ANNUAL REPORT 2014

APRIL 1.2013-MARCH 31.2014

SANYO SPECIAL STEEL

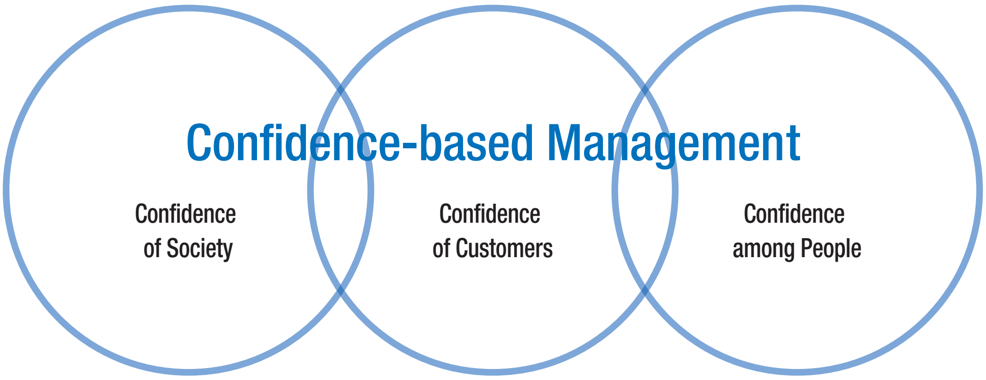
SANYO SPECIAL STEEL

Profile

Since its founding in 1933, Sanyo Special Steel Co., Ltd. ("Sanyo Special Steel") has been a stable supplier of high-quality special steel.
Our steel products fulfill a high level of confidence and are applied to a broad range of important industrial parts in such areas as automobiles, industrial machinery, railways and wind-power generation equipment. Bearing steel, our mainstay product, enjoys a particularly high reputation in many countries for its superior quality and confidence. Our bearing steel boasts a top share in the domestic market.
We call our products "Steel You Can Count On," as they receive a high level of market confidence in every aspect of our undertakings such as development, product quality and stable supply. We will be striving to further enhance the brand power of "Sanyo Special Steel – the Confident Choice."

Basic Management Policies

We adhere to "confidence-based management" as our corporate philosophy, seeking to establish the "confidence of society," "confidence of customers" and "confidence among people."



"Confidence of society"

We intend to earn the confidence of society by contributing to the realization of an affluent and cultural society and fulfilling our commitment as a member of society through "production of high-quality special steel."

"Confidence of customers"

We intend to earn the confidence of customers by offering high-quality special steel and promptly and properly responding to their needs.

"Confidence among people"

We intend to establish the confidence among people through communicating with all stakeholders and carrying out self-reliant actions conforming to social norms.

Contents

Earnings forecasts contained in this annual report have been prepared by the Sanyo Special Steel Group based on information available at the time of their preparation. Please note that these forecasts involve various uncertainties and that actual performance may differ from the forecasted figures.

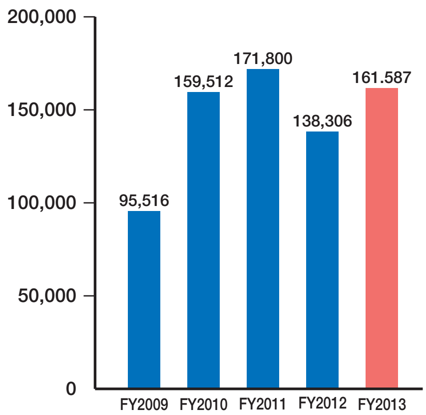
CONSOLIDATED FINACIAL HIGHLIGHTS

Sanyo Special Steel Co., Ltd. and consolidated subsidiaries

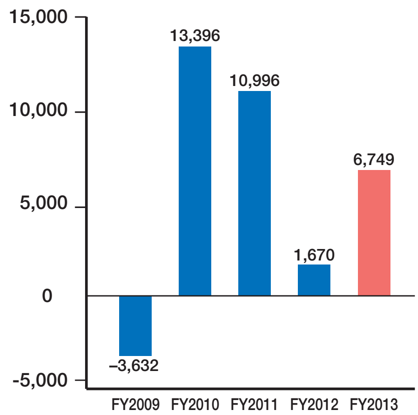
	FY2011	FY2012	FY2013	Change FY2012 / FY2013	FY2013
Operating Results (For the year)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net sales	¥ 171,800	¥ 138,306	¥ 161,587	16.8	$ 1,570,638
Operating income	11,349	1,517	6,884	353.8	66,909
Ordinary income	10,996	1,670	6,749	304.1	65,604
Net income	6,408	509	4,066	698.6	39,526
Fainancial Position (at year-end)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net assets *2	96,993	97,152	102,905	5.9	1,000,245
Total assets	212,365	198,772	203,522	2.4	1,978,248
Financial Indicator			(%)		
ROS (Ordinary income to Net sales)	6.4	1.2	4.2	—	—
ROE (Net income to Net assets)	6.8	0.5	4.1	—	—
Net D/E Ratio *3	0.54 (0.26) *4	0.53 (0.38) *4	0.46 (0.25) *4	—	—
			(Yen)	(%)	(US Dollars)*1
Net income per share	39.71	3.16	25.21	697.8	0.25
Net assets per share	598	599	633	5.8	6.16
Cash dividends per share	9.00	2.00	5.00	150	0.05

* 1 US dollar amounts are converted, for convenience purpose only, at the rate of ¥102.88=US$1, the approximate rate of exchange on March 31, 2014.
* 2 Minority interests are included in net assets.
* 3 Net debt equity ratio - (gross interest-bearing debt - cash and deposits) / equity
* 4 We have not implemented liquidation of receivables since the end of fiscal 2009. Figures in parentheses show net debt equity ratio if we had liquidized receivables.

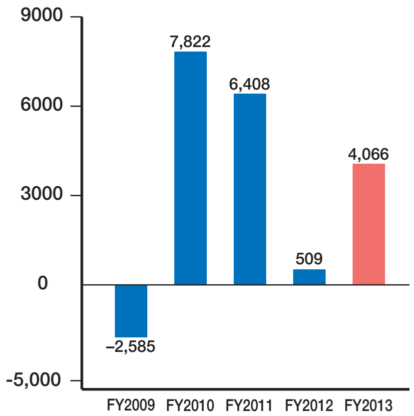
Net Sales
(Millions of Yen)



Ordinary Income
(Millions of Yen)



Net Income
(Millions of Yen)



MESSAGE FROM PRESIDENT

Fiscal 2013 Overview

During the fiscal year ended March 31, 2014, the Japanese economy continued to recover moderately as seen in the rising stock price and improvement in corporate earnings, supported by the correction of strong yen and expectation that the government's economic stimulus measures would take effect shortly. The global economy also continued to grow moderately thanks to the relatively steady development of the US economy and clear signs of recovery observed in the European economy, despite the economic slowdown in some emerging countries.

Demand in the special steel industry grew firmly mainly in the automobile sector in the fiscal year under review, as stagnation of steel demand due to the Senkaku Island dispute and the subsequent large-scale inventory adjustments in the previous fiscal year were put to an end.

As a result, net sales of Sanyo Special Steel Group rose by ¥23,280 million year on year to ¥161,587 million, reflecting an increase in the sales volume. In terms of profit, ordinary income grew by ¥5,079 million year on year to ¥6,749 million by the virtue of the sales volume increase and cost reduction efforts as well as lower labor and depreciation expenses which were partially offset by higher electricity and fuel cost. Net income increased by ¥3,557 million year on year to ¥4,066 million, primarily due to a decrease in loss in sale and disposition of property, plant and equipment.

Fiscal 2014 Outlook

Concerning future prospects, while the Japanese economy is expected to maintain its recovery trend due to correction in the yen appreciation and improvement in business sentiment, the group's operating environment is foreseen to remain challenging as it will take more time for the Japanese government to implement its growth strategy and Japan's electricity and fuel price are expected to rise amid slowdown of emerging economies and intensifying international competition.

Under such circumstances, the Sanyo Special Steel Group will step up its efforts to strengthen its non-price competitiveness. At the same time, the Group will be making all-out efforts to build a corporate structure capable of stably supplying high-quality special steel that meets customers' needs by ensuring that production responds to demand trends and by implementing aggressive internal cost cutting measures.

By taking all these factors into account, the Group's net sales are expected to be ¥170,000 million, ordinary income to be ¥8,000 million and net income to be ¥5,500 million in fiscal 2014.

Dividend Policy

Our basic policy on profit distribution is to reward our shareholders by strengthening our business foundation while increasing profits available for distribution. Concerning dividend payment, we intend to meet our shareholders' expectations primarily by distributing profits based on periodic business performance while giving due consideration to both the payout ratio and the amount of funds required for investments and other activities to enhance our corporate value. Our measure of profit distribution is consolidated payout ratio of about 20% and a non-consolidated payout ratio of about 30% based on our consolidated performance. However, since our priority is to reinforce our business foundation and improving our financial structure in order to enhance corporate value, we would like to use slightly lower figures than the standard values in implementing interim and year-end dividend - a consolidated payout ratio of 15-20% and a non-consolidated payout ratio of 20-30% - and implementing interim and year-end dividends at least for the present.

Regarding dividends for fiscal 2014, we are seeking to implement dividend payment based on periodic earnings performance in line with our dividend policy. However, the specific amounts of dividend payments have not been decided at this point.

We would like to ask our shareholders and investors for their continued support and understanding of the Sanyo Special Steel Group in the coming years.

September 2014

Yasuo Takeda
Representative Director and President

Topics

Various Memorial Events Implemented in Commemoration of 80th of Founding

Sanyo Special Steel Co., Ltd. was proud to celebrate its 80th year in business on November 10, 2013.
To mark the anniversary, we implemented various memorial events、such as holding an anniversary ceremony, issuing a memorial magazine, hosting a memorial lecture presentation, and providing factory visits for former employees and employees' family members.
Under its corporate philosophy, "Confidence-based Management", Sanyo Special Steel Co., Ltd. will continue to develop its business further by responding to changes of the times in an accurate manner.
We will continue to meet new challenges towards our 100th anniversary.

We are grateful for your continued patronage and support.

Anniversary ceremony of founding

Factory visit for family members of employees

THE 9th MEDIUM-TERM BUSINESS PLAN (FY2014-FY1016)

Strategy

Aiming at creating greater corporate value and growing further by enhancing the brand power of "Sanyo Special Steel-the Confident Choice"

- ◇ Reinforce corporate structure to win global competition
- ◇ Strengthen technological innovation
- ◇ Improve overall profitability through sustainable growth of the rolled-steel business and reinforcement of the non-rolled-steel business

We aim at strengthening our non-price competitiveness, including international cost competitiveness, research and development capability, responsiveness of quality and delivery schedule, and our system foundation, in order to build a corporate structure that can win in global competition. By doing this, we will be expanding our revenue in the rolled-steel business (“Specialty Steel”) by capturing the special steel demand, which is expected to grow in the future, and by taking full advantage of our production capability strengthened in the 7th and 8th Medium-term Business Plan. In the non-rolled-steel business, (“Special Materials” and “Formed and Fabricated Materials”) we will try to expand business by aggressively investing our management resources for the ultimate purpose of improving the Group's overall profitability.
Furthermore, we will aim at building a strong corporate structure that can generate profit under any operating environment andhas both upward and downward flexibility.

