

2018

ANNUAL REPORT

APRIL 1.2017-MARCH 31.2018

Message From President



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 corporate philosophy is based on “Confidence-based Management” and Sanyo Special Steel aims to establish “Confidence of society,” “Confidence of customers” and “Confidence among people.”

Our mission is to contribute to the development of society by providing “Steel You Can Count On” which has earned a high degree of confidence from the market in all aspects including development, quality, and stable supply, based on our corporate philosophy.

Companies must perform both economically and socially if they are to succeed. We intend to enhance the brand power of “Sanyo Special Steel – the Confident Choice,” and bring our business to the next level as we fulfill our responsibilities as members of society, which include implementation of global environment measures and corporate missions.

We will continue to promote faithful, fair, and transparent corporate management, and to increase the value of our company and earn the confidence of all stakeholders by fulfilling our economic and social missions.

樋口真哉

Shinya Higuchi
Representative Director
and President

Corporate Philosophy

Confidence-based Management



“Confidence of society”

We aim to acquire the confidence of society by contributing to the realization of an affluent and culturally rich society and fulfilling our social responsibilities through our “high-quality special steel manufacturing.”

“Confidence of customers”

We aim to earn the confidence of customers by rapidly ascertaining exactly what their needs are and providing them with high-quality special steel products.

“Confidence among people”

We aim to build the confidence among people by deepening communication with all of our stakeholders and acting autonomously in conformity with social norms.

Sanyo Special Steel -the Confident Choice



“Development”

We are determined to create the future of steel by taking the lead in research and by developing superior products/technologies that add to our brand power, in response to customer needs ascertained by a thorough analysis of customer information.

“Quality”

We aim to win a high level of customer confidence by further increasing the already unsurpassed cleanliness of our steel and by strengthening quality control.

“Stable Supply”

By creating efficient manufacturing processes that allow increased production capacity, we are committed to the stable supply of high-quality special steel that meets the requirements of customers.

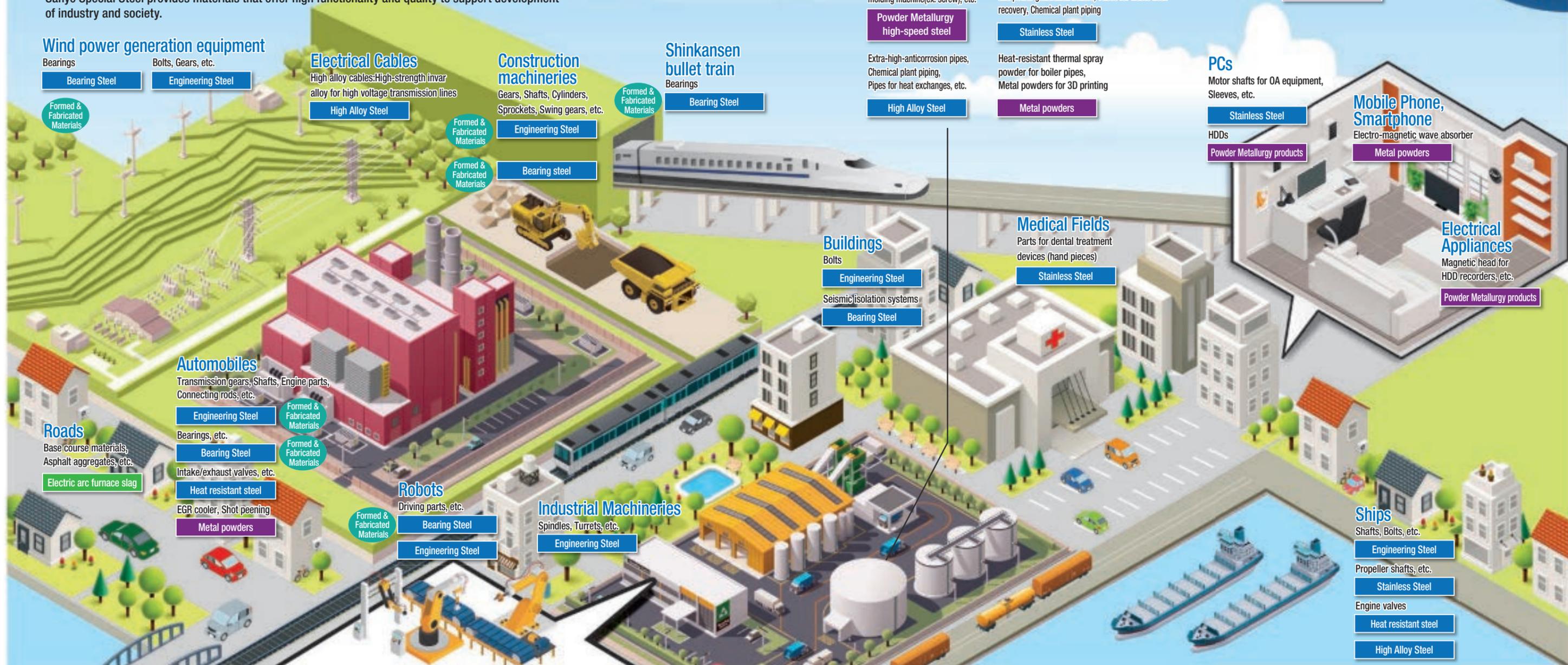
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Earnings forecasts contained in this annual report have been prepared by the Sanyo Special Steel Group based on information available at the time of their preparation. Please note that these forecasts involve various uncertainties and that actual performance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

“Steel You Can Count On” technologies that thrive in a variety of fields

Sanyo Special Steel’s “Steel You Can Count On” is incorporated and used in a variety of industrial products, including automobiles, railroads, construction machines, electronics products, and information communication devices. Sanyo Special Steel provides materials that offer high functionality and quality to support development of industry and society.



Wind power generation equipment

- Bearings: Bearing Steel
- Bolts, Gears, etc.: Engineering Steel

Formed & Fabricated Materials

Electrical Cables

- High alloy cables: High-strength Invar alloy for high voltage transmission lines: High Alloy Steel

Formed & Fabricated Materials

Construction machineries

- Gears, Shafts, Cylinders, Sprockets, Swing gears, etc.: Engineering Steel
- Bearing steel: Bearing steel

Formed & Fabricated Materials

Shinkansen bullet train

- Bearings: Bearing Steel

Formed & Fabricated Materials

Factories, Plants, Power Stations

- Dies for forging press, Dies for high-quality plastics, Casting dies, Rolls, Tolls, etc.: Tool Steel

Formed & Fabricated Materials

- Cutting tools, Dies, Injection molding machine(ex. screw), etc.: Powder Metallurgy high-speed steel

Formed & Fabricated Materials

- Extra-high-anticorrosion pipes, Chemical plant piping, Pipes for heat exchanges, etc.: High Alloy Steel

- Bearings, Linear Motion Bearings, Ball Screws, etc.: Bearing Steel

Formed & Fabricated Materials

- Engineering Steel

- Tubes for refuse incineration and power generation and power generation boilers, Tubes for waste heat recovery, Chemical plant piping: Stainless Steel

Formed & Fabricated Materials

- Heat-resistant thermal spray powder for boiler pipes, Metal powders for 3D printing: Metal powders

Aerospace

- Driving parts, etc.: Bearing Steel

Formed & Fabricated Materials

- Engineering Steel

- Stainless Steel

- Metal powders for 3D printing: Metal powders

Formed & Fabricated Materials

PCs

- Motor shafts for OA equipment, Sleeves, etc.: Stainless Steel

Formed & Fabricated Materials

- HDDs: Powder Metallurgy products

Formed & Fabricated Materials

Mobile Phone, Smartphone

- Electro-magnetic wave absorber: Metal powders

Formed & Fabricated Materials

- Electrical Appliances: Powder Metallurgy products

Formed & Fabricated Materials

Electrical Appliances

- Magnetic head for HDD recorders, etc.: Powder Metallurgy products

Formed & Fabricated Materials

Automobiles

- Transmission gears, Shafts, Engine parts, Connecting rods, etc.: Engineering Steel

Formed & Fabricated Materials

- Bearings, etc.: Bearing Steel

Formed & Fabricated Materials

- Intake/exhaust valves, etc.: Heat resistant steel

- EGR cooler, Shot peening: Metal powders

Formed & Fabricated Materials

Roads

- Base course materials, Asphalt aggregates, etc.: Electric arc furnace slag

Formed & Fabricated Materials

Robots

- Driving parts, etc.: Bearing Steel

Formed & Fabricated Materials

- Engineering Steel

Industrial Machineries

- Spindles, Turrets, etc.: Engineering Steel

Buildings

- Bolts: Engineering Steel

- Seismic isolation systems: Bearing Steel

Medical Fields

- Parts for dental treatment devices (hand pieces): Stainless Steel

Ships

- Shafts, Bolts, etc.: Engineering Steel

- Propeller shafts, etc.: Stainless Steel

- Engine valves: Heat resistant steel

- High Alloy Steel



Sanyo Special Steel uses electric arc furnace steelmaking (which uses iron scrap as a main ingredient) to manufacture special steel, contributing to the recycling and effective use of iron resources.

Analysis of Results of Operations and Financial Condition

Fiscal years ended March 31

FY2017 Overview

The Japanese economy continued to show signs of a moderate recovery in FY2017, with a rebound in individual consumption and an improvement in corporate earnings due to an improvement in the employment and income environment. Nevertheless, it is in an unclear situation as far as the future is concerned due to uncertainties in the global economy stemming from concerns over policy trends in the United States and a downturn in emerging countries including China, among other factors.

In the special steel industry, production volume of special hot-rolled steels was higher than that in the previous term primarily owing to continued operating smoothly in our major customer sectors, automobile and industrial sectors.

In such circumstances, Net sales of Sanyo Special Steel Group (our Group) for the fiscal year increased by 18,804 million yen year on year to 157,485 million yen, due mainly to an increase in sales volumes and an improvement in sales prices. In income, in addition to the above, there were other factors supporting improved earnings including measures implemented to cost reduction, a decrease in fixed expenses, and an increase in Operating income in consolidated subsidiaries. On the other hand, factors such as price increases in raw material and fuel in particular and the time lag in application of the iron scrap surcharge caused Ordinary income to fall by 1,077 million yen year on year to 10,659 million yen. ROS (ordinary income to net sales) for the fiscal year fell to 6.8% (8.5% for the previous year). Net income attributable to owners of the parent decreased by 749 million yen year on year to 7,034 million yen, and ROE (Ordinary income to Net assets) for the fiscal year fell to 5.6% (6.6% for the previous year).

FY2018 Outlook

While there are expectations that the modest recovery of Japan's economy will continue, uncertainty in the global economy is increasing due to trade issues and other factors. Moreover, with international competition in the special steel industry escalating and prices for raw material and fuel rising, uncertain conditions that do not allow for optimism are expected to continue in the business environment surrounding the Group.

In such circumstances, as stated in the 10th Medium-Term Business Plan "Sanyo Global Action 2019," our Group, under our Corporate Philosophy of "Confidence-based Management," will establish a strong corporate structure that can secure stable earnings by strengthening its business foundation through executing "Factory Renovation," and will pursue sustainable growth in human resources, technologies and profitability even in a severe business environment marked by intensifying competition and rising material and energy prices. We will achieve this by further pursuing technological superiority and promoting "Sanyo Special Steel - the Confident Choice" to a global brand.

In the next fiscal year, we expect sound demand to continue, and we believe our Group's sales volumes and net sales will increase mainly due to including MSSSPL becoming a consolidated subsidiary. On the other hand, raw material and fuel prices are expected to increase significantly in comparison to the current fiscal year. To counter this, we will pay further attention to reducing costs, and we will endeavor to improve sales prices with a view to securing appropriate margins while obtaining the understanding of our customers.

By considering all of these factors, we expect its earnings for the next term with net sales to be 185 billion yen, operating income to be 10 billion yen, Ordinary income to be 9.5 billion yen, and Net income attributable to owners of the parent to be 8 billion yen.

Profit Distribution to Shareholders

Our basic policy on profit distribution is to reward our shareholders by increasing the profits available for distribution while strengthening our business foundation.

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 investment and other activities to enhance our corporate value. We pay dividends at the end of the 2nd quarter and the end of fiscal year according to our profit distribution standard based on our consolidated business performance. Our standard of profit distribution is a consolidated payout ratio of 25% to 30%.

Regarding dividends for the current term, we have paid a dividend of 58.5 yen per share (payout ratio of 26.8%) annually according to the basic policy, since net income attributable to owners of the parent reached 7,034 million yen for the current year. As we implemented an interim dividend of 33.5 yen per share*1 the year-end dividend is to be 25 yen per share.

Regarding dividends for the next term, we are planning to pay a dividend of 71.5 yen per share annually (payout ratio of 29.0%, an interim dividend of 45.0 yen, a year-end dividend of 26.5 yen*2) based on the performance forecast announced now and the basic policy for profit distribution.

*1 We conducted a one-for-five reverse stock split of our company's shares effective on October 1, 2017. Earnings per share and dividends are adjusted after the one-for-five reverse stock split.
*2 We will conduct a third-party allotment effective on March 28, 2019. Earnings Per Share and Payout Ratio in Revised forecast are calculated based on average number of shares after this issuance.

Consolidated Financial Highlights

Sanyo Special Steel Co., Ltd. and consolidated subsidiaries

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2017
					(Millions of Yen)	(Thousands of US Dollars)*1
Operating Results (For the year)						
Net sales	¥ 171,495	¥ 149,148	¥ 149,148	¥ 138,681	¥ 157,485	\$ 1,482,213
Operating income	9,170	12,188	12,188	11,686	10,969	103,240
Ordinary income	9,735	11,540	11,540	11,737	10,659	100,321
Net income attributable to owners of the parent	6,548	7,417	7,417	7,784	7,034	66,204
					(Millions of Yen)	(Thousands of US Dollars)*1
Financial Position (at year-end)						
Net assets *2	113,644	113,141	113,141	123,144	128,960	1,213,736
Total assets	202,243	179,899	179,899	183,445	210,290	1,979,200
					(%)	(%)
Financial Indicator						
ROE *3	4.1	6.1	6.6	6.6	5.6	5.6
ROS *4	4.2	5.7	7.7	8.5	6.8	6.8
ROA *5	3.4	4.8	6.0	6.5	5.4	5.4
Net D/E Ratio *6	0.46	0.29	0.13	0.10	0.22	0.22
					(Yen)	(US Dollars)*1
Earnings per share *7	126.03	202.99	230.01	241.47	218.34	2.05
Net assets per share *7	3,167	3,498	3,483	3,797	3,961	37.28
Cash dividends per share *7	25.00	50.00	60.00	62.50	58.50	0.55

* 1 US dollar amounts are converted, for convenience purpose only, at the rate of ¥106.25=US\$1, the approximate rate of exchange on March 31, 2018.

* 2 Non - controlling interests are included in net assets.

