

 **SANYO SPECIAL STEEL**

REPORT 2020

Sanyo Special Steel Report 2020
APRIL 1.2019-MARCH 31.2020

CONTENTS

- 03 Top Message
- 05 Financial Highlights
- 07 Segment Data
- 09 “Steel You Can Count On” technologies that thrive in a variety of fields
- 11 Features
 - Participating in the “Challenge Zero” Initiative for the realization of a Decarbonized Society
- 13 CSR-conscious Management - the aim of the Sanyo Special Steel Group
- 15 Stakeholder Confidence
- Environment**
 - 17 Environmental Management
 - 19 Initiatives to Prevent Climate Change
 - 20 Contributing to a Resource-recycling Society
 - 21 Moves to Reduce the Load on the Environment
 - 22 Environmental Risk Management
- Social**
 - 23 Confidence of Customers
 - 25 Confidence of Suppliers
 - 27 Confidence of Employee
- Governance**
 - 33 Corporate Governance
 - 37 Internal Control Systems
 - 39 Financial Section
 - 75 Company Profile
 - 77 Guidelines for Corporate Behavior and Code of Conduct

■ Editorial Policy

This report gives a summary of financial information such as earnings, as well as ESG (Environmental, Social, and Governance) initiatives and similar, which provide the foundations for sustainable growth, to allow a better understanding of Sanyo Special Steel Co., Ltd. (“Sanyo Special Steel”).

■ Period Covered by the Report

This report covers the activities of Sanyo Special Steel Co., Ltd. and group companies in FY2019 (April 1, 2019 to March 31, 2020) but also includes some information pertaining to matters outside of the above reporting period.

■ Reference Guidelines and Documents

“International Integrated Reporting Framework” International Integrated Reporting Council (IIRC)
“Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation” Ministry of Economy, Trade and Industry, Japan
“Environmental Reporting Guidelines 2018” Ministry of the Environment

The corporate philosophy

Confidence-based Management

Confidence of Society

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

Confidence of Customers

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

Confidence among People

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

Special steels are produced by adding chromium, nickel, and other elements to steel to give it special properties such as hardness, strength, toughness, or resistance to wear, heat, and corrosion, depending on the use. As they are employed in critical parts and key components of industrial products in a wide range of sectors—from automobile to railway, construction machinery, electronic products and ICT equipment—high quality and reliability are required. Demands for special steels are growing increasingly diverse and sophisticated as their end products become more advanced in functions and more environmentally friendly. The Group has been providing high quality special steel products that adequately meet such needs, using the “advanced clean steel technology” it has developed over the years.

The major end users of the Group’s products are in automotive, industrial machinery, and construction machinery industries. Some of the Group’s products are delivered directly to car makers, while others are first sold to manufacturers of bearings, parts and other firms along the supply chain to be processed into various parts and components, and eventually reach the car assemblers. In recent years, international competition in the special steel industry has been growing ever tougher as our rivals ramp up their production capacity and upgrade quality and technologies.

Against this background, the Group has been pursuing sustained growth, despite adverse circumstances, through efforts such as (i) establishing a robust corporate structure by strengthening our business foundations, (ii) aiming for further technological advancements by strengthening R&D and quality competitiveness, and (iii) promoting “Sanyo Special Steel—the Confident Choice” as a global brand. We have invested in the reform of production structure centering on the clearing of bottleneck in our No.2 Bar & Wire Rod mill in order to respond to the shift towards products in smaller diameter and orders in small lots, and to improve productivity and quality. We have also raised the ratio of independent outside directors to the total number of directors on board to one-third in order to enhance the independence, objectivity and accountability of our Board of Directors. In addition, we have set up a Nomination & Compensation Advisory Committee comprising the Representative Director (Chair)

and independent outside directors. We are constantly introducing new products and technologies that are in keeping with the trends—such as the shift towards electric vehicles (EVs) and other new technologies as well as changes in demand—applying advanced clean steel technology, in which we have the edge, and the fruits of basic research. Add to this, we are promoting “Sanyo Special Steel—the Confident Choice” as a global brand in our overseas operations, including through acquisition of Ovako in Sweden and Mahindra Sanyo Special Steel Pvt. Ltd. in India as our consolidated subsidiaries.

The Group currently faces an extremely challenging business environment in which we cannot expect an early recovery of the global economy that is mired in a severe situation due to the spread of COVID-19. Moreover, the changing ways of life, growing disparity between advanced and developing countries, and other factors are likely to cause drastic transformation in industrial structures across the world.

With these situations in mind, the Group believes that it must build a robust corporate structure that turns out profits without failure in any business environment. The entire Group will continue working to rigorously cut fixed costs, improve the product mix, and reduce variable costs, so as to secure the margins and boost its earning power. We will further enhance our overseas business to build a strong global network that is prepared to cope with the prospective trend of users to increase purchase of locally manufactured products. We are committed to enhancing our products’ appeal and our development capability—with focus on advanced clean steel technology, our strength area—expanding our technological advancements to meet the needs of each buyer in each region on a global scale in the post-COVID-19 era, and also reaping the benefits of synergy among Sanyo Special Steel, Ovako and Nippon Steel at an early stage.

Furthermore, there has been a rapid spread in the idea of focusing on SDGs (Sustainable Development Goals) and ESG (Environment, Society, and Governance) set out by the United Nations, with companies being required to contribute to a sustainable society.

We regard climate change as a particularly important issue that has immediate consequences to the survival of mankind. The Group has already been engaged in efforts towards reducing CO₂ emissions by switching fuel types, and employing energy-saving measures, among others. In October 2020, we joined the “Challenge Zero” initiative led by the Japan Business Federation (Keidanren) and published our initiatives toward realizing a decarbonized society. We will keep on driving innovation that contributes to reducing GHG emissions from our business activities and making decarbonized society a reality.

There is, however, one more thing that the Group must keep in mind if it is to continue growing. It is that all of our employees stay mentally and physically healthy. Safety and health are the essential prerequisite that deserve the highest priority of the Group as a manufacturer in conducting its business activities. All of the Group companies both in Japan and abroad will continue working together to create a working environment that allows each and every employee to carry out their day to day work with a sense of satisfaction while staying safe and in good health.

We believe that building up confidence among all our stakeholders is a value that the Group should protect moving forward; it is something that we aim to achieve by promoting sincere, fair, and transparent corporate management through our philosophy of “Confidence-based Management,” which aims to establish the “Confidence of Society,” “Confidence of Customers,” and “Confidence among People.”

The Group will continue practicing “Confidence-based Management” as we aim not only to achieve sustainable growth in our own operations in a rapidly changing business environment but also to continue to contribute to the realization of a sustainable society. It is my hope that this report will provide an insight into the activities of the Group, and we look forward to your continued support and assistance.

樋口 真哉



Financial Highlights

- Operating results

During the fiscal year under review (April 1, 2019 to March 31, 2020), the Japanese economy recovered at a moderate pace on the back of improvements in personal consumption and employment situation. Nevertheless, the future remains unclear in light of the spread of COVID-19 since January, on top of the impact of US-China trade conflict on the global economy and the economic slowdown in China and other emerging countries.

In the special steel industry, the destocking by customers in machine tools, robots and semiconductor manufacturing equipment sectors that had begun in the latter half of 2018 grew into an industry-wide trend covering the key demand industries including automotive, industrial machinery and construction machinery sectors in the summer of 2019. This led to a decline in orders in the second half of the fiscal year, causing in the production volume of special hot-rolled steels to remain below the 2018 levels.

The Group sales for the fiscal year increased by 76,634 million yen year-on-year to 262,453 million yen, despite a decline in sales volume on a non-consolidated basis. This was partially driven by the consolidation of sales of Ovako, our consolidated subsidiary in Sweden, in FY2019, among others. In terms of profits, the operating income fell 11,540 million yen from FY2018 to a loss of 1,417 million yen, owing to factors such as the decline in Sanyo Special Steel's non-consolidated operating income due to a drop in sales volume and rise in the price of supplementary materials, a fall in the operating income of consolidated subsidiaries, as well as the write-off of goodwill recorded with respect to Ovako and Mahindra Sanyo Special Steel Pvt. Ltd., a consolidated subsidiary in India. Net income attributable to owners of parent decreased 11,438 million yen from FY2018 to a loss of 3,717 million yen, due partially to the write-off of goodwill of Mahindra Sanyo Special Steel Pvt. Ltd. (as an extraordinary loss), in addition to the operational loss recorded.

Regarding the goodwill of Mahindra Sanyo Special Steel Pvt. Ltd., the company's income had been on an upward trend thanks to the recovery in automotive sales in India and resumption of shipping to railways, but we amortized the goodwill in a lump sum at the end of FY2019 in consideration of the likely delay in recovery of the company's profits due to the impacts of COVID-19.

- Financial Condition

The Group's total assets as of the end of FY2019 stood at 327,963 million yen, down 46,282 million yen year-on-year due partially to a drop in trade notes and accounts receivable and inventories, as well as a rise in property, plant and equipment. Trade notes and accounts receivable and inventories decreased as a result of the decline in sales and subsequent drop in production, as well as a fall in the prices of raw materials and fuels including scrap iron. Property, plant and equipment increased as we invested in the clearing of bottleneck in our No.2 Mill in order to respond to the changes in order mix, such as a shift towards products in smaller diameter and orders in

small lots, and to improve productivity and quality.

Total liabilities stood at 145,760 million yen, down 28,285 million yen year-on-year, owing to a decrease in trade notes and accounts payable and also loans and commercial papers. Trade notes and accounts payable decreased due partially to a decline in sales and subsequent drop in production, as well as a fall in the price of raw materials and fuels. Loans and commercial papers decreased as a result of allocating the cash flow gained from operating activities, such as the decrease in trade notes and accounts receivable and inventories, to the repayment of loans payable and redemption of commercial papers.