Fainacial Targets

(Billions of Yen)

	FY2013 (Performance)	FY2016 (Target)	Change
Net sales	161.6	200.0	38.4
Operating income	6.9	15.0	8.1
Ordinary income	6.7	15.0	8.3
Net income	4.1	9.0	4.9
Total assets	203.5	200.0	- 3.5
Interest-bearing debt (net)	47.8	35.0	- 12.8
ROS	4.2%	7.5%	3.3%
ROE	4.1%	7.5%	3.4%
Depreciation	11.0	10.0	- 1.0
EBITDA	17.9	25.0	7.1
D/E ratio	0.46	0.30	- 0.16
Sales tonnage	87,000tons/month	100,000tons/month	13,000tons/month

〔Major assumptions〕
- •Iron scrap praice:
  At the average level for the period from April through December 2013 (¥40,000 /ton)
- •Unit product price:
  At the average level for the period from April through December 2013
- •Margin: Constant
- •Exchange rate: ¥100/US$

【Reference】

·Factors Contributing to the Change in Ordinary Income（FY2013 → FY2016）

(Billions of Yen)

Factors for profit increase	Sales Volume/mix	+5.0	Factors for profit decrease	Environmental degradation risk	-5.0
	Reduction in variable costs	+6.0			
	Increase in profits from Non-rolled-steel business, etc.	+2.3			
	Total（A）	+13.3		Total（B）	-5.0
				Net（A-B）	+8.3

Key Action Programs

Promote Growth Strategy	**Rolled-steel Business ("Specialty Steel")** By grasping the needs of customers who develop their business both inside and outside Japan,we will be providing them with adequate products with non-price competitiveness and contribute to improving their competitiveness with at the same time boosting our profit growth. We will be working to build an effective and concrete supply chain as quickly as possible, particularly in East Asia, since it has a higher growth potential. **Non-rolled-steel Business ("Special Materials" and "Formed and Fabricated Materials")** We will expand the sales in the non-rolled-steel business to 1.6 times of the amount booked in fiscal 2013, through aggressive investment of our management resources.
Enhance global competitiveness	**Boost non-price competitiveness** We will respond to customers' needs by (1) promoting the expansion of technological innovation taking into account the further future trend, including the development of sophisticated and differentiated products as well as manufacturing technique, and upgrading of the product lineup on a timely manner, and (2) maintaining and enhancing our capability on research and development and quality responsiveness, as well as our ability to meet delivery schedule and make effective proposals to users. We will also reform our backbone system by incorporating the latest information and IT. **Strengthen international competitiveness** We will continue to slash costs persistently in continuance with the 8th Medium-term Business Plan. We will also improve our downward flexibility through power-saving investment and cost reduction investment, among others. **Ensure adequate profit margins** In addition to the existing iron scrap surcharge system, we will try to reflect the increase in the electricity and LNG cost to the sales price.
Develop human resources to realize sustainable growth	We will nurture human resources that can respond to globalized operating environment and the subsequent intensifying international competition in a systematic way. We will also continue with our policy to promote work life balance and to create the working environment where female employees can also develop their career.
Investment	We will set up the following three investment frameworks and will spend ¥10 billion per year for each category in the coming three years; (1) strategy investment framework (mainly for research and development, strengthening of non-rolled-steel segment and overseas investment to East Asia, etc.,), (2) foundation investment framework (primarily for quality responsiveness, power-saving investment, cost reduction investment such for the purpose of energy saving and system foundation investment, etc.,) and (3) mandatory investment framework (mainly for renewal of obsolete assets and responding to safety environment standards and other regulations).

·Earnings by Business Segment

(Billions of Yen)

	FY2013 (Performance)		FY2016 (Target)		Change	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Specialty steel	144.5	4.1	170.0	9.5	25.5	5.4
Special Materials	7.6	1.3	14.0	2.0	6.4	0.7
Formed & Fabricated Materials	19.0	1.9	29.5	3.5	10.5	1.6
Others	1.3	0.1	1.5	0.0	0.2	-0.1
Adjustment	-10.8	-0.5	-15.0	0.0	-4.2	0.5
Total	161.6	6.9	200.0	15.0	38.4	8.1

SEGMENT INFORMATION

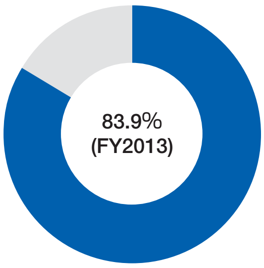
Specialty Steel

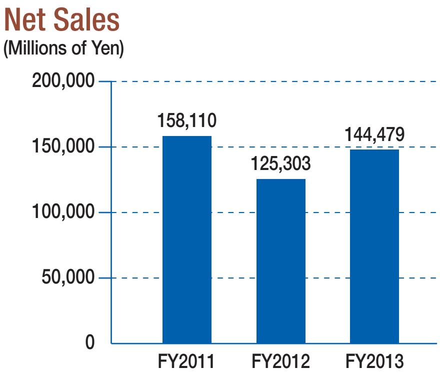
In the Specialty Steel segment, we manufacture and sell various special steel products including bearing steel, which boasts a top share in the total domestic production, as well as engineering steel, stainless steel, heat resistant steel and tool steel.

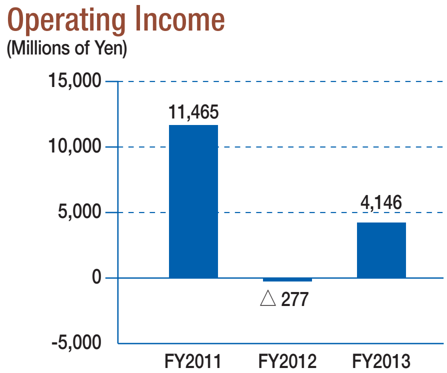
Fiscal 2013 Overview

Net sales for fiscal year 2013 came to ¥144,479 million, up ¥19,176 million year-on-year thanks to recovery from sluggish demand originating in the Senkaku islands disputes that occurred in the previous fiscal year and subsequent massive inventory adjustments, thus increasing in sales volume compared to the previous fiscal year. Although sales volume increased, operating profit amounted to ¥4,146 million, up ¥4,423 million year-on-year due to increases in electricity and fuel prices.

Sales Breakdown







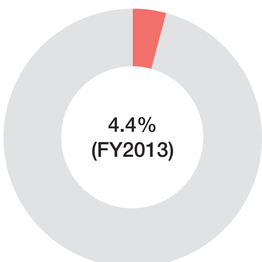
Special Materials

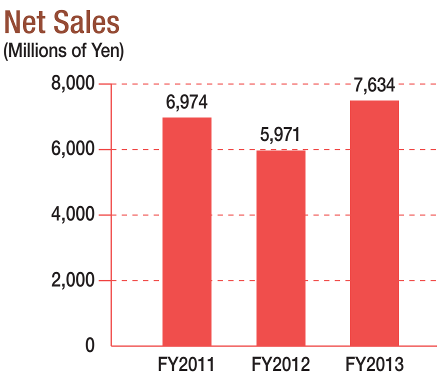
The Special Materials segment manufactures and sells heat/corrosion-resistant alloys and metal powder products, among others.

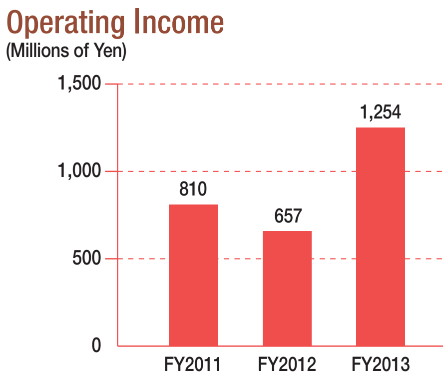
Fiscal 2013 Overview

In the Special Materials segment, net sales amounted ¥7,634 million (up ¥1,663 million year-on-year) and operating income was ¥1,254 million (up ¥597 million year-on-year) in fiscal 2013.

Sales Breakdown







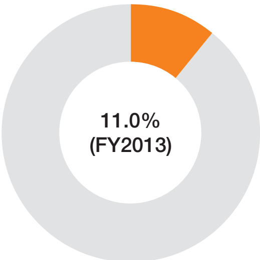
Formed and Fabricated Materials

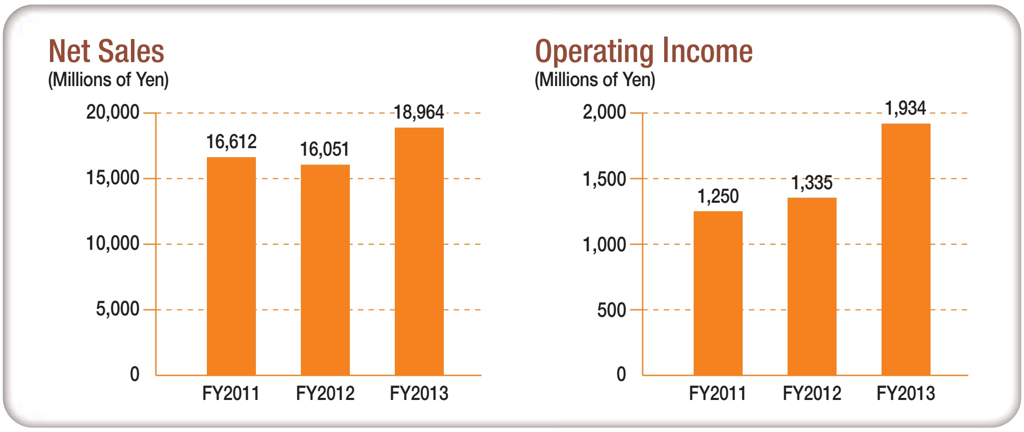
The Formed and Fabricated Materials segment uses an integrated process to manufacture high-quality formed and fabricated materials from high-cleanliness steel, which is produced using our high-cleanliness steel manufacturing technology. Our formed and fabricated materials include cut rings produced by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

Fiscal 2013 Overview

Net sales for fiscal year 2013 came to ¥18,964 million, up ¥2,913 million year-on-year, and operating profit amounted to ¥1,934 million, up ¥599 million year-on-year.

Sales Breakdown





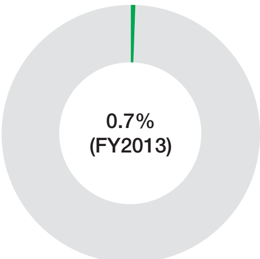
Other

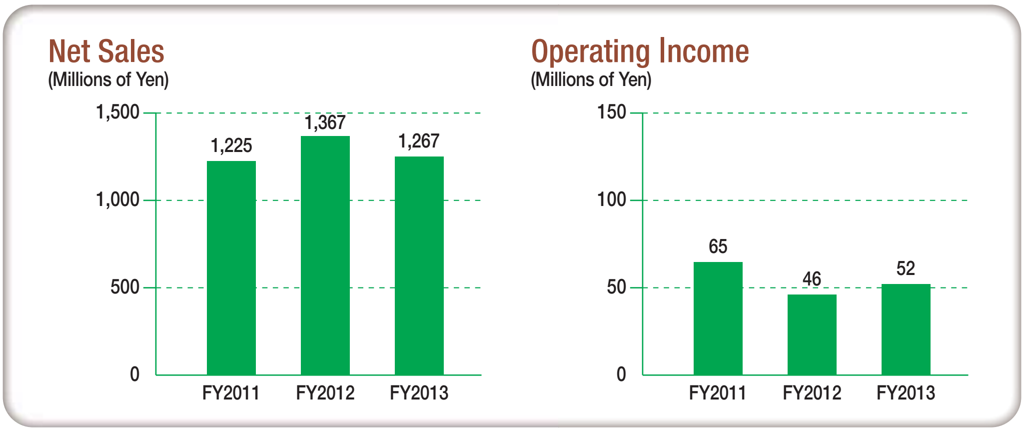
We provide information processing services through our subsidiaries.

Fiscal 2013 Overview

Net sales decreased to ¥1,267 million (down ¥101 million year-on-year), and operating income was ¥52 million (up ¥6 million year-on-year).

Sales Breakdown





Note:

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.