* 3 Net income attributable to owners of the parent to Net assets

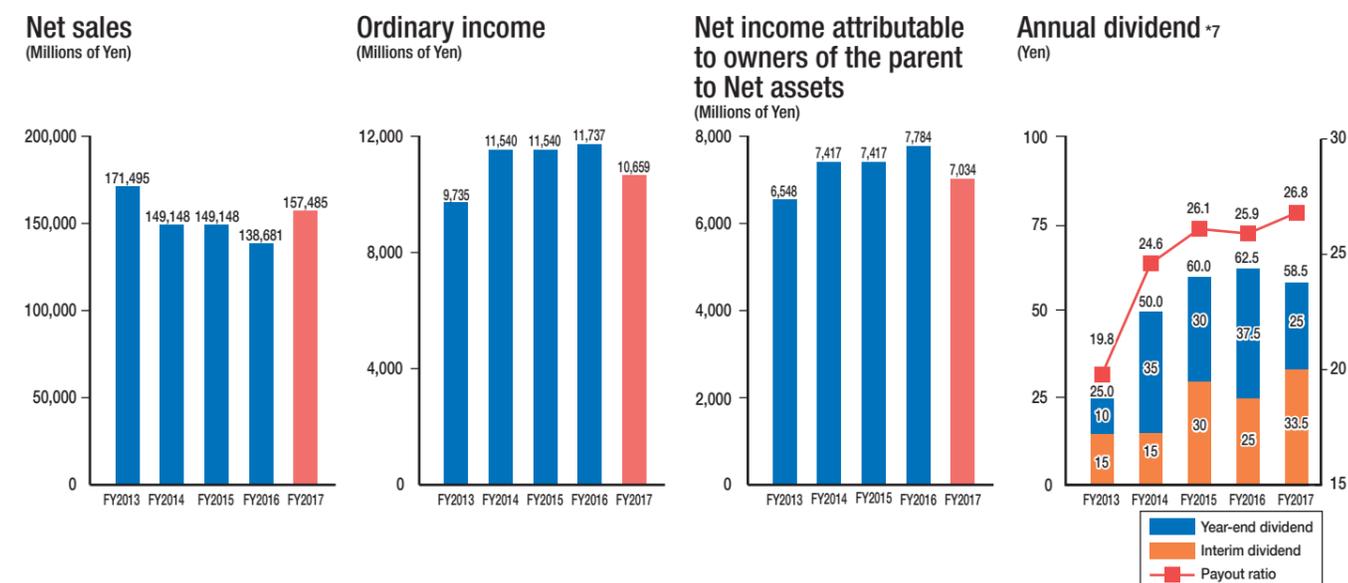
* 4 Ordinary income to Net sales

* 5 Ordinary income to Total assets

* 6 Net debt equity ratio - (gross interest-bearing debt - cash and deposits) / equity

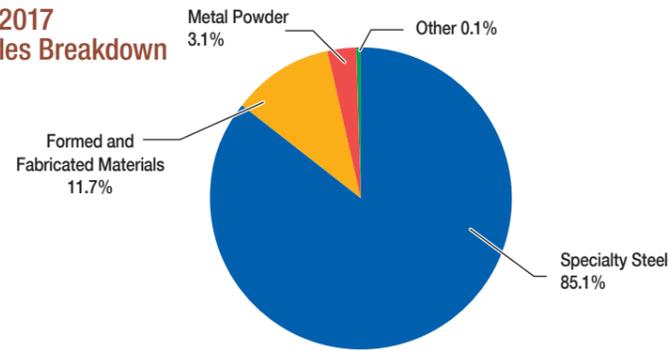
* 7 We conducted a one-for-five reverse stock split of our company's shares effective on October 1, 2017.

Cash dividends per share of FY2013-2017 are adjusted after the one-for-five reverse stock split.



Segment Information

FY2017 Sales Breakdown



Note: The sales breakdown is calculated based on net sales by each segment to outside customers.

	FY2016			FY2017		
	Net sales	Operating income	ROS (%)	Net sales	Operating income	ROS (%)
Specialty Steel*	125,010	9,867	7.9	141,988	9,691	6.8
Metal Powder*	4,456	932	20.9	4,895	921	18.8
Formed and Fabricated Materials	15,789	750	4.7	18,431	765	4.2
Other	1,678	57	3.4	1,530	27	1.8
Adjustments	-8,252	80		-9,359	-435	
Consolidated Total	138,681	11,686	8.4	157,485	10,969	7.0

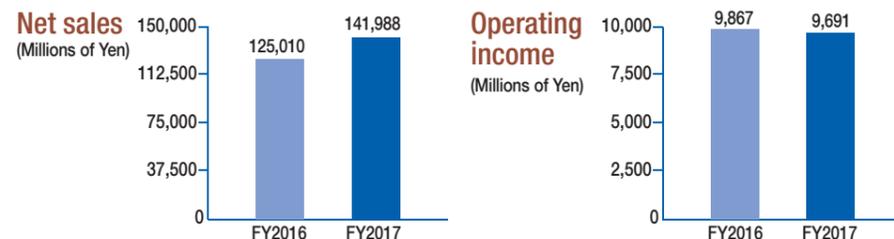
* As a result of the reorganization as of April 1, 2017, the special alloys business, which had been classified under the "Special Materials" business segment, is reclassified under the "Specialty Steel" business segment and consequently the "Special Materials" business segment is renamed as the "Metal Powder" business segment from FY2017. Segment information for FY2016 has been reclassified by revised segments.

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.

FY2017 Overview

Net sales for the fiscal year increased by 16,978 million yen year on year to 141,988 million yen, mainly due to the increase in sales volumes and an improvement in sales prices. Operating income fell by 176 million yen year on year to 9,691 million yen, due mainly to price rises in raw fuel and the time lag in application of the iron scrap surcharge system, despite the above and other positive factors such as variable cost reduction.

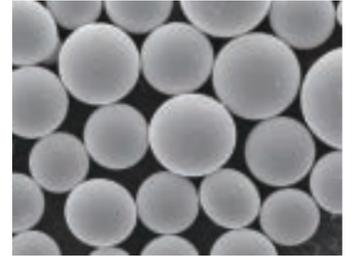


Metal Powder

In the Metal Powder segment, we manufacture and sell high-purity metal powders with low oxygen levels, and powder metallurgy products through our original powder consolidation technologies. We not only provide alloy design that meets the needs of our customers, but are also able to support everything from mass production to small lots for research and development. We provide high functionality materials required in a variety of situations—from the forefront of research and development, to manufacturing sites.

FY2017 Overview

Net sales for the fiscal year increased by 438 million yen year on year to 4,895 million yen, mainly due to increases in sales volumes for the automotive and industrial machinery sector and the electronic materials sector. Operating income decreased by 11 million yen year on year to 921 million yen. Despite positive factors such as increases in sales volumes and improvement in product mix, there was an increase in depreciation costs due to starting operation of the No. 2 Metal Powder Plant.

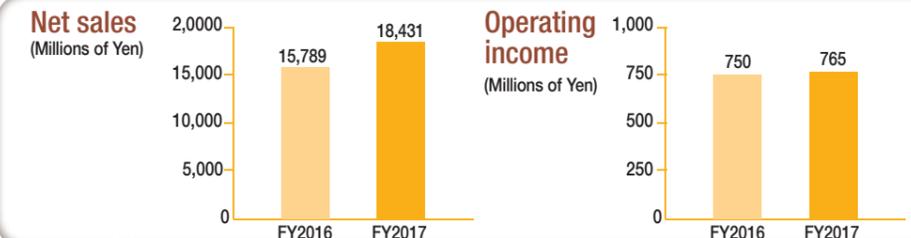


Formed and Fabricated Materials

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.

FY2017 Overview

Net sales for the fiscal year increased by 2,641 million yen year on year to 18,431 million yen, mainly due to increases in sales volumes and improvement in sales prices. Operating income increased by 15 million yen year on year to 765 million yen, mainly due to an increase in sales volumes despite mainly an increase in cost of starting a subsidiary in Mexico.



Other

We provide information processing services through our subsidiaries.

FY2017 Overview

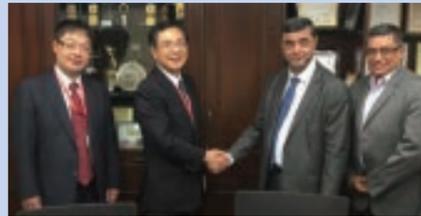
Net sales decreased by 148 million yen year on year to 1,530 million yen. Operating income decreased by 30 million yen year on year to 27 million yen. This segment includes information processing service conducted through subsidiaries.



Note: Net sales of each business segment include intersegment transactions.

Completion of making MSSSPL(*) our consolidated subsidiary

- We further acquired shares of MSSSPL and made it our consolidated subsidiary on June 21, 2018.
 - 1)The proportion of voting rights 29.0% to 51.0%
 - 2)The consideration for purchase additional share : About INR 1.5 billion (About JPY 2.4 billion)
- MSSSPL is our first subsidiary, both inside and outside Japan, that engages in integrated manufacturing and sales of special steel products.
- MSSSPL aims to be a leading Indian manufacturer in quality, productivity, cost and competitiveness as our factory in order to strengthen our capabilities to respond to market growth and customers' requests in India.



MSSSPL's Appearance



Location

[MSSSPL's outline] (*)

Name : Mahindra Sanyo Special Steel Pvt. Ltd.
 Location : Maharashtra, India
 Establishment : 1962 (joint business started from 2012)
 Sales : About INR 9.1 billion (About JPY 15.5 billion) (note1,2)
 Business : Manufacture and Sale of Special Steel Products

(note)
 1 The figures are as of the end of March, 2017.
 2 JPY figures are for reference, calculated at the rate of INR1.00 = JPY1.7.

Making Sanyo (*1) a Subsidiary of NSSMC (*2) and Making Ovako (*3) a Subsidiary of Sanyo

- We announced in the press release titled "Commencement of Discussions Regarding Making Sanyo a Subsidiary of NSSMC and Other Matters" dated March 15, 2018. We have come to an agreement on the terms and conditions, and an agreement was executed on August 2, 2018.
- We intend to conduct the following transactions on March 28, 2019.
 - 1) Making Sanyo a Subsidiary of NSSMC
Sanyo's third-party allotment underwritten by NSSMC for procuring funds to acquire all the shares of Ovako
 - 2) Making Ovako a Subsidiary of Sanyo
Transfer of all the shares of Ovako to Sanyo from NSSMC
- The policy is to maintain the listing of Sanyo on the First Section of the Tokyo Stock Exchange.

*1 Sanyo : Sanyo Special Steel Co., Ltd.
 *2 NSSMC : Nippon Steel & Sumitomo Metal Corporation
 *3 Ovako : Ovako AB
 *For the details, please refer to the document titled "Regarding the Agreement to Make Sanyo Special Steel a Subsidiary of Nippon Steel & Sumitomo Metal and Other Matters" on our website.



[Ovako's outline]

Name : Ovako AB
 Location : Sweden(headquarter)
 Sales : About EUR 0.92 billion (About JPY 120 billion) (note1,2)
 Sales volume : About 780,000 tons (note1)
 Employees : About 3,000
 Business : Manufacture and Sale of Special Steel and Secondarily Processed Products

(note)
 1 The figures are as of the end of December, 2017.
 2 JPY figures are for reference, calculated at the rate of EUR1.0 = JPY130.



Receipt of the 40th Japan Institute of Metals and Materials Technical Development Award

- We received the Japan Institute of Metals and Materials Technical Development Award for the development of "ECOMAX4", Ni- and Mo-free high-strength case hardening steel.
- The development which realizes high strength without using rare metals as nickel and molybdenum and contributes to reduction of heat treatment deformation etc. was highly appreciated.
- This award was presented at the Institute annual fall meeting 2017.
- Features of ECOMAX 4
 - 1) Suppression of grain coarsening during carburizing
 - 2) Reduction of heat treatment deformation
 - 3) Improvement of pitting life



(note)
 The Japan Institute of Metals and Materials Technical Development Award:
 It is presented to engineers who have achieved excellent results in metallurgical engineering and related original technical development such as new technologies and new products with the aim of recognizing intensive development and research.

Presentation at exhibitions ~The Company provided a promotional presentation of our products at an exhibition that gathers the most advanced technologies~

- In June, we exhibited at the "12th China International Die Casting Congress & Exhibition" held in Shanghai, China for the acquisition of new customers etc. in China die casting industry. We exhibited products such as QDX-HARMOTEX: hot working-die steel.
- In April, We provided a promotional presentation of our metal powder products developed in special material business and advanced highly-functional materials such as its heat- and corrosion-resistant alloys at the "4th Highly-functional Metal Exposition" held in Tokyo.
- We exhibited highly functional gas-atomized metal powders, powder metallurgy products, examples of moldings by 3D printing etc. at 2 exhibitions: International 3D Printing Show 2017(in September, in Taipei, Taiwan) and 3D Printing 2018(in February, in Tokyo).



Any exhibitions attracted much interest to visitors.



Examples of moldings by 3D printing

Receipt of the Hyogo Work-Life Balance Company Award, Santoku Computer Service

- This award was presented by Hyogo Prefecture in recognition of being a company that has vigorously promoted "a work-life balance."
- Santoku Computer Service Co., Ltd. received this award, which we received in November 2010, for the first time as our subsidiaries.
- It was appreciated that the company encourages to work with worth living and diversified ways of living.
- This subsidiary has established "challenging, fulfilling, and healthy" as its company-wide vision, and is promoting initiatives to curb long working hours.



President Yamana has received recognition from the Deputy Governor of Hyogo Prefecture

Factory tour for our employee's family in November 2017

- This tour would gain a better understanding of our pride to manufacturing and our workplace.
- About 300 people visited Steelmaking Plant and 5,000t Forging Press etc.
- We received many messages and illustrations from children.
- On the same day, we provide volunteers to conduct clean-up activities around plants. Participating employees worked with daily gratitude to the area.
- Sanyo Group would like to develop social contribution activities through these activities.



Cleaning areas around plants by voluntary employees



A view of the factory tour

Strategy of the 10th Medium-Term Business Plan

Based on our management principle of “Confidence-based Management,” we will firmly establish a strong corporate structure that will enable us to secure stable earnings by executing “Sanyo Factory Renovation” and strengthening our business foundation. In addition, we aim to further pursue technological superiority and to promote “Sanyo Special Steel - the Confident Choice” to a global brand, with the aim of achieving sustainable growth (human resources, technologies, and profitability) even in a challenging environment of intensifying global competition in the special steel industry, and rising raw material and energy prices.

Establish a strong corporate structure by strengthening the business foundation

Further pursue technological superiority by enhancing R&D and quality competitiveness

Promote “Sanyo Special Steel - the Confident Choice” to a global brand

Pursue Sustainable Growth

Human resources / Technologies / Profitability

Targeted KPIs

	FY2016 (Performance)
Net sales	138.7
Ordinary income	11.7
ROS	8.5%
ROE	6.6%
ROA	6.5%
D/E ratio (net)	0.1
Investment (3 years)	35.3
R&D spending (3 years)	4.6
Recruitment (3 years, Non-consolidated)	56 persons
Consolidated dividend payout ratio	25.9%

Note 1. ROE: Net Income to Net Assets
Note 2. ROA: Ordinary Income to Total Assets

(Unit: billion yen)

	FY2019 (Target)	Variance
Net sales	150.0	11.3
Ordinary income	13.5	1.8
ROS	9.0%	0.5%
ROE	7.0%	0.4%
ROA	7.0%	0.5%
D/E ratio (net)	0.2	0.1
Investment (3 years)	50.0	Approx. x1.4
R&D spending (3 years)	5.0	Approx. x1.1
Recruitment (3 years, Non-consolidated)	150 persons	Approx. x2.7
Consolidated dividend payout ratio	30%	4.1%

Major assumptions (FY16 → FY19)
 • Scrap market prices: 22 → 32 (+10) 1,000 yen/t
 • Exchange rate: 109 → 100 yen/US\$
 • Dubai crude oil: 47 → 60 \$/BL

Priority Measures

Establish a strong corporate structure by strengthening the business foundation

(1) Strengthen competitiveness by executing “Sanyo Factory Renovation”

- Eliminate bottlenecks at No. 2 Bar Mill, etc.
- Streamline factory logistics and directly link production processes
- Promote automation and improve efficiency through AI and IoT, etc.

Strengthen cost & delivery competitiveness

(2) Secure stable earnings

i) Steel Products business

- Absorb the material/energy price hike through cost reductions and sales price increase
- Capture the growing overseas demand for special steel
- Improve the sales mix

Achieve stable earnings

ii) Non-steel Products business

- Establish investment decided in 9th medium-term and capture growth market
 - Formed and Fabricated Materials: Local subsidiaries in Thailand(SSSP) and Mexico(SMM)
 - Special Materials: No.2 Metal Powder Plant
- Non-Steel Products business sales: 1.5-fold growth vs. FY2016

Improve stability of earnings through expansion

(3) Enhance the management foundation

i) Promote agile, transparent management

- Firmly establish the executive officer system(June 2017 onwards)
- Continuously focus on safety initiatives, disaster prevention, environmental conservation and compliance structure

ii) Secure and train human resources

- Strengthen the regular recruitment program for internationalization and transfer of expertise (2.7-fold increase from the 9th medium-term period)
- Improve re-hiring scheme and continue to promote diversity management including support for women in the workplace, etc.
- Implement work style reforms to achieve work-life balance

iii) Enhance shareholder return

- Set 25% as the lower limit for the consolidated dividend payout ratio (currently 20%)
- Aim for a consolidated dividend payout ratio of 30% in FY2019

Further pursue technological superiority by enhancing R&D and quality competitiveness

(1) Enhance quality competitiveness, mainly for bearing steel

- Maintain Sanyo Special Steel's internal quality superiority based on its core “Premium Cleanliness Steel Manufacturing Technology”
- Develop external appearance quality through process improvements and a higher level of quality assurance

Aim to become “No. 1 globally in internal quality and external appearance quality”

(2) Promote R&D

- R&D spending 1.1-fold increase from 9th medium term (4.6 → 5.0 billion yen)
- Clarify functions of basic research and product development
- Strengthen medium- and long-term R&D planning functions

Create products with high reliability and new technology rapidly and continually

Promote “Sanyo Special Steel-the Confident Choice” to a global brand

(1) Promote global branding measures

Enhance the source of our brand power (QCDD* power)

- Strengthen the roles of our overseas bases
- Establish a 6-center structure worldwide for the Formed and Fabricated Materials business
- Build a global supply chain

Global branding

* Quality (Quality), Cost (cost) -, Delivery (delivery on time) Development (R&D)

(2) Promote initiatives aimed at further improvements in recognition

- Strengthen the technical planning function and accelerate technical exchanges with customers
- Enhance communication of information in Japan and overseas
 - ... Actively expand PR and IR activities, etc.