Total net assets were 182,203 million yen, falling by 17,997 million yen year-on-year. This was mainly due to the recording of loss attributable to owners of parent, purchase and retirement of treasury stock, as well as the decline in accumulated other comprehensive income owing to fluctuations in stock and foreign exchange markets.

As a result, net D/E ratio (ratio of interest-bearing debt <after deducting cash and deposits> to total net assets) as of the end of FY2019 was 0.27 (0.34 as at end FY2018).

- Cash Flows

Regarding the Group's cash flows in FY2019, our operating activities generated 39,425 million yen, while investing activities used up 12,463 million yen and financing activities used up 21,093 million yen.

As a result, the balance of cash and cash equivalents as at the end of FY2019 stood at 27,220 million yen (down by 5,427 million yen year-on-year).

Cash flows for each section in FY2019 is summarized below.

(Cash flows from operating activities)

Net cash provided by operating activities was 39,425 million yen (up 28,632 million yen from FY2018), with a loss before income taxes (negative 3,299 million yen), depreciation and amortization (15,033 million yen), amortization of goodwill (4,231 million yen) against a decrease in trade notes and accounts receivable (31,062 million yen), decrease in inventories (15,442 million yen), decrease in trade notes and accounts payable (negative 18,680 million yen), and income taxes paid (negative 4,187 million yen). The decrease in trade notes and accounts receivable and inventories, which resulted from the decline in sales and subsequent drop in production as well as a fall in the price of raw materials and fuels, was a factor in the rise in cash flow provided by operational activities.

(Cash flows from investing activities)

Net cash used in investing activities was 12,463 million yen (less than in FY2018 by 56,582 million yen), partly due to expenditure on the acquisition of property, plant and equipment (negative 18,572 million yen).

(Cash flows from financing activities)

Net cash used in financing activities was 21,093 million yen (65,929 million yen in FY2018), reflecting the repayments of short-term loans (negative 18,322 million yen), proceed in long-term loans (12,253 million yen), and redemption of commercial papers (negative 8,000 million yen).

- Profit Distribution Policy and Dividends for FY2019

Our basic policy on profit distribution is to reward our shareholders by increasing the profits available for distribution while strengthening our business foundation. Concerning dividend payment, we intend to meet our shareholders' expectations, primarily by distributing profits based on periodic business performance, while giving due consideration to both the payout ratio and the amount of funds required for investment and other activities to enhance our corporate value. Dividends from surplus are based on a consolidated payout ratio of 25-30% and are paid at the end of the 2nd quarter

and the end of fiscal year according to our profit distribution standard based on our consolidated business performance.

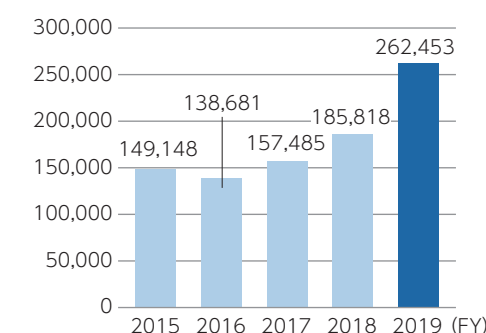
In FY2019, dividends of 15.5 yen per share, or 855 million yen in total, were paid. With a view to enhancing shareholder returns and improving capital efficiency, we acquired 1,730 thousand shares of treasury stock for 255 million yen and recorded a retirement of a total of 2,930 thousand shares of treasury stock, including the 1,200 thousand shares already held. Owing to the recording of 3,717 million yen loss attributable to owner of parent, it is with deep regret that we suspended the payment of year-end dividends.

Consolidated Results

Business performance

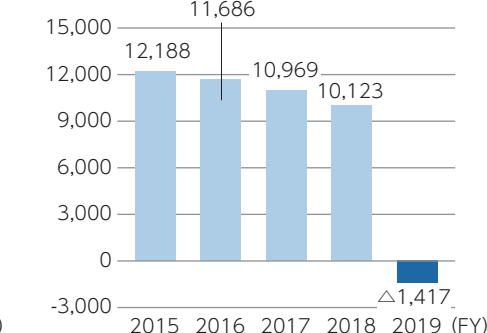
Net Sales

(Millions of Yen)



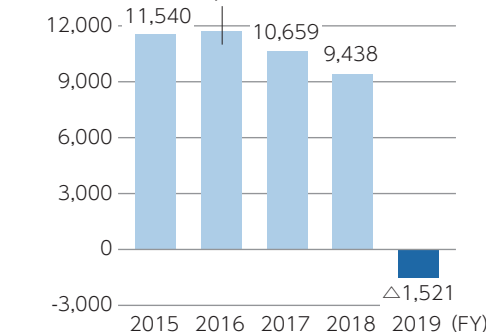
Operating income

(Millions of Yen)



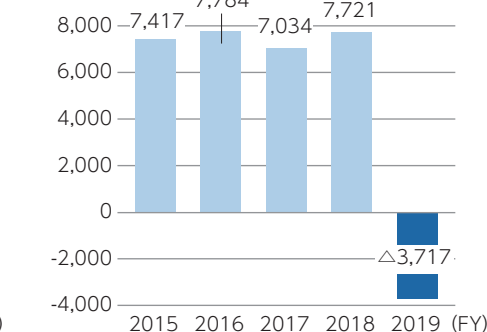
Ordinary Income

(Millions of Yen)



Net income

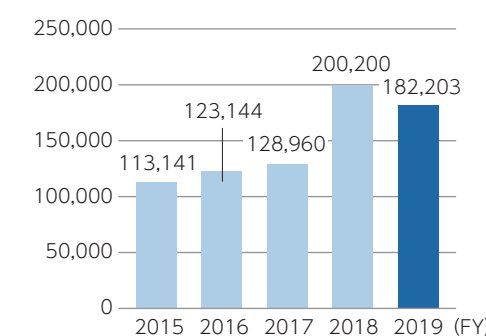
(Millions of Yen)



Financial condition

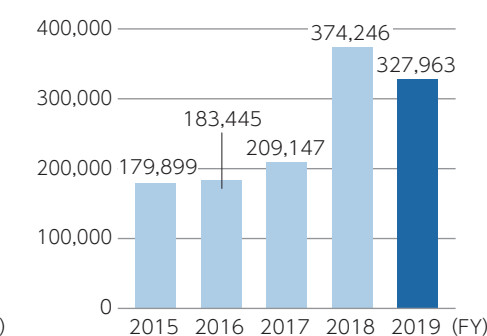
Net assets

(Millions of Yen)

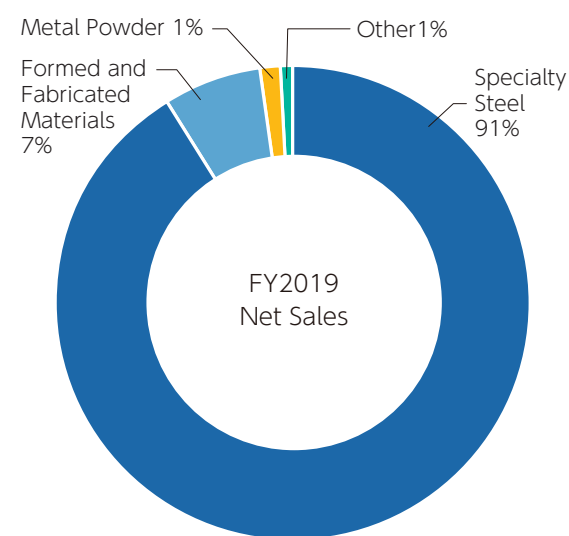


Total assets

(Millions of Yen)



Segment Data

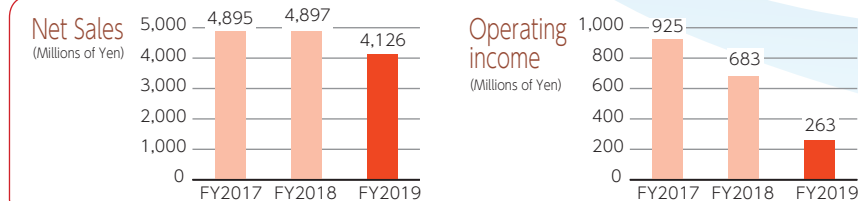


Consolidated	Net Sales	Operating income
Specialty Steel	248,369*	▲1,676
Metal Powder	4,126*	263
Formed and Fabricated Materials	17,938*	▲121
Other	1,873	67
Adjustments	▲9,853	48
Total	262,453	▲1,417

* Net sales include internal sales and transfers conducted between segments

◆Metal Powder

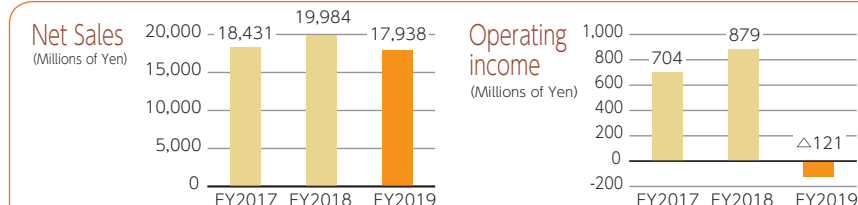
In Metal Powder business, we manufacture and sell metal powder products. Net sales for FY2019 declined by 771 million yen year-on-year to 4,126 million yen due mainly to a drop in sales volume. Operating income fell by 420 million yen year-on-year to 263 million yen due partially to a decline in sales volume and drop in unit sales prices, although fixed costs decreased.



