

Sanyo Special Steel Co., Ltd.

Financial Report for

The Year Ended March 31, 2021

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

As of March 31, 2020 and 2021

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2021	2021
Current Assets:			
Cash and bank deposits (Notes 6 and 23)	¥ 27,782	¥ 10,924	\$ 98,670
Notes and accounts receivable - trade (Notes 6 and 10)	44,883	47,198	426,321
Electronically recorded monetary claims	6,031	5,132	46,352
Less: Allowance for doubtful accounts	(175)	(260)	(2,349)
Inventories (Notes 8 and 10)	78,652	73,123	660,491
Income taxes receivable	1,954	226	2,044
Deposits paid in parent company (Note 23)	—	14,415	130,206
Other	4,392	7,151	64,592
Total current assets	163,519	157,909	1,426,327
Property, Plant and Equipment:			
Land (Note 10)	13,249	12,826	115,850
Buildings and structures (Note 10)	72,088	73,153	660,760
Machinery and equipment (Note 10)	264,185	273,285	2,468,480
Construction in progress	13,491	9,554	86,301
Other	13,138	13,963	126,119
	376,151	382,781	3,457,510
Less: Accumulated depreciation	(259,263)	(268,956)	(2,429,376)
Total property, plant and equipment	116,888	113,825	1,028,134
Intangibles			
Goodwill	35,630	34,176	308,701
Other	3,591	4,046	36,548
Total intangible	39,221	38,222	345,249
Investments and Other Assets:			
Investments in securities (Notes 6, 7 and 9)	4,158	5,991	54,114
Long-term loans receivable	203	2	19
Deferred tax assets (Note 13)	2,055	639	5,768
Net defined benefit assets (Note 12)	944	1,836	16,580
Other	1,182	1,140	10,304
Less: Allowance for doubtful accounts	(207)	(203)	(1,834)
Total investments and other assets	8,335	9,405	84,951
Total assets	¥ 327,963	¥ 319,361	\$ 2,884,661

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2021	2021
Current Liabilities:			
Short-term loans (Notes 6, 10 and 11)	¥ 32,834	¥ 34,146	\$ 308,428
Current portion of long-term loans (Notes 6, 10 and 11)	5,502	13,727	123,993
Notes and accounts payable - trade (Note 6)	22,387	27,846	251,526
Accounts payable - other	18,878	12,079	109,108
Accrued income taxes	390	650	5,871
Accrued expenses	7,623	7,984	72,121
Provision for environmental measures	59	160	1,448
Other	2,913	3,048	27,521
Total current liabilities	90,586	99,640	900,016
Long-term Liabilities:			
Bonds payable (Notes 6 and 11)	10,000	10,000	90,326
Long-term loans (Notes 6, 10 and 11)	25,934	12,429	112,264
Accrued directors' and corporate auditors' retirement benefits	69	66	593
Deferred tax liabilities (Note 13)	3,540	2,729	24,651
Provision for loss on guarantees	3	3	26
Provision for environmental measures	248	310	2,798
Net defined benefit liabilities (Note 12)	13,635	12,852	116,087
Other	1,745	1,444	13,043
Total long-term liabilities	55,174	39,833	359,788
Total liabilities	145,760	139,473	1,259,804
Contingent Liabilities (Note 26)			
Net Assets (Note 14)			
Shareholders' Equity:			
Common stock:			
Authorized 94,878,400 shares in 2020 and 2021			
Issued 54,507,307 shares in 2020 and 2021	¥ 53,800	¥ 53,800	\$ 485,956
Capital surplus	51,486	51,486	465,056
Retained earnings	79,794	72,924	658,688
Less: Treasury stock, at cost (13,134 shares in 2020 and 16,774 shares in 2021)	(20)	(23)	(211)
Total shareholders' equity	185,060	178,187	1,609,489
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	562	1,661	15,004
Deferred gains on hedges	355	885	7,997
Foreign currency translation adjustments	(2,772)	(650)	(5,868)
Remeasurements of defined benefit plans	(4,842)	(1,690)	(15,265)
Total accumulated other comprehensive income	(6,697)	206	1,868
Non-controlling Interests	3,840	1,495	13,500
Total net assets	182,203	179,888	1,624,857
Total liabilities and net assets	¥ 327,963	¥ 319,361	\$ 2,884,661

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2021	2021
Net Sales	¥ 262,453	¥ 210,722	\$ 1,903,365
Cost of Sales (Notes 8 and 15)	230,625	187,949	1,697,673
Gross profit	31,828	22,773	205,692
Selling, General and Administrative Expenses (Notes 15 and 17)	33,245	28,266	255,310
Operating loss	(1,417)	(5,493)	(49,618)
Other Income:			
Interest and dividends	367	196	1,767
Rent income	335	539	4,867
Income from sale of emission allowances	181	—	—
Income from deposit transfer following extinctive prescription	—	99	895
Exchange gains	—	539	4,870
Other	171	175	1,583
	1,054	1,548	13,982
Other Expenses:			
Interest	(830)	(641)	(5,787)
Exchange losses	(166)	—	—
Other	(162)	(177)	(1,598)
	(1,158)	(818)	(7,385)
Ordinary loss	(1,521)	(4,763)	(43,021)
Extraordinary Gains and Losses:			
Impairment loss (Note 21)	—	(3,929)	(35,490)
Amortization of goodwill (Note 20)	(1,289)	—	—
Loss on sale of investment securities and others	(647)	—	—
Loss on sale and disposition of property, plant and equipment (Note 19)	(498)	(625)	(5,649)
Extra retirement payments	—	(425)	(3,841)
Loss on evaluation of investments in securities	(248)	(30)	(274)
Gain on sale of property, plant and equipment (Note 18)	50	—	—
Gain on sales of land	5	169	1,528
Gain on sale of investment in securities	849	84	764
	(1,778)	(4,756)	(42,962)
Loss before income taxes	(3,299)	(9,519)	(85,983)
Income Taxes (Note 13):			
Current	383	674	6,087
Deferred	620	(1,231)	(11,116)
	1,003	(557)	(5,029)
Net loss	(4,302)	(8,962)	(80,954)
Net Loss Attributable to Non-controlling Interests	(585)	(2,092)	(18,899)
Net Loss Attributable to Owners of the Parent	¥ (3,717)	¥ (6,870)	\$ (62,055)

Per Share:

Net loss (Note 22)

Cash dividends

Net assets

	Yen		U.S. dollars (Note 3)
	2020	2021	2021
	¥ (67.14)	¥ (126.07)	\$ (1.14)
	¥ 15.50	¥ —	\$ —
	¥ 3,273.07	¥ 3,273.84	\$ 29.57

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2021	2021
Net Loss	¥ (4,302)	¥ (8,962)	\$ (80,954)
Other Comprehensive Income (Loss):			
Valuation difference on available-for-sale securities	(1,616)	1,099	9,928
Deferred gains on hedges	355	530	4,790
Foreign currency translation adjustments	(2,796)	1,908	17,229
Remeasurements of defined benefit plans	(4,913)	3,152	28,472
Share of other comprehensive income of affiliates accounted for by the equity method	(9)	(36)	(328)
Total other comprehensive income (loss) (Note 4)	(8,979)	6,653	60,091
Comprehensive Income (Loss)	(13,281)	(2,309)	(20,863)
Comprehensive income (loss) attributable to:			
Owners of the parent	(12,623)	34	307
Non-controlling interests	(658)	(2,343)	(21,170)

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2020

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	57,437,307	¥ 53,800	¥ 55,896	¥ 85,716
Net loss attributable to owners of the parent	—	—	—	(3,717)
Cash dividends paid	—	—	—	(2,205)
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	(0)	—
Cancellation of treasury stock	(2,930,000)	—	(4,410)	—
Other changes for fiscal year 2019, net	—	—	—	—
Total changes for fiscal year 2019	(2,930,000)	—	(4,410)	(5,922)
Balance at end of year	54,507,307	¥ 53,800	¥ 51,486	¥ 79,794

	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	¥ (1,924)	¥ 2,178	¥ —	¥ (40)
Net loss attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(2,507)	—	—	—
Disposal of treasury stock	1	—	—	—
Cancellation of treasury stock	4,410	—	—	—
Other changes for fiscal year 2019, net	—	(1,616)	355	(2,732)
Total changes for fiscal year 2019	1,904	(1,616)	355	(2,732)
Balance at end of year	¥ (20)	¥ 562	¥ 355	¥ (2,772)