Worldwide brand penetration

Investments

Planning for 50 billion yen in 3 years (x1.4 compared to 9th Medium-Term)

- Strategic investment 25 billion yen/3 years
 - ... “Sanyo Factory Renovation”, M&A, etc.
- General investment 25 billion yen/3 years
 - ... Investment in cost reductions such as energy savings, labor savings, quality, updating of aging facilities, etc.

Management

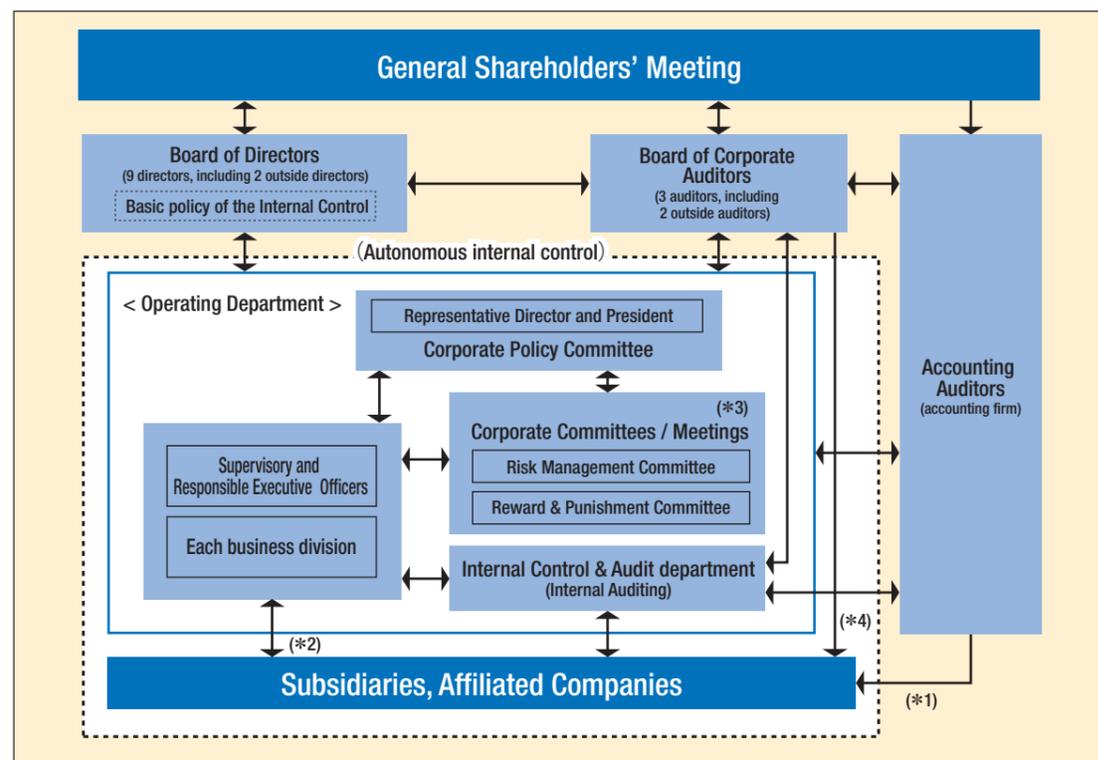
Fundamental Measures for Corporate Governance

Concerning business execution, we make decisions on important matters and supervise execution of business operations by directors at ordinary meetings of the Board of Directors (held monthly), and extraordinary meetings of the Board of Directors (held as required). We also set up company-wide committees to discuss important matters concerning operations. These include the Corporate Policy Committee to facilitate efficient decision-making on management such as at the Board of Directors meetings, the Risk Management Committee to ensure thorough compliance and solid corporate governance, the Security Trade Control Committee, the Environment Conservation Committee, and the Corporate Budget Committee. We have adopted the Executive officer system to clarify the division of responsibility for the “policy decision and supervision of management” and “business execution” and to ensure prompt decision-making in response to diverse changes in the business environment.

Corporate auditors' audits are conducted as necessary based on 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 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 order to strengthen our auditing structure.

As for accounting audits, we formulate audit policies through discussions between corporate auditors and accounting auditors; audits are then 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.

Our organizational structure for corporate governance and internal control (As of June 27, 2018)



(*1) Audits of our subsidiaries and affiliated companies by audit firm are conducted through audits of consolidated financial statements.
 (*2) Each of our subsidiaries and affiliated companies has a supervisory department.
 (*3) We have committees and conference bodies, including the Security Trade Control Committee, the Environmental Conservation Committee and the Corporate Budget Committee. In addition, we have a Whistle-blowing system “Compliance Helpline” to prevent occurrences of compliance violations.
 (*4) Corporate auditors perform inspections as necessary on the operations and asset status of subsidiaries.

Executives (As of June 27, 2018)

Representative Director and President



Shinya Higuchi

Director, Member of the Board Senior Managing Executive Officer



Akihiko Yanagitani

Directors, Member of the Board Managing Executive Officers



Kazuhiko Nagano



Kozo Takahashi



Shigehiro Oi



Kozo Omae



Katsu Yanagimoto

Directors, Member of the Board



Yusaku Omori (*1)



Takashi Kobayashi (*1)

Corporate Auditors

Hiroaki Kimura
 (Standing Corporate Auditor)

Katsuaki Oe (*2)

Kazuhiisa Fukuda (*2)

Executive Officers

Takayo Chiba
 Norihiko Morishita
 Yasumoto Koga

Takashi Kuwana
 Nobuhiro Tsujii

Yasukazu Unigame
 Mitsuru Inoue

Masanori Kunisada
 Kazuhiko Hiraoka

(*1) Outside director (*2) 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 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 judgments (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 decision-making for financial matters and business policies in the Company should fully understand

the Company's “Basic Management Policy” and consistently seek to secure and enhance the enterprise value of the company and common interests of the shareholders. 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 enterprise 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.

Development and Management of Internal Control Systems

We resolved a basic policy of internal control systems at the Board of Directors meeting in accordance with the Company Law of Japan and other relevant laws and ordinances. Under this policy, we have developed, managed, and made constant efforts to improve our internal control systems which allow our autonomous activity to be

developed throughout the Company in principle, as a management system to ensure appropriate the business execution necessary to achieve integrity, fairness, and transparency in our corporate management.

Compliance Structure

The Company has established the "Corporate Standards of Conduct" that prescribe the standards of behavior we should follow as a corporation, and a "Code of Conduct" as guidance on conduct to be observed in the course of business activities within the framework of the Corporate Standards of Conduct. Moreover, the Company makes efforts to ensure all officers and employees are thoroughly familiar with these standards.

In addition, the Company has appointed an executive officer in charge of corporate ethics, established a compliance counseling desk, holds regular meetings of the Risk Management Committee,

and follows other relevant procedures according to company rules.

The Company will endeavor in the future to cultivate higher ethical standards by regularly conducting employee education on the necessity and significance of complying with various laws, regulations, and rules in corporate management and will make efforts to maintain and improve the management health of not only of the Company but also of the Group as a whole. The Company is also committed to putting into practice its mission to "fulfill our social contribution through business" by promoting business activities rooted in high ethical standards.

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

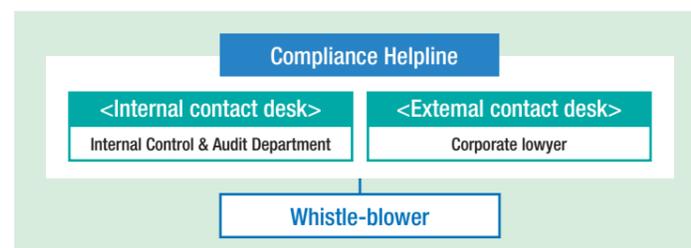
Risk Management Committee

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



Whistle-blowing system

We have initiated a whistle-blowing system designed to help prevent occurrence of misconduct. The "Compliance Helpline" is aimed at detecting at an early stage any apparent or probable circumstances/acts which are deemed inappropriate in light of laws and regulations, social norms, and/or company rules, and allowing prompt and appropriate action to be taken to prevent misconduct.



Implementation of compliance education

We are conducting training according to various themes such as compliance education through e-learning and compliance training for new employees. We are also conducting harassment education according to employee and officer levels. Furthermore, all

departments and affiliated companies are conducting compliance education appropriate for each department and ensure that employees are familiar with laws, regulations, and rules necessary for the execution of business.

Initiatives by theme

(1) Security Trade control

We have formulated rules on security trade control, and we conduct our export business based on these rules. We have also established a framework for controlling security trade through the holding of Security Trade Control Committee and the implementation of internal audits. We are also providing training for managers, including directors, on security trade control on a regular basis.



Providing training for employees, about Security Trade control on a regular basis

(2) Protection of personal information

With the understanding that the strict management of personal information is a social obligation, we have established personal information management regulations and rules for handling of personal information, and we have put in place a system for the management of personal information. Following the introduction of the Social Security and Tax Number System in 2016, we also

formulated the "Basic Policy on Handling Specific Personal Information" and the "Specific Personal Information Handling Regulations," and we established and currently operate a system for the appropriate management of specific personal information.

(3) Information security

We have also established various rules such as information security regulations and guidelines in regard to the use of e-mail and the internet and the removal of information from company premises, and we thoroughly enforce security management procedures regarding information assets that are to be protected. In addition to these

measures, we publish security reports for internal use every month. By notifying all employees of the status of information security, we are making efforts to increase employee awareness of information security.

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.



Relationship with stakeholders

Based on our strong awareness of our company as a member of society, we strive to build a relationship of trust with our stakeholders including our customers, clients, shareholders and investors, the local community, and our employees. We are committed to earning our customers' satisfaction and trust by developing high-quality special steel products and supplying of our products stably. We are also committed to engaging in fair, transparent, and free competition and in appropriate trade. We communicate with society at large by actively and fairly disclosing corporate information. We endeavor to actively contribute to society as a “good corporate citizen.” Moreover, we respect each and every employee and ensure a safe and comfortable workplace by realizing an environment that is supportive and enriching.

Through these efforts, we will respond to the requests and expectations of our stakeholders in Japan and abroad and, in doing so, we will earn their trust and contribute to the realization of a sustainable society.



Initiatives in CSR management

To practice CSR management, we remain constantly aware of what our economic mission and social mission should be, and we have been engaging in CSR activities to fulfill these missions.

	Mission to be fulfilled
Trust from customers	<ul style="list-style-type: none"> Sustainable efforts to improve quality Promotion of CS (Customer Satisfaction) activities Promotion of technology and research on steel
Trust from suppliers	<ul style="list-style-type: none"> Compliance with transaction related laws and regulations Procurement activities with consideration for the environment
Trust from shareholders and investors	<ul style="list-style-type: none"> Appropriate disclosure of financial information Communication with shareholders and investors
Trust from the community	<ul style="list-style-type: none"> Support activities for volunteer / cultural promotion Improve regional disaster prevention ability
Trust from employees	<ul style="list-style-type: none"> Improve work environment that is easy to work eradication of occupational accidents Improvement of disaster prevention awareness
Environmental activities	<ul style="list-style-type: none"> Development of environmentally friendly products and technologies Efforts towards environmental preservation
Governance	<ul style="list-style-type: none"> Promote prompt and transparent management Thorough implementation of business activities based on compliance

Social Contribution Activity

The Sanyo Special Steel Group aims to evolve along with society and is actively promoting social contribution activities.

Activities to foster the development of human resources responsible for the next generation

We want children who will shoulder responsibility for the next generation to deepen their interest and curiosity in manufacturing, and we invite elementary school students from nearby schools on visits and we hold factory tours with the hope that they will become fans of our company. The children can see at close range the factory's enormous machines and equipment while hearing their loud noises and feeling the heat they generate. And the surprised

voices of the children can be heard in the factory.

We also provide steel materials to nearby industrial high schools for students' practice. The high school students aim at winning prizes in high school student competitions in crafting and producing devices, and we encourage them to hone their techniques on a daily basis. With a desire to support students in this way, we have been providing materials since 2015.



Factory visit targeting neighboring elementary school students



Contributing to the promotion of culture in the region

We established the Sanyo Special Steel Cultural Promotion Foundation for the purpose of contributing to the promotion of culture in the region. We sponsor various events, including cultural lecture meetings and New Year's concerts by elementary and junior high school students, and we make donations of books.

For the cultural lecture meetings, we sponsor a wide variety of lectures based on topics of interest at the time including subjects such as sports, science, and history. The New Year's concert aims to give children and students the experience of enjoying music first hand and to provide a venue for choral groups and young wind instrument musicians to present the results of their practice. Through musical activities, we hope to assist in the development of children's imaginative expression. Every year in January we cosponsor this concert with the Himeji City Board of Education.

Through our donation of books to elementary schools, we aim to revitalize school libraries to enable children to develop rich sensitivities and diverse values through books. We aim to donate books twice during the six-year period that children attend elementary school.



The New Year's concert held in 2018

Social contribution activity with company athletic team

Since 2017, the Track and Field team, under the sponsorship of the Sanyo Special Steel Cultural Promotion Foundation has been holding the "One-day Track and Field lecture" for students from Grade 4 in elementary school until the final year of junior high school.

The program aims for the purpose of contributing to the promotion of local sports by enabling children to experience the enjoyment of physical activity and to improve the children's health and competitive skills. The athletic team members devise activities that mix warm-up exercises with fun and, as a final activity, hold a mini "Ekiden" race with the children. The venue rings with excitement and cheers as the children run with all their might.

In addition, our athletic team has concluded an agreement on cooperation on providing information on road damage etc. with Himeji City. This agreement is expected to discover anomalies in the details of sidewalks and car side streets that are difficult to detect in running cars, as players run extensively in the city with practice. There are cases where the road collapse and the place where the white line was going out was provided to the Himeji City and led to repair.



"One-day Track and Field lecture" held in 2018

Human resource development

Development of employees' skills

To enable each and every employee to play an active role and perform to their full potential, we strive to provide attentive training and personnel assessments through dialogue.

(1) Training of "self-motivated" human resources eager to take on new challenges

In line with our basic policy of "Training and utilizing people," we have set up a detailed training and education system. We hold a range of group training programs on a timely basis, based on development of ability through their day-to-day duties, with the objectives of fostering employees who have both the spirit of accepting new challenges and the individuality to set and resolve problems by themselves.

We provide support programs for self-development and various

types of training for personnel, including incentive programs for obtaining qualifications that pay employees a monetary reward upon acquisition of a qualification or license. We also provide specialist training by department for skills in areas such as patents and sales, and we dispatch personnel for various external training programs including group training across diverse skills areas as well as online study.

(2) Systematic training of global human resources

In response to the globalization of the business environment, we are accelerating our training of human resources capable of performing on the international stage. Specifically, we aim to provide overseas language training for all new employees in planning positions as well as study abroad at universities, graduate schools, and research institutes for select personnel. In addition, we will periodically hold in-house TOEIC exams and language courses including English for junior employees and candidates for overseas postings.

In addition to efforts to improve language proficiency, we will enhance our training programs on themes for acquiring international sensitivity through experience and systematically develop global human resources.



The overseas language training of new employees

Personnel assessment

Establishing work tasks and training themes through dialogue

The performance of our employees is reviewed, focusing on the following questions so that each and every one of our staff can have a strong desire for personal growth, achievement of personal goals, and always challenge issues at a high level, and at the same time, their individuality and the spirit of accepting new challenges can be fostered. These questions are: "Have you set high goals and strived to achieve them?," "Did you steadily carry out a process to achieve these goals?"

