	—	—	(570)
Disposal of treasury stock	—	—	29	—	9
Other change for fiscal 2007, net	—	—	—	—	—
Total change for this fiscal 2007	—	—	29	54,277	(561)
Balance at March 31, 2008:	167,124,036	\$ 201,444	\$ 225,507	\$ 484,313	\$ (7,187)

	Thousands of U.S. Dollars (Note3)				
	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2007:	\$ 41,670	\$ (58)	\$ (510)	\$ 2,549	\$ 893,983
Net income	—	—	—	—	72,187
Cash dividends paid	—	—	—	—	(17,910)
Acquisition of treasury stock	—	—	—	—	(570)
Disposal of treasury stock	—	—	—	—	38
Other change for fiscal 2007, net	(28,127)	53	830	2,350	(24,894)
Total change for this fiscal 2007	(28,127)	53	830	2,350	28,851
Balance at March 31, 2008:	\$ 13,543	\$ (5)	\$ 320	\$ 4,899	\$ 922,834

These accompanying notes are an integral part of these statements.

FINANCIAL SECTION

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2007	2008	2008
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 15,621	¥ 12,463	\$ 124,391
Adjustments -			
Depreciation and amortization	5,933	7,455	74,407
Loss on impairment of fixed assets	1,454	91	912
(Decrease) Increase in allowance for doubtful accounts	36	(31)	(309)
Provision for (Reversal of) accrued employees' retirement benefits, less payments	(224)	(131)	(1,306)
Increase in prepaid pension cost	(108)	(56)	(562)
Provision for accrued directors' retirement benefits, less payments	121	(452)	(4,516)
Expenses for environmental measures	376	—	—
Interest and dividends income	(167)	(258)	(2,570)
Interest expenses	501	549	5,477
Gain on sale of investments in securities	(0)	—	—
Loss on devaluation of investments in securities	0	259	2,587
Loss on sale and disposition of property, plant and equipment	491	225	2,250
Payments of directors' and corporate auditors' bonuses	(115)	—	—
Changes in assets and liabilities:			
Notes and accounts receivable, trade	(2,120)	3,765	37,581
Inventories	(6,957)	(8,175)	(81,594)
Notes and accounts payable, trade	3,175	2,514	25,088
Other, net	(82)	35	349
Sub-total	17,935	18,253	182,185
Interest and dividends income received	174	239	2,385
Interest expenses paid	(502)	(528)	(5,271)
Income taxes paid	(9,370)	(6,470)	(64,579)
Net cash provided by operating activities	8,237	11,494	114,720
Cash Flows from Investing Activities:			
Payments for purchases of property, plant and equipment	(7,711)	(7,695)	(76,801)
Payments for purchases of intangible assets	(313)	(235)	(2,342)
Collections from sale (Payments for purchases) of investments in securities	(2,585)	(4,191)	(41,832)
Decrease in long-term loans	42	110	1,095
Other, net	(269)	(116)	(1,164)
Net cash used in investing activities	(10,836)	(12,127)	(121,044)
Cash Flows from Financing Activities:			
(Decrease) Increase in short-term loans	7,521	(6,699)	(66,859)
Increase in Commercial papers	—	2,496	24,912
Proceeds from long-term debt	—	10,000	99,810
Repayment of long-term debt	(11,170)	(2,499)	(24,945)
Payments for purchases of treasury stock	(59)	(57)	(570)
Proceeds from sales of treasury stock	5,858	4	39
Cash dividends	(1,920)	(1,794)	(17,910)
Cash dividends to minority shareholders	(8)	(8)	(77)
Proceeds from issuance of common stock to minority shareholders	—	40	405
Net cash (used in) provided by financing activities	222	1,483	14,805
Effect of Exchange Rate Changes on Cash and Cash Equivalents	34	(81)	(806)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,343)	769	7,675
Cash and Cash Equivalents at Beginning of the Year	6,519	4,176	41,683
Cash and Cash Equivalents at End of the Year (Note 15)	¥ 4,176	¥ 4,945	\$ 49,358

These accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Consolidated Financial Statements:

The accompanying consolidated financial statements of Sanyo Special Steel Co., Ltd. (the "Company") and its consolidated subsidiaries (the group referred to herein as "Companies") have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to

application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law.

2. Summary of Significant Accounting Policies:

(1) Consolidation and investments in affiliates -

(a) Scope of consolidation and elimination

The Company has 11 subsidiaries as of March 31, 2008 (11 subsidiaries as of March 31, 2007). The consolidated financial statements include the accounts of the Company and 11 of its significant subsidiaries. The 11 subsidiaries that have been consolidated for 2008 are listed below:

Yohkoh Bussan Co., Ltd.
Santoku Seiken Co., Ltd.
Santoku Kogyo Co., Ltd.
Santoku Tech Co., Ltd.
Santoku Life Co., Ltd.
Santoku Computer Service Co., Ltd.
SKJ Metal Industries Co., Ltd.
P.T. Sanyo Special Steel Indonesia
Sanyo Special Steel U.S.A., Inc.
Sanyo Special Steel America Corporation
Ningbo Sanyo Special Steel Products Co., Ltd.