	Millions of yen		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	¥ 71	¥ 4,503	¥ 200,200
Net loss attributable to owners of the parent	—	—	(3,717)
Cash dividends paid	—	—	(2,205)
Acquisition of treasury stock	—	—	(2,507)
Disposal of treasury stock	—	—	1
Cancellation of treasury stock	—	—	—
Other changes for fiscal year 2019, net	(4,913)	(663)	(9,569)
Total changes for fiscal year 2019	(4,913)	(663)	(17,997)
Balance at end of year	¥ (4,842)	¥ 3,840	¥ 182,203

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2021

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	54,507,307	¥ 53,800	¥ 51,486	¥ 79,794
Net loss attributable to owners of the parent	—	—	—	(6,870)
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	(0)	—
Cancellation of treasury stock	—	—	—	—
Other changes for fiscal year 2020, net	—	—	—	—
Total changes for fiscal year 2020	—	—	(0)	(6,870)
Balance at end of year	54,507,307	¥ 53,800	¥ 51,486	¥ 72,924

	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	¥ (20)	¥ 562	¥ 355	¥ (2,772)
Net loss attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(3)	—	—	—
Disposal of treasury stock	0	—	—	—
Cancellation of treasury stock	—	—	—	—
Other changes for fiscal year 2020, net	—	1,099	530	2,122
Total changes for fiscal year 2020	(3)	1,099	530	2,122
Balance at end of year	¥ (23)	¥ 1,661	¥ 885	¥ (650)

	Millions of yen		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	¥ (4,842)	¥ 3,840	¥ 182,203
Net loss attributable to owners of the parent	—	—	(6,870)
Cash dividends paid	—	—	—
Acquisition of treasury stock	—	—	(3)
Disposal of treasury stock	—	—	0
Cancellation of treasury stock	—	—	—
Other changes for fiscal year 2020, net	3,152	(2,345)	4,558
Total changes for fiscal year 2020	3,152	(2,345)	(2,315)
Balance at end of year	¥ (1,690)	¥ 1,495	¥ 179,888

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	54,507,307	\$ 485,956	\$ 465,056	\$ 720,743
Net loss attributable to owners of the parent	—	—	—	(62,055)
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	(0)	—
Cancellation of treasury stock	—	—	—	—
Other changes for fiscal year 2020, net	—	—	—	—
Total changes for fiscal year 2020	—	—	(0)	(62,055)
Balance at end of year	54,507,307	\$ 485,956	\$ 465,056	\$ 658,688

	Thousands of U.S. dollars (Note 3)			
	Treasury stock, at cost	Valuation difference on available-for- sale securities	Deferred gains on hedges	Foreign currency translation adjustments
Balance at beginning of year	\$ (178)	\$ 5,077	\$ 3,207	\$ (25,041)
Net loss attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(34)	—	—	—
Disposal of treasury stock	1	—	—	—
Cancellation of treasury stock	—	—	—	—
Other changes for fiscal year 2020, net	—	9,927	4,790	19,173
Total changes for fiscal year 2020	(33)	9,927	4,790	19,173
Balance at end of year	\$ (211)	\$ 15,004	\$ 7,997	\$ (5,868)

	Thousands of U.S. dollars (Note 3)		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	\$ (43,737)	\$ 34,684	\$ 1,645,767
Net loss attributable to owners of the parent	—	—	(62,055)
Cash dividends paid	—	—	—
Acquisition of treasury stock	—	—	(34)
Disposal of treasury stock	—	—	1
Cancellation of treasury stock	—	—	—
Other changes for fiscal year 2020, net	28,472	(21,184)	41,178
Total changes for fiscal year 2020	28,472	(21,184)	(20,910)
Balance at end of year	¥ (15,265)	¥ 13,500	¥ 1,624,857

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2021	2021
Cash Flows from Operating Activities:			
Loss before income taxes	¥ (3,299)	¥ (9,519)	\$ (85,983)
Adjustments -			
Depreciation and amortization	15,034	14,187	128,146
Impairment loss	—	3,929	35,490
Amortization of goodwill	4,231	2,621	23,674
Increase (decrease) in allowance for doubtful accounts	46	94	851
Increase (decrease) in net defined benefit liabilities	2,735	366	3,304
Decrease (increase) in net defined benefit assets	(1,382)	937	8,463
Increase (decrease) in accrued directors' and corporate auditors' retirement benefits, less payments	20	(4)	(32)
Increase (decrease) in provision for environmental measures	(5)	157	1,416
Increase (decrease) in provision for loss on guarantees	(1)	0	1
Interest and dividend income	(367)	(196)	(1,767)
Interest expense	830	641	5,787
Gain on sale of investments in securities	(202)	(84)	(764)
Loss on evaluation of investments in securities	248	30	274
Deposit transfer profit with completion of extinctive prescription	—	(99)	(895)
Loss (gain) on sale and disposition of property, plant and equipment	442	456	4,121
Extra retirement payments	—	425	3,841
Changes in assets and liabilities:			
Notes and accounts receivable - trade	31,062	(1,334)	(12,049)
Inventories	15,442	6,365	57,491
Notes and accounts payable - trade	(19,327)	4,479	40,461
Other, net	(1,423)	(1,967)	(17,776)
Subtotal	44,084	21,484	194,054
Interest and dividend income received	365	198	1,791
Interest expense paid	(837)	(646)	(5,836)
Income taxes paid	(4,187)	1,278	11,542
Net cash provided by operating activities	39,425	22,314	201,551
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(18,572)	(19,175)	(173,204)
Sale of property, plant and equipment	312	265	2,398
Acquisition of intangible assets	(840)	(971)	(8,770)
Acquisition of investments in securities	(2)	(2)	(15)
Sale of investments in securities	1,291	308	2,783
Proceeds from sales of shares of parent	871	—	—
Collection of contingent consideration of investments in subsidiaries	4,709	117	1,055
Decrease in long-term loans receivable	201	203	1,829
Proceeds from withdrawal of time deposits	785	776	7,012
Payments into time deposits	(717)	(702)	(6,341)
Payments of long-term loans receivable	—	(2)	(19)
Other, net	(501)	(230)	(2,077)
Net cash used in investing activities	(12,463)	(19,413)	(175,349)

	Millions of yen		Thousands of U.S. dollars
	2020	2021	(Note 3) 2021
Cash Flows from Financing Activities:			
Increase (decrease) in short-term loans	¥ (18,322)	¥ 964	\$ 8,704
Increase (decrease) in commercial paper	(8,000)	—	—
Proceeds from long-term loans	12,253	—	—
Repayment of long-term loans	(1,312)	(5,577)	(50,375)
Repayment of lease obligations	(971)	(831)	(7,506)
Payments for purchases of treasury stock	(2,507)	(4)	(34)
Proceeds from sales of treasury stock	0	0	1
Cash dividends	(2,204)	(1)	(7)
Cash dividends to non-controlling interests	(4)	(1)	(13)
Other, net	(26)	(24)	(211)
Net cash used in financing activities	(21,093)	(5,474)	(49,441)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(441)	234	2,117
Net Increase (decrease) in Cash and Cash Equivalents	5,428	(2,339)	(21,122)
Cash and Cash Equivalents at Beginning of the Year	21,792	27,220	245,865
Cash and Cash Equivalents at End of the Year (Note 23)	¥ 27,220	¥ 24,881	\$ 224,743

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 had 41 subsidiaries as of March 31, 2021 (41 subsidiaries as of March 31, 2020). The consolidated financial statements include the accounts of the Company and its 41 subsidiaries. The 41 subsidiaries that have been consolidated for the fiscal year ended March 31, 2021 are listed below:

Yohkoh Bussan Co., Ltd.
 Santoku Kogyo Co., Ltd.
 Santoku Tech Co., Ltd.
 Santoku Seiken Co., Ltd.
 Santoku Computer Service Co., Ltd.
 Santoku Security Service Co., Ltd.
 Sanyo Special Steel Manufacturing de México, S.A. de C.V.
 Ningbo Sanyo Special Steel Products Co., Ltd.
 Siam Sanyo Special Steel Product Co., Ltd.
 Sanyo Special Steel U.S.A., Inc.
 P.T. Sanyo Special Steel Indonesia
 SKJ Metal Industries Co., Ltd.
 Mahindra Sanyo Special Steel Pvt. Ltd.
 Sanyo Special Steel India Pvt. Ltd.
 Sanyo Special Steel Trading (Shanghai) Co., Ltd.
 Ovako Group AB and its 25 subsidiaries (“Ovako”)

The consolidated subsidiaries, except for the 33 foreign subsidiaries (Sanyo Special Steel Manufacturing de México, S.A. de C.V., Ningbo Sanyo Special Steel Products Co., Ltd., Siam Sanyo Special Steel Product Co., Ltd., Sanyo Special Steel U.S.A., Inc., P.T. Sanyo Special Steel Indonesia, SKJ Metal Industries Co., Ltd., Sanyo Special Steel Trading (Shanghai) Co., Ltd., and Ovako) use a fiscal year ending March 31, which is the same as that of the Company. The 33 foreign subsidiaries use a fiscal year ending December 31. For these 33 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 AB Järnbruksförmödenheter, 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

Derivative financial instruments are stated at fair value.