Employees' work tasks and themes are set through dialogue with their managers. In this way, employees can clarify their goals and make efforts to improve their skills. This approach also leads to strengthening the relationship of trust between managers and their staff. At Sanyo Special Steel, we also support the self-realization of each individual through a self-assessment system in which individual employees can state their aspirations regarding job and workplace options through career design talks and through interviews with junior employees.



A dialogue with her managers about work tasks and training themes

◆ Diversity initiatives

Promotion of female participation and “Positive Action* Declarations”

*Positive Action: Efforts to promote voluntary and female participation by individual companies to eliminate differences between male and female workers

We have set a goal to raise the ratio of female employees to 25% by the end of March 2028.

To achieve this, we are making efforts to create a workplace where all employees including women can achieve self-realization through their work while enjoying a fulfilling family life.

Through specific efforts such as the systematic recruitment of



Training to be held for female employees to support their further success.

female employees, expansion of job categories, active appointment of women in managerial positions, and ongoing employment support of employees during life events such as child-raising and caring for family members, we are striving to create a “work-friendly” environment for women.



Systematic recruitment of female employees and expansion of job categories

We are making efforts to recruit personnel based on a recruitment plan that sets targets for the number of male and female employees respectively, and we are taking active steps to assign female

employees to manufacturing sites, sales departments, and other departments where there have previously been few female employees.

Support measures including childcare

To support female employees during pregnancy and after childbirth, we have put in place various programs including improvements in childcare leave, the child rearing allowance, and reduced working

hours, all of which had been requested by many employees. As a result, procedures for obtaining childcare leave and returning to the workplace have been mostly established.



Our original maternity working wear



Lounge for women during of pregnancy and childrearing



“Diversity Management Selection 100” is intended to award the “companies that have played an enhanced corporate value by diversity management”.

◆ Promoting communication with shareholders and investors

To promote greater understanding of our business strategy and our business conditions, we are striving to publicly disclose investor relations data, hold one-on-one meetings with institutional investors, conduct financial results briefings and take other initiatives to facilitate communications.

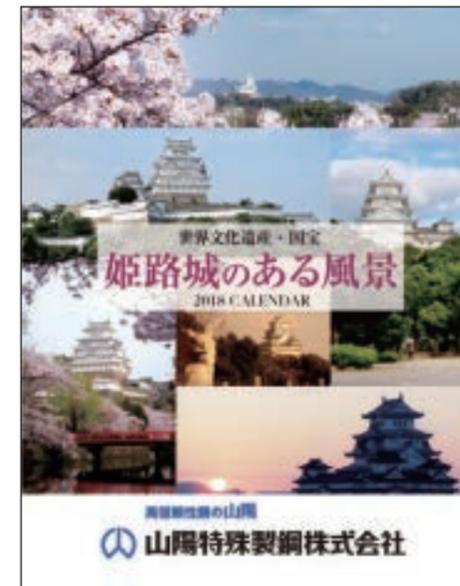
Disclosure of IR information

We are actively working to publicize information on our performance and activities in a timely manner. We have established Investor Relations pages (English and Japanese) on the Company website, providing a range of IR materials including financial highlights, summaries of financial results and earnings forecasts. For overseas viewers we offer Annual Reports (in English) and a variety of other data. We also offer (in Japanese) videos of our financial results briefings via our website. In FY2016 we held our first overseas IR meeting in London. As our Company expands globally, this was a valuable opportunity for us to enhance our communications with overseas investors.

IR pages on the Company website
<http://www.sanyo-steel.co.jp/english/shareholder/index.html>

Shareholder benefit plan

We present a company calendar to shareholders holding at least 100 shares who are listed on the register of shareholders as of September 30 each year. To shareholders listed on the register of shareholders as holding 500 shares or more for at least one year, we offer a tour of the factory, and to shareholders listed on the register of shareholders as having 1,000 shares or more for at least one year as of March 31 every year, we present regional products.



A company calendar for shareholders

Our discussions with shareholders and investors

We continue to hold financial result briefings for institutional investors, financial institutions and clients, and have one-on-one meetings with institutional investors.

At a financial results briefing for analysts that we held in Tokyo in May 2017, Managing Executive Officer Kozo Takahashi explained the financial results and President Shinya Higuchi explained our 10th Medium-Term Business Plan. At the Q&A session that followed, there were many questions about the Medium-Term Business Plan and our Company's business.

We have held a factory tour annually for individual shareholders in March, since 2007. These events are held to help deepen understanding of our Company's business. Most of people taking part in tours of our impressive manufacturing sites tell us afterwards that the tour helped them to get a greater understanding of our Company's business.



Financial results briefing for analysts



Factory tour and financial briefing for individual shareholders

◆ Initiatives for health and safety management

Through training at the simulated experience training center for safety and other measures, we are taking initiatives in health and safety activities to enhance employees' sensitivity to safety and achieve a workplace completely free of accidents.

Main efforts to ensure safety

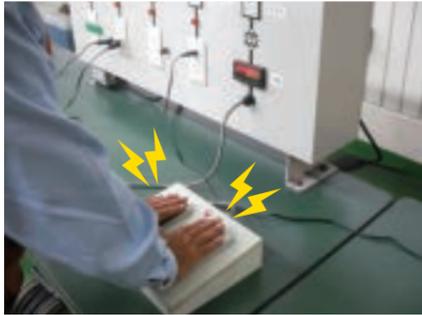
(1) Utilization of the simulated experience training center for safety

We are promoting safety education and risk assessment activities to eradicate work accidents at manufacturing sites. As part of our efforts, we are establishing the simulated experience training center for safety. This center allows us to simulate the danger of various occupational accidents.

At the center, employees can experience 59 dangerous situations



Experiential learning about being caught into a roller of a belt conveyor



Experiential learning about electrocution by constant AC voltage

such as work in high places, crane operations, and electrical work through sensory equipment designed on the basis of case histories of hazards that can occur at manufacturing sites.

Employees of the Sanyo Special Steel Group and employees of cooperating companies undergo training to enhance their sensitivity to danger and safety awareness.

(2) Approach to risk assessment

We are promoting activities to identify latent risks in the workplace, quantify those risks, and systematically eradicate them while implementing improvement measures.

We have also been conducting introductory education in risk assessment and risk prediction for junior staff as well as middle-ranking staff who will take an external course on safety in

the future to enhance their understanding of risk assessment and risk prediction training. We are making efforts to raise the safety level of all workplaces by increasing the sensitivity of junior employees to risk, and linking this to an enhanced understanding when they later attend external courses as middle-ranking staff.

Main initiatives in health and sanitation

(1) Installation of water dispensers

As part of our measures to prevent heat stroke, we installed water coolers at each work site. In tandem with the distribution of tablets for salt supplementation, we are making efforts to prevent employees from getting heat stroke.



Water coolers which anyone can use

(2) Support for sound mental health

Amid changes taking place in economic and industrial structures, the number of people complaining of psychological conditions due to strong anxiety and stress over work and other problems is increasing in our society. At Sanyo Special Steel, we formulate a mental health promotion plan every year that not only addresses mental health issues but also sets out a broad range of initiatives for promoting sound mental health, including proactive communication in the workplace.

We are also making efforts to restrict long working hours, which

contribute to mental health issues, and to increase employee rates of taking paid holiday. In addition, we are also implementing measures to ensure that employees themselves have a correct understanding of mental health care and to improve self-care including group education for new employees. To promote communication and further improve the workplace environment, we are also continuing our greeting campaign and the utilization of workplace communication support funds.

◆ Main initiatives in disaster prevention

In preparation for the occurrence of emergency situations such as fire and earthquake, we are improving our management system and conduct activities aimed at further improving disaster prevention awareness.

Risk management in emergency situations

At our company, where many employees work, we have various types of facilities and equipment. In addition to establishing a regular fire management system, we take various steps to prevent accidents and the spread of damage when a disaster does occur. For example, we develop manuals in preparation for possible plant accidents such as fires or explosions, and natural disasters such as earthquakes. We also hold regular emergency drills.

To prepare more effectively for large-scale earthquakes, we distribute the "Initial Response in the Event of a Large-scale Earthquake Manual" to directors, employees, and temporary staff of

Conducting disaster drills

The equipment, chemical materials, and fuels used at our company differ from workplace to workplace. Furthermore, awareness of disaster prevention as well as experience in disaster prevention varies widely among employees, not to mention new employees participating in disaster prevention training for the first time. In addition, the scale of a disaster may require coordination with affiliated companies.

In view of these factors, we identify the emergency situation when conducting a disaster drill to implement a more detailed drill. We conduct a variety of drills for disaster prevention and disaster readiness every year, including large-scale earthquake response drills, plant accident prevention drills, and initial fire extinguishing drills.

the Sanyo Special Steel Group. In case of an emergency, we will establish a disaster headquarters to determine conditions and deal with the situation, including restoration and other measures.

Bearing in mind disasters involving widespread damage including the Great East Japan Earthquake of 2011, we are using past experiences as lessons and are strengthening our countermeasures by assuming scenarios of a massive Nankai Trough earthquake, taking into consideration various factors from communication systems during an emergency to recovery activities.

Large-scale earthquake response drills are aimed at ensuring safety and caring for injured persons at the time of a large-scale earthquake and tsunami (seismic surges), and taking the initial steps for resuming business operations. After establishing a disaster response headquarters, we check damage reports from the respective departments, aggregate the overall damage using wireless communications, and gather information from regional and branch offices.

In plant accident prevention drills, we conduct firefighting activities and activities for rescuing injured persons while the disaster response headquarters gathers information, gives instructions, and issues notices.



Large-scale-earthquake drills



Temporary Disaster Control Headquarters



Disaster prevention drills held in conjunction with the local fire station

Initiatives to heighten disaster prevention and readiness awareness

To enhance disaster prevention and readiness awareness, the company holds workshops for fire prevention officers and workshops for hazardous material supervisors and officers. We are making efforts to improve the level of control of facilities permitted to use hazardous materials and storage stations where small quantities or

minute amounts of hazardous materials are kept by providing guidance to managers and persons responsible for handling hazardous materials and high-pressure gas.

Environmental Initiatives

We are contributing to building a recycling society by promoting environmental conservation activities according to our environmental policy.

Environmental policy

Philosophy

We at Sanyo Special Steel will give consideration to environmental conservation in all stages of our business operations to support a recycling-oriented society. We do so under the notion that environmental problems are important issues that should be solved by efforts of the entire human race. Further, we do so as a company that is located in a beautiful environment, having Himeji Castle, which is designated as a world cultural heritage and important national asset, to the north and the Seto Inland Sea National Park to the south.

Policy

Sanyo Special Steel, as a company that manufactures and distributes special steel and non-ferrous metal, will implement environmental management based on the following policies.

1. We will recycle metal resources by manufacturing iron and steel products using scrap iron as the raw material.
2. We will abide by environment-related laws, regulations and agreements, continue to improve the environment management system and strictly control business operations that may affect the environment.
3. We will promote resource saving, energy saving, recycling of byproducts, reduction of wastes and reduction in emission of contaminated substances to prevent contamination of the environment, aiming for reduction of environmental impact in all stages of our business activities and contribution to environment conservation.
4. We will establish environmental goals and targets for achievement of the environment policies. The goals and targets will be reviewed at least once a year and revised, if needed.
5. The environment policies will be informed to all employees through education and training, and the general manager of the Environment Management Department will be assigned as the person responsible for controlling the environment system, aiming for complete management and control of the environment system.

Operation of the environmental management system

We have acquired ISO14001 Certification. This is the international standard for environmental management systems, and we are making efforts to establish this standard through our annual internal audit and external audit.

During the internal audit, junior employees are also in attendance at audit sites, which helps them understand the environmental

management system. We are also making efforts to improve the system. In addition, we are devoting efforts to the ongoing training of internal auditors by sending managers to attend external workshops.

Among our subsidiaries, Santoku Tech Co., Ltd. has acquired ISO 14001 Certification.

Raising employee awareness

We believe that raising every employee's awareness of the environment is important in tackling our environmental conservation activities, and we conduct regular environmental workshops targeting different employee levels such as training for freshman employees.

We have also established a reward program to encourage employees to obtain qualifications related to environmental conservation such as pollution prevention manager. Every year we also make efforts to raise employee awareness by having them individually prepare an environmental household ledger.

Every month, officers and division heads conduct environmental patrols and check on the management status of environment-related equipment.



Environmental patrol to check the status of industrial waste control and the life

Global warming prevention measures

We are making efforts to prevent global warming by changing to fuels with lower CO₂ emissions and promoting a modal shift.

Working toward a low carbon society

Our company has actively promoted a changeover in the fuels it uses from heavy oils to city gas (natural gas). One of the distinct advantages of city gas (natural gas) is that it generates less carbon dioxide than heavy oils during combustion, and therefore has less environmental impact.

City gas accounts for 99.9% of the fuel consumed by our company (excluding electricity), and the CO₂ reduction achieved through the changeover in fuel is almost complete. Therefore, we are now directing our attention to CO₂ reduction by reducing our fuel usage through energy-saving measures.

Our company aims to reduce CO₂ emissions by 2.6% compared to the BAU (business as usual; e.g., not taking any special measures) rate. As energy-saving measures to achieve this, we are increasing the use of regenerative burners for heating furnaces and the use of inverters in large motors (revolution controlled).

Using regenerative burners for heating furnaces essentially means refurbishing heating furnaces with energy-saving burners capable of recovering high-temperature exhaust gas generated during combustion (which was previously discarded) as highly efficient

thermal energy used in combustion.

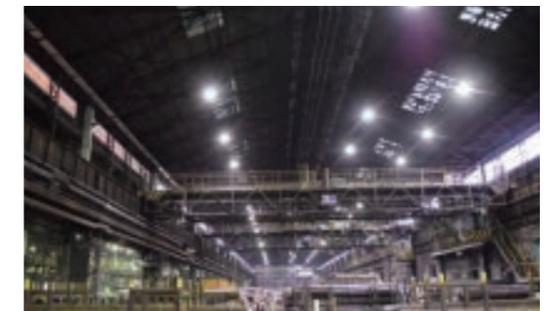
Using inverters in large motors means changing the control circuit of electricity to enable adjustment of the flow of air and water through the number of motor revolutions rather than control of the flow adjustment via a damper or valve aperture. This significantly reduces the electricity required during operation of motors, resulting in energy conservation.



A heating furnace with energy-saving burners

Active introduction of energy conserving equipment

We will make efforts to introduce energy-saving equipment such as the use of inverters in the motors of dust collectors, combustion blowers, pumps, compressors, and air conditioning equipment, and we will introduce LED for factory lighting.



A factory introducing LED lighting

Promotion of greening

We are making efforts to cultivate trees and plants in areas around the factory. The greening of our factory is expected to serve as a "green filter" for absorbing CO₂.



Greening of our factory, expected to serve as a "green filter" to absorb CO₂

Initiatives to modal shift

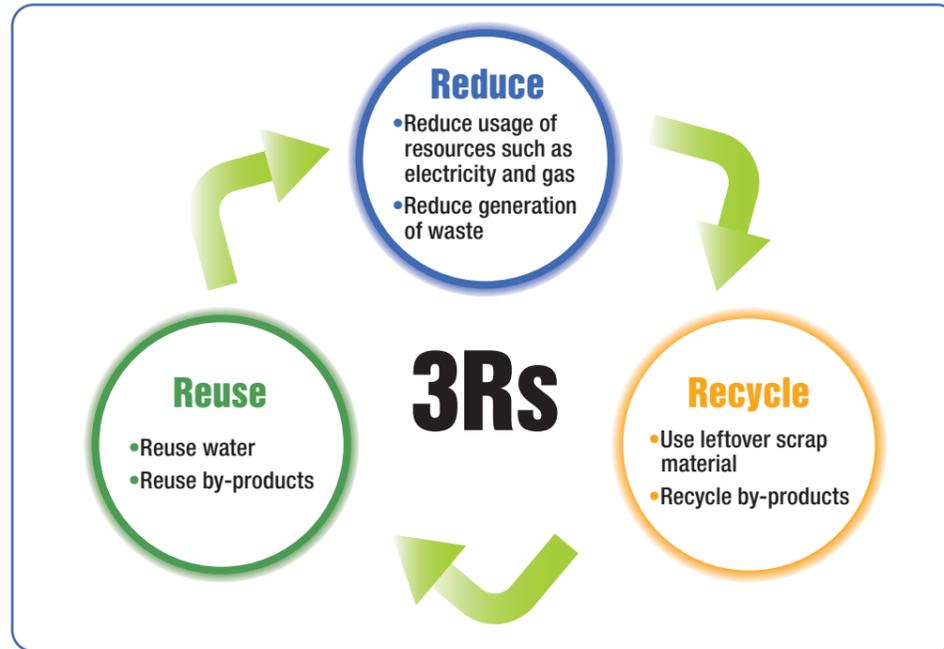
We promote modal shift actively to reduce CO₂ emission and energy consumption in logistics.