◆Formed & Fabricated Materials

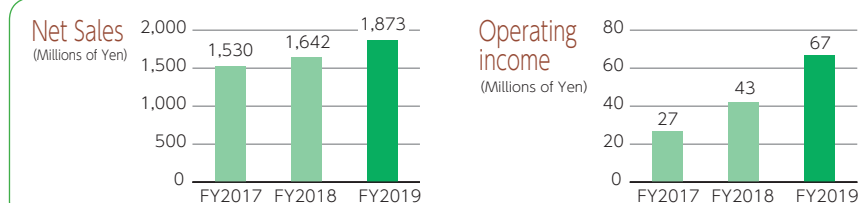
In Formed and Fabricated Materials business, we manufacture and sell formed and fabricated materials made from special steel bars and tubes.

Net sales for FY2019 decreased by 2,045 million yen year-on-year to 17,938 million yen, due mainly to a drop in sales volume. Operating income fell by 1,000 million yen year-on-year to a loss of 121 million yen, owing to a decline in sales volume and a fall in operating income of a subsidiary in formed and fabricated metals business.



◆Others

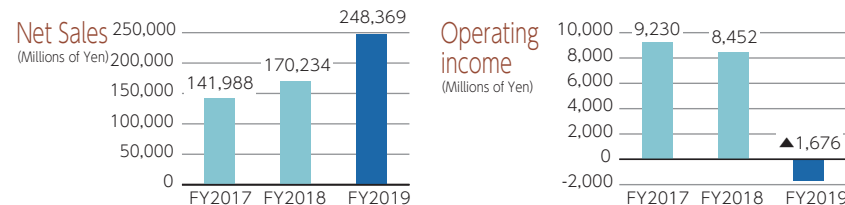
This segment includes information processing services conducted through subsidiaries. Net sales for FY2019 increased by 232 million yen year-on-year to 1,873 million yen, while operating income was 67 million yen, up 24 million yen from FY2018.



◆Special Steel

In the Special Steel business, we manufacture and sell a range of special steel products from bearing steel to engineering steel, stainless steel, heat resistant steel, and tool steel.

Net sales for FY2019 was 248,369 million yen, up 78,134 million yen year-on-year owing chiefly to the inclusion of Ovako as a consolidated subsidiary, although Sanyo Special Steel's non-consolidated sales volume showed a decrease. Operating income decreased by 10,128 million yen year-on-year to a loss of 1,676 million yen, due to a drop in Sanyo Special Steel's sales volume, rise in the price of supplementary materials, surge in costs as volume dropped, as well as an increase in the write-off of goodwill of Ovako and Mahindra Sanyo Special Steel Pvt. Ltd., among other factors.



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

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

Wind power generation equipment

Bearings
Bearing Steel
Bolts, Gears, etc.
Engineering Steel

Formed & Fabricated Materials

Electrical Cables

High alloy cables: High-strength low thermal expansion alloy for high voltage transmission lines
High Alloy Steel Wires

Construction machineries

Gears, Shafts, Cylinders, Sprockets, Swing gears, etc.
Engineering Steel

Formed & Fabricated Materials

Formed & Fabricated Materials

Shinkansen bullet train

Bearings
Bearing Steel

Formed & Fabricated Materials

Factories, Plants, Power Stations

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

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

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

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

Engineering Steel

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

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

Aerospace

Driving parts, etc.
Bearing Steel

Engineering Steel

Stainless Steel

Metal powders for 3D printing

Metal powders

PCs

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

HDDs

Powder Metallurgy products

Mobile Phone, Smartphone

Electro-magnetic wave absorber
Metal powders

Electrical Appliances

Magnetic head for HDD recorders, etc.
Powder Metallurgy products

Automobiles

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

Bearings, etc.
Bearing Steel

Intake/exhaust valves, etc.
Heat resistant steel

EGR cooler, Shot peening
Metal powders

Roads

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

Robots

Driving parts, etc.
Bearing Steel

Engineering Steel

Industrial Machineries

Spindles, Turrets, etc.
Engineering Steel

Buildings

Bolts
Engineering Steel
Seismic isolation systems
Bearing Steel

Medical Fields

Parts for dental treatment devices (hand pieces)
Stainless Steel

Ships

Shafts, Bolts, etc.
Engineering Steel

Propeller shafts, etc.
Stainless Steel

Engine valves
Heat resistant steel

High Alloy Steel

Iron scrap



Recycle



The Group of Sanyo Special Steel's Products

Bearing Steel
Engineering Steel
Tool Steel
Stainless Steel
Heat resistant steel
High Alloy Steel



Rolled bars
Tubes
Forged bars



Metal powders



Powder Metallurgy products



Formed & Fabricated Materials



Electric arc furnace slag

At Sanyo Special Steel, we use electric arc furnace steel-making (which uses iron scrap as a main raw material) to manufacture special steel, contributing to the recycling and effective use of iron resources. Compared to blast furnace steel-making, which makes steel from iron ore, the electric arc furnace method has the advantage of lower CO₂ emissions and lower energy consumption. Approximately 95% of the raw materials used by Sanyo Special Steel are recycled materials such as scrap iron (including materials recycled in-house)

Features



Participating in the “Challenge Zero” Initiative for the realization of a Decarbonized Society

In October 2020, we became a participating member of the “Challenge Zero” initiative led by the Japan Business Federation (hereinafter, Keidanren).

“Challenge Zero” is an initiative jointly led by Keidanren and the Government of Japan that aims to proactively publicize and support innovative actions taken by companies and organizations towards a “decarbonized society” which the Paris Agreement (the international framework on climate change) sets as a long-term goal.

In line with the thrust of “Challenge Zero” to solve social issues through business-led innovations, we are working to generate innovation that aim to contribute to reducing GHG emissions and realizing decarbonized society.

Innovation Challenge 1

Contribution to zero CO₂ emissions by developing bearing steel for long-life wind power generation

Outline

Recently, the demand for zero CO₂ emissions against the power generation business is rapidly increasing all over the world. Wind power generation shown in Fig. 1 has begun to be recognized as one of the effective measures, and is spreading mainly in Europe.

One of the major issues for expanding wind power generation equipment is to make it highly reliable equipment that can continuously and stably generate power. This is synonymous with reducing equipment maintenance frequencies, and in order to achieve this, it is required to suppress troubles during operation. That is, bearings, which are the core components of wind power generation equipment, are required to have high reliability.

Therefore, based on the high-cleanliness technology for steel that we have cultivated so far, we aim to develop bearing steel for wind power generation that can obtain stable long-life property. Furthermore, we will contribute to zero CO₂ emissions by its implementation and spread.

Description

(1) Details of challenges in the expansion of wind power generation equipment

There are two major issues for its expansion. One is the reduction of initial equipment costs. Since it is required to generate stable power with high efficiency, the equipment is often installed in mountainous areas with good wind conditions or at sea, which ends up with a large initial cost. As for Japan, the lack of land suitable for wind power generation has forced us to choose the sea, which costs more to install than the ground, and for this reason it has not been as widespread as in other countries. Currently, technological development of offshore power generation for cost reduction is being carried out at a rapid pace in various fields.

Another issue is the reduction of the frequency of equipment maintenance. In order to improve power generation efficiency or to increase the diameter of the wind turbine to generate higher power, the generator power rotating part (main shaft in the hub, speed increaser and generator) of the core part is installed in a high place with low maintainability. Operation costs would become higher if a trouble unexpectedly occurs in this vital part. Therefore, we are required to secure stable and long-life quality for bearing steel used in the power rotating part in the heart of the wind power generator.

(2) Challenge goals

In order to overcome the above-mentioned issues, we have set the following two points as contributions from the material supply side.

- 1) We will visualize the bearing fatigue (rolling fatigue) mechanism in an environment unique to wind power generation equipment, which has not been clarified at present.
- 2) Based on the obtained mechanism, we will develop a long-life bearing steel that can quantitatively predict the life and then supply it to the market.

(3) Specific challenge toward the goals

As shown in Fig. 2, the power rotating part, which is generally the key to power generation, is composed of three parts: the spindle part, the speed



Fig. 1, A wind power generation facility

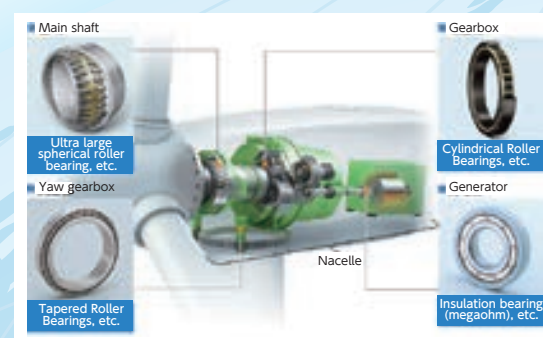


Fig. 2, General wind power generator structure and bearings*

* Reprinted from the following URL by courtesy of NTN Corporation
<https://www.ntnglobal.com/en/corporate/digest/business01.html>

increaser part, and the generator part. Since the bearings of each part have different rotation speeds, loads, lubrication conditions, and so on, each part has a unique usage environment. In addition, because the bearings are used in ever-changing weather conditions, they are in a rolling fatigue environment where the conditions are constantly unstable. The fatigue mechanism of bearings used in these environments has not been clarified yet due to the complex influencing factors. We aim to figure out the mechanism by combining the most-advanced rolling fatigue test method and simulation technology. Furthermore, we plan to model the cracking behavior (generation → transmission → fracture) and based on the findings, to develop a long-life bearing steel for which life can be quantitatively predicted, and to aim for commercialization.