The Companies use foreign exchange forward contracts, interest rate swaps and commodity futures contracts to reduce their exposure to market risks from fluctuations in foreign currencies, interest rates and electricity prices. The Companies do not hold or issue financial derivative instruments for trading purposes. If derivative transactions are used as hedges and meet certain hedging criteria, the Companies use the deferred hedge accounting method.

In addition, with regard to interest rate swap transactions that meet the criteria, the exceptional method 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) Amortization of goodwill

Goodwill is amortized using the straight-line method over a reasonably determined period on individual basis.

(6) Inventories

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

(7) Depreciation and amortization

The Companies compute depreciation using the straight-line method for property, plant and equipment.

In its domestic subsidiaries, the assets acquired on or before March 31, 2007 are depreciated using the straight method over 5 years from the following fiscal year when depreciation up to the depreciable limit amount is completed.

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

(8) Research and development costs

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

(9) 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.

(10) Provision for bonuses

Provision for employees bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year.

(11) Accrued directors' and corporate auditors' retirement benefits

Certain consolidated subsidiaries provide for lump-sum payments to retiring directors and corporate auditors based on internal rules.

(12) 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.

(13) Provision for environmental measures

Reserve for environmental measures for obligatory PCB treatment in Japan and removing soil pollution on overseas steel-making plants is stated as the estimated cost at the end of the fiscal year.

(14) 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 mainly 10 years and 17 years, which is within the 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.

(15) 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.

(16) Revenue recognition

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

(17) 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. Diluted net income per share is not disclosed because potentially dilutive securities are not issued.

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.

(18) 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, short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value and deposits paid in parent company.

(19) Consumption tax

In Japan, a consumption tax, with certain exemptions, is imposed on the domestic consumption of goods and services. The consumption tax rate is 8% until September 30, 2019 and mainly 10% from October 1, 2019. 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.

(20) Reclassifications and restatement

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

(21) Significant accounting estimates

Property, Plant and Equipment, and Intangibles

(1) Carrying amounts in the current year's financial statements
Property, Plant and Equipment are recorded at 113,825 million yen (\$1,028,134 thousand) and intangibles are recorded 38,222 million yen (\$345,249 thousand).

(2) Significant accounting estimates for identified items

For Property, Plant and Equipment and intangibles to determine whether the recognition of an impairment loss is required it is necessary to compare the undiscounted future cash flows that are expected to be generated from the asset or the asset groups with its book value whenever there is an impairment indicator in the asset or the asset groups. If the recognition of an impairment loss is deemed necessary, the book value is reduced to

the recoverable amount, and the resulting decrease in the book value is recognized as an impairment loss.

The Companies group assets with consideration for business management segments. In principle, the Company is classified by business segment and its consolidated subsidiaries are classified by each company as one asset group. In addition to the asset group that recorded impairment loss in the current consolidated fiscal year, the asset groups of Santoku Tech Co., Ltd and Siam Sanyo Special Steel Product Co., Ltd., which are recognized indications of impairment, did not record impairment loss because the undiscounted future cash flows exceeded the book value.

Property, Plant and Equipment and Intangibles, which were recorded on the consolidated balance sheet at the end of the current consolidated fiscal year have a significant impact on the consolidated financial statements for the following consolidated fiscal year when the business circumstances of the Companies are affected by extreme changes in future economic conditions and the business declines significantly.

(22) Changes in accounting policies

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

The depreciation method for Property, Plant and Equipment of the Company and its domestic subsidiaries was changed to the straight-line method for the current consolidated fiscal year from the declining-balance method mainly used in the past.

The Companies considered the following issues to change the depreciation method from the viewpoint of unifying the group accounting policies on global basis as overseas subsidiaries that adopt the straight-line method have become increasingly important within the Group since Ovako converted into a consolidated subsidiary.

The facilities used by the Companies are expected to operate steadily in the future, and there is little risk that the products and the facilities will become obsolete due to changes in the market environment or technology. Accordingly, the Companies determined that it was more appropriate to adopt the straight-line method as the depreciation method.

In addition, the Companies decided to make changes from the current consolidated fiscal year to synchronize with the start of full-scale operation of the Company's new facilities in the No.2 Bar & Wire Rod Mill.

As a result, compared with using the declining-balance method, operating loss, ordinary loss and loss before income taxes for the current consolidated fiscal year was 1,936 million yen (\$17,489 thousand) less respectively.

(23) Standards and guidance not yet adopted

The following were issued but not yet adopted.

(The Company and its domestic subsidiaries)

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)

“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021)

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

Regarding the adoption of the standard, the Companies followed the transitional treatment outlined in Article 84 of the Accounting Standard. Under the treatment, the cumulative effect of retroactively applying the new accounting policy to periods prior to the beginning of the year ending March 2022 is adjusted in the beginning retained earnings of the year ending March 2022 and applied to the new accounting policy from the beginning balance of the current fiscal year. The effect on retained earnings in the beginning balance of the current fiscal year was not material.

(24) Changes in presentation method

(Consolidated statements of operations)

“Gain on sales of land” in “Gain on sale of property, plant and equipment” in “extraordinary gains” in the previous consolidated fiscal year is presented separately for the current consolidated fiscal year because it has become significant in amount. To reflect this change in presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified. As a result, 55 million yen of “Gain on sale of property, plant and equipment” in the consolidated financial statements for the previous consolidated fiscal year has been presented as 5 million yen of “Gain on sales of land” and 50 million yen of “Gain on sale of property, plant and equipment.”

(Adoption of “Accounting Standard for Disclosure of Accounting Estimates”)

The Companies adopted ASBJ Statement No. 31 “Accounting Standard for Disclosure of Accounting Estimates” (March 31, 2020) for the consolidated financial statements for the current consolidated fiscal year, and, therefore, significant accounting estimates are disclosed in the Notes to Consolidated Financial Statements.

The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

(25) Additional information

In its preparation of the consolidated financial statements for the current fiscal year, the demand for special steel is expected to be stable in future even though COVID-19 could affect the global economy and we made the accounting estimates such as evaluation of fixed assets and recoverability of deferred tax assets.

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 ¥110.71 to U.S. \$1.00, the approximate rate of exchange as at March 31, 2021, has been used for these translations.

4. Consolidated Statements of Comprehensive Income

Amounts reclassified to net income in the current year 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 U.S. dollars
	2020	2021	2021
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ (1,951)	¥ 1,526	\$ 13,781
Reclassification adjustments	46	(42)	(376)
Subtotal, before tax	(1,905)	1,484	13,405
Tax (expense)	289	(385)	(3,477)
Subtotal, net of tax	(1,616)	1,099	9,928
Deferred gains on hedges			
Increase (decrease) during the year	1,225	890	8,039
Reclassification adjustments	(774)	(227)	(2,047)
Subtotal, before tax	451	663	5,992
Tax (expense)	(96)	(133)	(1,202)
Subtotal, net of tax	355	530	4,790
Foreign currency translation adjustments			
Increase (decrease) during the year	(2,796)	1,908	17,229
Remeasurements of defined benefit plans			
Increase (decrease) during the year	(6,475)	4,006	36,188
Reclassification adjustments	(153)	460	4,155
Subtotal, before tax	(6,628)	4,466	40,343
Tax (expense)	1,715	(1,314)	(11,871)
Subtotal, net of tax	(4,913)	3,152	28,472
Share of other comprehensive income of affiliates accounted for by the equity method			
Increase (decrease) during the year	(9)	(36)	(328)
Subtotal	(9)	(36)	(328)
Total other comprehensive income (loss)	¥ (8,979)	¥ 6,653	\$ 60,091

5. Statements of cash flows

Significant non-cash transactions at March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cancellation of treasury stock	¥ 4,410	¥ —	\$ —

6. 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, interest rate and electricity price 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 and executing derivative transactions (forward exchange contracts).