Transportation of products by railway

◆ Contributing to the building of a resource-recycling society

We will promote the 3Rs of resources to contribute to building a resource-recycling society.



Active of energy conserving equipment

We use electric arc furnace steelmaking (which uses iron scrap as a main ingredient) to manufacture special steel, contributing to the recycling and effective use of iron resources. Around 95% of our raw

materials including iron scrap are recycled (including internally recycled materials).

Recycling of by-products

To promote the development of a resource-recycling society, we are making efforts to achieve the full commercialization of electric furnace slag.

Electric furnace slag generated in manufacturing processes is used as an alternative to natural resources such as stone and sand, and is well regarded in various fields as an industrial product. The slag is commercialized through an aging process where it undergoes expansion and stabilization followed by particle size adjustment and inspection before being sold. Our electric furnace slag products are used mainly as roadbed material for roads and as an asphalt aggregate.

With the introduction of pressurized-steam aging equipment capable of pressure treatment at the highest level in Japan, we are supplying electric furnace slag products with less deterioration in quality and more reliable aging treatment of electric furnace slag in a short time. We are also introducing multifunctional sorting equipment to enable us to respond to our customers' diverse needs.

To effectively utilize by-products and control the volume of landfill disposal, we are making efforts at recycling in various ways such as outsourcing waste treatment to recycling contractors, reducing waste water generated by reducing the water content of sludge, and recycling brick waste as refractory material.



Electric furnace slag



A pressurized-steam aging equipment

◆ Prevention of environmental pollution

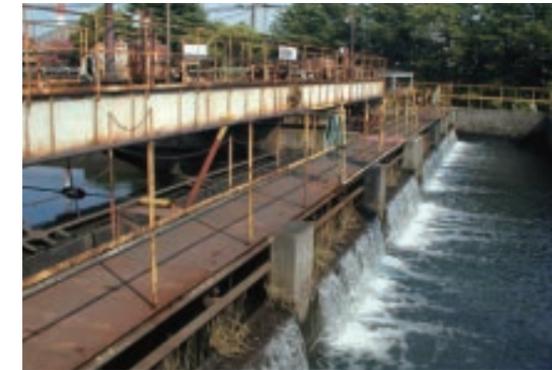
We implement measures to prevent environmental pollution, such as water pollution prevention measures through the use of wastewater treatment equipment and measures to prevent air pollution through the installation of dust-collection equipment. Through regular monitoring and measuring, we also check to ensure that we are meeting standard values required by law.

In addition, we recycle wastewater and reduce our fuel usage through energy-saving measures in efforts to mitigate our impact on the environment.

Measures to prevent water pollution

Our company uses water for a wide variety of purposes, such as coolant for machinery, steel cooling water, and surface treatment water (including acid and acid washing water), and all of this water is transported to treatment facilities for purification treatment based on the properties of the water used. Over 90% of this water is recycled for reuse, and the rest of the water undergoes further treatment before being released into public waterways. Water that is used as a coolant is used repeatedly, and we make efforts to minimize our water intake for industrial use as well as water that is discharged outside the factory.

At outlets, we have installed automatic pH measuring instruments that monitor pH levels at all times. If a pH level exceeds our in-house voluntary control standard, an alarm is activated and the supervisor can respond promptly. We also use automatic measuring instruments to continuously monitor chemical oxygen demand (COD), nitrogen, and phosphorus, which can cause eutrophication in Japan's Seto Inland Sea. By constantly monitoring wastewater concentration and wastewater volume, we are taking steps to regulate the gross volume of our wastewater.



Wastewater treatment facility

Reduction of emission of air pollutants

We have almost completed the fuel conversion to city gas (natural gas) at the smoke generating facility, and have strived to reduce SOx emissions. By using city gas (natural gas) containing almost no sulfur content from heavy oil, SOx emissions are reduced. In addition, city gas (natural gas) is less susceptible to "soot" during combustion than fuel oil, which also leads to suppression of soot and dust emissions.

We have strived to reduce NOx emissions by adopting a low-NOx-burner to a heating furnace and proper combustion control etc. For heating furnace facilities with a large amount of exhaust gas, we have introduced automatic NOx measuring equipment and are constantly strengthening our monitoring system.

In smoke generating facilities other than fuel origin, such as electric furnaces, we have implemented dust emissions control measures by reinforcing dust collection facilities. Furthermore, we are going around watering cars and road sweepers, and we are also working to curb the generation of dust from the roads in the factory and the roads.



A dust collector

Research and Development

We use findings accumulated through basic research to develop materials, production processes, evaluation and analysis technologies, and premium products and technologies that meet customer needs for reliability, and to expand the capacity for innovation.

Utilizing our wealth of expertise in the production of advanced clean steel, we develop products of superior quality and dependability that are differentiated by their high functions, as well as materials and technologies that reduce the environmental impact of our customers' manufacturing processes and product use.

Computer Aided Engineering is employed to develop production processes that ensure steel with the properties and availability that inspire confidence.

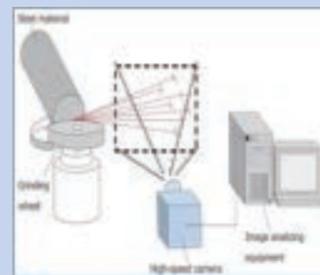
We will continue our research in order to promptly and accurately respond to the changing needs of our customers and society, promote advanced technological innovation, and open up new frontiers for special steels.

Topics

Development of a steel identification system analyzing spark image

- We developed a steel identification system by spark tests* to distinguish types of steel, in joint research with Tokyo University of Science.
- Currently, workers identify each steel grade by visual inspection of sparks. In the developed system, a high-speed camera takes spark images and an image analyzer digitizes the characteristics of the sparks.
- By calculating the volume of sparks and number of bursts through image analysis and assessing their ratios, the machine is capable of identifying the carbon content in steel to within $\pm 0.05\%$.
- We expect that accuracy and stability of the spark test will be improved by practical application in the future.

Note: A "spark test" is a test for identifying the constituents of steel material and their content based on the characteristics of sparks observed from scattering sparks when the material is applied to a grinding wheel. When there is an increase in the carbon content of steel, there is typically an increase in the amount of sparks and bursts generated.



Schematic layout of the test machine for a steel identification system



Example of sparks and bursts

Development of Heat Treatment Distortion Simulation System

- We have developed a heat treatment distortion simulation system that combines a heat treatment experiment with computer simulations.
- Against the background of recent progress in the development of electric vehicles (EV) in the automotive industry, there is a growing need for improvement in dimensional accuracy in power transmission components such as gears and shafts to improve noise reduction.
- Power transmission components require strength and dimensional accuracy, and undergo strict heat treatment through oil quenching.
- A problem that occurs in the quenching process of high-strength parts is the uneven distortion of heat-treated parts due to unequal temperature distribution within them.
- Using this simulation system, which consists of experiments and computer simulations, we aim to identify the causes of heat treatment distortion of parts and develop countermeasures. (see Fig. 1)
- The application of this system is expected to improve dimensional accuracy of parts through the control of heat treatment condition.

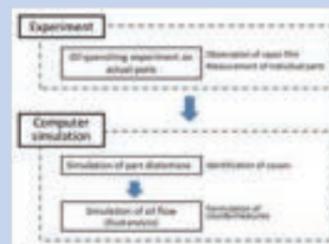
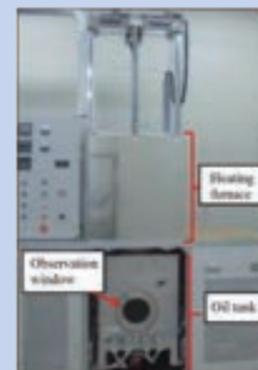


Figure 1. Overview of the heat treatment distortion simulation system Experiment



External appearance of the oil quenching experimental device Experiment

Developed Products

"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 a resource-saving steel that realizes high strength without using such expensive rare metals as Nickel and Molybdenum, which reduce manufacturability of parts, doing so without sacrificing processability. ECOMAX responds to the need for small-size and light-weight auto powertrain for the purpose of reducing CO2 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 Hotworking-die steel

Contributing to the greater die life with high temperature strength and enhanced toughness

QDX-HARMOTEX is a hotworking-die steel with high temperature strength and high toughness. Its high temperature strength is 1.3 times greater than conventional steel (JIS SKD61, AISI H13) 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 life of dies.

* Heat check : Die cracking resulting from repeated heating and cooling during use.



Casting dies

Satisfying severe quality requirements of the North American Die Casting Association, QDX-HARMOTEX is approved for the NADCA Grade C steel.

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

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

SPM X4N is manufactured by consolidating nitrided 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 P/M high speed steel tool. SPM X4M is targeted to be applied to dies that are used in the extremely harsh environments, pierce punch and slit, among others, and we have already received high appraisal from our customers.



Pierce punch

High-performance gas atomized metal Powders for 3D printing

High-performance metal powders; high purities and high fluidity ideal for 3D printing

This high-quality spherical metal powder with low oxygen and high-purity is ideal for 3D printing. Gas release during molding is small, and it is possible to maximize the material properties of each alloys. Excellent flowability affords a high powder supply performance. So Satisfactory density is achieved in moldings. Using a small-sized atomizer, we can cooperate the development of new alloy components suitable for 3D printers.



Example of molding by 3D printing: Tire mold

Financial Section

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Analysis of Cash Flows
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Analysis of Balance Sheets

Total assets stood at 210,290 million yen at the end of FY2017, an increase of 26,845 million yen from the end of the previous term. This increase is primarily attributable to increases in Notes and accounts receivable-trade and Inventories.

Liabilities stood at 81,330 million yen, an increase 20,029 million yen from the end of the previous term, primarily due to increases in Bonds payable, Loans, Notes and accounts payable- trade.

Net assets stood at 128,960 million yen, an increase of 5,815 million yen from the end of the previous term. This increase is primarily due to the recording of Net income attributable to owners of the parent.

Consequently, the Net D/E ratio (the ratio of interest-bearing liabilities to net assets after deducting cash and deposits) reached 0.22 at the end of the FY2017 (0.10 at the end of the previous term).

Analysis of Cash Flows

Concerning the status of cash flows in FY2017, the net cash used in operating activities was 5,568 million yen (15,090 million yen of proceeds for the previous term), primarily due to increases in trade receivables (negative 15,005 million yen), inventories (negative 11,326 million yen), and trade payables (4,913 million yen) as well as payment of corporate taxes (negative 3,708 million yen) compared to income before income taxes (10,259 million yen) and depreciation (9,048 million yen). The net cash from operating activities after correcting for the impact of the bank holiday on the last day of the term was approximately 1,400 million yen.

The net cash used in investing activities was 8,355 million yen (decrease of 2,786 million yen from the previous term), mainly due to not only capital investments for acquiring tangible fixed assets to reduce cost and update existing facilities and other tasks, but also investment for a subsidiary in Mexico and No.2 Metal Powder Plant (negative 8,131 million yen).

The net cash provided by financing activities was 14,706 million yen (10,776 million yen in payment for the previous term), mainly due to the issuance of bonds (10,000 million yen) and an increase in loans payable (4,575 million yen).

Consequently, cash and cash equivalents at the end of FY2017 was 14,298 million yen (a 755 million yen increase from the end of the previous term).

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries
CONSOLIDATED BALANCE SHEETS

As of March 31, 2017 and 2018

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2018	2018
Current Assets:			
Cash and bank deposits (Notes 5 and 18)	¥ 14,835	¥ 15,694	\$ 147,704
Notes and accounts receivable-trade (Notes 5 and 9)	41,830	55,243	519,930
Electronically recorded monetary claims (Note 9)	4,206	5,826	54,836
Less: Allowance for doubtful accounts	(10)	(10)	(90)
Inventories (Note 7)	39,740	51,129	481,217
Deferred tax assets (Note 12)	1,671	1,444	13,595
Income taxes receivable	103	7	66
Other	686	1,853	17,436
Total current assets	103,061	131,186	1,234,694
Property, Plant and Equipment:			
Land	8,109	8,143	76,642
Buildings and structures	49,090	51,890	488,373
Machinery and equipment	214,413	219,307	2,064,068
Construction in progress	3,578	973	9,162
	275,190	280,313	2,638,245
Less: Accumulated depreciation	(214,893)	(220,958)	(2,079,610)
Total property, plant and equipment	60,297	59,355	558,635
Intangibles	1,431	1,484	13,967
Investments and Other Assets:			
Investments in securities (Notes 5, 6 and 8)	11,454	11,332	106,657
Long-term loans receivable	807	605	5,694
Deferred tax assets (Note 12)	175	175	1,649
Net defined benefit assets (Note 11)	5,629	5,578	52,497
Other	749	733	6,893
Less: Allowance for doubtful accounts	(158)	(158)	(1,486)
Total investments and other assets	18,656	18,265	171,904
Total assets	¥ 183,445	¥ 210,290	\$ 1,979,200

The accompanying notes are integral parts of these statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2018	2018
Current Liabilities:			
Short-term loans (Notes 5 and 10)	¥ 18,720	¥ 6,994	\$ 65,824
Current portion of long-term loans (Notes 5 and 10)	15	4,875	45,883
Commercial paper	1,000	3,000	28,236
Notes and accounts payable-trade (Notes 5 and 9)	14,507	18,376	172,949
Accounts payable-other	5,005	5,020	47,247
Accrued income taxes	2,167	1,650	15,529
Accrued expenses	7,107	8,103	76,262
Other	772	969	9,129
Total current liabilities	49,293	48,987	461,059
Long-term Liabilities:			
Bonds payable (Notes 5 and 10)	—	10,000	94,118
Long-term loans (Notes 5 and 10)	7,816	19,241	181,092
Accrued directors' and corporate auditors' retirement benefits	62	60	567
Deferred tax liabilities (Note 12)	2,302	2,087	19,642
Provision for loss on guarantees	5	6	61
Provision for environmental measures	—	31	291
Net defined benefit liabilities (Note 11)	623	762	7,175
Other	200	156	1,459
Total long-term liabilities	11,008	32,343	304,405
Total liabilities	60,301	81,330	765,464
Contingent Liabilities (Note 21)			
Net Assets (Note 13)			
Shareholders' Equity:			
Common stock:			
Authorized 474,392,000 shares in 2017 and 94,878,400 shares in 2018			
Issued 167,124,036 shares in 2017 and 33,424,807 shares in 2018	¥ 20,183	¥ 20,183	\$ 189,955
Capital surplus	22,597	22,672	213,391
Retained earnings	75,503	80,250	755,287
Less: Treasury stock, at cost (6,028,257 shares in 2017 and 1,210,813 shares in 2018)	(1,904)	(1,920)	(18,066)
Total shareholders' equity	116,379	121,185	1,140,567
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	3,577	3,519	33,118
Deferred gains (losses) on hedges	(9)	—	—
Foreign currency translation adjustments	759	966	9,094
Remeasurements of defined benefit plans	1,624	1,929	18,154
Total accumulated other comprehensive income	5,951	6,414	60,366
Non-controlling Interests	814	1,361	12,803
Total net assets	123,144	128,960	1,213,736
Total liabilities and net assets	¥ 183,445	¥ 210,290	\$ 1,979,200

The accompanying notes are integral parts of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2018	2018
Net Sales	¥ 138,681	¥ 157,485	\$ 1,482,213
Cost of Sales (Note 14)	112,913	132,079	1,243,096
Gross profit	25,768	25,406	239,117
Selling, General and Administrative Expenses (Notes 14 and 15)	14,082	14,437	135,877
Operating income	11,686	10,969	103,240
Other Income:			
Interest and dividends	235	280	2,631
Other	390	226	2,135
	625	506	4,766
Other Expenses:			
Interest	(211)	(102)	(960)
Equity in losses of unconsolidated subsidiaries and affiliates	(238)	(213)	(2,001)
Exchange losses	(20)	(258)	(2,424)
Other	(105)	(243)	(2,300)
	(574)	(816)	(7,685)
Ordinary income	11,737	10,659	100,321
Extraordinary Gains and Losses:			
Gain on sale of land	3	—	—
Loss on sale and disposition of property, plant and equipment (Note 16)	(282)	(440)	(4,144)
Gain on sale of investment in securities	—	40	373
	(279)	(400)	(3,771)
Income before income taxes	11,458	10,259	96,550
Income Taxes (Note 12):			
Current	3,707	3,411	32,102
Deferred	(68)	(239)	(2,252)
	3,639	3,172	29,850
Net income	7,819	7,087	66,700
Net Income Attributable to Non-controlling Interests	35	53	496
Net Income Attributable to Owners of the Parent	¥ 7,784	¥ 7,034	\$ 66,204
	Yen		U.S. dollars (Note 3)
	2017	2018	2018
Per Share:			
Net income*1 (Note 17)	¥ 241.47	¥ 218.34	\$ 2.05
Cash dividends*2	¥ 12.50	¥ 31.70	\$ 0.30
Net assets*1	¥ 3,796.79	¥ 3,960.99	\$ 37.28

*1. The Company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017. Accordingly, per share data (except for cash dividends) are calculated on the assumption that the consolidation of shares was conducted at the beginning of fiscal year ended March 31, 2017.