The differences between the cost of investments in subsidiaries and the underlying equity in net assets of the subsidiaries are amortized on a straight-line basis over 5 years.

However, when its amount is not material, it has been amortized at that time.

The consolidated subsidiaries, except for the 5 foreign consolidated subsidiaries (SKJ Metal Industries Co., Ltd., P.T. Sanyo Special Steel Indonesia, Sanyo Special Steel U.S.A., Inc., Sanyo Special Steel America Corporation and Ningbo Sanyo Special Steel Products Co., Ltd.), use a fiscal year ending on March 31, which is the same as that of the Company. The 5 foreign consolidated subsidiaries use a fiscal year ending on December 31. For these subsidiaries, certain adjustments are made, if appropriate, in preparing the consolidated financial statements to reflect material transactions which occurred during the period from January 1 to March 31.

For the purpose of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated.

(b) Investments in affiliates

Investments in affiliates in which the Companies have significant influence are accounted for under the equity method.

Investments in Advanced Green Components, LLC is accounted for under the equity method.

The equity method has not been applied to the investments in another affiliate in the consolidated financial statements since the equity method of accounting for the investments in the affiliate would not have a material effect on the consolidated net income and retained earnings of the Companies.

(2) Foreign currency translation -

Foreign currency transactions are translated into Japanese yen at the exchange rates prevailing at the respective transaction dates. All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the each balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

All assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing at the each balance sheet date. All income and expense accounts for the year are also translated at those rates. These differences are recorded as a separate component of net assets.

(3) Securities -

The accounting standard for financial instruments requires that securities be classified into three categories: trading securities, held-to-maturity debt securities or other securities. All of the securities held by the Companies are classified as other securities.

Under the standard, marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, are included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Declines in the value of other securities are reflected in current income unless deemed to be temporary. Cost of securities sold is determined by the moving average method.

(4) Derivative Transactions -

The Companies use foreign exchange forward contracts and interest rate swap to reduce its exposure to market risks from fluctuations in foreign currency and interest rates. The Company does not hold or issue financial derivative instruments for trading purpose.

With regards to foreign exchange forward contracts, unrealized gains/losses of derivative transactions are recognized in the consolidated statements of income.

With regards to interest rate swap transactions, the Companies use the deferral method based on the short-cut method assuming that there is no ineffectiveness in the hedging relationship between hedged items and hedging instruments, if the criteria for short-cut method are met. If the criteria for hedge accounting are met, even though those for short-cut method are not met, the Companies use the deferral method for interest rate swap transactions. Notional amounts, fair value and unrealized gains/losses of derivative transactions are not required to be disclosed due to the adoption of hedge accounting.

(5) Inventories -

Inventories are principally stated at cost determined by moving average method.

(6) Depreciation and amortization -

Depreciation of buildings, structures, machinery, equipment, vehicles and tools at No. 2 Melt Shop and No. 2 Bar, Wire Rod and Wire Mill Shop is computed on the straight-line method, based on their estimated useful lives. In addition the Company has computed the depreciation using the straight-line method for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), which have been acquired on or after April 1, 1998. Depreciation of property, plant and equipment other than those described above, is computed on the declining-balance method.

The accounting change

Effective April 1, 2007, the Company and domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporation Tax Law of Japan. As a result of this change, income before income taxes and minority interests decreased by ¥174million (\$1,741thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method.

Effective from the year ended March 31, 2008, the property, plant and equipment acquired before April 1, 2007 for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years from the following fiscal year. As a result of this change, income before income taxes and minority interests decreased by ¥972million (\$9,706thousand) for the year ended March 31, 2008.

The cost of property, plant and equipment retired or otherwise disposed of and the related accumulated depreciation are eliminated from the respective accounts, and the resulting profit or loss is reflected in income. Repairs and maintenance, including minor renewals and betterments, are charged to income as incurred.

Amortization of capitalized software costs for internal use is computed on the straight-line method, based on the useful lives estimated to be 5 years. Amortization of other intangible assets are computed on the straight-line method.

(7) Research and development costs -

Research and development costs are charged to income as incurred.

(8) Allowance for doubtful accounts -

The allowance for doubtful accounts is provided at the amount, which is calculated based on the past loss experience, plus the amount estimated to be uncollectible on an individual account basis.

(9) Employees' retirement benefits -

Employees whose service with the Company and its principal consolidated subsidiaries are terminated, under most circumstances, are entitled to retirement benefits determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur.

Accrued employees' retirement benefits are based on the actuarial valuation of projected benefit obligations and the fair value of the plan assets. Prior service costs are amortized on a straight-line basis over the period of 10 years from the year when they arise. Actuarial differences are amortized on a straight-line basis over the period of 10 years from the year next to the year when they arise.