(4) Effect of the realization of this challenge

We will work on development and commercialization of bearing steel for wind power generation that can obtain stable long-life property by realizing this challenge, and contribute to the expansion by improving the reliability of wind power generation equipment.

Supplementary information

Sanyo Special Steel Co., Ltd. Sanyo Technical Report, Vol.13(2006),p.73.

“Bearings and Bearing Steels for Wind Turbine.”

http://www.sanyo-steel.co.jp/technology/images/pdf/13/13_07.pdf

Innovation Challenge 2

Reduction of CO₂ emissions in various industrial furnace operations by developing high-strength heat-resistant steel tubes for heat exchangers

Outline

Industrial furnaces for heating and heat-treatment used in the steel and ceramics industries utilize so-called fossil fuels such as LNG, heavy oil or coke, and are one of the major CO₂ emission sources. In order to reduce fuel consumption and CO₂ emissions, the furnaces are equipped with waste heat recovery devices to improve their energy efficiency. While the heat conversion type recuperator (Fig. 1) is widely used as a waste heat recovery device for industrial furnaces, it is required to improve the heat recovery efficiency of the device, which leads to further reduction. We will contribute to the realization of a decarbonized society by developing high-strength heat-resistant steel tubes for heat exchangers that can improve energy efficiency and expanding their application to industrial furnaces.

Description

(1) Specific challenges

Most of the recuperators are installed in the flue. As shown in Fig. 1, the combustion air is heated (preheated) by the heat of the exhaust gas through the heat transfer tubes, which improves the energy efficiency of the furnace. Since the heat transfer tube is exposed to both high temperature and corrosive combustion gas, and combustion ash, the tube material is particularly required to have high temperature strength (creep strength) and high temperature corrosion resistance.

The exhaust gas is generally cooled down before recuperators by gas dilution to the durable temperature level of the heat-transfer tubes in order to prevent the tubes from thermal damage (creep deformation). In other words, heat loss occurs due to restrictions on material properties, and there has been a room for efficiency improvement here.

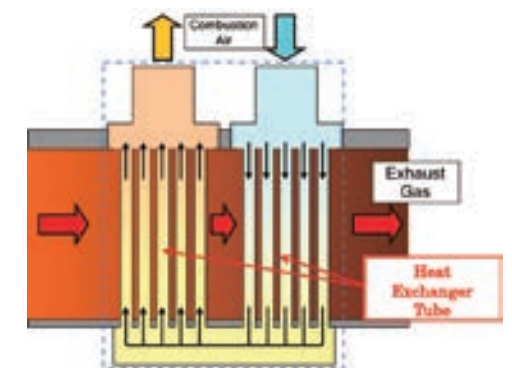


Fig. 1, Structure of Recuperators

(2) Challenge goal

With the background shown above, developing a heat transfer tube steel that can be used in a temperature environment higher than the current level can be an effective measure for improving energy efficiency in industrial furnaces. Therefore, we will work on development and commercialization of a heat-resistant steel tube that has equivalent high-temperature corrosion resistance to existing steel but has significantly improved creep strength, as shown in Fig. 2, and we aim to make this developed steel usable in an exhaust gas environment that is about 100 degree Celsius higher than the current level.

(3) Specific challenge toward the goal

To achieve the goal, we will adopt the unique structure control (precipitation control of intermetallic compounds) that we have found. In addition, this development requires precise structure control throughout the process from the steel tube manufacture to the customer's use in the furnace, and the structure prediction by simulation is adopted along with the confirmation by the experiment, which is the conventional development method.

(4) Effect of the realization of this challenge

It has been estimated that the industrial furnace equipped with the developed steel tube would have a CO₂ reduction effect of approximately 10% compared to the conventional steel tube.

Supplementary information

Sanyo Special Steel Co., Ltd. News Release, March 17, 2020.

“Successful Development of Heat-Resistant Steel for Use in Next Generation Recuperators”

http://www.sanyo-steel.co.jp/system/upload/news_en/20200317_e_2.pdf

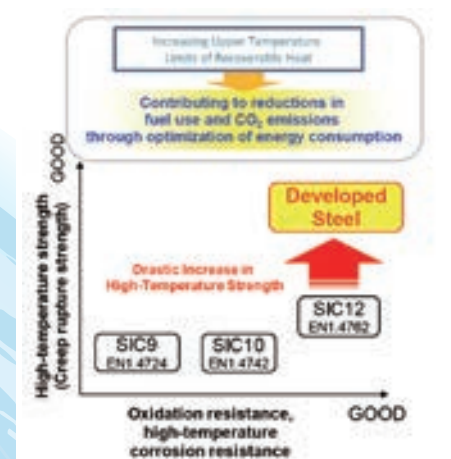
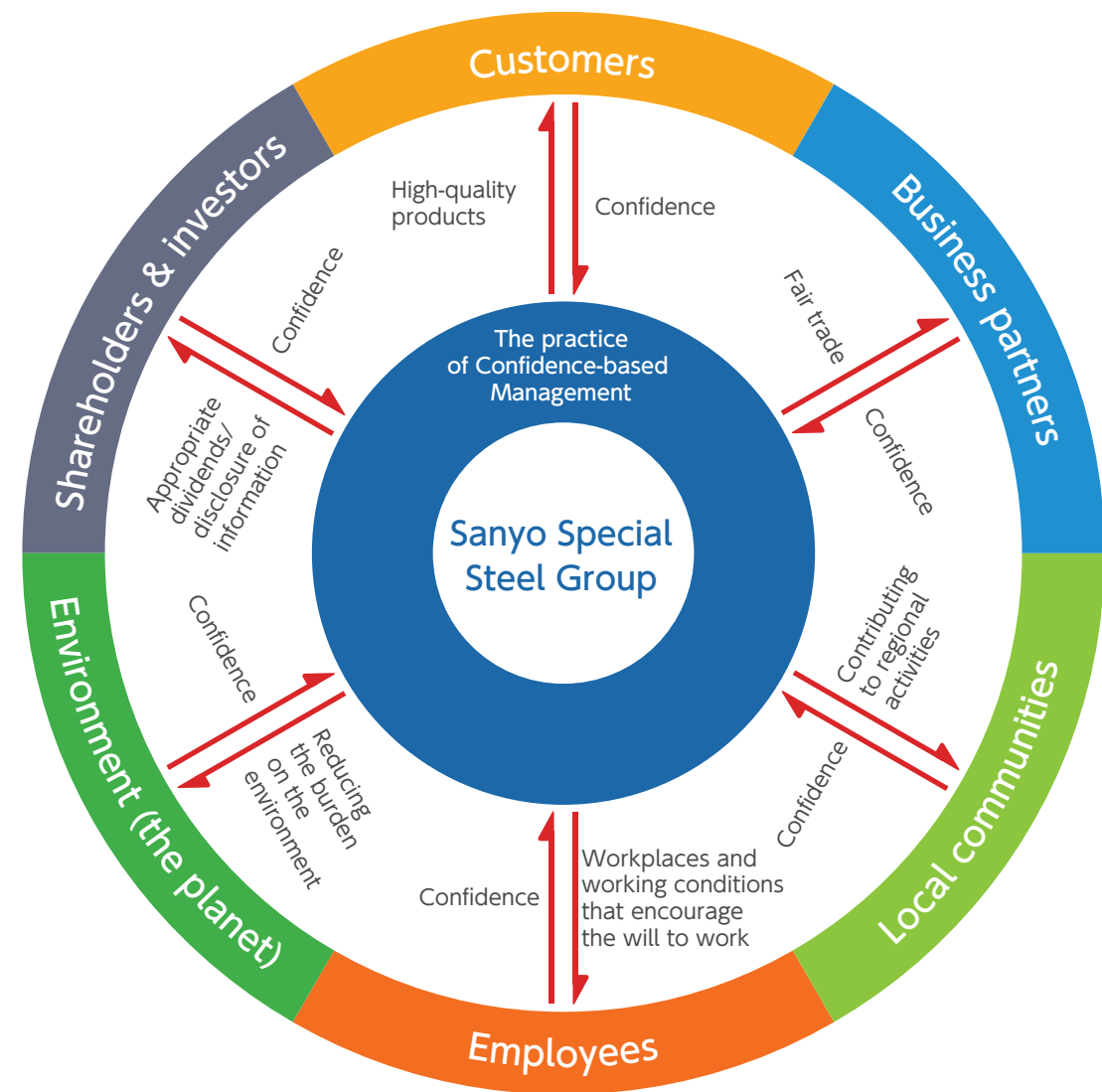


Fig. 2, Positioning of developed steel with respect to existing steel

CSR-conscious Management - the aim of the Sanyo Special Steel Group







CSR-conscious management is the aim of the Sanyo Special Steel Group, and its purpose is to realize sustainable growth and contribute to a sustainable society by building relationships of trust with all stakeholders through the practice of "Confidence-based Management," our corporate philosophy. The practice of "Confidence-based Management" can be rephrased as "being a completely honest company." Companies are members of society and they cannot develop without confidence from their stakeholders. The Sanyo Special Steel Group contributes to the realization of a sustainable society by honestly and frankly practicing "Confidence-based Management."