*2. Dividends per share of ¥31.70 (\$0.30) for the year ended March 31, 2018 consist of interim dividends of ¥6.70 (\$0.06) per share before the consolidation of shares and year-end dividends of ¥25.00 (\$0.24) per share after the consolidation.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2018	2018
Net Income	¥ 7,819	¥ 7,087	\$ 66,700
Other Comprehensive Income:			
Valuation difference on available-for-sale securities	1,899	(58)	(550)
Deferred gains (losses) on hedges	(12)	10	90
Foreign currency translation adjustments	(654)	190	1,790
Remeasurements of defined benefit plans	2,919	305	2,871
Share of other comprehensive income of affiliates accounted for by the equity method	(128)	34	323
Total other comprehensive income (Note 4)	4,024	481	4,524
Comprehensive Income	11,843	7,568	71,224
Comprehensive income attributable to:			
Owners of the parent	11,857	7,532	70,889
Non-controlling interests	(14)	36	335

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2017

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	167,124,036	¥ 20,183	¥ 22,597	¥ 69,492
Net income attributable to owners of the parent	—	—	—	7,784
Cash dividends paid	—	—	—	(1,773)
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	—	—
Other changes for fiscal year 2016, net	—	—	—	—
Total changes for fiscal year 2016	—	—	—	6,011
Balance at end of year	167,124,036	¥ 20,183	¥ 22,597	¥ 75,503

	Millions of yen			
	Treasury stock, at cost	Valuation difference on available-for- sale securities	Deferred gains on hedges	Foreign currency translation adjustments
Balance at beginning of year	¥ (1,841)	¥ 1,678	¥ 3	¥ 1,492
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(63)	—	—	—
Disposal of treasury stock	—	—	—	—
Other changes for fiscal year 2016, net	—	1,899	(12)	(733)
Total changes for fiscal year 2016	(63)	1,899	(12)	(733)
Balance at end of year	¥ (1,904)	¥ 3,577	¥ (9)	¥ 759

	Millions of yen		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	¥ (1,295)	¥ 832	¥ 113,141
Net income attributable to owners of the parent	—	—	7,784
Cash dividends paid	—	—	(1,773)
Acquisition of treasury stock	—	—	(63)
Disposal of treasury stock	—	—	—
Other changes for fiscal year 2016, net	2,919	(18)	4,055
Total changes for fiscal year 2016	2,919	(18)	10,003
Balance at end of year	¥ 1,624	¥ 814	¥ 123,144

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2018

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	167,124,036	¥ 20,183	¥ 22,597	¥ 75,503
Net income attributable to owners of the parent	—	—	—	7,034
Cash dividends paid	—	—	—	(2,287)
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	0	—
Change in treasury shares of parent arising from transactions with non controlling shareholders	—	—	75	—
Decrease due to share consolidation*	(133,699,229)	—	—	—
Other changes for fiscal year 2017, net	—	—	—	—
Total changes for fiscal year 2017	(133,699,229)	—	75	4,747
Balance at end of year	33,424,807	¥ 20,183	¥ 22,672	¥ 80,250

	Millions of yen			
	Treasury stock, at cost	Valuation difference on available-for- sale securities	Deferred gains on hedges	Foreign currency translation adjustments
Balance at beginning of year	¥ (1,904)	¥ 3,577	¥ (9)	¥ 759
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(16)	—	—	—
Disposal of treasury stock	0	—	—	—
Change in treasury shares of parent arising from transactions with non controlling shareholders	—	—	—	—
Decrease due to share consolidation*	—	—	—	—
Other changes for fiscal year 2017, net	—	(58)	9	207
Total changes for fiscal year 2017	(16)	(58)	9	207
Balance at end of year	¥ (1,920)	¥ 3,519	¥ —	¥ 966

	Millions of yen		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	¥ 1,624	¥ 814	¥ 123,144
Net income attributable to owners of the parent	—	—	7,034
Cash dividends paid	—	—	(2,287)
Acquisition of treasury stock	—	—	(16)
Disposal of treasury stock	—	—	0
Change in treasury shares of parent arising from transactions with non controlling shareholders	—	—	75
Decrease due to share consolidation*	—	—	—
Other changes for fiscal year 2017, net	305	547	1,010
Total changes for fiscal year 2017	305	547	5,816
Balance at end of year	¥ 1,929	¥ 1,361	¥ 128,960

*The Company carried out the share consolidation at the ratio of 5 shares to 1 share effective October 1, 2017.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2017 and 2018

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	167,124,036	\$ 189,955	\$ 212,680	\$ 710,613
Net income attributable to owners of the parent	—	—	—	66,204
Cash dividends paid	—	—	—	(21,530)
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	1	—
Change in treasury shares of parent arising from transactions with non controlling shareholders	—	—	710	—
Decrease due to share consolidation*	(133,699,229)	—	—	—
Other changes for fiscal year 2017, net	—	—	—	—
Total changes for fiscal year 2017	(133,699,229)	—	711	44,674
Balance at end of year	33,424,807	\$ 189,955	\$ 213,391	\$ 755,287

	Treasury stock, at cost	Thousands of U.S. dollars (Note 3)		
		Valuation difference on available-for- sale securities	Deferred gains on hedges	Foreign currency translation adjustments
Balance at beginning of year	\$ (17,920)	\$ 33,668	\$ (90)	\$ 7,145
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(147)	—	—	—
Disposal of treasury stock	1	—	—	—
Change in treasury shares of parent arising from transactions with non controlling shareholders	—	—	—	—
Decrease due to share consolidation*	—	—	—	—
Other changes for fiscal year 2017, net	—	(550)	90	1,949
Total changes for fiscal year 2017	(146)	(550)	90	1,949
Balance at end of year	\$ (18,066)	\$ 33,118	\$ —	\$ 9,094

	Thousands of U.S. dollars (Note 3)		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	\$ 15,283	\$ 7,668	\$ 1,159,002
Net income attributable to owners of the parent	—	—	66,203
Cash dividends paid	—	—	(21,529)
Acquisition of treasury stock	—	—	(147)
Disposal of treasury stock	—	—	2
Change in treasury shares of parent arising from transactions with non controlling shareholders	—	—	710
Decrease due to share consolidation*	—	—	—
Other changes for fiscal year 2017, net	2,871	5,135	9,495
Total changes for fiscal year 2017	2,871	5,135	54,734
Balance at end of year	\$ 18,154	\$ 12,803	\$ 1,213,736

*The Company carried out the share consolidation at the ratio of 5 shares to 1 share effective October 1, 2017.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2018	2018
Cash Flows from Operating Activities:			
Income before income taxes	¥ 11,458	¥ 10,259	\$ 96,550
Adjustments -			
Depreciation and amortization	9,099	9,048	85,156
Increase (decrease) in allowance for doubtful accounts	(1)	0	2
Increase in net defined benefit liabilities	32	138	1,301
Decrease (increase) in net defined benefit assets	(51)	491	4,621
Increase (decrease) in accrued directors' and corporate auditors' retirement benefits, less payments	10	(2)	(17)
Increase in provision for environmental measures	—	31	291
Increase in provision for loss on guarantees	5	1	13
Interest and dividend income	(235)	(280)	(2,631)
Interest expense	211	102	960
Gain on sale of investments in securities	—	(40)	(373)
Equity in losses of unconsolidated subsidiaries and affiliates	238	213	2,001
Loss (gain) on sale and disposition of property, plant and equipment	279	440	4,144
Changes in assets and liabilities:			
Notes and accounts receivable-trade	(2,378)	(15,005)	(141,225)
Inventories	(2,291)	(11,326)	(106,595)
Notes and accounts payable-trade	3,000	4,913	46,236
Other, net	(287)	(1,030)	(9,692)
Subtotal	19,089	(2,047)	(19,258)
Interest and dividend income received	232	280	2,634
Interest expense paid	(252)	(93)	(871)
Income taxes paid	(3,979)	(3,708)	(34,899)
Net cash provided by (used in) operating activities	15,090	(5,568)	(52,394)
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(10,701)	(8,131)	(76,523)
Sale of property, plant and equipment	43	132	1,246
Acquisition of intangible assets	(477)	(298)	(2,806)
Acquisition of investments in securities	(227)	(2)	(19)
Sale of investments in securities	—	54	512
Decrease in long-term loans receivable	200	202	1,897
Increase in over-three-month deposits	803	952	8,963
Decrease in over-three-month deposits	(962)	(1,201)	(11,307)
Other, net	179	(63)	(596)
Net cash used in investing activities	(11,142)	(8,355)	(78,633)
Cash Flows from Financing Activities:			
Increase (decrease) in short-term loans	3,940	(11,725)	(110,350)
Increase in commercial paper	1,000	2,000	18,824
Proceeds from long-term loans	—	16,300	153,412
Repayment of long-term loans	(13,925)	—	—
Proceeds from issuance of bonds	—	10,000	94,118
Payments for purchases of treasury stock	(18)	(16)	(147)
Proceeds from sales of treasury stock	—	0	2
Cash dividends	(1,769)	(2,281)	(21,472)
Cash dividends to non-controlling interests	(4)	(4)	(39)
Proceeds from share issuance to non-controlling shareholders	—	555	5,224
Other, net	—	(123)	(1,163)
Net cash provided by (used in) financing activities	(10,776)	14,706	(138,409)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(258)	(28)	(276)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,086)	754	7,106
Cash and Cash Equivalents at Beginning of the Year	20,629	13,543	127,461
Cash and Cash Equivalents at End of the Year (Note 18)	¥ 13,543	¥ 14,298	\$ 134,567

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

2. Summary of Significant Accounting Policies**(1) Consolidation and investments in affiliates****(a) Scope of consolidation and elimination**

The Company has 15 subsidiaries as of March 31, 2018 (15 subsidiaries as of March 31, 2017). The consolidated financial statements include the accounts of the Company and its 15 subsidiaries. The 15 subsidiaries that have been consolidated for fiscal year ended March 31, 2018 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.
Siam Sanyo Special Steel Product Co., Ltd.
Sanyo Special Steel Manufacturing de México, S.A. de C.V.

The consolidated subsidiaries, except for the 7 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., Siam Sanyo Special Steel Product Co., Ltd. and Sanyo Special Steel Manufacturing de México, S.A. de C.V.) use a fiscal year ending March 31, which is the same as that of the Company. The 7 foreign subsidiaries use a fiscal year ending December 31. For these 7 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, 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 over which the Company has significant influence, are accounted for by the equity method.

(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,

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.

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 income 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 and 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 income or loss for the period unless deemed to be temporary. The cost of securities sold is determined by the moving average method.

(4) Derivative transactions and hedge accounting

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.

Foreign currency deposits are held to hedge foreign exchange risks derived from forecasted purchases of fixed assets denominated in foreign currency.

In addition, with regard to interest rate swap transactions that meet the criteria, the exceptional method has been adopted. And, with regard to interest rate and currency swap transactions that meet the criteria, the unified method (the exceptional method, the allocation method) has been adopted. Using these methods, the Companies do not account for gains and 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 Companies compute 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 and facilities attached to buildings and structures which have been acquired on or after April 1, 2016. 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 an amount 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, based on internal rules.

(10) Provision for loss on guarantees

To provide for losses on guarantees, the Company makes a provision for potential losses at the end of the fiscal year.

(11) Provision for environmental measures

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

(12) 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 using the benefit formula basis.

Actuarial gains and losses are posted in expenses after the consolidated fiscal year of accrual by the straight-line method over a period of 10 years, which is within average remaining service years of the employees.

Providing for lump-sum payments to retiring executive officers is calculated based on internal rules.

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.

(13) Income taxes

The asset-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.

(14) Revenue recognition

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

(15) Net income and cash dividends per share

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

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

(16) Cash and cash equivalents

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

(17) Consumption tax

In Japan, a consumption tax, with certain exemptions, is imposed on the domestic consumption of goods and services at the rate of 8%. 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 a liability. 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 costs or expenses but is recorded as an asset. The balance of consumption tax withheld, net of consumption tax paid, is included in "Other current liabilities" in the consolidated balance sheets.

(18) Reclassifications and restatement

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

(19) Standards and guidance not yet adopted

The following guidance was issued but not yet adopted.

(a) "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018)
"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 (revised 2018), February 16, 2018)

1. Overview

The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as "Type1" according to the guidance.

2. Effective date

Effective from the beginning of the fiscal year ending March 31, 2019.

3. Effects of the application of the standards

The Company and consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

(b) "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

1. Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps.

Step 1: Identify contracts with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

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

Step 5: Recognize revenue when the entity satisfies a performance obligation.

2. Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

3. Effects of the application of the standards

The Company and its consolidated subsidiaries are in the process of determining the effects of these new standards and guidance on the consolidated financial statements.

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 converted into U.S. dollars. The rate of ¥106.25 to U.S. \$1.00, the approximate rate of exchange as at March 31, 2018, has been used for these translations.

4. Consolidated Statements 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 the tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of
	2017	2018	U.S. dollars
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ 2,344	¥ 107	\$ 1,007
Reclassification adjustments	—	(40)	(373)
Subtotal, before tax	2,344	67	634
Tax (expense)	(445)	(125)	(1,184)
Subtotal, net of tax	1,899	(58)	(550)
Deferred gains on hedges			
Increase (decrease) during the year	(44)	6	52
Adjustments for acquisition cost of assets	32	4	38
Subtotal	(12)	10	90
Foreign currency translation adjustments			
Increase (decrease) during the year	(654)	190	1,790
Remeasurements of defined benefit plans			
Increase during the year	3,612	200	1,878
Reclassification adjustments	594	240	2,259
Subtotal, before tax	4,206	440	4,137
Tax (expense)	(1,287)	(135)	(1,266)
Subtotal, net of tax	2,919	305	2,871
Share of other comprehensive income of affiliates accounted for by the equity method			
Increase (decrease) during the year	(128)	34	323
Total other comprehensive income	¥ 4,024	¥ 481	\$ 4,524

5. Financial Instruments

(1) Status of financial instruments

The Companies procure funds required by our business plans through bank loans and bonds payable, and temporary surplus funds are invested in short-term bank deposits, etc., with low probability of loss of principal. The Companies use derivative transactions mainly to hedge foreign currency and interest rate fluctuation risk and limit the amount to actual demand.

Notes and accounts receivable are exposed to the credit risk of customers. In order to reduce such risk, the Companies regularly monitor the maturity dates and balances of receivables of all customers' accounts and evaluate the credit risk of its main customers arising from the deterioration of their 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 taking into consideration their relationships with the Companies.

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

The Companies establish regulations which stipulate the authorization and management of derivative transactions. See Note 2(4), "Derivative transactions and 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. In addition, the Company has commitment line contracts in preparation for contingencies.

The fair values of financial instruments include values based on market price and values obtained by reasonable estimates when the financial instruments do not have a market price. Since certain assumptions are necessary for the calculation of such values, the values may change when different assumptions are adopted.