CORPORATE GOVERNANCE

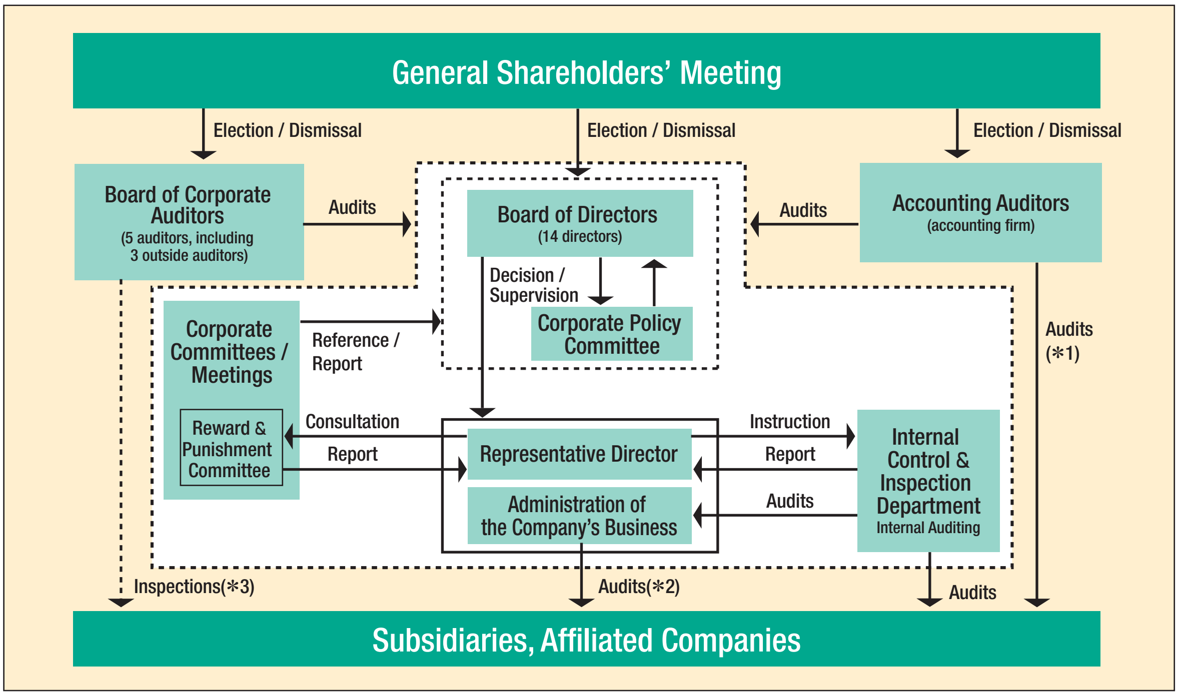
We are striving to enhance our corporate governance and internal control systems with a view to building management infrastructure that ensures integrity, fairness and transparency of our operations.

Fundamental Measures for Corporate Governance

The Company adopts a corporate auditor system.
Concerning business execution, we make decisions on important issues and supervise execution of business operations at meetings of the Board of Directors (held monthly) and at extraordinary meetings of the Board of Directors (held as necessary). We also set up company-wide committees and hold meetings to discuss important matters concerning operations. These include the Corporate Policy Committee to facilitate efficient decision-making on management such as the Board of Directors meetings, the Corporate Behavior and Ethics Special Committee to ensure thorough compliance and solid corporate governance, the Security & Trade Control Committee, the Environmental Conservation Committee and the Corporate Budget Committee.
Corporate auditors' audits are conducted as necessary based on the auditing policies formulated each year by the Board of Corporate Auditors. Audits are conducted on a broad range of areas, including not only directors' execution of their duties but also on risk management and compliance from an internal control perspective. Corporate auditors express their opinions to the representative director based on the audit results and, if necessary, also to business execution functions. We have a standing corporate auditor system in place in order to further strengthen our auditing structure. Furthermore, we designate one of the outside corporate auditors as an independent director based on the provision prescribed by the Tokyo Stock Exchange.
As for accounting audits, we formulate audit policies through discussions between corporate auditors and accounting auditors, and then audits are performed based on these policies. We also hold meetings where accounting auditors can report and explain the audit results to corporate auditors as necessary, so that corporate auditors and accounting auditors can perform their audit duties in close coordination.
Internal audits are also performed by the Internal Control & Inspection Department based on the internal audit plan prepared each year. Audits are conducted on business execution of our respective business functions and subsidiaries.

Our organizational structure for corporate governance and internal control

(As of June 27, 2014)



(*1) We audit of our subsidiaries and affiliated companies through auditing consolidated financial statements.
(*2) Each of our subsidiaries and affiliated companies has a supervisory department.
(*3) Corporate auditors perform inspections as necessary on the operations and asset status of subsidiaries.
Full-time corporate auditors serve concurrently as corporate auditors of our domestic subsidiaries and fulfill their responsibilities in that capacity.

Development and Management of Internal Control Systems

We drafted a basic policy to create internal control systems at the Board of Directors meeting in accordance with the Company Law of Japan and relevant laws and ordinances. We develop our internal control systems which support our corporate management that emphasizes integrity, fairness and transparency under this policy.

In addition, we established the Internal Control & Inspection Department as an organ to evaluate our internal control systems, and we have been working on the development and operation of the "Management's Report system on Internal Control over Financial Reporting" as required by the Financial Instruments and Exchange Act since fiscal 2008. In this regard, we set up a working group for internal control management, which is a cross-functional committee composed of members from across the Sanyo Special Steel Group, in order to address risks in financial reporting, share relevant information, and discuss educational guidelines, and we are working to further reinforce our internal control systems in order to ensure the adequacy of information in financial reporting.

Board of Directors

(As of June 27, 2014)

President, Representative Director	Yasuo Takeda
Director and Executive Vice President	Nobuyuki Tanaka
Managing Director, Member of the Board	Shin-ichi Tominaga Akihiko Yanagitani Wataru Nishihama Hiroyuki Eiyama
Director, Member of the Board	Masaharu Kobayashi Shigehiro Oi Katsu Yanagimoto Kazuya Shin-no Kazuhiko Nagano Takayo Chiba Kozo Takahashi Takashi Kuwana
Corporate Auditor	Hiroaki Kimura(Standing Corporate Auditor) Toshihiko Yoshida Hideyuki Sasaki * Shunsuke Kano * Masaki Iwasaki *

* Outside Corporate Auditor

Rules on Large-scale Acquisition of Sanyo Special Steel's Shares

The Company has adopted the "Rules on Large-scale Acquisition of Sanyo Special Steel's Shares."

These rules were established for the purpose of securing sufficient time and information for the Board of Directors to examine the conditions of acquisition proposals and offer alternative plans so that our shareholders can make "informed judgment" (an appropriate judgment based on sufficient time and information) and preventing inappropriate large-scale purchases of shares that may damage the Company's corporate value and the common interests of the shareholders.

We believe that those who control the Company's decisions on financial matters and business policies should fully understand the Company's "Basic Management Policy" and consistently seek to secure and enhance the Company's corporate value and the shareholders' common interests. We also believe that, when a large-scale acquisition of the Company's shares has been proposed, the ultimate judgment on whether or not to accept the proposal should be made by the shareholders at the time of proposal. We also believe that it is the Company's responsibility to secure sufficient time and information for the shareholders to examine the proposal and make a final judgment in order to protect and enhance the Company's corporate value and shareholders' common interests. The Company has adopted the "Rules on Large-Scale Acquisition of Sanyo Special Steel's Shares" based on such beliefs.

CSR ACTIVITIES

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.

Compliance Structure

The Company has established the "Guidelines for Corporate Behavior," which indicate how we should act as a corporation, and the "Helpline," a whistle-blowing system, as a part our compliance structure.

Furthermore, we provide compliance education encompassing various themes and hold compliance lectures to improve our employees' compliance awareness.

Clearly-defined Company Rules : We improve our company rules as the needs arise in order to further compliance.

Guidelines for Corporate Behavior

The Guidelines for Corporate Behavior indicate how we should behave as a corporation. They 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 employed to ensure compliance.

Establishment of a Corporate Behavior and Ethics Special Committee/Establishment of a Whistle-blowing System "Helpline"

The Committee discusses compliance policies and specific measures based on these policies. If any situation or behavior deviates or is likely to deviate form lows and regulations etc., the Committee investigates the actual situation, deliberates on appropriate corrective measures, and takes other relevant actions.
In addition we have initiated a "Helpline," a whistle-blowing system designed to help prevent occurrence 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 lows and regulations, social norms, and/or company rules, and allowing prompt and appropriate action to be taken to prevent misconduct.

Social Contributions

Our Company actively engages in activities to contribute to our community and society. Specifically, we hold concerts targeting elementary and junior high school students, provide factory visits and support to a marathon event of a neighboring elementary school, and provide volunteers to conduct clean-up activities in the surrounding neighborhood.

Factory visit targeting neighboring elementary school students

Training for a marathon of elementary school children by members of the company track team

Cleaning areas around plants by voluntary employees

Improvement of Work Environment

We strive to build a workplace where all employees can fulfill their potential.
Examples include the introduction of a flexible working-hours system, leave and shorted working hours for childbirth and childcare, and rehiring at retirement age.
In particular, we focus on building a women-friendly workplace, and these system has been increasingly enhanced.


Our original maternity working wear


Lounge for women during of pregnancy and childrearing


We renovated the bathroom for women in response to the increasing number of female employees

Safety Initiatives

Under the principle of giving the top priority to safety, our Company aims to attain zero work accidents and zero traffic accidents, and we are promoting fundamental facility improvement for safety, safety education and risk assessment activities. Within the factory, safety fences and fail-safe devices are installed so that no one can get near facilities in operation. Further, we have established a simulated experience training center for safety by which employees can have a simulated experience of perils lurking in work so that every employee can enhance their sensitivity to risks and awareness of safety.

Environmental Conservation

The Company's core business is to manufacture special steel primarily out of iron scrap, thereby playing a part in the resource circulation society through recycling of iron resources. In addition, our special steel products with superior characteristics have enabled us to reduce weight of the final products, extend the products' longevity and rationalize their manufacturing process, contributing to society-wide energy saving.
Further, while promoting the reduction of greenhouse gas emissions and the effective utilization of resources, we also focus on enhancement of employee awareness of the environment through environmental education and training sessions.


By changing the transportation method to railways and ships, we reduce carbon dioxide emission

Introducing battery-powered company cars


Environmental patrol to check the status of industrial waste control and the life （up to and including the president）

RESEARCH AND DEVELOPMENT

We detect actual customer needs via a thorough analysis of data on social and industrial developments collected through our customer satisfaction-oriented marketing approach and respond to a variety of customer needs with fast-paced research and development. By promoting R&D that contributes to the expansion of technological innovation, we will be further enhancing the brand power of "Sanyo Special Steel - the Confident Choice."

Our Major Newly Developed Products

"PremiumJ2, " a new grade bearing steel

Responding to the needs for smaller bearings with greater longevity

PremiumJ2 is a new grade bearing which has enabled us to extend the lifespan of the existing bearing in a stable manner. Premium J2 was produced with a combination of new technologies, which are namely a new steelmaking technology to reduce harmful non-metallic inclusions in steel, and a new inspection technology to evaluate the frequency of non-metallic inclusions in large volumes of steel to prove the low incidence of such inclusions. By using PremiumJ2, it has become possible to decrease variation in the minimum lifespan of bearings. PremiumJ2 is expected to respond to the growing needs for smaller bearings and peripheral parts with greater longevity.


Ball Bearings

"ECOMAX, " Ni- and Mo-free high-strength case hardening steel

Contributing to producing small-size, light-weight auto parts at a lower overall cost

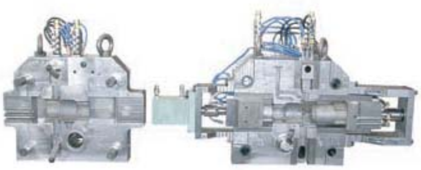
ECOMAX is an energy-saving steel that realizes high strength without using very expensive Nickel and Molybdenum, which reduce manufacturability of parts, doing so without damaging processability. ECOMAX responds to the need for small-size and light-weight auto engine parts for the purpose of reducing CO_2 emission and high hopes are placed upon it as raw material for parts of automotive gears and shafts that need high strength.


Automotive gears and shafts

"QDX-HARMOTEX, " a Hot-die steel

Contributing to the greater longevity of dies with high temperature strength and enhanced toughness

QDX-HARMOTEX is a hot-die steel with high temperature strength and high toughness. Its high temperature strength is 1.3 times greater than conventional steel and it limits the occurrence of heat checks*. Also, the toughness is 1.5 times greater than that of conventional steel and it can prevent occurrence of large cracks and minor chips.
QDX-HARMOTEX contributes to the stabilizing and enhancing the lifespan of dies.
* Heat check： Die cracking resulting from repeated heating and cooling during use.


Casting dies

"SPM X4N, " nitride P/M high speed steels

Fourfold wear resistance compared to the conventional product - contributing to extend dies' longevity

SPM X4N is manufactured by molding and sintering nitride metal powder. It offers superior performance in terms of strength, toughness, wear resistance and seizing resistance. The product's wear resistance in particular is four times greater than conventional products. SPM X4M is targeted to be applied to dies that are used in the extremely harsh environments, pierce punch and slitter, among others, and we have already received high appraisal from our customers.