Sustainable growth of Sanyo Special Steel



FY2019 CSR Management Initiatives

Stakeholder	Missions to be fulfilled	Results of key CSR activities in FY2019
 Customers	<ul style="list-style-type: none"> Stable supply of high-quality products Sustainable efforts to improve quality Promotion of technology and research on steel 	<ul style="list-style-type: none"> Presentations at expositions in Japan and overseas Successful Development of Heat-Resistant Steel for Use in Next Generation Recuperators Practical Application of 3D Printer Powder for Manufacturing Dental Equipment
 Business partners	<ul style="list-style-type: none"> Fair and equitable trading Sustainable procurement activities 	<ul style="list-style-type: none"> Implementation of a supplier award Financial results briefing for business partners
 Shareholders & investors	<ul style="list-style-type: none"> Appropriate disclosure of financial information Communication with shareholders and investors Promotion of prompt and transparent management 	<ul style="list-style-type: none"> Sanyo Special Steel Report delivery Video of financial results briefing distributed on Web page Investor relations activities abroad
 Local communities	<ul style="list-style-type: none"> Regional revitalization both in Japan and overseas Support activities for volunteer/cultural promotions 	<ul style="list-style-type: none"> Cultural lectures Plant tours held for elementary school pupils Clean up activities in the area around the head office plant Donation of books to elementary schools in Himeji City Blood donation activity
 Employees	<ul style="list-style-type: none"> Fair personnel system Development of work-friendly environments Eradication of occupational accidents Improvement of disaster prevention awareness 	<ul style="list-style-type: none"> Implementation of "no overtime days" Language training for new employees in the US Enhancements to the safety experience center Implementation of disaster prevention drills
 Environment (the planet)	<ul style="list-style-type: none"> Development of environmentally friendly products and technologies Efforts towards environmental preservation 	<ul style="list-style-type: none"> Switch to LED lighting Use of inverters in on-site water supply pumps Use of brick waste as heat-resistance raw material Updating large fans with high-efficiency fans Replacement of compressor in a factory

Sanyo Special Steel and SDGs

The relationship between our Group's key business activities and the SDGs

In the global economy, people, goods, and capital shift on a global scale and one country's economic crisis is instantly linked to another; similarly, in this age, global issues such as climate change and natural disasters also have global repercussions and severe impact. Given this situation, the 2030 Agenda for Sustainable Development was adopted by the UN in September 2015 with universal objectives for the entire international community to work towards—both developed and developing countries alike. In the 2030 Agenda, 17 goals and 169 targets were listed as Sustainable Development Goals (SDGs). The relationship between our Group's key business activities and the SDGs is as follows.





SDGs Goals	9	8	5	12	13	14	15
Group Activities	<ul style="list-style-type: none"> Development and stable supply of highly-functional special steel products 	<ul style="list-style-type: none"> Health and safety activities Development of employees' skills Welfare scheme 	<ul style="list-style-type: none"> Support for the active participation of women 	<ul style="list-style-type: none"> Utilization of scrap raw material Recycling of by-products 	<ul style="list-style-type: none"> Promotion of energy saving Reductions in CO₂ emissions Modal shift Increase the ratio of transportation made by ship 	<ul style="list-style-type: none"> Prevention of water pollution Re-use of waste water 	<ul style="list-style-type: none"> Reductions in the emission of air pollutants Development of green spaces within factory sites Chemical substance controls

Stakeholder Confidence

Our Group contributes to the creation of a sustainable society by ensuring that each and every employee is always aware of "coexisting with society" and fulfills his/her responsibilities as a member of society.
Moving forward, the Group will also practice its corporate philosophy of "Confidence-based Management" as we aim to inspire yet more confidence in all our stakeholders. Here we show some results from our activities in FY2019.

2019





Initiatives for shareholders, suppliers and customers

1Q	2Q
<ul style="list-style-type: none"> Announcement of financial results for FY2018 and press conference Receipt of "2018 TOP MILL AWARD" from Handy Tube Exhibited in "Advanced 3D Printing Expo Nagoya" Exhibited in "RAPID + TCT 2019" (US) 107th Annual General Meeting of Shareholders Exhibits presented at the "6th Highlyfunctional Metal Exposition" (Osaka) Ceremony for the presentation of supplier awards held  	<ul style="list-style-type: none"> FY2019 announcement of 1Q earnings results Exhibited in "High-Precision & Difficult Manufacturing Technology Show" (Kanagawa) Exhibits presented at the "Taiwan International 3D Printing Show 2019" (Taiwan) Investor relations activities abroad  

Initiatives for global society and the environment

<ul style="list-style-type: none"> Provision of practice steel materials for Himeji Technical High School Cultural lecture organized by the Sanyo Special Steel Cultural Promotion Foundation Receipt of "Hyogo Prefecture Tax Contributor Award"  	<ul style="list-style-type: none"> Invitation to a plant tour extended to 5th grade pupils from Himeji Municipal Shikama, Tsuda Elementary School Blood donation event (the first of the year) Yanagitani Akihiko, Fellow of Sanyo Special Steel, delivered a lecture at the opening ceremony of the "New Metallic Materials Research Center" Yanagitani Akihiko, Fellow of Sanyo Special Steel, delivered a lecture at the Annual Meeting of the Japan Institute of Metals and Materials  
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Initiatives for employees

<ul style="list-style-type: none"> Improvement of annual leave system *Annual leaves are now available in units of two hours (quarter-day), in addition to full day and half-day. 	<ul style="list-style-type: none"> Safety prayer ritual DLabor management seminar held Disaster prevention lecture  	<ul style="list-style-type: none"> Disaster drills for major earthquakes Internal control lectures  
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2020

3Q	4Q
<ul style="list-style-type: none"> FY2019 announcement of 2Q earnings results Exhibits presented at the 3D printer exhibition "Formnext2019" (Germany) Financial results briefing for business partners and shareholders Support exhibited in "Motion + Power Technology expo" (US) Exhibits presented at the "6th Highlyfunctional Metal Exposition" (Chiba)  	<ul style="list-style-type: none"> FY2019 announcement of 3Q earnings results Exhibits presented at the 3D printer exhibition TCT+Japan2020 (Tokyo) 
<ul style="list-style-type: none"> Yanagitani Akihiko, Fellow of Sanyo Special Steel, served as a lecturer at a seminar hosted by the Hyogo Metal Belt Consortium Blood donation event (the second of the year) Participation by the Track and Field Club in a marathon contest at Himeji Municipal Tegara Elementary School Presentation Ceremony for Donation Activities to beautify the local area Invitation to a plant tour extended to 5th grade pupils from Himeji Municipal Tegara, Takahama and Harima Municipal Hasuike Elementary School Commencement of donations to the International Students Support Scholarship of the University of Hyogo "Presentation Ceremony for Donation Pledges" held for the book-gifting scheme for inner-city elementary schools run by the Sanyo Special Steel Cultural Promotion Foundation.  	<ul style="list-style-type: none"> 2020 New Year Concert organized by the Sanyo Special Steel Cultural Promotion Foundation 
<ul style="list-style-type: none"> Compliance lectures Security trade control training Quality lectures Emergency drill conducted jointly with the Shikama fire station Company-wide competition to demonstrate skills in crane handling and slinging  	<ul style="list-style-type: none"> Award ceremony for Originality and Ingenuity Contributors Mental health lectures "Year-end Community Fest" hosted by Sanyo Special Steel's labor union 
<ul style="list-style-type: none"> Safety prayer ritual Presentation ceremony of the 2019 zero accident awards and certificates of appreciation 	



Environmental Management



Sanyo Special Steel formulates an environmental policy that forms the basis of the company's environmental conservation activities. Based on this policy, we create plans to improve environmental conservation and use environmental management systems in initiatives to tackle global warming, recycle by-products, and help prevent environmental pollution in a bid to mitigate environmental risks.

In addition, we not only help recycle metal resources by manufacturing products using scrap iron as the main raw material, but we also promote goods that are manufactured to help reduce the burden on the environment, using components and mold dies that have a longer life and are smaller in size and lighter in weight.

Environmental policy

(Philosophy)

We recognize that environmental issues such as global warming; air, water, and soil contamination; and waste problems are serious issues shared by all of humanity. As a company located in a richly endowed environment that faces Himeji Castle, a UNESCO World Heritage Site and a national treasure of Japan in the north, and the Setonaikai National Park in the south, we are committed to caring for the preservation of the environment and contributing to building a sustainable society in every stage of our business activities.

(Policy)

Bearing in mind that we are a company with plants that manufacture and sell special steel and non-ferrous metals, we undertake environmental management based on the following policy.

- 1) We will contribute to the recycling of metal resources by manufacturing steel products using iron scrap as the main raw material.
- 2) In addition to complying with laws, regulations, and agreements related to the environment, we will make ongoing efforts to enhance our environmental management framework to improve our environmental performance, and we will responsibly control any business activities that may have an adverse impact on the environment.
- 3) We will make efforts to reduce our impact on the environment in all stages of our business activities, and we will actively promote resource and energy savings, the recycling of byproducts and reduction of waste material, and the control of pollutant and greenhouse gas emissions to contribute to conservation of the environment and mitigation of climate change. Moreover, we will strive to prevent environmental pollution by developing products that will contribute to reducing our impact on the environment.
- 4) In our environmental conservation activities, we will pay particular attention to the education of each and every employee in environmental awareness.
- 5) To achieve this environmental policy, we will set environmental targets and review them at least once a year, and we will revise these targets as necessary.
- 6) We will ensure that all employees are thoroughly familiar with this environmental policy through education and training, and we will appoint the General Manager of Environmental Management as the Environmental System Management Officer.

Acquisition of ISO14001 Certification

We have acquired ISO14001 Certification (the international standard for environmental management systems) at principal mill in Himeji, our manufacturing base. We make continued efforts to establish this standard through our annual internal audit and external audit. During the internal audit, junior staff members are also in attendance at audit sites, which helps them understand the environmental management system. We are also making efforts to improve the system. We also focus on on-going training to facilitate the smooth change from one generation to another of internal auditors. In 2017, an external audit reviewed our transition to ISO14001:2015 and assessed that our Environmental Management System was being properly maintained and effectively utilized, allowing us to complete migration to the standard.