Deposits paid in parent company are deposits to Nippon Steel Corporation, and their deposit and withdrawal are possible at any time.

Investments in securities are mainly shares of business partners. Their shares are exposed to the risk of volatility in market prices though, the Companies periodically monitor the market price and regularly review their portfolios taking into consideration of their relationships with business partners.

Notes and accounts payable are paid within one year. Notes and accounts payable 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 and executing derivative transactions (forward exchange contracts).

Bank loans and bonds payable are primarily for funding related to operating and investing activities. For the exchange rate fluctuation risks about loans in foreign currency and the interest rate fluctuation risks about loans with floating interest rate, the Companies reduce such risks using to hedge derivative transactions (currency swap and interest rate swap contracts).

In addition, certain foreign subsidiaries have conducted derivative transactions (commodity futures trading) to cope with the fluctuation risk of purchased electricity price. The Companies have executed and controlled derivative transactions in accordance with the internal rules which stipulated the transaction authority. For details on hedging instruments, hedging items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to the aforementioned Note 2 (4), "Derivative transactions and hedge accounting." For liquidity risks of financing, the Companies manage them by preparing and updating the cash flow plans as appropriate and maintaining the liquidity on hand. Further, 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, 2020 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	¥ 27,782	¥ 27,782	¥ —
(2) Notes and accounts receivable - trade	44,883	44,883	—
(3) Deposits paid in parent company	—	—	—
(4) Investments in securities			
Available-for-sale securities	2,940	2,940	—
(5) Notes and accounts payable - trade	(22,387)	(22,387)	—
(6) Short-term loans (including current portion of long-term loans payable)	(38,336)	(38,336)	—
(7) Accounts payable	(18,878)	(18,878)	—
(8) Bonds payable	(10,000)	(9,982)	18
(9) Long-term loans	(25,934)	(25,939)	△5
(10) Derivative transactions			
①Hedge accounting not applied	(45)	(45)	—
②Hedge accounting applied	408	408	—

(※) The Debt is displayed by ().

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2021 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			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and bank deposits	¥ 10,924	¥ 10,924	¥ —	\$ 98,670	\$ 98,670	\$ —
(2) Notes and accounts receivable - trade	47,198	47,198	—	426,321	426,321	—
(3) Deposits paid in parent company	14,415	14,415	—	130,206	130,206	—
(4) Investments in securities						
Available-for-sale securities	4,859	4,859	—	43,892	43,892	—
(5) Notes and accounts payable - trade	(27,846)	(27,846)	—	(251,526)	(251,526)	—
(6) Short-term loans (including current portion of long-term loans payable)	(47,873)	(47,873)	—	(432,421)	(432,421)	—
(7) Accounts payable	(12,079)	(12,079)	—	(109,108)	(109,108)	—
(8) Bonds payable	(10,000)	(9,981)	19	(90,326)	(90,154)	172
(9) Long-term loans	(12,429)	(12,540)	△111	(112,264)	(113,267)	△1,003
(10) Derivative transactions						
① Hedge accounting is not applied	(6)	(6)	—	(52)	(52)	—
② Hedge accounting is applied	1,086	1,086	—	9,811	9,811	—

(※) The Debt is displayed by ().

1. Methods used to estimate fair values of financial instruments and matters about investments in securities and derivative transactions.

(1) Cash and bank deposits, (2) Notes and accounts receivable – trade and (3) Deposits paid in parent company

The book value approximates the fair value because of the short-term maturities of these instruments.

(4) Investments in securities

Market prices and quoted prices are used for the fair value of equity securities.

See Note 7, “Securities.”

(5) Notes and accounts payable-trade, (6) Short-term loans (including current portion of long-term loans payable) and (7) Accounts payable

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.

(8) Bonds payable

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

(9) 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.

(10) Derivative transactions

See Note 25, “Derivatives.”

2. Non-marketable securities whose fair values were not available were excluded from investments in securities above. These instruments as of March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Shares of affiliates	¥ 671	¥ 637	\$ 5,753
Other securities	547	495	4,469

3. The aggregate maturities subsequent to March 31, 2020 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	10 years or more
Cash and bank deposits	¥ 27,782	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	44,883	—	—	—
Total	¥ 72,665	¥ —	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2021 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	10 years or more
Cash and bank deposits	¥ 10,924	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	47,198	—	—	—
Deposits paid in parent company	14,415	—	—	—
Total	¥ 72,537	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	10 years or more
Cash and bank deposits	\$ 98,670	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	426,321	—	—	—
Deposits paid in parent company	130,206	—	—	—
Total	\$ 655,197	\$ —	\$ —	\$ —

4. The aggregate maturities subsequent to March 31, 2020 for short-term loans, bonds payable 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	10 years or more
Short-term loans (including current portion of long-term loans payable)	¥ 38,332	¥ —	¥ —	¥ —
Bonds payable	—	10,000	—	—
Long-term loans	—	25,934	—	—
Total	¥ 38,332	¥ 35,934	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2021 for short-term loans, bonds payable 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	10 years or more
Short-term loans (including current portion of long-term loans payable)	¥ 47,873	¥ —	¥ —	¥ —
Bonds payable	—	10,000	—	—
Long-term loans	—	12,429	—	—
Total	¥ 47,873	¥ 22,429	¥ —	¥ —

	Thousands of U.S. dollars			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	10 years or more
Short-term loans (including current portion of long-term loans payable)	\$ 432,421	\$ —	\$ —	\$ —
Bonds payable	—	90,326	—	—
Long-term loans	—	112,264	—	—
Total	\$ 432,421	\$ 202,590	\$ —	\$ —

7. Securities

1. The aggregate acquisition costs and fair values (book values) of marketable securities classified as available-for-sale securities as of March 31, 2020 and 2021 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2020			2021			2021		
	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	¥ 1,134	¥ 1,906	¥ 772	¥ 2,458	¥ 4,658	¥ 2,200	\$ 22,202	\$ 42,073	\$ 19,871
Securities whose acquisition cost exceeds book value:									
Stock	1,103	1,034	(69)	213	201	(12)	1,925	1,819	(106)
Total	¥ 2,237	¥ 2,940	¥ 703	¥ 2,671	¥ 4,859	¥ 2,188	\$ 24,127	\$ 43,892	\$ 19,765

2. Available-for-sale securities sold in the year ended March 31, 2020 and 2021 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2020			2021			2021		
	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses
Stock	¥ 2,163	¥ 849	¥ 647	¥ 308	¥ 84	—	\$ 2,783	\$ 764	—

3. The Companies recognize impairment loss on available-for-sale securities when the market value declines by more than 50 percent, or the market value declines by more than 30 percent but less than 50 percent and the Companies' management determines the decline to be other than temporary. For available-for-sale securities for which fair values are deemed extremely difficult to assess, when the value of those securities substantially declines, the Companies recognize impairment loss, except for cases in which the future recoverability of the value of those securities is reasonably supported.

Impairment loss on available-for-sale securities recognized ¥248 million and ¥30 million (\$274 thousand) for the year ended March 31, 2020 and 2021, respectively.

8. Inventories

Inventories held by the Companies at March 31, 2020 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Merchandise	¥ 1,820	¥ 1,328	\$ 11,995
Finished products	19,762	17,156	154,960
Work-in-process	34,623	32,328	292,006
Raw materials and supplies	22,447	22,311	201,530
Total	¥ 78,652	¥ 73,123	\$ 660,491

The net loss (gain) included in cost of sales due to inventories written down for the years ended March 31, 2020 and 2021 were ¥121 million and ¥(252) million (\$ (2,279) thousand), respectively.