(2) Fair values of financial instruments

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2017 are set forth in the table below. Certain financial instruments were excluded from the 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	¥ 14,835	¥ 14,835	¥ —
(2) Notes and accounts receivable-trade	41,830	41,830	—
(3) Investments in securities			
Available-for-sale securities	8,918	8,918	—
(4) Notes and accounts payable-trade	(14,507)	(14,507)	—
(5) Short-term loans	(18,735)	(18,735)	—
(6) Bonds payable	—	—	—
(7) Long-term loans	(7,816)	(7,838)	△22
(8) Derivative transactions			
① Hedge accounting is not applied	(11)	(11)	—
② Hedge 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, 2018 are set forth in the table below. Certain financial instruments are excluded from the 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	¥ 15,694	¥ 15,694	¥ —	\$ 147,704	\$ 147,704	\$ —
(2) Notes and accounts receivable-trade	55,243	55,243	—	519,930	519,930	—
(3) Investments in securities						
Available-for-sale securities	8,978	8,978	—	84,495	84,495	—
(4) Notes and accounts payable-trade	(18,376)	(18,376)	—	(172,949)	(172,949)	—
(5) Short-term loans	(11,869)	(11,869)	—	(111,707)	(111,707)	—
(6) Bonds payable	(10,000)	(9,992)	8	(94,118)	(94,042)	76
(7) Long-term loans	(19,241)	(19,236)	5	(181,092)	(181,046)	46
(8) Derivative transactions						
① Hedge accounting is not applied	(7)	(7)	—	(65)	(65)	—
② Hedge 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 include the current portion of long-term loans.

(6) Bonds payable

The fair value of bonds payable is valued at the market price.

(7) 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.

(8) Derivative transactions

See Note 20, "Derivatives."

2. Non-marketable securities whose fair values are not available are excluded from investments in securities above. These instruments as of March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Shares of subsidiaries and associates	¥ 2,204	¥ 2,027	\$ 19,079
Other securities	332	327	3,083

3. The aggregate maturities subsequent to March 31, 2017 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	¥ 14,835	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	41,830	—	—	—
Total	¥ 56,665	¥ —	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2018 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	¥ 15,694	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	55,243	—	—	—
Total	¥ 70,937	¥ —	¥ —	¥ —

	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	\$ 147,704	\$ —	\$ —	\$ —
Notes and accounts receivable-trade	519,930	—	—	—
Total	\$ 667,634	\$ —	\$ —	\$ —

4. The aggregate maturities subsequent to March 31, 2017 for short-term loans and long-term loans 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	¥ 18,735	¥ —	¥ —	¥ —
Long-term loans	—	7,816	—	—
Total	¥ 18,735	¥ 7,816	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2018 for short-term loans, bonds payable and long-term loans 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	¥ 11,869	¥ —	¥ —	¥ —
Bonds payable	—	—	10,000	—
Long-term loans	—	14,241	5,000	—
Total	¥ 11,869	¥ 14,241	¥ 15,000	¥ —

	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	\$ 111,707	\$ —	\$ —	\$ —
Bonds payable	—	—	94,118	—
Long-term loans	—	134,033	47,059	—
Total	\$ 111,707	\$ 134,033	\$ 141,177	\$ —

6. Securities

1. The aggregate acquisition costs and fair values (book values) of marketable securities classified as available-for-sale securities as of March 31, 2017 and 2018 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2017			2018			2018		
	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 acquisition cost:									
Stock	¥ 2,992	¥ 7,438	¥ 4,445	¥ 2,853	¥ 7,498	¥ 4,645	\$ 26,851	\$ 70,573	\$ 43,722
Securities whose acquisition cost exceeds book value:									
Stock	1,518	1,480	(37)	1,650	1,480	(170)	15,527	13,922	(1,605)
Total	¥ 4,510	¥ 8,918	¥ 4,408	¥ 4,503	¥ 8,978	¥ 4,475	\$ 42,378	\$ 84,495	\$ 42,117

2. There were no sales of available-for-sale securities in the year ended March 31, 2017. Available-for-sale securities sold in the year ended March 31, 2018 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses
Stock	¥ 54	¥ 40	¥ —	\$ 512	\$ 373	\$ —

7. Inventories

Inventories held by the Companies at March 31, 2017 and 2018 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Merchandise	¥ 1,538	¥ 1,599	\$ 15,053
Finished products	6,284	7,289	68,605
Work-in-process	18,725	26,487	249,287
Raw materials and supplies	13,193	15,754	148,272
Total	¥ 39,740	¥ 51,129	\$ 481,217

The amount of inventories written down for the years ended March 31, 2017 and 2018, are ¥96 million (reversal amount) and ¥658 million (\$6,189 thousand), respectively.

8. Unconsolidated Subsidiaries and Affiliates

Items relevant to unconsolidated subsidiaries and affiliates at March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Investments in securities (stocks)	¥ 2,204	¥ 2,027	\$ 19,079

9. Accounting for Notes Receivable and Payable and Electronically Recorded Monetary Claims Which Reached the Maturity at Year-end

Notes receivable and payable and electronically recorded monetary claims which reached the maturity at the year-end are treated as if they were settled at the clearing date for notes. Consequently, as March 31, 2018 was a holiday for banking institutions, the following notes receivable and payable and electronically recorded monetary claims which reached the maturity at the year-end are included in the ending balance of notes receivable and payable and electronically recorded monetary claims:

	Millions of yen	Thousands of U.S. dollars
Notes receivable	¥ 1,118	\$ 10,525
Electronically recorded monetary claims	237	2,232
Notes payable	100	941

10. Short-term Loans, Bonds Payable and Long-term Loans

Short-term loans at March 31, 2017 and 2018 represent bank overdrafts with weighted-average interest rates of 0.28% and 0.34%, respectively. In business in Japan, it is customary for short-term borrowings to be rolled over every year. For short-term financing, the Company has commitment line contract arrangements with 3 financial institutions for an aggregate maximum amount of ¥20,000 million (\$188,235 thousand). At March 31 2018, the total ¥20,000 million (\$188,235 thousand) is unused.

Bonds payable at March 31, 2017 and 2018 consist of the following:

	Millions of yen		Thousands of
	2017	2018	U.S. dollars
Bonds payable due 2025 with interest rates of 0.30% at March 31, 2018	—	¥ 10,000	\$ 94,118

The annual maturities of bonds outstanding at March 31, 2018 are as follows:

Year ending at March 31,	Millions of yen	Thousands of
		U.S. dollars
2024 and thereafter	¥ 10,000	\$ 94,118

Long-term loans at March 31, 2017 and 2018 consist of the following:

	Millions of yen		Thousands of
	2017	2018	U.S. dollars
Loans from banks and other financial institutions due 2018 to 2022 with interest rates ranging from 0.22% to 0.79% at March 31, 2017 and due 2019 to 2024 with interest rates ranging from 0.13% to 0.79% at March 31, 2018	¥ 7,789	¥ 24,089	\$ 226,722
Other payables due 2018 to 2022 with interest rate of 4.05% at March 31, 2017 and due 2019 to 2022 with interest rates of 4.05% at March 31, 2018	42	27	253
	7,831	24,116	226,975
Less: Current portion of long-term loans	(15)	(4,875)	(45,883)
	¥ 7,816	¥ 19,241	\$ 181,092

The annual maturities of long-term loans outstanding at March 31, 2018 are as follows:

Year ending at March 31,	Millions of yen	Thousands of
		U.S. dollars
2020	¥ 8	\$ 79
2021	2,933	27,601
2022	11,000	103,529
2023	300	2,824
2024 and thereafter	5,000	47,059
	¥ 19,241	\$ 181,092

11. Retirement Benefits

The Company has funded defined benefit corporate pension plans and lump-sum payment plans and defined contribution pension plans for employee retirement benefits. The domestic consolidated subsidiaries have similar plans.

The defined benefit corporate pension plans provide lump-sum payments or pension benefits based on salary and length of service. These plans set up retirement benefit trusts.

As a result of setting up retirement benefit trusts, some severance indemnity plans are funded and make lump-sum payments based on salary and length of service as retirement benefits.

Certain overseas consolidated subsidiaries have funded or unfunded defined benefit pension plans and defined contribution pension plans for employee 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
	2017	2018	U.S. dollars
Balance at beginning of year	¥ 7,717	¥ 7,072	\$ 66,563
Service cost	467	458	4,312
Interest cost	1	9	87
Actuarial gain (loss)	(83)	62	581
Benefits paid	(1,030)	(260)	(2,445)
Other	(0)	(0)	(6)
Balance at end of year	¥ 7,072	¥ 7,341	\$ 69,092

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

	Millions of yen		Thousands of
	2017	2018	U.S. dollars
Balance at beginning of year	¥ 9,085	¥ 12,699	\$ 119,516
Expected return on plan assets	135	205	1,926
Actuarial gain (loss)	3,527	258	2,427
Contributions paid by the employer	3	4	35
Benefits paid	(51)	(258)	(2,422)
Other	—	(1)	(1)
Balance at end of year	¥ 12,699	¥ 12,907	\$ 121,481

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

	Millions of yen		Thousands of
	2017	2018	U.S. dollars
Balance at beginning of year	¥ 587	¥ 621	\$ 5,836
Retirement benefit costs	90	160	1,505
Benefits paid	(57)	(57)	(535)
Others	1	27	261
Balance at end of year	¥ 621	¥ 751	\$ 7,067

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

	Millions of yen		Thousands of
	2017	2018	U.S. dollars
Funded retirement benefit obligations	¥ 7,080	¥ 7,341	\$ 69,092
Plan assets	(12,699)	(12,907)	(121,481)
	(5,619)	(5,566)	(52,389)
Unfunded retirement benefit obligations	613	750	7,067
Total net liability (asset) for retirement benefits at end of year	(5,006)	(4,816)	(45,322)
Net defined benefit liabilities	623	762	7,175
Net defined benefit assets	(5,629)	(5,578)	(52,497)
Total net liability (asset) for retirement benefits at end of year	¥ (5,006)	¥ (4,816)	\$ (45,322)

(5) Retirement benefit costs:

	Millions of yen		Thousands of
	2017	2018	U.S. dollars
Service cost	¥ 467	¥ 458	\$ 4,312
Interest cost	1	9	87
Expected return on plan assets	(135)	(205)	(1,926)
Net actuarial gain (loss) amortization	595	244	2,291
Retirement benefit costs based on the simplified method	90	160	1,505
Total retirement benefit costs	¥ 1,018	¥ 666	\$ 6,269

(6) Remeasurements of defined benefit plans:

	Millions of yen		Thousands of
	2017	2018	U.S. dollars
Actuarial gain (loss)	¥ 4,206	¥ 440	\$ 4,137

(7) Accumulated remeasurements of defined benefit plans:

	Millions of yen		Thousands of
	2017	2018	U.S. dollars
Actuarial losses that are yet to be unrecognized	¥ (2,340)	¥ (2,779)	\$ (26,159)

(8) Plan assets:

① Plan assets comprise:

	2017	2018
	Equity securities	87%
Cash and bank deposits	12%	16%
Other	1%	1%
Total	100%	100%

Retirement benefit trusts account for 8% and 9% of total plan assets at March 31, 2017 and 2018, respectively.

② Long-term expected rate of return

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

(9) Actuarial assumptions

The principal actuarial assumptions at March 31, 2017 and 2018 (expressed as weighted averages) are as follows:

	2017	2018
Discount rate	0.1%	0.1%
Long-term expected rate of return	1.5%	1.6%

The Companies do not describe the expected rate of pay increase because they mainly adopt a point basis and the effect on the calculation of retirement benefit obligations is immaterial.

Defined contribution plans

The Company and certain consolidated subsidiaries have contributed a total of ¥170 million and ¥171 million (\$1,606 thousand) to the defined contribution plans for the years ended March 31, 2017 and 2018, respectively.

12. Income Taxes

At March 31, 2017 and 2018, significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of
	2017	2018	U.S. dollars
Deferred tax assets:			
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trusts	¥ 2,232	¥ 2,089	\$ 19,660
Devaluation loss on marketable securities	874	870	8,193
Accrued bonuses	660	668	6,287
Gain on investment of certain marketable securities to employee retirement benefit trusts	475	645	6,067
Tax losses carried forward	246	357	3,362
Net defined benefit liabilities	255	301	2,835
Devaluation loss on inventories	91	230	2,166
Unrealized gains	241	197	1,851
Business tax payable	168	129	1,215
Excess depreciation of depreciable assets	123	129	1,210
Other	799	486	4,577
Gross deferred tax assets	6,164	6,101	57,423
Less: Valuation allowance	(1,389)	(1,508)	(14,194)
Total deferred tax assets	¥ 4,775	¥ 4,593	\$ 43,229
Deferred tax liabilities:			
Net defined benefit assets	¥ (1,723)	¥ (1,707)	\$ (16,064)
Securities to employee retirement benefit trusts	(1,204)	(1,110)	(10,448)
Unrealized holding gains on securities	(830)	(956)	(9,000)
Reserve for deferred capital gains from property, plant and equipment	(952)	(923)	(8,688)
Other	(522)	(364)	(3,425)
Total deferred tax liabilities	(5,231)	(5,060)	(47,625)
Net deferred tax assets (liabilities)	¥ (456)	¥ (467)	\$ (4,396)

The reconciliation between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2017 and 2018 are not required to be disclosed due to the insignificance of the differences.

13. Net Assets

Under the Japanese Corporate Law (the "Law"), the entire amount of the issue price of shares is required to be accounted for as common stock. However a company may, by a resolution of the Board of Directors, account for an amount not exceeding 50% of the issue price of the new shares as additional paid-in capital, which is included in capital surplus. However, an increase resulting from a share exchange can be included in capital surplus up to the full amount.

The Law provides that the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve, in cases in which a dividend distribution of surplus is made.

Under the Law, additional paid-in capital may be used to eliminate or reduce a deficit or may be capitalized by a resolution of the shareholders' meeting, and legal earnings reserve may be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings respectively, which are potentially available for dividends.

The maximum amount that a company can distribute as dividends is calculated based on its non-consolidated financial statements in accordance with the Law.

At the Company's Board of Directors meeting held on May 17, 2017, the directors approved cash dividends in the amount of ¥1,208 million. At the Company's Board of Directors meeting held on October 27, 2017, the directors approved cash dividends in the amount of ¥1,079 million. At the Company's Board of Directors meeting held on May 16, 2018, the directors approved cash dividends in the amount of ¥805 million (\$7,580 thousand).

14. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2017 and 2018 totaled ¥1,608 million and ¥1,717 million (\$16,157 thousand), respectively. For the year ended March 31, 2018, research and development cost in the Specialty Steel, Metal Powder and Formed & Fabricated Materials segments amounted to ¥1,060 million, ¥629 million and ¥28 million, respectively.

15. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Packing and delivery expenses	¥ 5,421	¥ 6,016	\$ 56,616
Salaries	3,511	3,586	33,752
Provision of allowance for doubtful accounts	—	0	2
Provision for bonuses	526	508	4,785
Provision for directors' bonuses	122	91	858
Retirement benefit expenses	471	320	3,009
Provision for directors' retirement benefits	20	17	162

16. Loss on Sale and Disposition of Property, Plant and Equipment

The components of loss on sale and disposition of property, plant and equipment for the years ended March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Buildings and structures	¥ 12	¥ 4	\$ 36
Machinery and equipment	120	163	1,532
Others	150	273	2,576
Total	¥ 282	¥ 440	\$ 4,144

17. Net Income Per Share

Net income per share for the years ended March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Profit attributable to owners of the parent	¥ 7,784	¥ 7,034	\$ 66,204
Net income of common stock attributable to owners of the parent	¥ 7,784	¥ 7,034	\$ 66,204

	Thousands of shares	
	2017	2018
Weighted-average number of shares of common stock	32,237	32,217

	Yen		U.S. dollars
	2017	2018	2018
Net income per share	¥ 241.47	¥ 218.34	\$ 2.05

The Companies have no dilutive securities for the years ended March 31, 2017 and 2018.

The Company carried out a share consolidation at the ratio of 5 shares to 1 share effective October 1, 2017. Accordingly, net income per share have been recalculated on the assumption that the share consolidation took place at the beginning of the years ended March 31, 2017.

18. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2017 and 2018 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Cash and bank deposits	¥ 14,835	¥ 15,694	\$ 147,704
Time deposits with deposit terms of over 3 months and other	(1,128)	(1,396)	(13,137)
Restricted bank deposits	(164)	—	—
Cash and cash equivalents	¥ 13,543	¥ 14,298	\$ 134,567

19. Accounting for Leases

Non-cancelable operating leases

As a lessee

Outstanding future lease payments under non-cancelable operating leases at March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Due within one year	¥ 82	¥ 81	\$ 764
Due after one year	59	41	385
Total	¥ 141	¥ 122	\$ 1,149

20. 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, 2017 were as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
Buying			
U.S. dollars	¥ 43	¥ 0	¥ 0
Japanese yen	160	(11)	(11)
Total	¥ 203	¥ (11)	¥ (11)

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2018 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	¥ 106	¥ (1)	¥ (1)	\$ 997	\$ (9)	\$ (9)
Japanese yen	317	(6)	(6)	2,981	(56)	(56)
Total	¥ 423	¥ (7)	¥ (7)	\$ 3,978	\$ (65)	\$ (65)

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

Derivative transactions to which hedge accounting is applied for the years ended March 31, 2017 and 2018 are as follows:

	2017			2018		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
① Interest rate swap transactions						
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 fixed, receipt floating			Interest rate swap transactions Payment fixed, receipt floating		
The main hedged items	Long-term loans			Long-term loans		
Contract amount	¥2,660 million			¥2,660 million (\$25,035 thousand)		
1 year or more amount of contract	¥2,660 million			—		
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.

	2017			2018		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
② Interest rate and currency swap transactions						
Method of hedge accounting	Unified method of interest rate and currency swap transactions			Unified method of interest rate and currency swap transactions		
Type of derivative transactions	Interest rate and currency swap transactions Payment fixed, receipt floating Receive floating US\$ and pay fixed yen			Interest rate and currency swap transactions Payment fixed, receipt floating Receive floating US\$ and pay fixed yen		
The main hedged items	Long-term loans			Long-term loans		
Contract amount	¥2,929 million			¥2,929 million (\$27,567 thousand)		
1 year or more amount of contract	¥2,929 million			¥2,929 million (\$27,567 thousand)		
Fair value	※			※		

※ Because interest rate and currency swap transactions accounted for by the unified method (the exceptional method, the allocation 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.

21. Contingent Liabilities

Guarantees for loans of employees and others at March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
UCHIDA-SATO TECH (THAILAND) CO., LTD.	¥ 12	¥ 2	\$ 22
Employees	3	2	18
Total	¥ 15	¥ 4	\$ 40

22. Segment Information

(1) General information about reportable segments

The Companies' reportable segments are the business units for which the Company is able to obtain separate financial information in order for the Board of Directors 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 their products based on operating divisions and have determined the reportable segments, as "Specialty Steel," "Metal Powder" 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 "Metal Powder" segment includes the manufacture and sale of metal powder products. The "Formed and Fabricated Materials" segment includes the manufacture and sale of formed and fabricated materials made from special steel bars and tubes.

Effective from the fiscal year ended March 31, 2018, reportable segments have been changed from the "Specialty Steel," "Special Materials" and "Formed and Fabricated Materials" segments to the "Specialty Steel," "Metal Powder" and "Formed and Fabricated Materials" segments in accordance with changes in the organizational structure of the Companies. Accompanying the change in business segments, the manufacture and sale of heat and corrosion-resistant alloys (special materials business) is included in the "Specialty Steel" segment.

(2) Accounting methods and basis of measurement for 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, 2017 and 2018 is as follows:

	For the year ended March 31, 2017						
	Millions of yen						
	Reportable segments				Total	Adjustments	Consolidated total
Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other				
(a) Sales and operating income:							
Net sales							
Outside customers	¥ 118,360	¥ 4,456	¥ 15,789	¥ 76	¥ 138,681	¥ —	¥ 138,681
Intersegment transactions	¥ 6,650	¥ —	¥ 0	¥ 1,602	¥ 8,252	¥ (8,252)	¥ —
Total	125,010	4,456	15,789	1,678	146,933	(8,252)	138,681
Segment income	¥ 9,867	¥ 932	¥ 750	¥ 57	¥ 11,606	¥ 80	¥ 11,686
(b) Other:							
Depreciation	¥ 8,432	¥ 96	¥ 525	¥ 9	¥ 9,062	¥ (18)	¥ 9,044

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments of ¥80 million are adjustments for inventories of ¥84 million and intersegment elimination of ¥4 million.
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.

	For the year ended March 31, 2018						
	Millions of yen						
	Reportable segments				Total	Adjustments	Consolidated total
Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other				
(a) Sales and operating income:							
Net sales							
Outside customers	¥ 134,028	¥ 4,895	¥ 18,431	¥ 131	¥ 157,485	¥ —	¥ 157,485
Intersegment transactions	¥ 7,960	¥ —	¥ —	¥ 1,399	¥ 9,359	¥ (9,359)	¥ —
Total	141,988	4,895	18,431	1,530	166,844	(9,359)	157,485
Segment income	¥ 9,691	¥ 921	¥ 765	¥ 27	¥ 11,404	¥ (435)	¥ 10,969
(b) Other:							
Depreciation	¥ 7,864	¥ 555	¥ 579	¥ 11	¥ 9,009	¥ (17)	¥ 8,992

	Thousands of U.S. dollars						
	Reportable segments						
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income:							
Net sales							
Outside customers	\$ 1,261,443	\$ 46,067	\$ 173,467	\$ 1,236	\$ 1,482,213	\$ —	\$ 1,482,213
Intersegment transactions	\$ 74,917	\$ —	\$ —	\$ 13,164	\$ 88,081	\$ (88,081)	\$ —
Total	1,336,360	46,067	173,467	14,400	1,570,294	(88,081)	1,482,213
Segment income	\$ 91,204	\$ 8,667	\$ 7,202	\$ 256	\$ 107,329	\$ (4,089)	\$ 103,240
(b) Other:							
Depreciation	\$ 74,015	\$ 5,226	\$ 5,451	\$ 98	\$ 84,790	\$ (157)	\$ 84,633

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments of ¥435 million (\$4,089 thousand) are adjustments for inventories of ¥517 million (\$4,868 thousand) and intersegment elimination of ¥82 million (\$779 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.

Related Information

Segment related information for the year ended March 31, 2017 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, 2017					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	¥ 102,340	¥ 30,513	¥ 3,483	¥ 2,070	¥ 275	¥ 138,681

2. Property, plant and equipment

	For the year ended March 31, 2017					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Property, plant and equipment	¥ 56,097	¥ 2,952	¥ 0	¥ —	¥ 1,248	¥ 60,297

(3) Information about major customers

	For the year ended March 31, 2017	
	Net sales	Related segment
	Millions of yen	
Marubeni-Itochu Steel Inc.	¥ 26,748	Specialty Steel
Mitsui & Co., Ltd.	¥ 16,627	Specialty Steel

Segment related information for the year ended March 31, 2018 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, 2018					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	¥ 116,157	¥ 34,497	¥ 3,931	¥ 2,567	¥ 333	¥ 157,485

2. Property, plant and equipment

	Thousands of U.S. dollars					
	Japan	Asia	North America	Europe	Others	Total
Net sales	\$ 1,093,244	\$ 324,680	\$ 36,999	\$ 24,163	\$ 3,127	\$ 1,482,213

	For the year ended March 31, 2018					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Property, plant and equipment	¥ 53,042	¥ 2,904	¥ 0	¥ —	¥ 3,409	¥ 59,355

	Thousands of U.S. dollars					
	Japan	Asia	North America	Europe	Others	Total
Property, plant and equipment	\$ 499,220	\$ 27,329	\$ 3	\$ —	\$ 32,083	\$ 558,635

Independent Auditor's Report

(3) Information about major customers

	For the year ended March 31, 2018			
	Net sales		Related segment	
	Millions of yen	Thousands of U.S. dollars		
Marubeni-Itochu Steel Inc.	¥ 32,359	\$ 304,558	Specialty Steel	
Mitsui & Co., Ltd.	¥ 19,601	\$ 184,484	Specialty Steel	

23. Subsequent Events

(Business combination)

The Company passed a resolution at its Board of Directors meeting held on February 9, 2018 to acquire additional shares of Mahindra Sanyo Special Steel Pvt. Ltd. ("Mahindra Sanyo"), an equity method affiliate of the Company, making Mahindra Sanyo a consolidated subsidiary of the Company. In accordance with the resolution, the Company signed a share transfer agreement the same day. On June 21, 2018, the Company acquired the shares of Mahindra Sanyo, making it a subsidiary.

(1) Overview of the Business Combination

① Name of acquired company and description of business

Acquired company: Mahindra Sanyo Special Steel Pvt. Ltd.

Business: Production and sales of special steel products

② Reason for the business combination

In order to develop our specialty steel business in India, the Company acquired additional shares of our equity method affiliate Mahindra Sanyo, making it a subsidiary.

③ Date of the business combination

June 21, 2018

④ Legal form of the business combination

Acquisition of shares

⑤ Name of the company after the business combination

Not changed

⑥ Percentage of voting rights acquired

Percentage of voting rights acquired: 22.0%

Percentage of voting rights after acquisition: 51.0%

⑦ Basis for determination of the acquirer

The Company has been determined the acquirer as it has acquired the shares of Mahindra Sanyo for cash consideration.

(2) Acquisition cost of acquired company and breakdown by type of consideration

Consideration for acquisition: cash in the amount of INR (Indian rupee) 1,463 million (JPY 2,376 million, USD 22,372 thousand)

Acquisition cost: INR (Indian rupee) 1,463 million (JPY 2,376 million, USD 22,372 thousand)

(3) Substance and amount of related acquisition costs

Not yet determined

(4) Amount of goodwill generated, reason for the generation of goodwill and major assets and liabilities received on the date of business combination

Not yet determined

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, 2018 and 2017, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 risk 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, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 23 to the consolidated financial statements. On June 21, 2018, the Company acquired additional shares of Mahindra Sanyo Special Steel Pvt. Ltd., an equity method affiliate of the Company, and made it a subsidiary. Our opinion is not modified in respect of this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

July 25, 2018

Osaka, Japan

Corporate Data

Corporate Data (As of June 30, 2018)

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	3,765 (consolidated basis) 1,355 (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.php

Stock Information (As of March 31, 2018)

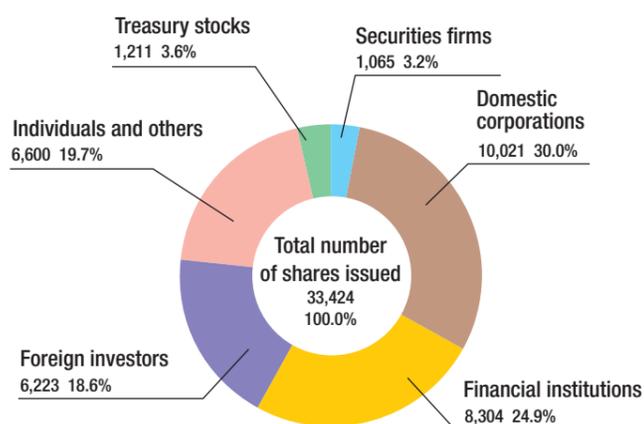
Total Number of Shares Authorized to be Issued	94,878,400
Total Number of Shares Issued	33,424,807
Number of Shareholders	11,828

Principal Shareholders

Name of Shareholder	Number of shares held (thousands of shares)	Percentage of voting rights
NIPPON STEEL & SUMITOMO METAL CORPORATION	4,851	15.11%
Company's Kyoeikai Association	2,228	6.94%
NSK Ltd.	1,494	4.65%
Sumitomo Mitsui Banking Corporation	1,139	3.55%
Japan Trustee Services Bank, Ltd. (trust account)	914	2.85%
The Master Trust Bank of Japan, Ltd. (trust account)	846	2.64%
Mizuho Bank, Ltd.	728	2.27%
NORTERN TRUST CO.(AVFC) RE-HCROO	668	2.08%
Marubeni-Itochu Steel Inc.	621	1.94%
DFA INTL SMALL CAP VALUE PORTFOLIO	608	1.90%

Notes: The number of shares omits fractions of less than 1,000 shares.
Treasury stocks are not included in the above list.

Shareholder Composition (thousands of shares)



Consolidated Subsidiaries and Equity-Method Affiliates (As of June 30, 2018)

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 and machinery maintenance
- ④ SKJ Metal Industries Co., Ltd.
Manufacturing and marketing of special steel products
- ⑤ P.T. SANYO SPECIAL STEEL INDONESIA
Manufacturing and marketing of special steel products
- ⑥ SANYO SPECIAL STEEL TRADING (SHANGHAI) CO., LTD.
Involved in business and sales of special steel products in China
- ⑦ Sanyo Special Steel India Pvt. Ltd.
Involved in business and sales of special steel products in India
- ⑧ Mahindra Sanyo Special Steel Pvt. Ltd.
Manufacturing and sales of special steel products

Formed and Fabricated Materials

Consolidated Subsidiaries

- ⑨ Santoku Tech Co., Ltd.
Manufacturing of special steel products
- ⑩ SANYO SPECIAL STEEL U.S.A., Inc.
Trading of special steel products
- ⑪ Ningbo Sanyo Special Steel Products Co., Ltd.
Manufacturing and marketing of special steel products
- ⑫ Siam Sanyo Special Steel Product Co., Ltd.
Manufacturing and marketing of special steel products
- ⑬ Sanyo Special Steel Manufacturing de México, S.A. de C.V.
Manufacturing and marketing of special steel products

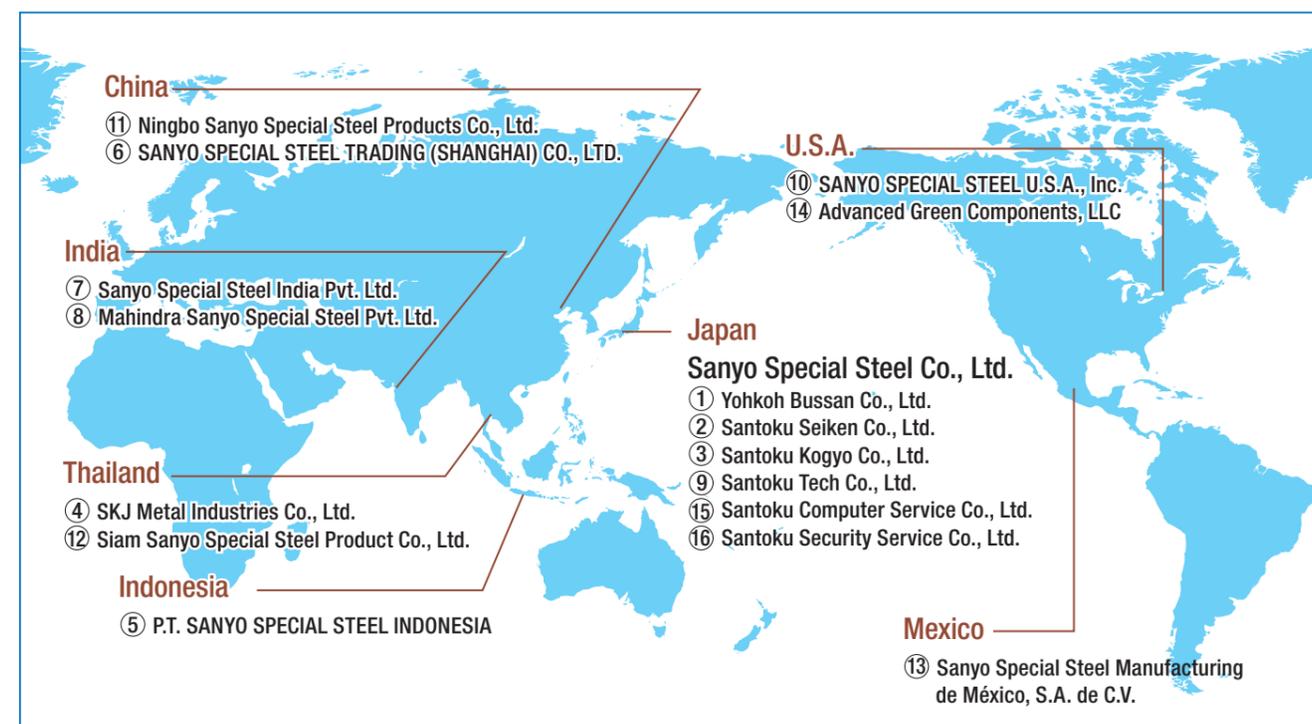
Equity-method Affiliates

- ⑭ Advanced Green Components, LLC
Manufacturing of special steel products

Other

Consolidated Subsidiaries

- ⑮ Santoku Computer Service Co., Ltd.
Construction, operation and consulting services for information systems
- ⑯ Santoku Security Service Co., Ltd.
Security and facilities maintenance services





SANYO SPECIAL STEEL Co., Ltd.

This annual report can also be found at our website.
<http://www.sanyo-steel.co.jp/english/>