Promotion of the Environmental Management System

The Environmental Conservation Committee

Each year we hold a meeting of our Environmental Conservation Committee to enhance environmental management and mitigate environmental risk. The Committee is chaired by the Executive Officer in charge of the Environment Division, and its members also include the General Manager

of the Production Division and the General Manager of the Administration Division, and it discusses the formulation of basic guidelines on environmental conservation and matters on basic initiatives. The contents of the Committee's discussions are reported to the Board.

Environmental Liaison Meetings

Once a month, an Environmental Liaison Meeting is held to share information on the environment; those attending include the Chief Officer for Environmental Systems, executive officers, and department heads. The meetings collate information on the matters listed below and attempt to mitigate environmental risks.

- (i) **Status of responses to points identified in environmental checks**
- (ii) **Results of assessments on compliance with statutory laws and regulations**
We share results on air and effluent measurements, etc. prescribed by law or under agreed protocols.
- (iii) **Status of industrial waste treatment and results of inspections on industrial waste disposal facilities**
We share information on the status of industrial waste treatment and the results of inspections on industrial waste disposal facilities run by sub-contractors.
- (iv) **Amendments to the latest environmental laws**

Plans for improvements in environmental conservation

Plans for improvements in environmental conservation and FY2018 results

Topics	Medium-term projections(2017-2019)	FY 2018 Resultst	Self-Assessment
Energy-saving and global warming prevention measures	• Reductions in CO ₂ emissions resulting from the promotion of energy-saving measures (Goal: 2.6% reduction in FY2020 compared to BAU*) *Business as usual (if no special measures are taken)	• Amount of reduction in CO ₂ emissions: 3.38% vs BAU • Replacement of compressors in a factory • Switch to LED lighting	○○○
Recycling of by-products	• Reduction in volume of dust and sludge sent to landfill	• Outsourcing of dust recycling to sub-contractor	○○
	• Improve percentage of brick waste recycled	• Use of brick waste as heat-resistance raw material	○○
Compliance with statutory laws and regulations	• Compliance with regulatory standards (Water Pollution Prevention Act, and the Air Pollution Control Act, etc.)	• Attainment of regulatory standards in all items (No violations of, or deviation from, laws, regulations or agreements.)	○○○
Education and development activities for employees	• Regular education and development activities for employees	• Implementation of activities to beautify the local area (approx. 250 participants) • Registration of data into carbon footprint calculator for individual households (20 participants)	○○○
	• Increase in the number of staff holding official environmental qualifications	• On-going initiatives to increase the number of staff with managerial qualifications in the prevention of pollution	○
Promotion of information disclosure	• Regular publication of environmental reports	• Release of "Sanyo Special Steel Report 2019" and publication on website	○○○
	• Cooperation with environmental agencies such as local government bodies	• Implementation of "Environment Month" events	○○○

Self-Assessment: The level to which targets have been achieved are classified under 3 stages

○○○:Plans have been met ○○○:Good progress is being made to achieve plans

○:Further initiatives will be undertaken to achieve plans

Environmental accounting

We collated costs for environmental conservation initiatives undertaken in FY2019 in accordance with guidelines from the Ministry of the Environment.

Maintenance and administration costs for environmentally-friendly equipment such as dust collection units &water treatment facilities and the cost of recycling/disposing of byproducts amounted to approximately 2.6 billion yen. We also invested approximately 400 million yen in the improvement of dust collection units &water treatment facilities and in energy-saving initiatives such as changing lighting to LED.

Categories	(Million of yen)	
	Expenses	Investment
1 .Costs within business areas	2,586	400
2 .Upstream/downstream costs	0	0
3 .Cost of administrative activities	143	0
4 .R&D costs	37	0
5 .Cost of social activities	10	0
6 .Cost of addressing environmental damage	12	0
Total	2,788	400

Activities for developing environmental awareness

We believe that raising every employee's awareness of the environment is important in tackling our environmental conservation activities, and we conduct regular training for new employees and grade-based environmental workshops. We have also established a reward program to encourage employees to obtain qualifications related to environmental conservation such as those for pollution prevention managers, and we have also been working to have employees calculate carbon footprints for their own households.





Initiatives to Prevent Climate Change

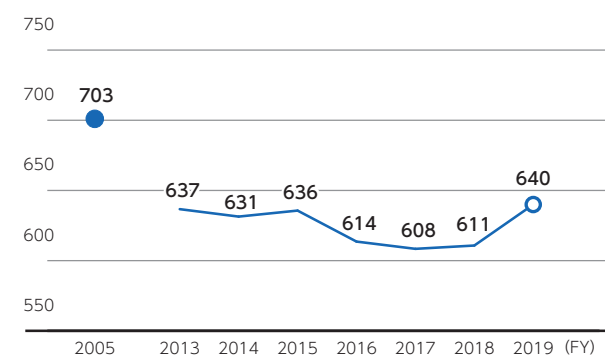
Initiatives to reduce the amount of CO₂ emissions

Sanyo Special Steel is involved in efforts to reduce CO₂ emissions (one of the greenhouse gases (GHG)) as part of its initiatives on climate change. Under our medium-term business plan (2017-2019), we aim to cut CO₂ emissions by 2.6% compared to BAU (business as usual - the scenario where no special measures are taken) by 2020. Results for FY2019 show a reduction of 3.38% has been achieved, and we are making renewed efforts to achieve the target for FY2020. In addition, we have continued to promote energy-saving initiatives such as the switch in fuel from heavy crude oil to LNG, increased use of regenerative burners for heating furnaces, and the use of inverters in large motors (revolution controlled), and through these initiatives, we have reduced unit emissions of CO₂ by 9% per ton of crude steel in comparison with FY2005. As a result of these initiatives, we have been recognized as an "S-class" business operator (the top rank for companies making outstanding energy-savings) for the five consecutive year under the assessment program run by the Ministry of the Economy, Trade and Industry, a program that grades and classifies business operators.

In October 2020, we joined "Challenge Zero," a project led by the Japan Business Federation that encourages businesses to take up the challenge of creating innovation for a decarbonized society.

We have published our innovation challenges, "Contribution to zero CO₂ emissions by developing bearing steel for long-life wind power generation" and "Reduction of CO₂ emissions in various industrial furnace operations by developing high-strength heat-resistant steel tubes for heat exchangers." (Details of innovation challenges can be found on pages 11-12 of this report.).

CO₂ emissions per unit of crude steel (CO₂-kg/t)



Reducing CFCs (Chlorofluorocarbons)

CFCs are used in our commercial air conditioners. As one of the GHGs, CFCs are deemed to contribute to global warming when released into the atmosphere. In accordance with Act on the Control of CFC Emissions, Sanyo Special Steel conducts

inspections for "specified Class 1 products" on our commercial air conditioners and other equipment as we work to ensure proper control of CFC gases.

Reducing the load on the environment when transporting products

Reducing CO₂ emissions does not just involve manufacturing processes but also essential initiatives on the logistics front. We believe that the choice of transportation method when shipping products is a particularly important point for reducing the load on the environment on the logistics front. Consequently, we are working to promote the use of rail transport and freight ships on the assumption that product quality can be ensured; rail transport allows CO₂ reductions to be reduced by around 90% compared to transportation by truck, and freight ships provide a reduction of around 80% compared to the same. Of all the shipments that Sanyo Special Steel makes itself, transport by freight ship accounts for a significantly higher percentage than the average for the manufacturing sector.

<Specific initiatives>

- Use of rail transport for the Tohoku area
- Use of freight ships for transport to interim warehouses set up in the areas of Kanto, Chubu, Shikoku, Chugoku, and Kyushu
- Switch from trucks to barges for transport to Kobe Port where export vessels depart.

Topics

Ovako succeeds in a trial using hydrogen to heat steel in pit furnace

Ovako, our subsidiary in Europe, became first in the world to succeed in a trial to heat steel billet using hydrogen in pit furnace at its Hofors mill. (A joint trial with Linde Gas AB) Production using this technology, which generates no CO₂ from heating and has no impact on steel quality, can drastically reduce environmental load compared to existing methods; according to Ovako's estimation, Hofors mill would save 20,000 tons of CO₂ per year.



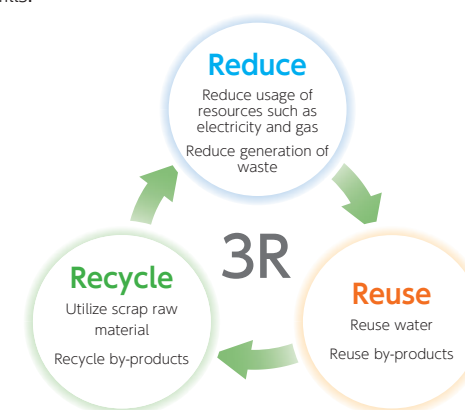
Contributing to a Resource-recycling Society

Special steel products created from recycled materials

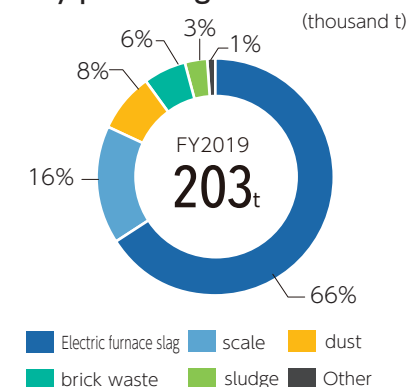
We use electric arc furnace steel-making (which uses iron scrap as a main ingredient) to manufacture special steel, contributing to the recycling and effective use of iron resources. Scrap iron accounts for around 80% of our raw materials, and if materials recycled internally are included, around 95% of our raw materials are recycled products.