(10) Directors' retirement benefits -

As is a customary practice in Japan, the Company provides for lump-sum payments to retiring directors and corporate auditors, the amount of which is determined by reference to the Company's internal rules. The amounts of such retirement payments are subject to approval by the shareholders at the time of an individual director's or corporate auditor's resignation or retirement.

(11) Provision for Environmental Measures

The provision for environmental measures for obligatory PCB treatment is stated as an estimated cost at the end of the fiscal year.

(12) Income taxes -

The Companies adopt deferred tax accounting for preparation of consolidated financial statements. Income taxes are determined using the asset and liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements.

(13) Revenue recognition -

Sales are generally recognized at the time the goods are delivered or shipped to the customers.

(14) Finance leases -

Finance leases, other than those where ownership of the leased assets are transferred to the lessee, are accounted for as operating leases.

(15) Net income and cash dividends per share -

Net income per share is computed by dividing net income available for distribution to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the year.

Cash dividends per share shown for each year in the consolidated statements of income represent dividends declared as applicable to the respective years rather than those paid during the years.

(16) Cash and cash equivalents -

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(17) Consumption tax -

In Japan, a consumption tax, with certain exemptions, is imposed on domestic consumption of goods and services at the rate of 5%. The consumption tax imposed on the Company and its domestic subsidiaries sales to customers is withheld at the time of sale and is subsequently paid to the national government. The consumption tax withheld upon sale is not included in the amount of "net sales" in the consolidated statements of income but is recorded as liabilities. The consumption tax imposed on the purchases of products, merchandise and services from vendors borne by the Company and its domestic subsidiaries, is not included in the amounts of costs and expenses but is recorded as assets. The balance of consumption tax withheld, netted of consumption tax paid, is included in "Other current liabilities" in the consolidated balance sheets.

(18) Accounting standard for presentation of net assets in the balance sheet -

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for

Presentation of Net Assets in the Balance Sheet” (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the “New Accounting Standards”).

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders’ equity sections.

(19) Accounting standard for statement of changes in net assets -

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, “Accounting Standard for Statement of Changes in Net Assets” (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005),

and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the “Additional New Accounting Standards”). Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders’ equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

(20) Reclassifications and restatement -

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. U.S. Dollar Amounts:

The U.S. dollar amounts stated in the consolidated financial statements are included solely for the convenience of readers outside Japan. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars. The rate of ¥100.19 = U.S.\$1, the approximate rate of exchange as at March 31, 2008, has been used for the purpose of such translations.

4. Securities:

(1) The aggregate acquisition cost and fair value (carrying value) of marketable securities classified as other securities as of March 31, 2007 and 2008 are as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2008			2008		
	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Stock	¥ 4,587	¥ 11,401	¥ 6,814	¥ 5,752	¥ 8,277	¥ 2,525	\$ 57,417	\$ 82,618	\$ 25,201
Securities whose acquisition cost exceeds their carrying value:									
Stock	—	—	—	¥ 2,726	¥ 2,306	¥ (420)	\$ 27,205	\$ 23,011	\$ (4,194)
Total	¥ 4,587	¥ 11,401	¥ 6,814	¥ 8,478	¥ 10,583	¥ 2,105	\$ 84,622	\$ 105,629	\$ 21,007

The Companies recognize impairment losses on other securities when the market value declines by more than 50 percent, or the market value declines by more than 30 percent but less than 50 percent and the Companies' management determines the decline to be other than temporary. Impairment loss was not recognized for the year ended March 31, 2007. Impairment loss recognized for the year ended March 31, 2008 was ¥259 million (\$2,587 thousand).

(2) For the year ended March 31, 2007, sales of other securities amounted to ¥0 million with gross realized gains on those sales of ¥0 million. For the year ended March 31, 2008, there were no sales of securities classified as other securities.

(3) Carrying values of other securities without quoted market prices as of March 31, 2007 and 2008 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Other securities			
Unlisted securities	¥ 625	¥ 665	\$ 6,640

Impairment loss recognized for the year ended March 31, 2007 was ¥1 million. Impairment loss was not recognized for the year ended March 31, 2008.

5. Inventories:

Inventories held by the Companies at March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Merchandise	¥ 1,045	¥ 1,161	\$ 11,585
Finished products	5,729	6,417	64,047
Raw materials	10,048	13,875	138,484
Work-in-process	18,801	22,131	220,895
Supplies	3,351	3,592	35,851
Total	¥ 38,974	¥ 47,176	\$ 470,862

6. Assets Pledged as Collateral:

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2007 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Assets pledged as collateral:			
Land	4,595	4,595	45,859
Buildings and structures	6,385	5,903	58,918
Machinery and equipment	10,026	8,107	80,918
	<u>¥ 21,006</u>	<u>¥ 18,605</u>	<u>\$ 185,695</u>
Secured liabilities:			
Long-term debt (including those due within one year)	11,525	19,200	191,636
	<u>¥ 11,525</u>	<u>¥ 19,200</u>	<u>\$ 191,636</u>