Pierce punch

FINANCIAL FIGURES

Fainacial Position

For total assets at the end of the fiscal year 2013, tangible fixed assets decreased but note receivables, accounts receivable - trade and inventories increased. Consequently, total assets at the end of fiscal year 2013 stood at ¥203,522 million (up ¥4,750 million compare to the end of the previous fiscal year).
As for total liabilities, while notes payable and accounts payable - trade increased,borrowings decreased. Consequently, total liabilities stood at ¥100,617 million (down ¥1,003 million compared to the end of the previous fiscal year).
Total net assets stood at ¥102,905 million (up ¥5,754 million compared to the end of the previous fiscal year) due to increases in net profit recorded for the year and in the valuation difference on available-for-sale securities, etc.

Cash Flows

For cash flow for the fiscal year 2013, the net cash provided by operating activities were ¥9,152 million (down ¥14,641 million year-on-year) mainly due to net profit before taxes (¥6,554 million) and depreciation expenses (¥10,966 million) as well as due to an increase in notes and accounts receivable, trade (down ¥9,645 million), an increase in inventory assets (down ¥1,992 million), an increase in trade notes and accounts payable (up ¥1,783 million), and refunded corporate taxes (¥1,322 million).
The net funds used in investing activities were ¥4,951 million (up ¥15,583 million year-on-year), mainly due to capital investments implemented for the purposes of energy saving, environmental measures and updating existing facilities.
The net funds used in financial activities were ¥5,352 million (For the previous fiscal year, ¥2,503 million was provided), mainly due to a decrease in loans payable (by ¥4,851 million).

FINANCIAL FIGURES

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2013	**2014**	**2014**
Current Assets:			
Cash and bank deposits (Notes 5 and 17)	¥ 22,684	**¥ 21,967**	**$ 213,518**
Notes and accounts receivable, trade (Notes 5, 10 and 20)	41,434	**51,273**	**498,378**
Less: Allowance for doubtful accounts	(6)	**(6)**	**(62)**
Inventories (Note 7)	45,780	**48,392**	**470,372**
Deferred tax assets (Note 13)	2,081	**1,539**	**14,962**
Other	2,672	**1,395**	**13,562**
Total current assets	114,645	**124,560**	**1,210,730**
Property, Plant and Equipment:			
Land (Note 9)	7,123	**7,080**	**68,820**
Buildings and structures (Note 9)	46,067	**46,509**	**452,073**
Machinery and equipment (Note 9)	199,139	**202,540**	**1,968,703**
Construction in progress	549	**705**	**6,853**
	252,878	**256,834**	**2,496,449**
Less: Accumulated depreciation	(183,938)	**(193,880)**	**(1,884,529)**
Total property, plant and equipment	68,940	**62,954**	**611,920**
Intangibles	757	**794**	**7,721**
Investments and Others:			
Investments in securities (Notes 5, 6 and 8)	10,364	**12,013**	**116,763**
Long-term loans receivable	1,614	**1,412**	**13,719**
Deferred tax assets (Note 13)	94	**115**	**1,119**
Prepaid pension cost (Note 12)	1,714	**—**	**—**
Net defined benefit assets (Note 12)	—	**1,097**	**10,666**
Other	812	**745**	**7,243**
Less: Allowance for doubtful accounts	(168)	**(168)**	**(1,633)**
Total investments and other assets	14,430	**15,214**	**147,877**
Total assets	¥ 198,772	**¥ 203,522**	**$ 1,978,248**

The accompanying notes are integral parts of these statements.

FINANCIAL FIGURES

LIABILITIES AND NET ASSETS	Millions of yen 2013	Millions of yen 2014	Thousands of U.S. dollars (Note 3) 2014
Current Liabilities:			
Short-term loans (Notes 5 and 11)	¥ 31,759	¥ **30,955**	$ **300,889**
Current portion of long-term loans (Notes 5, 9 and 11)	8,648	**13,748**	**133,632**
Notes and accounts payable, trade (Notes 5 and 10)	13,342	**14,884**	**144,672**
Accounts payable, other	4,224	**4,057**	**39,430**
Accrued income taxes	150	**1,537**	**14,944**
Accrued expenses	6,241	**6,896**	**67,031**
Other	693	**1,206**	**11,718**
Total current liabilities	65,057	**73,283**	**712,316**
Long-term Liabilities:			
Long-term loans (Notes 5, 9 and 11)	34,023	**25,135**	**244,313**
Accrued employees' retirement benefits (Note 12)	936	—	—
Accrued directors' and corporate auditors' retirement benefits	73	**93**	**899**
Deferred tax liabilities (Note 13)	1,112	**1,245**	**12,104**
Reserve for environmental measures	213	**8**	**78**
Net defined benefit liabilities (Note 12)	—	**689**	**6,698**
Other	206	**164**	**1,595**
Total long-term liabilities	36,563	**27,334**	**265,687**
Total liabilities	101,620	**100,617**	**978,003**
Contingent Liabilities (Note 20)			
Net Assets (Note 14)			
Shareholders' Equity:			
Common stock:			
Authorized - 474,392,000 shares			
Issued - 167,124,036 shares	¥ 20,183	¥ **20,183**	$ **196,177**
Capital surplus	22,596	**22,596**	**219,636**
Retained earnings	54,474	**58,056**	**564,313**
Less: Treasury stock, at cost (5,787,262 shares in 2013 and 5,806,428 shares in 2014)	(1,773)	**(1,782)**	**(17,320)**
Total shareholders' equity	95,480	**99,053**	**962,806**
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	1,422	**2,824**	**27,446**
Foreign currency translation adjustments	(263)	**866**	**8,417**
Remeasurements of defined benefit plans	—	**(554)**	**(5,381)**
Total accumulated other comprehensive income	1,159	**3,136**	**30,482**
Minority Interests	513	**716**	**6,957**
Total net assets	97,152	**102,905**	**1,000,245**
Total liabilities and net assets	¥ 198,772	¥ **203,522**	$ **1,978,248**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	**2014**	**2014**
Net Sales	¥ 138,306	**¥ 161,587**	**$ 1,570,638**
Cost of Sales (Note 15)	125,048	**141,607**	**1,376,427**
Gross profit	13,258	**19,980**	**194,211**
Selling, General and Administrative Expenses (Note 15)	11,741	**13,096**	**127,302**
Operating income	1,517	**6,884**	**66,909**
Other Income:			
Interest and dividend	178	**188**	**1,831**
Exchange gains	501	**479**	**4,660**
Other	579	**414**	**4,024**
	1,258	**1,081**	**10,515**
Other Expenses:			
Interest	(767)	**(612)**	**(5,951)**
Equity in losses of unconsolidated subsidiaries and affiliates	(114)	**(320)**	**(3,107)**
Other	(224)	**(284)**	**(2,762)**
	(1,105)	**(1,216)**	**(11,820)**
Ordinary income	1,670	**6,749**	**65,604**
Extraordinary:			
Gain on sale of land	17	**5**	**44**
Loss on sale and disposition of property, plant and equipment	(409)	**(188)**	**(1,825)**
Gain on sale of investments in securities and others	2	**—**	**—**
Loss on evaluation of investments in securities and others	—	**(12)**	**(118)**
	(390)	**(195)**	**(1,899)**
Income before income taxes and minority interests	1,280	**6,554**	**63,705**
Income Taxes (Note 13):			
Current			
Deferred	416	**1,755**	**17,062**
	307	**614**	**5,969**
Income before minority interests	723	**2,369**	**23,031**
	557	**4,185**	**40,674**
Minority Interests in Net Income of Consolidated Subsidiaries			
Net income	48	**119**	**1,148**
	¥ 509	**¥ 4,066**	**$ 39,526**

	Yen		U.S. dollars (Note 3)
	2013	**2014**	**2014**
Per Share:			
Net income (Note 16)	¥ 3.16	**¥ 25.21**	**$ 0.25**
Cash dividends	¥ 2.00	**¥ 5.00**	**$ 0.05**
Net assets	¥ 598.99	**¥ 633.47**	**$ 6.16**

The accompanying notes are integral parts of these statements.

FINANCIAL FIGURES

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	**2014**	**2014**
Income Before Minority Interests	¥ 557	¥ **4,185**	$ **40,674**
Other Comprehensive Income:			
Valuation difference on available-for-sale securities	3	**1,402**	**13,625**
Foreign currency translation adjustments	372	**943**	**9,173**
Share of other comprehensive income of affiliates accounted for by the equity method	211	**278**	**2,705**
Total other comprehensive income (Note 4)	586	**2,623**	**25,503**
Comprehensive Income	1,143	**6,808**	**66,177**
Comprehensive income attributable to:			
Owners of the parent	1,055	**6,598**	**64,129**
Minority interests	88	**210**	**2,048**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2013

	Number of outstanding common shares	Millions of yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	167,124,036	¥ 20,183	¥ 22,596	¥ 54,933	¥ (1,768)
Net income	—	—	—	509	—
Cash dividends paid	—	—	—	(968)	—
Acquisition of treasury stock	—	—	—	—	(7)
Disposal of treasury stock	—	—	(0)	—	2
Other changes for fiscal year 2012, net	—	—	—	—	—
Total changes for fiscal year 2012	—	—	(0)	(459)	(5)
Balance at end of year	167,124,036	¥ 20,183	¥ 22,596	¥ 54,474	¥ (1,773)

	Millions of yen				
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Remeasurements of defined benefit plans	Total
Balance at beginning of year	¥ 1,419	¥ (806)	¥ 436	¥ —	¥ 96,993
Net income	—	—	—	—	509
Cash dividends paid	—	—	—	—	(968)
Acquisition of treasury stock	—	—	—	—	(7)
Disposal of treasury stock	—	—	—	—	2
Other changes for fiscal year 2012, net	3	543	77	—	623
Total changes for fiscal year 2012	3	543	77	—	159
Balance at end of year	¥ 1,422	¥ (263)	¥ 513	¥ —	¥ 97,152

The accompanying notes are integral parts of these statements.

FINANCIAL FIGURES

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2014

	Number of outstanding common shares	Millions of yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	**167,124,036**	**¥ 20,183**	**¥ 22,596**	**¥ 54,474**	**¥ (1,773)**
Net income	—	—	—	**4,066**	—
Cash dividends paid	—	—	—	**(484)**	—
Acquisition of treasury stock	—	—	—	—	**(10)**
Disposal of treasury stock	—	—	**0**	—	**1**
Other changes for fiscal year 2013, net	—	—	—	—	—
Total changes for fiscal year 2013	—	—	**0**	**3,582**	**(9)**
Balance at end of year	**167,124,036**	**¥ 20,183**	**¥ 22,596**	**¥ 58,056**	**¥ (1,782)**

	Millions of yen				
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total
Balance at beginning of year	**¥ 1,422**	**¥ (263)**	**¥ —**	**¥ 513**	**¥ 97,152**
Net income	—	—	—	—	**4,066**
Cash dividends paid	—	—	—	—	**(484)**
Acquisition of treasury stock	—	—	—	—	**(10)**
Disposal of treasury stock	—	—	—	—	**1**
Other changes for fiscal year 2013, net	**1,402**	**1,129**	**(554)**	**203**	**2,180**
Total changes for fiscal year 2013	**1,402**	**1,129**	**(554)**	**203**	**5,753**
Balance at end of year	**¥ 2,824**	**¥ 866**	**¥ (554)**	**¥ 716**	**¥ 102,905**

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	**167,124,036**	**$ 196,177**	**$ 219,635**	**$ 529,492**	**$ (17,228)**
Net income	—	—	—	**39,526**	—
Cash dividends paid	—	—	—	**(4,705)**	—
Acquisition of treasury stock	—	—	—	—	**(97)**
Disposal of treasury stock	—	—	**1**	—	**5**
Other changes for fiscal year 2013, net	—	—	—	—	—
Total changes for fiscal year 2013	—	—	**1**	**34,821**	**(92)**
Balance at end of year	**167,124,036**	**$ 196,177**	**$ 219,636**	**$ 564,313**	**$ (17,320)**