9. Affiliates

Items relevant to affiliates at March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Investments in securities (stocks)	¥ 671	¥ 637	\$ 5,753

10. Assets Pledged as Collateral

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Assets pledged as collateral:			
Notes and accounts receivable - trade	¥ 2,509	¥ 3,382	\$ 30,549
Inventories	2,757	2,613	23,601
Land	3,504	3,057	27,615
Buildings and structures	1,008	—	—
Machinery and equipment	2,457	—	—
Total	¥ 12,235	¥ 9,052	\$ 81,765
Secured liabilities:			
Short-term loans (including current portion of long-term loans payable)	1,176	556	5,025
Long-term loans	296	780	7,048
Total	¥ 1,472	¥ 1,336	\$ 12,073

The assets above were pledged as collateral for bank guarantees in addition to the liabilities above.

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

Short-term loans at March 31, 2020 and 2021 represent bank overdrafts with weighted-average interest rates of 1.09% and 0.54%, respectively. In business in Japan, it is customary for short-term borrowings to be rolled over every year. For short-term financing, the Companies have commitment line contract arrangements with several financial institutions for an aggregate maximum amount of ¥13,270 million (\$119,860 thousand). At March 31 2021, the total ¥13,270 million (\$119,860 thousand) was unused.

Bonds payable at March 31, 2020 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Bonds payable due 2024 with interest rates of 0.30% at March 31, 2020 and 2021	¥ 10,000	¥ 10,000	\$ 90,326

The annual maturities of bonds payable outstanding at March 31, 2021 were as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars
2025	¥ 10,000	\$ 90,326

Long-term loans at March 31, 2020 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Loans from banks and other financial institutions due 2021 to 2024 with interest rates ranging from 0.13% to 10.90% at March 31, 2020 and due 2022 to 2024 with interest rates ranging from 0.13% to 10.15% at March 31, 2021	¥ 31,433	¥ 26,156	\$ 236,258
Lease obligations due 2022 to 2027 with interest rate of 1.50% at March, 31,2021	2,223	1,956	17,662
Other payables due 2020 to 2021 with interest rate of 4.05% at March 31,2020	3	—	—
	33,659	28,112	253,920
Less: Current portion of long-term loans	(6,205)	(14,432)	(130,355)
	¥ 27,454	¥ 13,680	\$ 123,565

The annual maturities of long-term loans outstanding at March 31, 2021 were as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars
2023	¥ 3,564	\$ 32,193
2024	8,165	73,748
2025	1,718	15,518
2026	123	1,108
2027 and thereafter	110	998
	¥ 13,680	\$ 123,565

12. Retirement Benefits

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

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 the Company and certain consolidated subsidiaries calculate net defined benefit liabilities and retirement benefit costs by the simplified method.

Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance at beginning of year	¥ 19,072	¥ 20,210	\$ 182,553
Service cost	790	869	7,846
Interest cost	237	178	1,611
Actuarial gain (loss)	1,387	(332)	(2,997)
Benefits paid	(816)	(578)	(5,222)
Other	(460)	745	6,726
Balance at end of year	¥ 20,210	¥ 21,092	\$ 190,517

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance at beginning of year	¥ 11,418	¥ 8,422	\$ 76,074
Expected return on plan assets	218	156	1,411
Actuarial gain (loss)	(2,850)	3,701	33,432
Contributions paid by employer	35	28	256
Benefits paid	(415)	(170)	(1,538)
Decrease from the termination of corporate pension plans	—	(1,074)	(9,697)
Other	16	(34)	(314)
Balance at end of year	¥ 8,422	¥ 11,029	\$ 99,624

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance at beginning of year	¥ 821	¥ 903	\$ 8,156
Retirement benefit costs	185	163	1,471
Benefits paid	(94)	(97)	(879)
Others	(9)	(16)	(134)
Balance at end of year	¥ 903	¥ 953	\$ 8,614

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

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Funded retirement benefit obligations	¥ 20,210	¥ 21,092	\$ 190,517
Plan assets	(8,422)	(11,029)	(99,624)
	11,788	10,063	90,893
Unfunded retirement benefit obligations	903	953	8,614
Total net liability (asset) for retirement benefits at end of year	12,691	11,016	99,507
Net defined benefit liabilities	13,635	12,852	116,087
Net defined benefit assets	(944)	(1,836)	(16,580)
Total net liability (asset) for retirement benefits at end of year	¥ 12,691	¥ 11,016	\$ 99,507

(5) Retirement benefit costs:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Service cost	¥ 790	¥ 869	\$ 7,846
Interest cost	237	178	1,611
Expected return on plan assets	(218)	(156)	(1,411)
Net actuarial gain (loss) amortization	(150)	466	4,211
Retirement benefit costs based on the simplified method	185	163	1,471
Total retirement benefit costs	¥ 844	¥ 1,520	\$ 13,728
Loss on termination of corporate pension plans	—	7	67
Extra retirement payments	—	425	3,841

Loss on termination of corporate pension plans is included in other expenses.

(6) Remeasurements of defined benefit plans:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Actuarial gain (loss)	¥ (6,628)	¥ 4,466	\$ 40,343

(7) Accumulated remeasurements of defined benefit plans:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Actuarial gain yet to be unrecognized	¥ 6,526	¥ 2,060	\$ 18,606

(8) Plan assets:

① Plan assets comprise:

	2020	2021
Equity securities	67%	81%
Cash and bank deposits	24%	16%
Other	9%	3%
Total	100%	100%

Assets in retirement benefit trusts accounted for 10% of total plan assets at March 31, 2020.

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, 2020 and 2021 were as follows:

	2020	2021
Discount rate (mainly)	0.1%, 2.3%	0.1%, 1.1%
Long-term expected rate of return (mainly)	1.7%, 2.9%	1.3%, 1.9%
Expected rate of pay increase	3.0%	2.5%

Certain foreign consolidated subsidiaries use the expected rate of pay increase.

The Companies do not describe the expected rate of pay increase because they, other than certain foreign consolidated subsidiaries, 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 ¥1,453 million and ¥1,308 million (\$11,812 thousand) to the defined contribution plans for the years ended March 31, 2020 and 2021, respectively.

13. Income Taxes

1. Significant components of deferred tax assets and liabilities at March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Deferred tax assets:			
Tax loss carryforwards	¥ 2,786	¥ 3,249	\$ 29,350
Net defined benefit liabilities	2,710	1,802	16,279
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trusts	2,089	1,307	11,802
Gain on investment of certain marketable securities to employee retirement benefit trusts	603	502	4,531
Impairment loss	—	1,006	9,087
Accrued bonuses	513	464	4,191
Unrealized gains	191	267	2,413
Devaluation loss on marketable securities	215	224	2,024
Excess depreciation of depreciable assets	201	200	1,807
Devaluation loss on inventories	266	135	1,216
Business tax payable	83	107	966
Other	587	660	5,966
Gross deferred tax assets	10,244	9,923	89,632
Valuation allowance for tax loss carryforwards	(2,367)	(2,694)	(24,337)
Valuation allowance for deductible temporary differences	(628)	(1,540)	(13,916)
Less: Valuation allowance	(2,995)	(4,234)	(38,253)
Total deferred tax assets	¥ 7,249	¥ 5,689	\$ 51,379
Deferred tax liabilities:			
Depreciation, etc., of foreign subsidiaries	¥ (2,643)	¥ (2,593)	\$ (23,423)
Adjustment of carrying amount based on fair value	(2,157)	(1,466)	(13,245)
Reserve for deferred capital gains from property, plant and equipment	(880)	(861)	(6,168)
Securities to employee retirement benefit trusts	(1,110)	(683)	(7,774)
Net defined benefit assets	(822)	(561)	(5,067)
Unrealized holding gains on securities	(142)	(527)	(4,761)
Other	(980)	(1,088)	(9,825)
Total deferred tax liabilities	(8,734)	(7,779)	(70,263)
Net deferred tax assets (liabilities)	¥ (1,485)	¥ (2,091)	\$ (18,884)

Valuation allowance increased by ¥1,239 million (\$11,195 thousand). The main factors in the increase were impairment loss and recognition of valuation allowance for tax loss carryforwards.

2. Tax loss carryforwards and their deferred tax assets by expiration periods:

	As of March 31, 2020							total
	Millions of yen							
	2021	2022	2023	2024	2025	2026 and beyond		
Tax loss carryforwards (a)	¥ 23	¥ 206	¥ 252	¥ 362	¥ 141	¥ 1,802	¥ 2,786	
Valuation allowance	(23)	(206)	(252)	(362)	(141)	(1,383)	(2,367)	
Net deferred tax assets	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 419	¥ 419	

(a) The amount of tax loss carryforwards shown in the table above is after multiplying by the statutory income tax rate.