7. Accounting treatment for notes receivable/payable maturing at year-end

Notes receivable/payable maturing at year-end are treated as if they were settled at the clearing date of notes. Consequently, as the previous fiscal year's year-end date was a holiday for banking institutions, the following notes receivable/payable maturing at March 31, 2007 are included in the ending balance of notes receivable/payable and other current liabilities:

	Millions of Yen
Notes receivable	¥ 847
Notes payable	¥ 523
Other current liabilities	¥ 49

8. Short-term Loans and Long-term Debt:

Short-term loans at March 31, 2007 and 2008 represent bank overdrafts bearing with a weighted-average interest rate of 1.28% and 1.49%, respectively. It is normal business custom in Japan for short-term borrowings to be rolled over each year. The Company has entered into line of credit agreements for short-term financing arrangements with 3 financial institutions for an aggregated maximum amount of ¥5,000 million (\$49,905 thousand). At March 31, 2008, there were unused credit lines of ¥5,000 million (\$49,905 thousand).

Long-term debt at March 31, 2007 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Loans from banks and other financial institutions due 2007 to 2010 with interest rates ranging from 1.26% to 4.59% at March 31, 2007 and due 2008 to 2013 with interest rates ranging from 1.10% to 4.59% at March 31, 2008	¥ 12,051	¥ 19,535	\$ 194,973
Other payables due 2007 to 2021 with interest rate ranging from 2.02% to 4.05% at March 31, 2007 and due 2008 to 2021 with interest of 4.05% at March 31, 2008	192	177	1,768
	<u>12,243</u>	<u>19,712</u>	<u>196,741</u>
Less: Current portion of long-term debt	<u>(2,519)</u>	<u>(9,352)</u>	<u>(93,342)</u>
	<u>¥ 9,724</u>	<u>¥ 10,360</u>	<u>\$ 103,399</u>

The annual maturities of long-term debt outstanding at March 31, 2008 are as follows:

Year ending at March 31,	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 9,352	\$ 93,342
2010	113	1,129
2011	1,115	11,123
2012	4,015	40,074
2013 and thereafter	5,117	51,073
	<u>¥ 19,712</u>	<u>\$ 196,741</u>

9. Retirement benefits:

The Company has a severance indemnity plan and defined contribution pension plan. Certain consolidated subsidiaries have severance indemnity plans.

(1) Funded status of retirement benefit obligation at March 31, 2007 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Projected benefit obligation	¥ (8,331)	¥ (8,582)	\$ (85,653)
Plan assets at fair value	13,288	9,952	99,331
Unfunded projected benefit obligation	4,957	1,370	13,678
Unrecognized actuarial loss	(3,345)	380	3,791
Unrecognized prior service costs	(294)	(245)	(2,445)
Net of Accrued employees' retirement benefits recognized in the consolidated balance sheets	1,318	1,505	15,024
Prepaid pension cost	2,439	2,495	24,909
Accrued employees' retirement benefits recognized in the consolidated balance sheets	¥ (1,121)	¥ (990)	\$ (9,885)

Consolidated subsidiaries have adopted a simplified method to calculate their projected benefit obligation, which is permitted under the accounting standard for retirement benefits in Japan.

(2) Components of net retirement benefit expenses for the years ended March 31, 2007 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Service cost	¥ 347	¥ 368	\$ 3,677
Interest cost	221	224	2,234
Expected return on plan assets	(168)	(168)	(1,674)
Amortization of prior service costs	(49)	(49)	(489)
Amortization of actuarial loss	(242)	(249)	(2,491)
Payments for the defined contribution pension plan	165	170	1,699
Total	¥ 274	¥ 296	\$ 2,956

Consolidated subsidiaries adopt a simplified method to calculate their projected benefit obligation. These costs are also included in service costs above.

(3) Assumptions used in the calculation of retirement benefit obligations, for the years ended March 31, 2007 and 2008 are as follows:

	2007	2008
Discount rate	2.8%	2.8%
Expected rate of return on plan assets	1.3%	1.3%
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Amortization period for unrecognized prior service costs	10 years	10 years
Amortization period for unrecognized actuarial differences	10 years	10 years

10. Income Taxes:

The Company is subject to a number of different income taxes which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 40.6% for the years ended March 31, 2007 and 2008, respectively. At March 31, 2007 and 2008, significant components of deferred tax assets and liabilities are as follows:

	Millions of Yen		Thousands of
	2007	2008	U.S. Dollars
Deferred tax assets:			
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trust	¥ 2,961	¥ 2,961	\$ 29,557
Accrued bonuses	878	941	9,392
Devaluation loss on marketable securities	754	859	8,577
Accrued employees' retirement benefits	573	579	5,779
Tax losses carried forward	318	240	2,394
Business tax payable	318	213	2,125
Unrealized intercompany profit eliminated in consolidation	231	190	1,899
Accrued directors' retirement benefits	225	—	—
Allowance for doubtful accounts	162	144	1,437
Provision for environmental measures	153	153	1,524
Other	689	787	7,852
Gross deferred tax assets	7,262	7,067	70,536
Less: Valuation allowance	(341)	(423)	(4,226)
Total deferred tax assets	¥ 6,921	¥ 6,644	\$ 66,310
Deferred tax liabilities:			
Unrealized holding gains on securities	¥ (2,640)	¥ (748)	\$ (7,464)
Gain on contribution of certain marketable securities to employee retirement benefit trust	(1,597)	(1,597)	(15,943)
Reserve for postponement of taxation on capital gains from property, plant and equipment	(1,323)	(1,281)	(12,786)
Prepaid pension cost	(990)	(1,013)	(10,113)
Reserve for special depreciation	(38)	(33)	(331)
Other	(398)	(335)	(3,338)
Gross deferred tax liabilities	(6,986)	(5,007)	(49,975)
Net deferred tax assets (liabilities)	¥ (65)	¥ 1,637	\$ 16,335

The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2007 is as follows:

Statutory income tax rate	40.6%
Add (Deduct)	
Non deductible expenses, including entertainment expenses	0.8
Non taxable income, including dividend income	(0.2)
Equalization tax	0.1
Increase in valuation allowance	1.5
Other	3.0
Effective income tax rate	45.8%

The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2008 is not required to be disclosed due to the insignificance of the differences.

11. Net Assets:

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in

capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 27, 2008, the shareholders approved cash dividends amounting to ¥978 million (\$9,766 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

12. Research and Development Costs:

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2007 and 2008 totaled ¥1,242 million and ¥1,529 million (\$15,264 thousand), respectively.

13. Loss on Impairment of Fixed Assets

Impairment loss on fixed assets recorded in the consolidated statements of income for the year ended March 31, 2007 is as follows:

Location	Uses of assets	Assets type	Loss on impairment	
			Millions of Yen	
China	Property for business	Machinery and equipment	¥	1,186
China	—	Goodwill		268
			¥	1,454

The companies set asset groups mainly by the business segments. Certain assets in China were devaluated to their recoverable values, due to downturn in China market.

The recoverable values were measured as utility values, calculated by discounting future cash flows with 10% discount rate.

Impairment loss on fixed assets recorded in the consolidated statements of income for the year ended March 31, 2008 is as follows:

Location	Uses of assets	Assets type	Loss on impairment			
			Millions of Yen	Thousands of U.S. Dollars		
Japan	Unused assets	Land	¥	60	\$	601
Japan	Unused assets	Buildings and structures		28		278
Japan	Unused assets	Other		3		33
			¥	91	\$	912

The companies set asset groups mainly by the business segments. Certain assets in Japan are devaluated to their recoverable values, due to move of office.

The recoverable values are measured as net selling prices, based on rationally adjusted valuations for property tax.

14. Net income per share:

Basis for calculations of net income per share for the years ended March 31, 2007 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Net income	¥ 8,665	¥ 7,232	\$ 72,187
Bonuses to directors and corporate auditors	—	—	—
Net income for common stockholders	¥ 8,665	¥ 7,232	\$ 72,187
	Thousands of shares		
	2007	2008	
The weighted-average number of shares of common stock	161,807	163,110	
	Yen		U.S. Dollars
	2007	2008	2008
Net income per share	¥ 53.55	¥ 44.34	\$ 0.44

The Companies have no dilutive securities for the years ended March 31, 2007 and 2008.

15. Cash and Cash Equivalents:

Cash and cash equivalents at March 31, 2007 and 2008 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Cash and bank deposits	¥ 4,184	¥ 4,951	\$ 49,418
Time deposits with deposit term of over 3 months	(8)	(6)	(60)
Cash and cash equivalents	¥ 4,176	¥ 4,945	\$ 49,358

16. Accounting for Leases:

(1) Finance lease -

As a lessee

As described in note 2(14), finance leases of the Companies as lessee, other than those where ownership of the leased assets are transferred to the lessee, are accounted as operating leases. Periodic lease charges to the Companies, as a lessee, which were charged to income for the years ended March 31, 2007 and 2008 are ¥380 million and ¥338 million (\$3,378 thousand), respectively.

The leased assets under financial leases, if capitalized, at March 31, 2007 and 2008 comprise the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2007		2008		2008	
	Machinery and vehicles	Other	Machinery and vehicles	Other	Machinery and vehicles	Other
Acquisition cost	¥ 1,894	¥ 750	¥ 1,698	¥ 509	\$ 16,953	\$ 5,085
Accumulated depreciation	657	445	678	294	6,768	2,936
Net book value	¥ 1,237	¥ 305	¥ 1,020	¥ 215	\$ 10,185	\$ 2,149

Depreciation expenses of those leased assets for the years ended March 31, 2007 and 2008, which are computed by the straight line method over the periods of those finance leases with no residual value, were ¥380 million and ¥338 million (\$3,378 thousand), respectively.