	Thousands of U.S. dollars (Note 3)				
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total
Balance at beginning of year	**$ 13,821**	**$ (2,561)**	**$ —**	**$ 4,983**	**$ 944,319**
Net income	—	—	—	—	**39,526**
Cash dividends paid	—	—	—	—	**(4,705)**
Acquisition of treasury stock	—	—	—	—	**(97)**
Disposal of treasury stock	—	—	—	—	**6**
Other changes for fiscal year 2013, net	**13,625**	**10,978**	**(5,381)**	**1,974**	**21,196**
Total changes for fiscal year 2013	**13,625**	**10,978**	**(5,381)**	**1,974**	**55,926**
Balance at end of year	**$ 27,446**	**$ 8,417**	**$ (5,381)**	**$ 6,957**	**$ 1,000,245**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	**2014**	**2014**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 1,280	**¥ 6,554**	**$ 63,705**
Adjustments -			
Depreciation and amortization	11,581	**10,966**	**106,587**
Increase (decrease) in allowance for doubtful accounts	(91)	**1**	**14**
Decrease in accrued employees' retirement benefits, less payments	(300)	**(938)**	**(9,113)**
Increase in net defined benefit liabilities	—	**330**	**3,203**
Decrease in prepaid pension cost	163	**1,714**	**16,656**
Increase in net defined benefit assets	—	**(1,597)**	**(15,527)**
Increase in accrued directors' and corporate auditors' retirement benefits, less payments	15	**20**	**194**
Decrease in reserve for environmental measures	(81)	**(205)**	**(1,993)**
Interest and dividend income	(178)	**(188)**	**(1,831)**
Interest expense	767	**612**	**5,951**
Gain on sale of investments in securities	(2)	**—**	**—**
Loss on evaluation of investments in securities	—	**12**	**118**
Equity in losses of unconsolidated subsidiaries and affiliates	114	**320**	**3,107**
Loss on sale and disposition of property, plant and equipment	392	**183**	**1,782**
Changes in assets and liabilities:			
Notes and accounts receivable, trade	20,527	**(9,645)**	**(93,748)**
Inventories	3,592	**(1,992)**	**(19,363)**
Notes and accounts payable, trade	(9,208)	**2,228**	**21,662**
Other, net	3	**(67)**	**(649)**
Subtotal	28,574	**8,308**	**80,755**
Interest and dividend income received	179	**187**	**1,821**
Interest expense paid	(739)	**(665)**	**(6,461)**
Income taxes (paid) refunded	(4,220)	**1,322**	**12,846**
Net cash provided by operating activities	23,794	**9,152**	**88,961**
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(20,476)	**(4,847)**	**(47,114)**
Acquisition of intangible assets	(227)	**(179)**	**(1,741)**
Acquisition of investments in securities	(1,806)	**(2)**	**(14)**
Decrease in long-term loans receivable	211	**204**	**1,980**
Decrease (increase) in over three-month deposits	1,794	**(67)**	**(654)**
Other, net	(31)	**(60)**	**(584)**
Net cash used in investing activities	(20,535)	**(4,951)**	**(48,127)**
Cash Flows from Financing Activities:			
Increase (decrease) in short-term loans	19	**(1,078)**	**(10,481)**
Proceeds from long-term loans	8,000	**4,860**	**47,240**
Repayment of long-term loans	(4,531)	**(8,633)**	**(83,913)**
Payments for purchases of treasury stock	(7)	**(10)**	**(97)**
Proceeds from sales of treasury stock	2	**1**	**6**
Cash dividends	(968)	**(484)**	**(4,704)**
Cash dividends to minority shareholders	(12)	**(8)**	**(75)**
Net cash provided by (used in) financing activities	2,503	**(5,352)**	**(52,024)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	159	**309**	**3,010**
Net Increase (Decrease) in Cash and Cash Equivalents	5,921	**(842)**	**(8,180)**
Cash and Cash Equivalents at Beginning of the Year	16,500	**22,421**	**217,934**
Cash and Cash Equivalents at End of the Year (Note 17)	¥ 22,421	**¥ 21,579**	**$ 209,754**

The accompanying notes are integral parts of these statements.

FINANCIAL FIGURES

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

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 (together, the "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 from 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 of Japan.

2. Summary of Significant Accounting Policies

(1) Consolidation and investments in affiliates -

(a) Scope of consolidation and elimination

The Company has 13 subsidiaries as of March 31, 2014 (13 subsidiaries as of March 31, 2013). The consolidated financial statements include the accounts of the Company and 13 of its subsidiaries. The 13 subsidiaries that have been consolidated for fiscal year 2014 are listed below:

Yohkoh Bussan Co., Ltd.
Santoku Seiken Co., Ltd.
Santoku Kogyo Co., Ltd.
Santoku Technos Co., Ltd.
Santoku Tech Co., Ltd.
Santoku Computer Service Co., Ltd.
Santoku Security Service Co., Ltd.
SKJ Metal Industries Co., Ltd.
P.T. Sanyo Special Steel Indonesia
Sanyo Special Steel U.S.A., Inc.
Ningbo Sanyo Special Steel Products Co., Ltd.
Sanyo Special Steel Trading (Shanghai) Co., Ltd.
Sanyo Special Steel India Pvt. Ltd.

The consolidated subsidiaries, except for the 6 foreign subsidiaries (SKJ Metal Industries Co., Ltd., P.T. Sanyo Special Steel Indonesia, Sanyo Special Steel U.S.A., Inc., Ningbo Sanyo Special Steel Products Co., Ltd., Sanyo Special Steel Trading (Shanghai) Co., Ltd., and Sanyo Special Steel India Pvt. Ltd.), use a fiscal year ending March 31, which is the same as that of the Company. The 6 foreign subsidiaries use a fiscal year ending December 31. For these 6 subsidiaries, certain adjustments are made, if appropriate, in preparing the consolidated financial statements to reflect material transactions which occurred between their fiscal year-end and March 31.

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

(b) Investments in affiliates

Investments in Advanced Green Components, LLC and Mahindra Sanyo Special Steel Pvt. Ltd., two affiliates of the Company on which the Company have significant influence, are accounted for by the equity method.

The equity method has not been applied to the investment in another affiliate since adoption of the equity method for this investment 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 rate prevailing at the respective transaction date. All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rate prevailing at 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 rate prevailing at each balance sheet date. All income and expense accounts for the year are also translated at that rate. These differences are recorded as foreign currency translation adjustments.

(3) Securities -

The accounting standard for financial instruments (“Accounting Standards for Financial Instruments” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 10)) requires that securities be classified into 4 categories: trading securities, held-to-maturity debt securities, equity securities issued by subsidiaries and affiliates and available-for-sale securities. Except for the equity securities issued by subsidiaries and affiliates, securities that the Company has are all classified as available-for-sale securities.

Under the standard, marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost. A decline in the value of available-for-sale securities is reflected in net profit or loss for the period 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 swaps to reduce their exposure to market risks from fluctuations in foreign currencies and interest rates. The Companies do not hold or issue financial derivative instruments for trading purposes. If derivative transactions are used as hedges and meet certain hedging criteria, the Companies use the deferred hedge accounting method.

In addition, with regard to interest rate swap transactions that meet the criteria, the exceptional method is adopted. Using this method, the Companies do not account for gains or losses on those interest rate swap transactions on a fair value basis, but recognize the interest on an accrual basis.

The Companies compare the total change in cash flow or rate fluctuation of hedging instruments and those of hedged items every half year and evaluate the hedge effectiveness based on the differences.

(5) Inventories -

Inventories are stated at the lower of weighted-average cost or net realizable value.

(6) Depreciation and amortization -

The Company computes 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. The Companies compute depreciation mainly using the declining-balance method for property, plant and equipment other than those described above.

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

(7) Research and development costs -

Research and development costs are charged to profit or loss as incurred.

(8) Allowance for doubtful accounts -

Allowance for doubtful accounts is provided at the amount calculated based on past loss experience plus the amount estimated to be uncollectible based on an assessment of certain individual accounts.

(9) Accrued directors' and corporate auditors' retirement benefits -

Certain consolidated subsidiaries provide for lump-sum payments to retiring directors and corporate auditors subject to shareholders' approval. Accrued directors' retirement benefits are based on internal rules.

(10) Reserve for environmental measures -

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

(11) Accounting methods for employees' retirement benefits -

In the calculation of retirement benefit obligations, the estimated amount of retirement benefits is attributed to the consolidated fiscal year based on the straight-line basis.

Actuarial gains and losses are posted in expenses after the consolidated fiscal year of the accruals based on the straight-line method for 10 years within average remaining service period of the employees.

In the calculation of net defined benefit liabilities and retirement benefits expenses, certain consolidated subsidiaries adopt a simplified method that regards the benefits payable assuming the voluntary retirement of all employees at the fiscal year-end as retirement benefit obligations.

(12) Income taxes -

The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis.

(13) Revenue recognition -

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

(14) 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 operations represent dividends declared as applicable to the respective years rather than those paid during the years.

(15) 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.

(16) 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 operations 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, net of consumption tax paid, is included in "Other current liabilities" in the consolidated balance sheets.

(17) Reclassifications and restatement -

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

(18) Change in accounting policies -

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No. 25")) except the article 35 of the Statement No. 26 and the article 67 of the Guidance No. 25 and actuarial gains and losses that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as net defined benefits assets and net defined benefits liabilities.

In accordance with the article 37 of the Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in remeasurements of defined benefits plans in accumulated other comprehensive income.

As a result of the application, net defined benefits assets and net defined benefits liabilities in the amount of JPY 1,097 million (U.S.$ 10,666 thousand) and JPY of 689 million (U.S.$ 6,698 thousand), respectively, have been recognized, and accumulated other comprehensive income and net assets per share have decreased by JPY 554 million (U.S.$ 5,381 thousand) and JPY 3.43 (U.S.$ 0.03), respectively, at the end of the current fiscal year.

(19) Accounting standards issued but not yet adopted -

(a) Accounting Standard for Business Combinations

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), "Accounting Standard for Earnings per Share" (ASBJ Statement No. 2, September 13, 2013), "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013) and "Guidance on Accounting Standard for Earnings per Share" (ASBJ Guidance No. 4, September 13, 2013).

1. Outline

These accounting standards and guidance contain amendments to the accounting treatment for: (1) changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary in the additional acquisition of shares therein, (2) acquisition related costs, (3) presentation method of net income and amendment of "minority interests" to "non-controlling interests," and (4) transitional provisions for accounting treatments.

2. Effective dates

The standards are effective from the fiscal year beginning April 1, 2015. However, the transitional provisions for accounting treatments will be applied from business combinations performed on or after the fiscal year beginning April 1, 2015.

3. Effect of application of the standard

At present, the Company and its consolidated domestic subsidiaries have not determined the effects of the new standard on the consolidated financial statements.

(b) Accounting Standard for Retirement Benefits

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25).

1. Outline

The revisions apply mainly to the accounting treatments of unrecognized actuarial gains and losses and prior service costs, the determination of retirement benefit obligations and service cost and disclosure. These revisions were made considering the viewpoint of enhancing financial reporting and international convergence of accounting standards.
2. Effective dates
The revisions to the calculation methods for retirement benefit obligations and service costs are effective from the fiscal year beginning April 1, 2014.
3. Effect of application of the standard
The effect of the application of the adoption of the revised accounting standard and guidance on consolidated financial statements is immaterial.

3. U.S. Dollar Amounts

The translations of Japanese yen amounts into U.S. dollar amounts 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 convertedinto U.S. dollars. The rate of ¥102.88 = U.S. $1.00, the approximate rate of exchange as at March 31, 2014, has been used for such translations.

4. Consolidated Statement of Comprehensive Income

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ 95	**¥ 1,707**	**$ 16,592**
Reclassification adjustments	(2)	**—**	**—**
Subtotal, before tax	93	**1,707**	**16,592**
Tax (expense) or benefit	(90)	**(305)**	**(2,967)**
Subtotal, net of tax	3	**1,402**	**13,625**
Foreign currency translation adjustments			
Increase (decrease) during the year	372	**943**	**9,173**
Share of other comprehensive income of affiliates accounted for by the equity method			
Increase (decrease) during the year	211	**278**	**2,705**
Total other comprehensive income	¥ 586	**¥ 2,623**	**$ 25,503**

5. Financial Instruments

(1) Status of financial instruments -

The Companies procure funds required in light of our business plan through bank loans, and temporary surplus funds are to be utilized in short-term bank deposits, etc., with low probability of loss of principal. The Companies utilize derivative transactions mainly to hedge interest rate fluctuation risk and limit the amount to actual demand.