	As of March 31, 2021							total
	Millions of yen							
	2022	2023	2024	2025	2026	2027 and beyond		
Tax loss carry forwards (a)	¥ 62	¥ 173	¥ 401	¥ 181	¥ 152	¥ 2,280	¥ 3,249	
Valuation allowance	(55)	(173)	(401)	(181)	(139)	(1,745)	(2,694)	
Net deferred tax assets	¥ 7	¥ —	¥ —	¥ —	¥ 13	¥ 535	¥ 555	

Thousands of U.S. dollars

	2022	2023	2024	2025	2026	2027 and beyond	total
Tax loss carryforwards (a)	\$ 562	\$ 1,570	\$ 3,618	\$ 1,631	\$ 1,372	\$ 20,597	\$ 29,350
Valuation allowance	(499)	(1,570)	(3,618)	(1,631)	(1,253)	(15,766)	(24,337)
Net deferred tax assets	\$ 63	\$ —	\$ —	\$ —	\$ 119	\$ 4,831	\$ 5,013

(a) The amount of tax loss carryforwards shown in the table above is after multiplying by the statutory income tax rate.

3. The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2020 and 2021 were not required to be disclosed due to loss before income taxes.

14. Net Assets

Under the Japanese Corporate Law (the “Law”), the entire amount of the issue price of new 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 27, 2020, the directors approved of no cash dividends. At the Company's Board of Directors meeting held on May 27, 2021, the directors approved of no cash dividends.

15. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2020 and 2021 totaled ¥2,476 million and ¥2,110 million (\$19,063 thousand), respectively. For the year ended March 31, 2021, research and development cost in the Specialty Steel, Metal Powders and Formed & Fabricated Materials segments amounted to ¥1,537 million (\$13,880 thousand), ¥526 million (\$4,754 thousand) and ¥47 million (\$429 thousand), respectively.

16. Employment adjustment subsidies

Employment adjustment subsidies of the Companies recorded in manufacturing costs and selling, general and administrative expenses at March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Employment adjustment subsidies	¥ —	¥ 2,153	\$ 19,449

17. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Packing and delivery expenses	¥ 11,598	¥ 9,896	\$ 89,384
Salaries	8,929	7,733	69,849
Provision of allowance for doubtful accounts	53	38	341
Provision for bonuses	395	341	3,083
Retirement benefit expenses	445	578	5,217
Provision for directors' retirement benefits	18	15	138

18. Gain on Sale of Property, Plant and Equipment

The components of gain on sale of property, plant and equipment for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Machinery and equipment	50	—	—

19. 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, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Buildings and structures	¥ 50	¥ 1	\$ 8
Machinery and equipment	188	255	2,299
Others	260	369	3,342
Total	¥ 498	¥ 625	\$ 5,649

20. Amortization of goodwill

Due to the impairment of shares of consolidated subsidiaries, goodwill is amortized in a lump sum pursuant to the provisions of Paragraph 32 of the “Practical Guidelines on Capital Consolidation procedures in Consolidated Financial Statements.”

21. Impairment Loss

For the current fiscal year, the impairment loss was recorded on the following asset group:

Segment	Company	Location	Use	Type	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Specialty Steel	Mahindra Sanyo Special Steel Pvt. Ltd.	Maharashtra, India	Business assets	Buildings and structures	¥ 1,027	\$ 9,277
				Machinery and equipment	1,970	17,798
				Land	151	1,361
				Construction in progress	766	6,919
				Property, Plant and Equipment and others	15	134
				Intangibles and others	0	1
Total				¥ 3,929	\$ 35,490	

The Companies group assets with consideration for business management segments. In principle, the Company is classified by business segments and its consolidated subsidiaries are classified by each company as one asset group.

Regarding the above asset group, the indication of impairment was recognized due to consecutive operating losses. Therefore, as a result of estimating the future cash flows, since the recoverable value declined below the book value, the book value was reduced to the recoverable value and the reduction was recorded as the impairment loss (3,929 million yen (\$35,490 thousand)) in extraordinary losses.

The recoverable value is calculated by estimating value in use, and applying a discount rate of 12.0 % to future cash flow.

22. Net Loss Per Share

Net loss per share for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net loss attributable to owners of the parent	¥ (3,717)	¥ (6,870)	\$ (62,055)
Net loss of common stock attributable to owners of the parent	¥ (3,717)	¥ (6,870)	\$ (62,055)
	Thousands of shares		
	2020	2021	
Weighted-average number of shares of common stock	55,364	54,492	
	Yen		U.S. dollars
	2020	2021	2021
Net loss per share	¥ (67.14)	¥ (126.07)	\$ (1.14)

The Companies had no dilutive securities for the years ended March 31, 2020 and 2021.

23. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2020 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and bank deposits	¥ 27,782	¥ 10,924	\$ 98,670
Time deposits with deposit terms of over 3 months and other	(562)	(458)	(4,133)
Deposits paid in parent company	—	14,415	130,206
Cash and cash equivalents	¥ 27,220	¥ 24,881	\$ 224,743

24. Accounting for Leases

1. Non-cancelable operating leases

As a lessee

Outstanding future lease payments under non-cancelable operating leases at March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Due within one year	¥ 274	¥ 264	\$ 2,386
Due after one year	1,376	1,192	10,766
Total	¥ 1,650	¥ 1,456	\$ 13,152

2. IFRS 16 “Leases”

(a) Outline of leased assets

Some overseas consolidated subsidiaries have applied IFRS 16 “Leases” from the beginning of the previous consolidated fiscal year. The vehicle and rent expenses on real estate of the subsidiary are recorded as right-of-use assets. Right-of-use assets are included in “Other” of property, plant and equipment in the consolidated balance sheet.

(b) Accounting for the depreciation and amortization of leased assets

Right-of-use assets are depreciated using the straight-line method over the shorter period of the lease term or the estimated useful life.

25. Derivatives

(1) Derivative transactions to which hedge accounting was not applied

Currency-related transactions

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2020 were as follows:

	Millions of yen			
	Contract amount	Contract amount after one year	Fair value	Unrealized gain (loss)
Forward exchange contracts:				
Buying				
U.S. dollars	¥ 501	¥ —	¥ (42)	¥ (42)
Japanese yen	87	—	(1)	(1)
Selling				
U.S. dollars	1	—	0	0
Euros	4	—	(2)	(2)
Total	¥ 593	¥ —	¥ (45)	¥ (45)

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2021 were as follows:

	Millions of yen				Thousands of U.S. dollars			
	Contract amount	Contract amount after one year	Fair value	Unrealized gain (loss)	Contract amount	Contract amount after one year	Fair value	Unrealized gain (loss)
Forward exchange contracts:								
Buying								
U.S. dollars	¥ 45	¥ —	¥ (4)	¥ (4)	\$ 407	\$ —	\$ (40)	\$ (40)
Japanese yen	13	—	(0)	(0)	113	—	(0)	(0)
Selling								
U.S. dollars	1	—	0	0	10	—	8	8
Euros	2	—	(2)	(2)	22	—	(20)	(20)
Total	¥ 61	¥ —	¥ (6)	¥ (6)	\$ 552	\$ —	\$ (52)	\$ (52)

(2) Derivative transactions to which hedge accounting was applied

Derivative transactions to which hedge accounting was applied for the years ended March 31, 2020 and 2021 were as follows:

① Currency-related transactions

	2020	2021
Method of hedge accounting	Principle method	Principle method
Type of derivative transactions	Forward exchange contracts Selling Euros	Forward exchange contracts Selling Euros
Main hedged items	Accounts payable - trade	Accounts payable - trade
Contract amount	¥22,386 million	¥17,331 million (\$156,548 thousand)
1 year or more amount of contract	¥7,413 million	¥4,571 million (\$41,287 thousand)
Fair value	¥295 million	¥1,164 million (\$10,518 thousand)

② Interest rate and currency swap transactions

	2020	2021
Method of hedge accounting	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	—
Main hedged items	Short-term loans	—
Contract amount	¥2,929 million	—
1 year or more amount of contract	—	—
Fair value	※1	—

※1 Because interest rate and currency swap transactions accounted for by the unified method (the exceptional method, the allocation method) are managed together with the short-term loans that are the hedged items, the fair value is included in the fair value of the short-term loans.