The amounts of outstanding future lease payments due at March 31, 2007 and 2008, which included the portion of interest thereon, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Due within one year	¥ 328	¥ 271	\$ 2,703
Due after one year	1,215	965	9,631
Total	¥ 1,543	¥ 1,236	\$ 12,334

(2) Non-cancelable operating leases -

As a lessee

The amounts of outstanding future lease payments under non-cancelable operating leases at March 31, 2007 and 2008, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Due within one year	¥ 19	¥ 19	\$ 194
Due after one year	36	21	209
Total	¥ 55	¥ 40	\$ 403

17. Derivatives:

The contracted amount, fair value and unrealized gains/losses of the forward exchange contract recognized for the year ended March 31, 2007 is as follows:

	Millions of Yen		
	Contract Amount	Fair value	Unrealized Gains/losses
Forward exchange contract:			
Selling			
Japanese Yen	¥ 36	¥ 35	¥ 1
Total	¥ 36	¥ 35	¥ 1
Buying			
U.S. Dollars	¥ 118	¥ 117	¥ (1)
Japanese Yen	50	49	(1)
Total	¥ 168	¥ 166	¥ (2)

The contracted amount, fair value and unrealized gains/losses of the forward exchange contract recognized for the year ended March 31, 2008 is as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Contract Amount	Fair value	Unrealized loss	Contract Amount	Fair value	Unrealized loss
Forward exchange contract:						
Buying						
Japanese Yen	24	24	(0)	239	238	(1)
Total	¥ 24	¥ 24	¥ (0)	\$ 239	\$ 238	\$ (1)

The contracted amount, fair value and unrealized gains/losses of interest rate swap for the years ended March 31, 2007 and 2008, are not required to be disclosed due to the adoption of hedge accounting.

18. Contingent Liabilities:

Guarantees against bank loans of employee and an affiliate at March 31, 2007 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Employee	¥ 132	¥ 108	\$ 1,082
Advanced Green Components, LLC	729	699	6,973
Total	¥ 861	¥ 807	\$ 8,055

Notes-discounted with banks and notes-endorsed, as of March 31, 2007 and 2008, stood at ¥446 million and ¥295 million (\$2,949 thousand), respectively. Notes-discounted with banks and notes-endorsed are netted against "Notes and accounts receivable, trade" in the consolidated balance sheets.

19. Segment Information:

(1) Industry segment information -

The industry segment information for the years ended March 31, 2007 and 2008 are as follows:

For the year ended March 31, 2007						
Millions of Yen						
	Specialty Steel	Formed & Fabricated Materials	Other	Total	Elimination and corporate assets	Consolidated total
(a) Sales and operating income:						
Net sales						
Outside customers	¥ 125,173	¥ 16,511	¥ 692	¥ 142,376	¥ —	¥ 142,376
Intersegment transactions	7,222	—	2,452	9,674	(9,674)	—
Total	132,395	16,511	3,144	152,050	(9,674)	142,376
Costs and expenses	115,006	15,830	3,018	133,854	(9,667)	124,187
Operating income	¥ 17,389	¥ 681	¥ 126	¥ 18,196	¥ (7)	¥ 18,189
(b) Assets, depreciation, loss on impairment of fixed assets and capital expenditures:						
Assets	¥ 124,478	14,676	¥ 1,589	¥ 140,743	¥ 11,966	¥ 152,709
Depreciation	¥ 4,887	916	¥ 56	¥ 5,859	¥ (8)	¥ 5,851
Loss on impairment of fixed assets	¥ —	1,454	¥ —	¥ 1,454	¥ —	¥ 1,454
Capital expenditures	¥ 7,963	370	¥ 13	¥ 8,346	¥ (13)	¥ 8,333

For the year ended March 31, 2008						
Millions of Yen						
	Specialty Steel	Formed & Fabricated Materials	Other	Total	Elimination and corporate assets	Consolidated total
(a) Sales and operating income:						
Net sales						
Outside customers	¥ 151,007	¥ 16,792	¥ 624	¥ 168,423	¥ —	¥ 168,423
Intersegment transactions	9,560	—	2,479	12,039	(12,039)	—
Total	160,567	16,792	3,103	180,462	(12,039)	168,423
Costs and expenses	147,317	16,177	2,987	166,481	(11,962)	154,519
Operating income	¥ 13,250	¥ 615	¥ 116	¥ 13,981	¥ (77)	¥ 13,904
(b) Assets, depreciation, loss on impairment of fixed assets and capital expenditures:						
Assets	¥ 129,023	¥ 15,306	¥ 1,681	¥ 146,010	¥ 11,479	¥ 157,489
Depreciation	¥ 6,627	¥ 689	¥ 52	¥ 7,368	¥ (6)	¥ 7,362
Loss on impairment of fixed assets	¥ 91	¥ —	¥ —	¥ 91	¥ —	¥ 91
Capital expenditures	¥ 7,268	¥ 375	¥ 18	¥ 7,661	¥ (26)	¥ 7,635