Notes and accounts receivable are exposed to the credit risks of customers. In order to reduce such risks, the Companies regularly monitor the maturity dates and the balances of receivables of all customers' accounts and evaluate the main customers' credit risk due to deterioration of the financial situation, etc., according to Company regulations. Notes and accounts receivable denominated in foreign currencies are exposed to exchange rate risks. The Companies reduce such risks by settling both notes and accounts receivable and notes and accounts payable with the same foreign currencies.

Investments in securities, which are mainly shares in companies that have business relationships with the Companies, are exposed to market price risks. The Companies regularly review the fair value of the securities and the financial position of the companies and revise their portfolios considering the relationships with them.

Notes and accounts payable are paid within one year. Notes and accounts payable denominated in foreign currencies arising from the import of raw materials, etc., are exposed to exchange rate risks. The Companies reduce such risks by settling both notes and accounts receivable and notes and accounts payable with the same foreign currencies.

Bank loans are primarily for funding related to operating and investing activities. Bank loans with variable interest rates are exposed to interest rate fluctuation risks. The Companies reduce such risks with long-term loans by interest rate swap contracts.

The Companies establish regulations which stipulate the authorization and management of derivative transactions. See Note 2(4), "Derivative Transactions," about hedge accounting.

Notes and accounts payable and bank loans are exposed to liquidity risks. The Companies reduce such risks by making monthly cash flow plans. The Company has commitment line contracts in preparation for contingencies.

Fair values of financial instruments include values based on market price and values obtained by reasonable estimates when the financial instruments do not have market price. Since certain assumptions are adopted for calculating such values, the values may differ when different assumptions are adopted.

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(2) Fair values of financial instruments -

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2013 were as follows. Certain financial instruments were excluded from the following table as the fair values were not available (see Note 2 below).

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and bank deposits	¥ 22,684	¥ 22,684	¥ —
(2) Notes and accounts receivable, trade	41,434	41,434	—
(3) Investments in securities			
Available-for-sale securities	7,227	7,227	—
(4) Notes and accounts payable, trade	(13,342)	(13,342)	—
(5) Short-term loans	(40,392)	(40,392)	—
(6) Long-term loans	(33,936)	(34,281)	△345
(7) Derivative transactions			
①Hedge accounting is not applied	(0)	(0)	—
②Hedge accounting is applied	—	—	—

(※) The debt is displayed by ( ).

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2014 are as follows. Certain financial instruments are excluded from the following table as the fair values are not available (see Note 2 below).

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and bank deposits	**¥ 21,967**	**¥ 21,967**	**¥** —	**$ 213,518**	**$ 213,518**	**$** —
(2) Notes and accounts receivable, trade	**51,273**	**51,273**	—	**498,378**	**498,378**	—
(3) Investments in securities						
Available-for-sale securities	**8,936**	**8,936**	—	**86,858**	**86,858**	—
(4) Notes and accounts payable, trade	**(14,884)**	**(14,884)**	—	**(144,672)**	**(144,672)**	—
(5) Short-term loans	**(44,688)**	**(44,688)**	—	**(434,374)**	**(434,374)**	—
(6) Long-term loans	**(25,063)**	**(25,248)**	**△185**	**(243,614)**	**(245,409)**	**△1,795**
(7) Derivative transactions						
①Hedge accounting is not applied	**(0)**	**(0)**	—	**(3)**	**(3)**	—
②Hedge accounting is applied	—	—	—	—	—	—

(※) The debt is displayed by ( ).

1. The method of estimating fair values of financial instruments and matters about investments in securities and derivative transactions.
   (1) Cash and bank deposits and (2) Notes and accounts receivable, trade
   The book value approximates the fair value because of the short-term maturities of these instruments.
   (3) Investments in securities
   Market prices and quoted prices are used for equity securities.
   See Note 6, "Securities."
   (4) Notes and accounts payable, trade and (5) Short-term loans
   The book value approximates the fair value because of the short-term maturities of these instruments.
   Short-term loans payable includes the current portion of long-term loans.
   (6) Long-term loans
   The discounted cash flow method is used to estimate the fair value of long-term loans by using marginal borrowing rates as the discount rate.
   (7) Derivative transaction
   See Note 18, "Derivatives."

2. Non-listed equity securities whose fair values are not available are excluded from investments in securities above. These instruments as of March 31, 2013 and 2014 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Non-listed equity securities	¥ 478	**¥ 478**	**$ 4,645**

3. The aggregate maturities subsequent to March 31, 2013 for financial assets with maturities were as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Cash and bank deposits	¥ 22,684	¥ —	¥ —	¥ —
Notes and accounts receivable, trade	41,434	—	—	—
Total	¥ 64,118	¥ —	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2014 for financial assets with maturities are as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Cash and bank deposits	**¥ 21,967**	**¥** —	**¥** —	**¥** —
Notes and accounts receivable, trade	**51,273**	—	—	—
Total	**¥ 73,240**	**¥** —	**¥** —	**¥** —

	Thousands of U.S. dollars			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Cash and bank deposits	**$ 213,518**	**$** —	**$** —	**$** —
Notes and accounts receivable, trade	**498,378**	—	—	—
Total	**$ 711,896**	**$** —	**$** —	**$** —

4. The aggregate maturities subsequent to March 31, 2013 for short-term loans, long-term loans and other interest-bearing debt were as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short -term loans	¥ 40,392	¥ —	¥ —	¥ —
Long-term loans	—	33,936	—	—
Other interest-bearing debt	15	60	27	—
Total	¥ 40,407	¥ 33,996	¥ 27	¥ —

The aggregate maturities subsequent to March 31, 2014 for short-term loans, long-term loans and other interest-bearing debt are as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short -term loans	**¥ 44,688**	**¥** —	**¥** —	**¥** —
Long-term loans	—	**25,063**	—	—
Other interest-bearing debt	**15**	**60**	**12**	—
Total	**¥ 44,703**	**¥ 25,123**	**¥ 12**	**¥** —

	Thousands of U.S. dollars			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short -term loans	**$ 434,374**	**$** —	**$** —	**$** —
Long-term loans	—	**243,614**	—	—
Other interest-bearing debt	**146**	**584**	**115**	—
Total	**$ 434,520**	**$ 244,198**	**$ 115**	**$** —

6. Securities

The aggregate acquisition costs and fair values (book values) of marketable securities classified as available-for-sale securites as of March 31, 2013 and 2014 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2013			**2014**			**2014**		
	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)
Securities whose book value exceeds their acquisition cost:									
Stock	¥ 3,154	¥ 5,335	¥ 2,181	**¥ 5,124**	**¥ 8,785**	**¥ 3,661**	**$ 49,803**	**$ 85,391**	**$ 35,588**
Securities whose acquisition cost exceeds their book value:									
Stock	2,126	1,892	(234)	**157**	**151**	**(6)**	**1,530**	**1,467**	**(63)**
Total	¥ 5,280	¥ 7,227	¥ 1,947	**¥ 5,281**	**¥ 8,936**	**¥ 3,655**	**$ 51,333**	**$ 86,858**	**$ 35,525**

7. Inventories

Inventories held by the Companies at March 31, 2013 and 2014 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Merchandise	¥ 1,607	**¥ 1,872**	**$ 18,201**
Finished products	8,593	**8,956**	**87,052**
Work-in-process	21,263	**21,830**	**212,187**
Raw materials and supplies	14,317	**15,734**	**152,932**
Total	¥ 45,780	**¥ 48,392**	**$ 470,372**

8. Unconsolidated Subsidiaries and Affiliates

Items relevant to unconsolidated subsidiaries and affiliates at March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Investments in securities (stocks)	¥ 2,659	**¥ 2,599**	**$ 25,261**

9. Assets Pledged as Collateral

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Assets pledged as collateral:			
Land	¥ 4,590	**¥ 4,590**	**$ 44,618**
Buildings and structures	4,903	**4,432**	**43,072**
Machinery and equipment	7,716	**6,245**	**60,704**
	¥ 17,209	**¥ 15,267**	**$ 148,394**
Secured liabilities:			
Long-term loans (including those due within one year)	16,700	**8,775**	**85,294**
	¥ 16,700	**¥ 8,775**	**$ 85,294**

10. Accounting for Notes Receivable/Payable Which Reached the Maturity at Year-end

Notes receivable/payable which reached the maturity at year-end are treated as if they were settled at the clearing date for notes. Consequently, as the year-end date of March 31, 2013 was holiday for banking institutions, the following notes receivable/payable which reached thematurity at year-end were included in the ending balance of notes receivable/payable and other current liabilities:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Notes receivable	¥ 1,193	**¥ —**	**$ —**
Notes payable	¥ 53	**¥ —**	**$ —**

11. Short-term Loans and Long-term Loans

Short-term loans at March 31, 2013 and 2014 represent bank overdrafts with weighted-average interest rates of 0.57% and 0.43%, respectively. It is normal business custom in Japan for short-term borrowings to be rolled over every year. The Company has commitment line contracts for short-term financing arrangements with 3 financial institutions for an aggregate maximum amount of ¥20,000 million ($194,401 thousand). AtMarch 31 2014, the total ¥20,000 million ($194,401 thousand) is unused.

Long-term loans at March 31, 2013 and 2014 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Loans from banks and other financial institutions due 2014 to 2017 with interest rates ranging from 0.29% to 1.75% at March 31, 2013 and due 2015 to 2019 with interest rates ranging from 0.41% to 0.91% at March 31, 2014	¥ 42,569	**¥ 38,796**	**$ 377,100**
Other payables due 2014 to 2021 with interest of 4.05% at March 31, 2013 and due 2015 to 2021 with interest of 4.05% at March 31, 2014	102	**87**	**845**
	42,671	**38,883**	**377,945**
Less: Current portion of long-term loans	(8,648)	**(13,748)**	**(133,632)**
	¥ 34,023	**¥ 25,135**	**$ 244,313**

The annual maturities of long-term loans outstanding at March 31, 2014 are as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars
2015	**¥ 6,293**	**$ 61,169**
2016	**13,940**	**135,498**
2017	**15**	**146**
2018	**4,875**	**47,385**
2019 and thereafter	**12**	**115**
	¥ 25,135	**$ 244,313**

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12. Retirement Benefits

The detailed notes relating to retirement benefit plans for the year ended March 31, 2013, were as follows:

The Company and certain consolidated subsidiaries have severance indemnity plans and defined contribution pension plans. Certain consolidated subsidiaries have severance indemnity plans.

(1) Funded status of retirement benefit obligations at March 31, 2013 was as follows:

	Millions of yen
	2013
Projected benefit obligation	¥ (9,164)
Plan assets at fair value	7,664
Unfunded projected benefit obligation	(1,500)
Unrecognized actuarial loss	2,278
Net of Accrued employees' retirement benefits recognized in the consolidated balance sheet	778
Prepaid pension cost	1,714
Accrued employees' retirement benefits recognized in the consolidated balance sheet	¥ (936)

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

(2) Components of net retirement benefit expenses for the year ended March 31, 2013 were as follows:

	Millions of yen
	2013
Service cost	¥ 395
Interest cost	220
Expected return on plan assets	(101)
Amortization of prior service costs	(49)
Amortization of actuarial loss	95
Payments for the defined contribution pension plan	185
Total	¥ 745

Expenses for employees' retirement benefits of consolidated subsidiaries are included in service cost.

(3) Assumptions used in the calculation of retirement benefit obligations for the year ended March 31, 2013 were as follows:

	2013
Discount rate	1.4%
Expected rate of return on plan assets	1.4%
Method of attributing the projected benefits to periods of service	Straight-line basis
Amortization period for unrecognized prior service costs	10 years
Amortization period for unrecognized actuarial differences	10 years

The detailed notes relating to retirement benefit plan for the year ended March 31, 2014 are as follows:

The Company and certain consolidated subsidiaries have funded or unfunded defined benefit pension plans and defined contribution pension plans for employee retirement benefits.

The defined benefit corporate pension plans all comprised of funded plans that provide lump sum payments or pension benefits based on salary and length of service. These plans set up retirement benefit trusts. Severance indemnity plans, though as a result of setting up retirement benefit trusts, some plans are funded, pay lump sums based on salary and length of service as retirement benefits.

The defined benefit pension plans of certain consolidated subsidiaries calculate net defined benefit liabilities and retirement benefit costs by the simplified method.