③ Other

	2020	2021
Method of hedge accounting	Principle method	Principle method
Type of derivative transactions	Commodity futures contract	Commodity futures contract
Main hedged items	Electricity	Electricity
Contract amount	¥1,008 million	¥2,124 million (\$19,186 thousand)
1 year or more amount of contract	—	¥794 million (\$7,174 thousand)
Fair value	¥112 million	¥(78) million (\$ (706) thousand)

26. Contingent Liabilities

Guarantees for loans of employees and others at March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
UCHIDA-SATO TECH (THAILAND) CO., LTD.	¥ 3	¥ 2	\$ 17

27. 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.

(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.

(Changes in depreciation method for Property, Plant and Equipment)

As described in "(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)," the depreciation method for Property, Plant and Equipment of the Company and its domestic subsidiaries was changed to the straight-line method for the current consolidated fiscal year from the declining balance method mainly used in the past.

As a result, compared with using the declining-balance method, for the current consolidated fiscal year, the segment loss in "Specialty Steel" and "Formed and Fabricated Materials" decreased by 1,804 million yen (\$16,293 thousand) and 99 million yen (\$893 thousand) respectively and the segment income in "Metal Powder" and "Other" increased by 32 million yen (\$289 thousand) and 2 million yen (\$15 thousand) respectively.

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

Segment information for the years ended March 31, 2020 and 2021 was as follows:

	For the year ended March 31, 2020						
	Millions of yen						
	Reportable segments			Other	Total	Adjustments	Consolidated total
Specialty Steel	Metal Powder	Formed and Fabricated Materials					
(a) Sales and operating income (loss):							
Net sales							
Outside customers	¥ 240,237	¥ 4,126	¥ 17,938	¥ 152	¥ 262,453	¥ —	¥ 262,453
Intersegment transactions	8,132	—	0	1,721	9,853	(9,853)	—
Total	248,369	4,126	17,938	1,873	272,306	(9,853)	262,453
Segment income (loss)	¥ (1,676)	¥ 263	¥ (121)	¥ 67	¥ (1,467)	¥ 50	¥ (1,417)
(b) Other:							
Depreciation	¥ 13,891	¥ 347	¥ 754	¥ 12	¥ 15,004	¥ (26)	¥ 14,978
Amortization of goodwill	2,942	—	—	—	2,942	—	2,942
Impairment loss	—	—	—	—	—	—	—

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income (loss) adjustments are intersegment eliminations.
3. Segment income (loss) is adjusted with operating loss 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.
5. Amortization of goodwill does not include the amortization of goodwill (¥1,289 million) included in extraordinary loss.

	For the year ended March 31, 2021						
	Millions of yen						
	Reportable segments			Other	Total	Adjustments	Consolidated total
Specialty Steel	Metal Powder	Formed and Fabricated Materials					
(a) Sales and operating income (loss):							
Net sales							
Outside customers	¥ 193,402	¥ 3,456	¥ 13,735	¥ 129	¥ 210,722	¥ —	¥ 210,722
Intersegment transactions	6,260	—	0	1,445	7,705	(7,705)	—
Total	199,662	3,456	13,735	1,574	218,427	(7,705)	210,722
Segment income (loss)	¥ (5,241)	¥ 263	¥ (615)	¥ 46	¥ (5,547)	¥ 54	¥ (5,493)
(b) Other:							
Depreciation	¥ 13,211	¥ 252	¥ 687	¥ 9	¥ 14,159	¥ (30)	¥ 14,129
Amortization of goodwill	2,621	—	—	—	2,621	—	2,621
Impairment loss	3,929	—	—	—	3,929	—	3,929

Thousands of U.S. dollars							
	Reportable segments				Total	Adjustments	Consolidated total
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other			
(a) Sales and operating income (loss):							
Net sales							
Outside customers	\$ 1,746,927	\$ 31,216	\$ 124,063	\$ 1,159	\$ 1,903,365	\$ —	\$ 1,903,365
Intersegment transactions	56,544	—	1	13,053	69,598	(69,598)	—
Total	1,803,471	31,216	124,064	14,212	1,972,963	(69,598)	1,903,365
Segment income (loss)	\$ (47,339)	\$ 2,379	\$ (5,553)	\$ 410	\$ (50,103)	\$ 485	\$ (49,618)
(b) Other:							
Depreciation	\$ 119,334	\$ 2,278	\$ 6,207	\$ 74	\$ 127,893	\$ (271)	\$ 127,622
Amortization of goodwill	23,674	—	—	—	23,674	—	23,674
Impairment loss	35,490	—	—	—	35,490	—	35,490

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income (loss) adjustments are intersegment eliminations.
3. Segment income (loss) is adjusted with operating loss 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.

(4) Related Information

(a) Segment related information for the year ended March 31, 2020 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

	As of March 31, 2020						
	Millions of yen						
	Japan	Europe (Sweden of Europe)	Asia	North America	Others	Total	
Net sales	¥ 108,997	¥ 99,906	¥ (24,509)	¥ 43,892	¥ 8,476	¥ 1,182	¥ 262,453

2. Property, plant and equipment

	As of March 31, 2020						
	Millions of yen						
	Japan	Europe (Sweden of Europe)	Asia	North America	Others	Total	
Property, plant and equipment	¥ 65,866	¥ 36,330	¥ (28,989)	¥ 10,274	¥ 27	¥ 4,391	¥ 116,888

③ Information about major customers

	For the year ended March 31, 2020	
	Net sales	Related segment
	Millions of yen	
Marubeni-Itochu Steel Inc.	¥ 29,603	Specialty Steel

(b) Segment related information for the year ended March 31, 2021 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

							As of March 31, 2021	
							Millions of yen	
	Japan	Europe (Sweden of Europe)	Asia	North America	Others	Total		
Net sales	¥ 83,836	¥ 84,296	¥ (21,855)	¥ 35,744	¥ 5,714	¥ 1,132	¥ 210,722	

							Thousands of U.S. dollars	
	Japan	Europe (Sweden of Europe)	Asia	North America	Others	Total		
Net sales	\$ 757,254	\$ 761,411	\$ (197,404)	\$ 322,865	\$ 51,609	\$ 10,226	\$ 1,903,365	

2. Property, plant and equipment

							As of March 31, 2021	
							Millions of yen	
	Japan	Europe (Sweden of Europe)	Asia	North America	Others	Total		
Property, plant and equipment	¥ 67,821	¥ 37,028	¥ (29,982)	¥ 5,202	¥ 24	¥ 3,750	¥ 113,825	

							Thousands of U.S. dollars	
	Japan	Europe (Sweden of Europe)	Asia	North America	Others	Total		
Property, plant and equipment	\$ 612,601	\$ 334,457	\$ (270,819)	\$ 46,991	\$ 214	\$ 33,871	\$ 1,028,134	

③ Information about major customers

				For the year ended March 31, 2021		
				Net sales		Related segment
				Millions of yen	Thousands of U.S. dollars	
Marubeni-Itochu Steel Inc.	¥	22,765	\$	205,625	Specialty Steel	

(5) Information about the amount of amortization of goodwill and the unamortized amount of goodwill by reportable segments

								As of March 31, 2020					
								Millions of yen					
								Reportable segments		Other	Total	Adjustments	Consolidated total
	Specialty Steel	Metal Powder	Formed and Fabricated Materials										
Unamortized amount of goodwill	¥ 35,630	¥ —	¥ —	¥ —	¥ 35,630	¥ —	¥ 35,630						

								As of March 31, 2021					
								Millions of yen					
								Reportable segments		Other	Total	Adjustments	Consolidated total
	Specialty Steel	Metal Powder	Formed and Fabricated Materials										
Unamortized amount of goodwill	¥ 34,176	¥ —	¥ —	¥ —	¥ 34,176	¥ —	¥ 34,176						

								Thousands of U.S. dollars					
								Reportable segments		Other	Total	Adjustments	Consolidated total
	Specialty Steel	Metal Powder	Formed and Fabricated Materials										
Unamortized amount of goodwill	\$ 308,701	\$ —	\$ —	\$ —	\$ 308,701	\$ —	\$ 308,701						

The amount of amortization of goodwill is omitted because the information is disclosed in “(3) Information about reportable segment profit or loss and other material items.”