Thousands of U.S. Dollars						
	Specialty Steel	Formed & Fabricated Materials	Other	Total	Elimination and corporate assets	Consolidated total
(a) Sales and operating income:						
Net sales						
Outside customers	\$ 1,507,204	\$ 167,601	\$ 6,230	\$ 1,681,035	\$ —	\$ 1,681,035
Intersegment transactions	95,419	—	24,740	120,159	(120,159)	—
Total	1,602,623	167,601	30,970	1,801,194	(120,159)	1,681,035
Costs and expenses	1,470,371	161,463	29,814	1,661,648	(119,388)	1,542,260
Operating income	\$ 132,252	\$ 6,138	\$ 1,156	\$ 139,546	\$ (771)	\$ 138,775
(b) Assets, depreciation, loss on impairment of fixed assets and capital expenditures:						
Assets	\$ 1,287,783	\$ 152,772	\$ 16,771	\$ 1,457,326	\$ 114,575	\$ 1,571,901
Depreciation	\$ 66,143	\$ 6,881	\$ 519	\$ 73,543	\$ (67)	\$ 73,476
Loss on impairment of fixed assets	\$ 912	\$ —	\$ —	\$ 912	\$ —	\$ 912
Capital expenditures	\$ 72,543	\$ 3,744	\$ 179	\$ 76,466	\$ (262)	\$ 76,204

(2) Geographical segment information -

As Japan, which consisted of Sanyo Special Steel Co., Ltd. and its domestic consolidated subsidiaries, represented more than 90% of the Companies' combined assets as of March 31, 2007 and 2008, and combined sales for the years then ended, the Companies are not required to disclose the geographical segment information.

(3) Overseas sales -

Overseas sales information for the years ended March 31, 2007 and 2008 are as follows:

	For the year ended March 31, 2007				
	Millions of Yen				
	Asia	North America	Europe	Others	Total
Overseas sales (A)	¥ 15,782	¥ 4,624	¥ 2,269	¥ 191	¥ 22,866
Consolidated sales (B)	—	—	—	—	¥ 142,376
(A) / (B)	11.1%	3.3%	1.6%	0.1%	16.1%

	For the year ended March 31, 2008				
	Millions of Yen				
	Asia	North America	Europe	Others	Total
Overseas sales (A)	¥ 21,565	¥ 5,278	¥ 4,277	¥ 133	¥ 31,253
Consolidated sales (B)	—	—	—	—	¥ 168,423
(A) / (B)	12.8%	3.1%	2.6%	0.1%	18.6%

	Thousands of U.S. Dollars				
	Asia	North America	Europe	Others	Total
	Overseas sales (A)	\$ 215,240	\$ 52,680	\$ 42,688	\$ 1,328
Consolidated sales (B)	—	—	—	—	\$ 1,681,035
(A) / (B)	12.8%	3.1%	2.6%	0.1%	18.6%

Note to overseas sales:

Principal countries in each area where customers are located are as follows:

Asia	:	Taiwan, Korea, China, Thailand
North America	:	U.S.A.
Europe	:	Germany, Norway, Turkey

20. Related Party Transactions:

Information of related party transaction for the year ended March 31, 2007 is as follows:

Attribute	Name of Related party	Common Stock	Nature of operations	Equity ownership percentage	Relationship		Transaction	Amount	At March 31,2007
					Number of concurrent directors	Description of the business relationship			
Other Relative company	Nippon Steel Corporation	¥419,524 millions	Manufacture and sales of steel, engineering	Directory 15.03 %	1	Business alliance	Sales of treasury stock	¥5,852 millions	—
		(\$3,552,578 Thousands)		Indirectory 0.10 %				(\$49,555 Thousands)	

Note:

- (1) The price of sales was decided based on the average of price of the Company's common stock at the Tokyo Stock Exchange during the period from April 28 to May 30, 2006.
- (2) As result of above, the Company became an affiliate company of Nippon Steel Corporation.

The related party transactions for the year ended March 31, 2008 are not required to be disclosed due to the insignificance of its transactions.

21. Subsequent Events:

The following appropriations of retained earnings at March 31, 2008 were approved at the Company's Board of Directors held on May 13, 2008 as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends of ¥6 (\$0.06) per share	¥ 978	\$ 9,766

Independent Auditors' Report

To the Shareholders and Board of Directors of
Sanyo Special Steel Co.,Ltd.