Defined benefit plans

(1) Movements in retirement benefit obligations, except plans applying the simplified method:

	Millions of yen	Thousands of U.S. dollars
	2014	
Balance at April 1, 2013	¥ 8,688	$ 84,451
Service cost	384	3,729
Interest cost	119	1,161
Actuarial loss	238	2,314
Benefit paid	(1,089)	(10,588)
Balance at March 31, 2014	¥ 8,340	$ 81,067

(2) Movements in plan assets, except plans applying the simplified method:

	Millions of yen	Thousands of U.S. dollars
	2014	
Balance at April 1, 2013	¥ 7,664	$ 74,492
Expected return on plan assets	110	1,071
Actuarial gain	1,626	15,800
Contributions paid by the employer	5	50
Benefits paid	(134)	(1,298)
Balance at March 31, 2014	¥ 9,271	$ 90,115

(3) Movements in liability for retirement benefits of defined benefit plans applying the simplified method:

	Millions of yen	Thousands of U.S. dollars
	2014	
Balance at April 1, 2013	¥ 476	$ 4,623
Retirement benefit costs	78	755
Benefits paid	(32)	(313)
Others	1	16
Balance at March 31, 2014	¥ 523	$ 5,081

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits :

	Millions of yen	Thousands of U.S. dollars
	2014	
Funded retirement benefit obligations	¥ 8,340	$ 81,067
Plan assets	(9,271)	(90,115)
	(931)	(9,048)
Unfunded retirement benefit obligations	523	5,080
Total Net liability (asset) for retirement benefits at March 31, 2014	(408)	(3,968)
Net defined benefit liabilities	689	6,698
Net defined benefit assets	(1,097)	(10,666)
Total Net liability for retirement benefits at March 31, 2014	¥ (408)	$ (3,968)

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(5) Retirement benefit costs:

	Millions of yen	Thousands of U.S. dollars
	2014	
Service cost	¥ 383	$ 3,729
Interest cost	119	1,161
Expected return on plan assets	(110)	(1,071)
Net actuarial loss amortization	31	298
Retirement benefit costs based on the simplified method	78	755
Total retirement benefit costs for the fiscal year ended March 31, 2014	¥ 501	$ 4,872

(6) Accumulated adjustments for retirement benefit:

	Millions of yen	Thousands of U.S. dollars
	2014	
Actuarial gains and losses that are yet to be recognized	¥ 860	$ 8,356
Total balance at March 31, 2014	¥ 860	$ 8,356

(7) Plan assets:
① Plan assets comprise:

	2014
Equity securities	87%
Bonds	1%
Other	12%
Total	100%

11% of plan assets represent retirement benefit trusts set to the corporate pension plan.

② Long-term expected rate of return
Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions
The principal actuarial assumptions at March 31, 2014 (expressed as weighted averages) are as follows:

	2014
Discount rate	1.4%
Long-term expected rate of return	1.4%

Defined contribution plans
The Company and certain consolidated subsidiaries have contributed ¥180 million ($1,751 thousand) to the defined contribution plans.

13. Income Taxes

The Companies are subject to a number of different income taxes which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 38.0% for the year ended March 31, 2013 and 2014. On March 31, 2014, amendments to the Japanese tax regulations were enacted into law which will reduce the corporation tax rate. Consequently, the effective statutory tax rate used to measure deferred tax assets and liabilities has been reduced from 38.0% to 35.6%.

Due to this change in statutory income tax rate, net deferred tax assets decreased by ¥93 million ($899 thousand) as of March 31, 2014 and deferred income tax recognized for the year ended March 31, 2014 increased by ¥93 million ($899 thousand).

At March 31, 2013 and 2014, significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Deferred tax assets:			
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trusts	¥ 2,597	**¥ 2,597**	**$ 25,240**
Devaluation loss on inventories	264	**233**	**2,265**
Accrued bonuses	541	**645**	**6,271**
Devaluation loss on marketable securities	1,146	**1,150**	**11,181**
Net defined benefit liabilities	—	**689**	**6,693**
Accrued employees' retirement benefits	747	**—**	**—**
Tax losses carried forward	1,124	**84**	**815**
Other	936	**1,067**	**10,375**
Gross deferred tax assets	7,355	**6,465**	**62,840**
Less: Valuation allowance	(1,601)	**(1,530)**	**(14,873)**
Total deferred tax assets	¥ 5,754	**¥ 4,935**	**$ 47,967**
Deferred tax liabilities:			
Unrealized holding gains on securities	¥ (526)	**¥ (831)**	**$ (8,078)**
Gain on contribution of certain marketable securities to employee retirement benefit trusts	(1,401)	**(1,401)**	**(13,614)**
Reserve for deferred capital gains from property, plant and equipment	(1,125)	**(1,090)**	**(10,590)**
Net defined benefit assets	—	**(391)**	**(3,797)**
Prepaid pension cost	(610)	**—**	**—**
Reserve for special depreciation	(658)	**(521)**	**(5,065)**
Other	(371)	**(292)**	**(2,846)**
Total deferred tax liabilities	(4,691)	**(4,526)**	**(43,990)**
Net deferred tax assets	¥ 1,063	**¥ 409**	**$ 3,977**

The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2013 was as follows:

Statutory income tax rate	38.0%
Add (deduct)	
Nondeductible expenses, including entertainment expenses	3.9
Nontaxable income, including dividend income	(4.7)
Equalization tax	1.4
Decrease in valuation allowance	21.2
Other	(3.3)
Effective income tax rate	56.5%

The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2014 is not required to be disclosed due to the insignificance of the difference.

14. Net Assets

At the Company's Board of Directors meeting held on May 15, 2014, the directors approved cash dividends amounting to ¥323 million ($3,136 thousand). There were no cash dividends in the consolidated financial statements as of March 31, 2013

15. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2013 and 2014 totaled ¥1,425 million and ¥1,389 million ($13,498 thousand), respectively.

16. Net Income Per Share

Basis for calculations of net income per share for the years ended March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Net income	¥ 509	**¥ 4,066**	**$ 39,526**
Net income for common stockholders	¥ 509	**¥ 4,066**	**$ 39,526**

	Thousands of shares	
	2013	**2014**
The weighted-average number of shares of common stock	161,345	**161,328**

	Yen		U.S. dollars
	2013	**2014**	**2014**
Net income per share	¥ 3.16	**¥ 25.21**	**$ 0.25**

The Companies have no dilutive securities for the years ended March 31, 2013 and 2014.

17. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2013 and 2014 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Cash and bank deposits	¥ 22,684	**¥ 21,967**	**$ 213,518**
Time deposits with deposit terms of over 3 months and other	(263)	**(388)**	**(3,764)**
Cash and cash equivalents	¥ 22,421	**¥ 21,579**	**$ 209,754**

18. Accounting for Leases

(1) Finance leases –

Non-capitalized finance leases at March 31, 2013 and 2014 are as follows:

As a lessee

Periodic lease charges to the Companies, as a lessee, which are charged to profit or loss for the years ended March 31, 2013 ad 2014 are ¥149 million and ¥145 million ($1,413 thousand), respectively.

Lease assets under finance leases, if capitalized, at March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
	Machinery and vehicles	Machinery and vehicles	Machinery and vehicles
Acquisition cost	¥ 1,465	¥ **1,454**	$ **14,133**
Accumulated depreciation	1,235	**1,370**	**13,313**
Net book value	¥ 230	¥ **84**	$ **820**

Depreciation expense for lease assets computed by the straight-line method over the period of the finance leases with no residual value for the years ended March 31, 2013 and 2014 are ¥149 million and ¥145 million ($1,413 thousand), respectively.

Outstanding future lease payments due at March 31, 2013 and 2014, including interest, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Due within one year	¥ 146	¥ **84**	$ **820**
Due after one year	84	**—**	**—**
Total	¥ 230	¥ **84**	$ **820**

(2) Non-cancelable operating leases -

As a lessee

Outstanding future lease payments under non-cancelable operating leases at March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Due within one year	¥ 15	¥ **15**	$ **145**
Due after one year	5	**0**	**5**
Total	¥ 20	¥ **15**	$ **150**

19. Derivatives

(1) Derivative transactions to which hedge accounting is not applied.

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2013 were as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
Buying			
U.S. dollars	¥ 67	¥ (0)	¥ (0)
Japanese yen	2	(0)	(0)
Total	¥ 69	¥ (0)	¥ (0)

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2014 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract Amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:						
Buying						
U.S. dollars	¥ **124**	¥ **(0)**	¥ **(0)**	$ **1,211**	$ **(3)**	$ **(3)**
Japanese yen	**31**	**(0)**	**(0)**	**299**	**(0)**	**(0)**
Total	¥ **155**	¥ **(0)**	¥ **(0)**	$ **1,510**	$ **(3)**	$ **(3)**

(2) Derivative transactions to which hedge accounting is applied.

Derivative transactions to which hedge accounting is applied for the years ended March 31, 2013 and 2014 are as follows:

	2013	**2014**
Method of hedge accounting	Exceptional method for interest rate swap transactions	**Exceptional method for interest rate swap transactions**
Type of derivative transactions	Interest rate swap transactions Payment fixation, Receipt change	**Interest rate swap transactions** **Payment fixation, Receipt change**
The main hedged items	Long-term loans	**Long-term loans**
Contract amount	¥23,630 million	**¥19,435 million ($188,909 thousand)**
1 year or more of amount of contract	¥16,775 million	**¥16,510 million ($160,478 thousand)**
Fair value	※	※

※ Because interest rate swap transactions accounted for by the exceptional method are managed together with long-term loans that are hedged items, the fair value is included in the fair value of long-term loans.

20. Contingent Liabilities

Guarantees against bank loans of employees and affiliates at March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Advanced Green Components, LLC	¥ 143	**¥ —**	**$ —**
UCHIDA-SATO TECH (THAILAND) CO., LTD.	16	**22**	**215**
Employees	36	**27**	**261**
Total	¥ 195	**¥ 49**	**$ 476**

Notes discounted with banks and notes endorsed as of March 31, 2013 and 2014 are ¥127 million and ¥8 million ($78 thousand), respectively. Notes discounted with banks and notes endorsed are netted against "Notes and accounts receivable, trade" in the consolidated balance sheets.

21. Segment Information

(1) General information about reportable segments

The Companies' reportable segments are the business units for which the Company is able to obtain separated financial information in order for the Board of Directors to regularly conduct investigations to determine the distribution of management resources and evaluate business results. Each operating division develops business activities and establishes comprehensive strategies for domestic and overseas markets according to the products it handles. Therefore, the Companies consist of business segments according to products based on operating divisions and have determined the reportable segments, "Specialty Steel," "Special Materials" and "Formed and Fabricated Materials."

The "Specialty Steel" segment includes the manufacture and sale of various special steel products such as bearing steel, engineering steel, stainless steel, heat resistant steel and tool steel. The "Special Materials" segment includes the manufacture and sale of metal powder products, heat/corrosion-resistant alloys, etc. The "Formed and Fabricated Materials" segment includes the manufacture and sale of formed and fabricated materialsmade from special steel bars/tubes.

(2) Basis of measurement about reportable segment profit or loss and other material items

The accounting methods applied to the reportable segments are generally the same as those described in Note 2, " Summary of Significant Accounting Policies," except that inventories are stated at cost to evaluate business results. Segment income is based on operating income Intersegment transactions are based on market prices.

(3) Information about reportable segment profit or loss and other material items

Segment information for the years ended March 31, 2013 and 2014 is as follows:

	For the year ended March 31, 2013						
	Millions of yen						
	Reportable segment						
	Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income:							
Net sales							
Outside customers	¥ 116,178	¥ 5,971	¥ 16,051	¥ 106	¥ 138,306	¥ —	¥ 138,306
Intersegment transactions	¥ 9,124	¥ —	¥ —	¥ 1,261	¥ 10,386	¥ (10,386)	¥ —
Total	125,303	5,971	16,051	1,367	148,692	(10,386)	138,306
Segment income (loss)	¥ (277)	¥ 657	¥ 1,335	¥ 46	¥ 1,761	¥ (244)	¥ 1,517
(b) Other:							
Depreciation	¥ 10,711	¥ 304	¥ 513	¥ 9	¥ 11,537	¥ (24)	¥ 11,513

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income (loss) adjustments of ¥245 million are adjustments for inventories of ¥283 million and intersegment elimination of ¥38 million.
3. Segment income (loss) is adjusted with operating income in the consolidated statements of operations.
4. As information about segment assets and liabilities is not used to determine the distribution of management resources and evaluate business results, the Companies are not required to disclose information about segment assets and liabilities.