Initiatives to reduce by-products

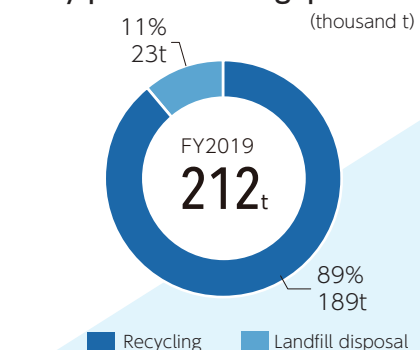
In FY2019, the amount of by-products generated by our production activities was 203,000 tons, and the amount processed, including the volume sold, was 212,000 tons. By-products include electric furnace slag, scale, dust, brick waste, and sludge. Based on the 3 R (Reduce, Reuse, Recycle) concept, we encourage recycling of these by-products and, of the amount processed in FY2019, approximately 89% was either recycled or reduced down by incineration, with the remaining amount, approximately 11%, finally being disposed of in landfills. Moving forward, we will work to expand the use of by-products in new applications in order to reduce disposal in landfills.



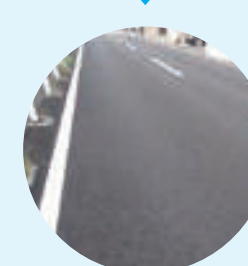
By-product generation (thousand t)



By-product throughput (thousand t)



Electric furnace slag



Recycled road paving in Himeji City

Recycling slag from electric arc furnaces

We promote the recycling of electric furnace slag generated as a by-product of the manufacturing process, and by ensuring reliable quality in the product and responding to a diverse range of needs, we have been able to maintain a 100% recycling rate of this resource. Our electric furnace slag products are used mainly as roadbed material for roads and as an asphalt aggregate instead of natural resources such as stone and sand. Moving forward, we expect it to be used as a raw material in "inhibitors" to control foam expansion of molten steel and by local authorities as a recycled aggregate for paved surfaces.

We use pressurized steam-aging facilities to pressurize our furnace slag products to the highest level in Japan in a process that effectively stabilizes any expansion in the products. In addition, we use a classification machine that can sort electric furnace products into six stages simultaneously, from coarse-grained aggregate to fine grains, and multi-functional classification equipment made up of a granulator that chamfers aggregate particles to adjust grain size and improve resistance to wear. Using these manufacturing processes, we provide customers with high-quality electric furnace slag products.

Moving forward, we intend to focus on realizing a sustainable society as we continue to comply with the Nippon Slag Association's "Guidelines for Management of Iron and Steel Slag Products" and not only deploy management systems across all areas including manufacturing, quality, and sales, but also submit to reviews by third-party organizations to enhance management systems and further improve reliability.



Moves to Reduce the Load on the Environment

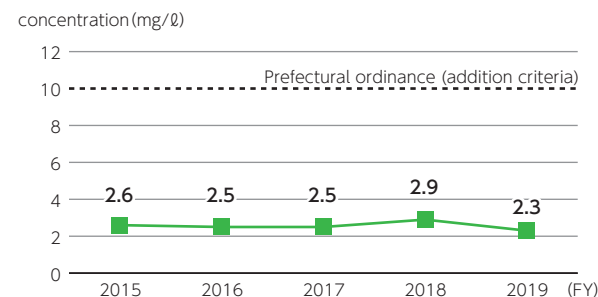
Efficient use of water resources

Water is vital for the manufacture of our products. It is used to cool steel and equipment, and also as a source of power for equipment. Although our manufacturing base (Himeji City, Hyogo Prefecture) does not lie in an area assessed by WRI Aqueduct to be facing high water stress, we reuse more than 90% of the water employed in our production process, in recognition of the fact that water is a limited resource. We also have our own source of water (groundwater) in addition to water supply from the industrial waterworks. Contaminated water that has been used in the factory is sent to an on-site treatment facility to be purified. After this, the purified water is reused in the factory, while the remainder undergoes further treatment before being released into public waterways. At the point where the water drains into public waterways, there is a system that takes automatic measurements to constantly monitor pH levels, turbidity, chemical oxygen demand (COD), nitrogen, and phosphorus, and if levels go beyond our voluntary in-house management standards then an alert is issued to allow the person in charge to deal with the issue in a prompt manner. In addition, the water is regularly analyzed for harmful substances, etc., by an external organization as part of our efforts to manage water quality and prevent water pollution.

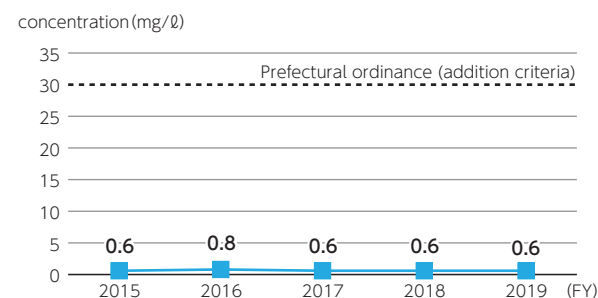


Wastewater treatment facility

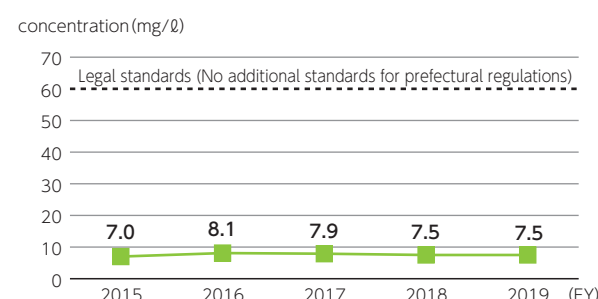
Chemical oxygen demand in wastewater (COD)



Suspended particulate matter in wastewater (SS)



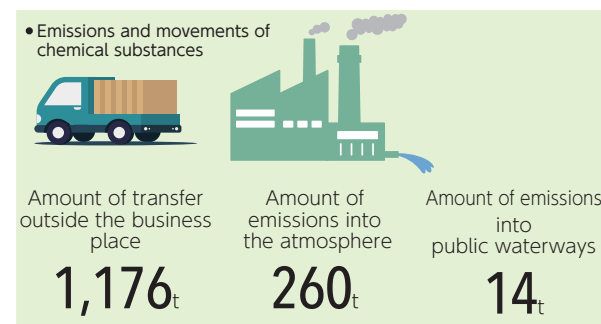
Nitrogen concentration in wastewater



Appropriate controls on chemical substances

In accordance with the PRTR* Act, we monitor the amount of chemical substances released and transferred. Volumes are reported to the Ministry of Economy, Trade and Industry, and we also work on initiatives to curtail the amount released. Furthermore, PCB waste is properly stored and controlled in accordance with the PCB Special Measures Act and, in addition, all applicable equipment is systematically updated/disposed of to ensure disposal is completed by the deadlines stipulated in the Act.

* PRTR (Pollutant Release and Transfer Register): a statutory system that promotes improvements in the monitoring and management of the amounts of specified chemical substances emitted into the environment



Proper disposal of waste

Sanyo Special Steel subcontracts services to industrial waste disposal companies that can dispose of waste in a proper manner, and we conduct checks to ensure that subcontractors hold the appropriate licenses as well as preliminary inspections of their disposal facilities. In addition, we check that our waste is being disposed of in an appropriate manner through regular inspections of disposal facilities and by confirming industrial waste disposal conditions in a manifest. We have introduced a manifest in electronic format to ensure that operations are running properly, and we make every effort to separate waste at the sites where waste is generated.

Reduction of emission of air pollutants

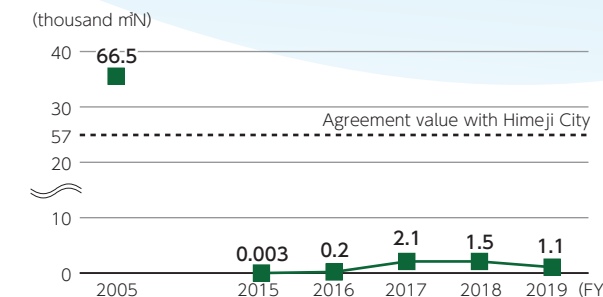
At facilities that generate soot and smoke, we have achieved SOx (sulfur oxide) emissions well below the levels agreed on with the Himeji City council by switching the fuel from heavy crude oil with high sulfur content to LNG (town gas) which contains almost no sulfur. In a bid to reduce NOx (nitrogen oxide) emissions, we are using low NOx burners and implementing proper combustion controls, among other initiatives. We have also introduced units that automatically measure NOx in a system that enables us to constantly monitor heating furnaces, which produce large volumes of emissions.

Furthermore, revisions to the Air Pollution Control Act in April 2018 stipulated that operators should voluntarily reduce emissions of mercury concentrations in exhaust gases from electric steel-making furnaces. Sanyo Special Steel regularly measures and records mercury concentrations in accordance with the voluntary standards recommended by the Japan Iron and Steel Federation to confirm that the concentrations meet voluntary control standards.

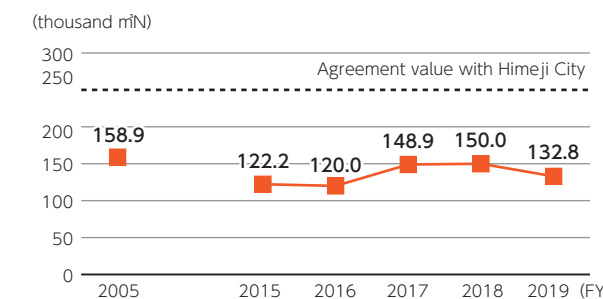
In terms of dust collection facilities, we are working on initiatives to increase and enhance equipment capacity, such as the installation of dust collection units in continuous casting sheds in FY2018.