We have audited the accompanying consolidated balance sheets of Sanyo Special Steel Co.,Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sanyo Special Steel Co.,Ltd. and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.
Tokyo, Japan

June 27, 2008



Complete View of our Head Office / Plant

Corporate Data

(As of March 31, 2008)

Corporate Name	Sanyo Special Steel Co., Ltd.
Head Office	3007, Nakashima, Shikama-ku, Himeji, Hyogo 672-8677 Japan phone (+81) 79-235-6003
URL	http://www.sanyo-steel.co.jp/english/index.html
Established	January 11, 1935
Paid-in Capital	20,182,680,000 yen
Register of Shareholders	The Chuo Mitsui Trust & Banking Co., Ltd.
Total Number of Shares Authorized to be Issued	474,392,000
Total Number of Shares Issued	167,124,036
Stock Listings	Tokyo Securities Exchange, Osaka Stock Exchange (1st Section, loanable stock)
Record Date	March 31
Number of Shareholders	23,226
Branches and Offices	Tokyo Regional Office, Osaka Branch, Nagoya Branch, Hiroshima Branch, Kyusyu Sales Office, Shanghai Office

Consolidated Subsidiaries and Equity-method Affiliates

(As of March 31, 2008)

Corporate Name	Business Activities
Consolidated Subsidiaries	
Yohkoh Bussan Co., Ltd.	Trading of special steel products, steelmaking raw materials and other materials
Santoku Seiken Co., Ltd.	Manufacturing and marketing of special steel products
Santoku Kogyo Co., Ltd.	Processing of special steel, machinery maintenance
Santoku Tech Co., Ltd.	Manufacturing of special steel products (formed & fabricated materials)
Santoku Life Co., Ltd.	Provision of employee welfare services
Santoku Computer Service Co., Ltd.	Construction and operation of, and consulting services for, information systems
SKJ Metal Industries Co., Ltd. (Thailand)	Manufacturing and marketing of special steel products
P.T.SANYO SPECIAL STEEL INDONESIA (Indonesia)	Manufacturing and marketing of special steel products
SANYO SPECIAL STEEL U.S.A., Inc. (U.S.A.)	Trading of special steel products
SANYO SPECIAL STEEL AMERICA CORPORATION (U.S.A.)	Stockholding company for subsidiaries in the U.S.A
Ningbo Sanyo Special Steel Products Co., Ltd. (China)	Manufacturing and marketing of special steel products (formed & fabricated materials)
Equity-method Affiliates	
Advanced Green Components, LLC (U.S.A.)	Manufacturing of special steel products (formed & fabricated materials)

Board of Directors

(As of July 31, 2008)

President, Representative Director	Nobuyoshi Fujiwara			
Senior Managing Director	Koji Kishimoto	Tetsuo Kiriya	Kazuya Kodama	
Managing Director	Kiyoshi Yabuki	Yutaka Tsukamoto	Nobuyuki Tanaka	Hiroaki Kimura
Director	Hideki Nakamura	Tatsuro Isomoto	Katsumi Mizuta	
Corporate Auditor	Tetsuji Shigemori	Seiji Tsutsumi	Hideyuki Sasaki	Takeshi Yoshii

Principal Shareholders

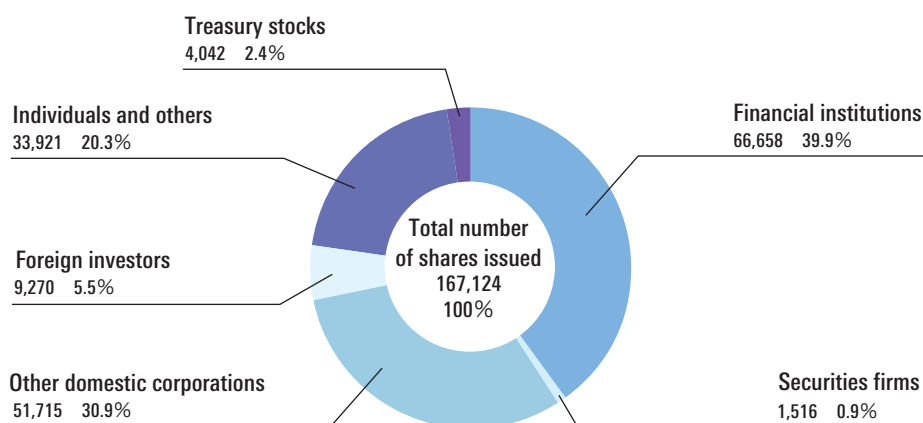
(As of March 31, 2008)

Name of Shareholder	Number of Shares Held (thousands of shares)	Percentage of Voting Rights (%)
Nippon Steel Corporation	24,256	15.03
Japan Trustee Services Bank, Ltd. (trust account)	11,997	7.43
The Master Trust Bank of Japan, Ltd. (trust account)	10,103	6.26
NSK, Ltd.	7,470	4.63
Company's Kyoeikai Association	7,157	4.43
Mizuho Corporate Bank, Ltd.	5,942	3.68
Sumitomo Mitsui Banking Corporation	5,696	3.53
Trust & Custody Services Bank, Ltd. (trust account Y)	3,289	2.04
Marubeni-Itochu Steel Inc.	3,108	1.93
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,849	1.77

Notes: (1) The number of shares omits fractions of less than 1,000 shares.

(2) The company's 4,042,602 treasury stocks are not shown on the above list of principal shareholders.

Shareholder Composition (thousands of shares)





SANYO SPECIAL STEEL CO., LTD.

3007, NAKASHIMA, SHIKAMA-KU
HIMEJI, JAPAN

<http://www.sanyo-steel.co.jp/english/index.html>