	For the year ended March 31, 2014						
	Millions of yen						
	Reportable segment						
	Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income:							
Net sales							
Outside customers	**¥ 134,799**	**¥ 7,634**	**¥ 18,964**	**¥ 190**	**¥ 161,587**	**¥ —**	**¥ 161,587**
Intersegment transactions	**¥ 9,680**	**¥ —**	**¥ —**	**¥ 1,077**	**¥ 10,757**	**¥ (10,757)**	**¥ —**
Total	**144,479**	**7,634**	**18,964**	**1,267**	**172,344**	**(10,757)**	**161,587**
Segment income (loss)	**¥ 4,146**	**¥ 1,254**	**¥ 1,934**	**¥ 52**	**¥ 7,386**	**¥ (502)**	**¥ 6,884**
(b) Other:							
Depreciation	**¥ 10,073**	**¥ 259**	**¥ 571**	**¥ 8**	**¥ 10,911**	**¥ (18)**	**¥ 10,893**

	Thousands of U.S. dollars						
	Reportable segment						
	Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income:							
Net sales							
Outside customers	**$ 1,310,252**	**$ 74,206**	**$ 184,330**	**$ 1,850**	**$ 1,570,638**	**$ —**	**$ 1,570,638**
Intersegment transactions	**$ 94,093**	**$ —**	**$ —**	**$ 10,463**	**$ 104,556**	**$ (104,556)**	**$ —**
Total	**1,404,345**	**74,206**	**184,330**	**12,313**	**1,675,194**	**(104,556)**	**1,570,638**
Segment income	**$ 40,296**	**$ 12,188**	**$ 18,796**	**$ 509**	**$ 71,789**	**$ (4,880)**	**$ 66,909**
(b) Other:							
Depreciation	**$ 97,912**	**$ 2,514**	**$ 5,549**	**$ 78**	**$ 106,053**	**$ (168)**	**$ 105,885**

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments of ¥502 million ($4,880 thousand) are adjustments for inventories of ¥551 million ($5,356 thousand) and intersegment elimination of ¥49 million ($476 thousand).
3. Segment income is adjusted with operating income in the consolidated statements of operations.
4. As information about segment assets and liabilities is not used to determine the distribution of management resources and evaluate business results, the Companies are not required to disclose information about segment assets and liabilities.

FINANCIAL FIGURES

Related Information

Segment related information for the year ended March 31, 2013 was as follows:

(1) Information about products and services –

As described in "General information about reportable segments," the Companies are not required to disclose information about products and services.

(2) Information about geographic areas –

1. Net sales

	For the year ended March 31, 2013					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	¥ 105,918	¥ 26,005	¥ 3,740	¥ 2,280	¥ 363	¥ 138,306

2. Property, plant and equipment

As Japan, which consists of Sanyo Special Steel Co., Ltd. and its domestic consolidated subsidiaries, represents more than 90% of the amount of property, plant and equipment on the consolidated balance sheet as of March 31, 2013, the Companies are not required to disclose information about property, plant and equipment.

(3) Information about major customers –

	For the year ended March 31, 2013	
	Net sales	Related segment
	Millions of yen	
Marubeni-Itochu Steel Inc.	¥ 28,357	Specialty Steel
Mitsui & Co., Ltd.	¥ 17,607	Specialty Steel

Segment related information for the year ended March 31, 2014 is as follows:

(1) Information about products and services –

As described in "General information about reportable segments," the Companies are not required to disclose information about products and services.

(2) Information about geographic areas –

1. Net sales

	For the year ended March 31, 2014					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	¥ 123,689	¥ 31,560	¥ 4,047	¥ 1,986	¥ 305	¥ 161,587
	Thousands of U.S. dollars					
	Japan	Asia	North America	Europe	Others	Total
Net sales	$ 1,202,270	$ 306,767	$ 39,337	$ 19,305	$ 2,959	$ 1,570,638

2. Property, plant and equipment

As Japan, which consists of Sanyo Special Steel Co., Ltd. and its domestic consolidated subsidiaries, represents more than 90% of the amount of property, plant and equipment on the consolidated balance sheet as of March 31, 2014, the Companies are not required to disclose information about property, plant and equipment.

(3) Information about major customers –

	For the year ended March 31, 2014		
	Net sales		Related segment
	Millions of yen	Thousands of U.S. dollars	
Marubeni-Itochu Steel Inc.	¥ 31,957	$ 310,620	Specialty Steel
Mitsui & Co., Ltd.	¥ 20,354	$ 197,839	Specialty Steel

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Sanyo Special Steel Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sanyo Special Steel Co., Ltd. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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.

August 12, 2014
Osaka, Japan

KPMG AZSA LLC

CORPORATE DATA (As of March 31,2014)

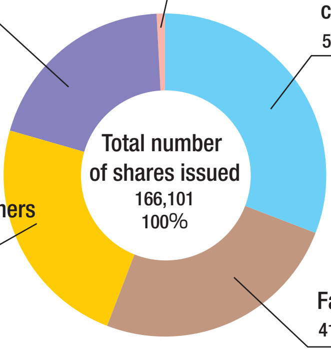
Corporate Data

Corporate Name	Sanyo Special Steel Co., Ltd.
Head Office/Works	3007, Nakashima, Shikama-ku, Himeji, Hyogo 672-8677 Japan phone (+81) 79-235-6003
Established	January 11, 1935
Paid-in Capital	¥20,182 million
Number of Employees	2,775 (consolidated basis)　1,391 (non-consolidated basis)
Register of Shareholders	The Chuo Mitsui Trust & Banking Co., Ltd.
Stock Listings	Tokyo Stock Exchange (1st Section)
Book Closing	March 31
Branches and Offices	Tokyo Regional Office, Osaka Branch, Nagoya Branch, Hiroshima Branch, Kyusyu Sales Office
Homepage Address	http://www.sanyo-steel.co.jp/english/index.html

Stock Information

Total Number of Shares Authorized to be Issued	474,392,000
Total Number of Shares Issued	167,124,036
Number of Shareholders	15,705

Shareholder Composition (thousands of shares)



Note : Treasury stock of 5,806 shares is included in "Individuals and others".

Principal Shareholders

Name of Shareholder	Percentage of Voting Rights (%)
NIPPON STEEL & SUMITOMO METAL CORPORATION	15.13
NORTHERN TRUST CO.(AVFC) RE 15PCT TREATY ACCOUNT	6.96
Company's Kyoeikai Association	6.15
NSK Ltd.	4.66
Sumitomo Mitsui Banking Corporation	3.55
The Master Trust Bank of Japan, Ltd. (trust account)	3.41
Japan Trustee Service Bank, Ltd. (trsut account)	2.56
JUNIPER	2.48
Mizuho Bank, Ltd.	2.27
Marubeni Itochu Steel Inc.	1.94

Note: The Company holds 5,806 thousand shares of its own stock in treasury, but is excluded from the above list of major shareholders.

Consolidated Subsidiaries and Equity-Method Affiliates

Specialty Steel

Consolidated Subsidiaries

① Yohkoh Bussan Co., Ltd.
Trading of special steel products, steelmaking raw materials and other materials

② Santoku Seiken Co., Ltd.
Manufacturing and marketing of special steel products

③ Santoku Kogyo Co., Ltd.
Processing of special steel, machinery maintenance

④ Santoku Technos Co., Ltd.
Processing of special steel

⑤ SKJ Metal Industries Co., Ltd.
Manufacturing and marketing of special steel products

⑥ P.T. SANYO SPECIAL STEEL INDONESIA
Manufacturing and marketing of special steel products

⑦ SANYO SPECIAL STEEL TRADING (SHANGHAI) CO., LTD.
Involved in business and sales of special steel products in China

⑧ Sanyo Special Steel India Pvt. Ltd.
Involved in business and sales of special steel products in India

Equity-method Affiliates

⑨ Mahindra Sanyo Special Steel Pvt. Ltd.
Manufacturing and marketing of special steel products

Formed and Fabricated Materials

Consolidated Subsidiaries

⑩ Santoku Tech Co., Ltd.
Manufacturing of special steel products

⑪ SANYO SPECIAL STEEL U.S.A., Inc.
Trading of special steel products

⑫ Ningbo Sanyo Special Steel Products Co., Ltd.
Manufacturing and marketing of special steel products

Equity-method Affiliates

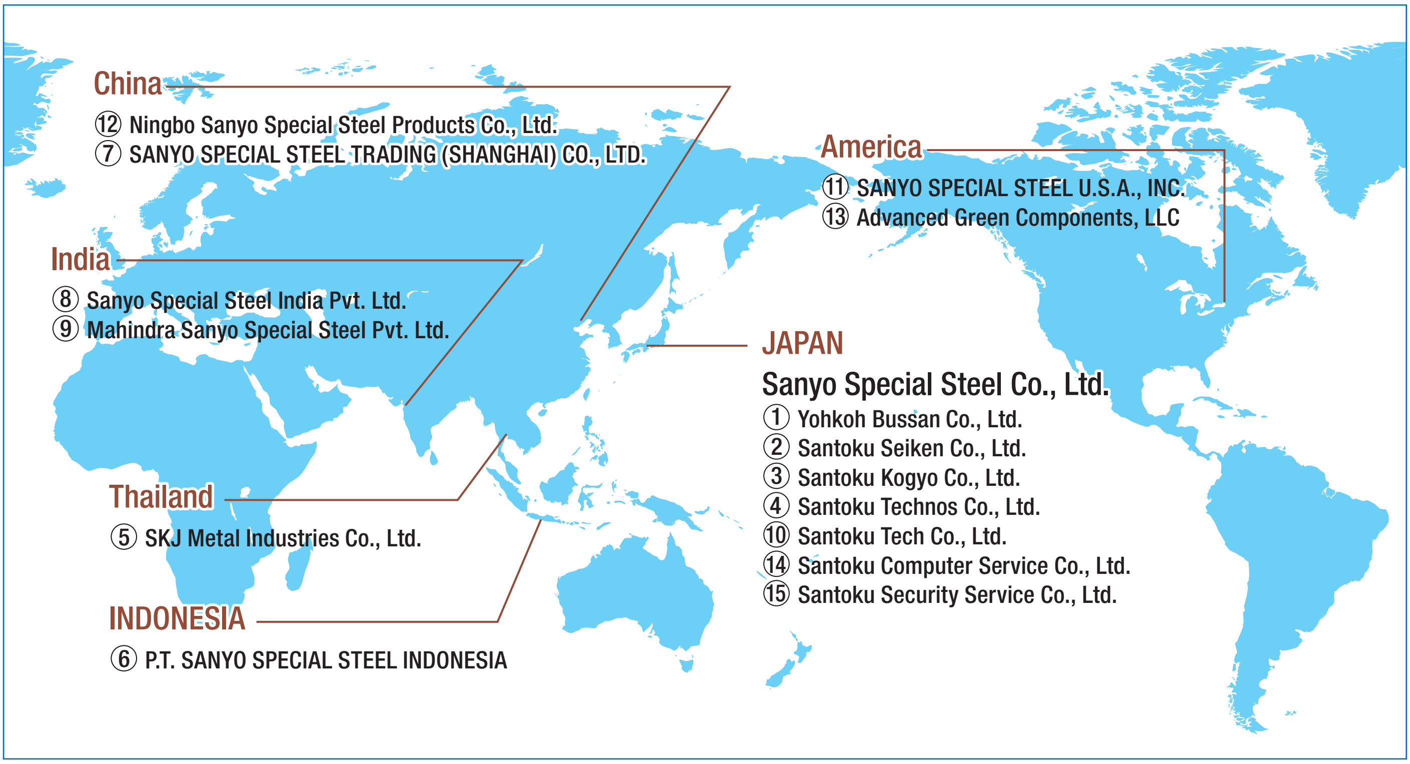
⑬ Advanced Green Components, LLC
Manufacturing of special steel products

Other

Consolidated Subsidiaries

⑭ Santoku Computer Service Co., Ltd.
Construction and operation of, and consulting services for, information systems

⑮ Santoku Security Service Co., Ltd.
Security and facilities maintenance services



SANYO SPECIAL STEEL Co., Ltd.

http://www.sanyo-steel.co.jp/english/index.php

This annual report can also be found at our website.