28. Related Party Information

(Related party transactions)

(1) Related party transactions for the years ended March 31, 2020 were as follows:

Not applicable.

(2) Related party transactions for the years ended March 31, 2021 were as follows:

	Transactions during the year ended			Resulting account balances		
	Description of transaction	March 31, 2021		Account		
		Amount	Amount		Amount	Amount
	Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars	
Category:						
Parent company						
Name:						
Nippon Steel Corporation						
Head office address:						
Chiyoda-ku, Tokyo						
Paid-in capital:				Deposits		
¥419,524 million	Deposit of funds	¥ 17,973	\$ 162,340	paid in parent company	¥ 14,415 \$ 130,206	
Business content:						
Production and selling of steel products, etc						
Equity ownership percentage:						
Holding 53.07% directly						
Holding 0.10% indirectly						
Relation with related party:						
Deposit of funds						

Deposit of funds is transaction by CMS and the transaction amount represents the average outstanding balance during the fiscal year.

(3) Related party transactions with subsidiaries owned by the same parent company and subsidiaries of other related companies for the years ended March 31, 2020 were as follows:

Not applicable.

(4) Related party transactions with subsidiaries owned by the same parent company and subsidiaries of other related companies for the years ended March 31, 2021 were as follows:

	Transactions during the year ended			Resulting account balances		
	Description of transaction	March 31, 2021		Account		
		Amount	Amount		Amount	Amount
	Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars	
Category:						
subsidiaries owned by the same parent company						
Name:						
Nippon Steel Finance Co.,Ltd.						
Head office address:						
Chiyoda-ku, Tokyo						
Paid-in capital:	Transfers of trade receivable	¥ 9,259	\$ 83,633	Accounts receivable-other	¥ 6,090 \$ 55,010	
¥1,000 million						
Business content:						
Engages in the group's financing operations						
Equity ownership percentage:						
Not applicable						
Relation with related party:						
Transfers of accounts receivables						

Regarding the Company's accounts receivables, "Account Receivable Sales Contract" with Nippon Steel Finance Co.,Ltd. has been concluded and the account receivables have been transferred.

(5) Related party transactions between a consolidated subsidiaries and related parties for the years ended March 31, 2020 and 2021 were as follows:

Not applicable.

(Disclosures about the parent company and significant affiliates)

(1) Information about the parent company

Nippon Steel Corporation is listed on the Tokyo Stock Exchange, Nagoya Stock Exchange, Fukuoka Stock Exchange and Sapporo Stock Exchange.

(2) Financial statements of significant affiliates

Not applicable.



Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of Sanyo Special Steel Co., Ltd. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of operations, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2(22) to the consolidated financial statement which describes the depreciation method for Property, Plant and Equipment of the Company and its domestic subsidiaries was changed to the straight-line method for the current consolidated fiscal year from the declining-balance method mainly used in the past. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of management’s judgment concerning the identification of an impairment indicator for goodwill of Ovako Group AB

The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet of Sanyo Special Steel Co., Ltd (hereinafter, the “Company”) as of March 31, 2021, goodwill of ¥34,176 million, that was recognized when Ovako Group AB (hereinafter, “Ovako”) was converted into a consolidated subsidiary in March 2019, represents approximately 11% of total assets.</p> <p>Whenever there is an impairment indicator for goodwill, it needs to be tested for impairment by comparing the undiscounted future cash flows that are expected to be generated from the related asset groups (larger units including goodwill) with their carrying amounts. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.</p> <p>As a result of the decrease in volume of orders in Ovako since automobile sales volume in Europe dropped mainly due to the U.S.-China trade conflict and the spread of COVID-19, Ovako has recognized recurring operating losses (after the amortization of goodwill) in the fiscal years 2019 and 2020. However, management determined that there was no impairment indicator for the current fiscal year because it was expected to generate positive operating income for the next period (fiscal year 2021) as set forth in the business plan of Ovako. The business plan that served as the basis for the aforementioned management judgment assumed a sales volume increase due to future demand recovery for special steels in Europe, and such projection involved a degree of uncertainty.</p> <p>We, therefore, determined that appropriateness of management’s judgment concerning the identification of an impairment indicator for goodwill of Ovako was one of the most significant matters in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.</p>	<p>The primary procedures we performed to assess the appropriateness of management’s judgment concerning the identification of an impairment indicator for goodwill of Ovako included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company’s internal controls to determine whether there was an impairment indicator for goodwill.</p> <p>(2) Assessment of the appropriateness of the judgment concerning the identification of an impairment indicator for goodwill</p> <p>We inquired of management about the basis for the significant assumptions adopted by management in order to assess the reasonableness of the estimated operating income for the next fiscal year that was derived from the business plan of Ovako and used by management in determining whether there was an impairment indicator for goodwill. In addition, in order to assess its reliability in the light of the requirements of accounting standards, we:</p> <ul style="list-style-type: none"> ● compared the sales volume included in the business plan with the available external data on the projection of automobile sales volume in Europe, and examined the consistency with the most recent volume of order.

Appropriateness of an impairment loss on property, plant and equipment and intangibles of Mahindra Sanyo Special Steel Pvt. Ltd.

The key audit matter	How the matter was addressed in our audit
<p>For the fiscal year ended March 31, 2021, Sanyo Special Steel Co., Ltd (hereinafter, the “Company”) recognized an impairment loss of ₹3,929 million related to the property, plant and equipment and intangibles of Mahindra Sanyo Special Steel Pvt. Ltd. (hereinafter, “MSSS”) that was converted into a consolidated subsidiary through an additional share acquisition in June 2018.</p> <p>While these assets are depreciated/amortized in a systematic manner, they need to be tested for impairment whenever there is an impairment indicator. The impairment test is performed by comparing the undiscounted future cash flows that are expected to be generated from the asset groups with their carrying amounts. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.</p> <p>As a result of the decrease in volume of orders in MSSS since automobile sales volume in India dropped mainly due to the spread of COVID-19, MSSS has recognized recurring operating losses for some consecutive years, indicating impairment. Accordingly, the Company performed an impairment test during the current fiscal year. In the impairment testing, undiscounted future cash flows were estimated based on the mid-term business plan of MSSS prepared by management that incorporated a sales volume increase in the market, an estimate which involved a degree of uncertainty. Accordingly, management’s judgment thereon had a significant effect on the estimated undiscounted future cash flows.</p> <p>In addition, if the recognition of an impairment loss is deemed necessary, estimating the discount rate used to calculate the recoverable amount based on the value in use requires a high degree of expertise in valuation.</p>	<p>The primary procedures we performed to assess the appropriateness of an impairment loss on property, plant and equipment and intangibles of MSSS included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company’s internal controls to determine whether an impairment loss on property, plant and equipment and intangibles should be recognized and to measure an impairment loss.</p> <p>(2) Assessment of the reasonableness of the estimated undiscounted future cash flows</p> <p>In order to assess the reasonableness of key assumptions adopted in estimating the undiscounted future cash flows, we inquired of the planning department about the future uncertainty (a sales volume increase) incorporated into the mid-term business plan of MSSS and the undiscounted future cash flows, which served as the basis for the estimate. In addition, we:</p> <ul style="list-style-type: none"> ● assessed whether uncertainty was appropriately incorporated into the undiscounted future cash flows by comparing and examining the consistency between the sales volume under the mid-term business plan of MSSS and available external data on the projection of automobile sales volume in India. <p>(3) Assessment of the reasonableness of the estimated discount rate</p> <p>We compared the discount rate used to calculate the value in use with the discount rate independently calculated by a valuation specialist in our domestic network firms.</p>

We, therefore, determined that appropriateness of an impairment loss on property, plant and equipment and intangibles of MSSS was one of the most significant matters in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.	
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Responsibilities of Management and Audit and Supervisory members and Audit and Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Audit and Supervisory members and Audit and Supervisory Board are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are

inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit and Supervisory members and Audit and Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit and Supervisory members and Audit and Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit and Supervisory members and Audit and Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Naoki Sugita
Designated Engagement Partner
Certified Public Accountant

Yu Kohno
Designated Engagement Partner
Certified Public Accountant

Tatsuya Furusawa
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
August 30, 2021

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.