We also use traditional methods of dealing with dust that include patrols by water sprinkler vehicles and street sweepers to help prevent the dust scattering.

Sulfur oxide emissions



Nitrogen oxide emissions



Environmental Risk Management

Environmental patrols

Once a month, a team made up of the Chief Officer for Environmental Systems, executive officers, department managers, pollution prevention managers, and others conducts patrols, primarily around our manufacturing sites. We aim to reduce environmental risks by responding to the issues raised by the patrols at individual manufacturing sites.

(i) Checks for significant environmental aspects

Patrols are conducted on processes and equipment with significant environmental aspects and inspections are carried out on equipment, management of measuring devices, and written work standards as we work to improve management levels and mitigate risk.

(ii) Checks on emergency drills

Emergency drills are carried out to check if there are any issues with emergency procedures, and in addition, we verify that there are no defects in equipment and instruments.

(iii) Patrols attended by the President

Once a year, an environmental patrol is conducted with the President in attendance. In FY2019, this patrol included checks on the management of significant environmental aspects in hot-rolled steel tube factory and energy-saving initiatives.

Responding to amendments in environmental laws

Responding to amendments in environmental laws

As stated in our environmental policy, compliance with statutory laws and regulations is a key assumption of our business activities. If there are any legal amendments related to our business, we revise our in-house environmental standards and ensure that all stakeholders receive appropriate training, among other initiatives.

June is the "Environment Month" when we hold a "Study Workshop on Environmental Laws and Regulations" inviting employees in managerial posts—section managers in FY2018 and managers in FY2019—to ensure that they have a better understanding of statutory compliance obligations.

Example of response to a legal amendment

● Fluorocarbons Emission Reduction Act (revised April 2020)

Content of revision: Issuing of a fluorocarbon collection certificate at the time of disposal of class 1 specified products was made mandatory.

Status of response: Disseminated the content of the revised law throughout the company via the Environmental Liaison Meeting in March and the Study Workshop on Environmental Laws and Regulations in June.

Quality

Quality assurance is about creating a process that allows us to accurately grasp the needs of customers and provide a reliable supply of products that meet those needs, and is directly linked to our corporate philosophy of "Confidence-based Management." The Group has established a quality management system based on ISO9001:2015, and we promote quality control activities that create product quality by integrating our sales division, engineering division, production division, and quality assurance division to ensure that we satisfy product standards such as JIS and various overseas standards. Furthermore, quality assurance is not just about controlling product quality; it also about ensuring that the quality management system, which is a key part of our corporate structure, can respond to environmental changes such as globalization and changing customer needs, and also address the need to make improvements to realize a more efficient structure. The Group aims to continue to be an enterprise that enjoys sustainable growth by placing emphasis not only on product quality controls but also on maintaining and improving the quality management system, which forms the cornerstone of the Group's quality assurance system.

Quality Assurance System

The Quality Assurance Department plays a central role in the quality management system maintained and managed by Sanyo Special Steel, which forms the cornerstone of our quality assurance system. The process for product quality control is developed through collaboration between various divisions. The Sales Division gains an understanding of customer needs, the Engineering Division then reflects these requirements in the manufacturing designs, and the Production Division creates the final product based on these designs. In addition, Sanyo Special Steel continues to work to provide products that inspire ever-more confidence, using its Quality Assurance Department (an independent department responsible for all aspects of quality assurance) to provide checks and balances in a bid to optimize and enhance quality assurance functions. The Quality Assurance Committee meets regularly and is chaired by the Director in Charge of Quality Assurance. The Committee discusses basic policy and plans concerning quality assurance for the fiscal year and implements improvement activities such as "systematic improvements in key issues," "prevention of quality complaints," "enhancement of quality assurance," and "improvements in customer satisfaction levels."



Quality Assurance Initiatives



Under ISO9001:2015, individual organizations need to conduct operational risk assessments to address new requirements for "risk and opportunity initiatives." Based on issues at Sanyo Special Steel that have been identified through these assessments, we have been rolling-out a medium-to-long term PDCA (Plan-Do-Check-Act) plan in a bid to upgrade our quality assurance. Specifically, we are working to improve our quality management system by continuously updating our quality manuals, implementing quality patrols, and sharing information between organizations through internal quality audits. In addition, we are promoting educational activities including lectures on quality issues in November, which is the National Quality Month, aimed at raising the quality awareness of employees.

Understanding and reflecting customer needs

Once a year, we survey our customers to have them assess us on QCDD (Quality, Cost, Delivery, Development). We analyze the results and extract any points with low scores for improvement, leading to even higher customer satisfaction. Furthermore, in order to understand the needs of customers in a timely manner, we hold meetings to exchange technical ideas with customers and we also take part in exhibitions, both in Japan and overseas. We not only present detailed information on the products and new technologies we have developed, but we also collect information on customers' latest needs, which is then used to develop and improve our products.



Promotion of skill transfer activities

On April 1, 2015, Skill Succession Group was established. This group specializes in the succession of skills and is involved in the planned and systematic training of employees who will succeed to the relevant roles.

FY2019 was the final year of the three-year activity plan established in FY2017. We have successfully achieved the plan's activity targets through continued efforts that included one-on-one trainings (pairing up employees imparting the skills with those learning them), the creation of training materials, and the enhancement of award programs to improve motivation.

The "Activities to Prevent Recurrence of Accidental Stoppages"* commenced in FY2019 are beginning to yield results, with an operator succeeding in preventing a facility problem.

The Skills Succession activities were added to the commitments of our Mid-term Business Plan from FY2020 onward, giving these activities more weight to carry.

*Activities to address production suspensions and facility halts by adopting the Skills Succession approach in the whole process, up to completion, of recurrence prevention measures, from identifying causes to drawing up countermeasures.



Promotion of TPM (Total Productive Maintenance) activities



The entire production division is working on TPM activities with the aim of thoroughly eliminating losses and waste due to equipment breakdowns and problems, increasing production efficiency, and providing a reliable supply of products.

In terms of activities, we have not only set up the "TPM School" as a place to provide training on basic knowledge about equipment and machinery to develop human resources with a good understanding of the equipment, but we are also creating common-interest groups for individual work categories on topics such as quality improvement, productivity improvement, safety, and cost to allow us to carry out improvements every day. By the end of August this fiscal year, 97 people had attended the TPM School, with total attendance at 1,800 since the School started, to acquire the basic skills and knowledge useful for autonomous maintenance. In addition to this, the outcomes of improvement activities are announced at in-house TPM contests held four times a year in a bid to enhance TPM activities.

Moreover, we are conducting IoT application training at the TPM School and promoting the introduction of IoT at manufacturing sites in order to further improving productivity and stabilize operations.

Procurement

The Group promotes procurement activities based on its Basic Procurement Policy, ensures compliance with laws and social norms, conducts fair and equitable transactions widely, with an open-door policy regardless of whether it be in Japan or overseas, and promotes environmentally-friendly procurement activities with our suppliers. These days we are required to contribute to the sustainability of society in various forms as part of our corporate social responsibility. The Group has identified principles for “sustainable procurement” such as accountability, transparency, respect for human rights, and ethical behavior in the procurement of raw materials and services, and these principles are reflected in our procurement decisions. In addition, we strive to maintain and improve mutual understanding and trust with our suppliers as we aim for mutual development as business partners; and through stronger partnerships, we endeavor to realize “sustainable procurement” that will contribute to the sustainability of business operations for all our suppliers.

Basic procurement policies

In our procurement activities, Sanyo Special Steel complies with all relevant laws, conducts an open-door policy across the board, regardless of whether in Japan or overseas, and conducts fair and equitable transactions as we strive to build partnerships with our suppliers. We also promote environmentally-friendly procurement activities.

1. Compliance with laws, regulations, and social norms

In addition to complying with all relevant laws and regulations, as well as social norms, and acting in good faith, we manage any information obtained in the course of a transaction in a proper manner. We will also ensure that any relationships with anti-social forces posing a threat to the order and security of civil society are not allowed to continue.

2. Fair and equitable trading

Regardless of whether in Japan or overseas, Sanyo Special Steel conducts an open-door policy across the board, providing all suppliers with the opportunity to participate and conducting transactions based on economic rationale.

3. Building partnerships

Sanyo Special Steel conducts transactions with all its suppliers on a fair and equal basis as we strive to maintain and improve mutual understanding and trust and aim for mutual development as business partners.

4. Promotion of environmentally-friendly procurement activities

In collaboration with our suppliers, we are building a system that ensures we do not purchase raw materials, other materials, or machine parts that contain hazardous chemicals.

Responsible procurement



Initiatives for the construction of a reliable procurement framework

Sanyo Special Steel factories are usually in production 24 hours a day. Consequently, with the collaboration of our suppliers, we use a 24-hour system to take delivery of scrap iron (our main raw material). We also procure the required amounts of ferro-alloys and supplementary material when needed. In anticipation of the risk of disruptions to supplies due to disasters and other factors, we try to gain an understanding of production conditions, production locations, delivery routes, and other information for our key procurement items through initiatives such as visiting our suppliers' factories. We also regularly share information on procurement items with suppliers, and we have established a sustainable production system for times of emergency by securing prompt replacements in the event of an emergency and by holding an appropriate amount of stock on our premises.

Implementation of a supplier awards (to strengthen partnerships)

Sanyo Special Steel believes that building good trading relationships with suppliers is essential for sustainable procurement and values its partnerships with suppliers. As part of this, we have set up an award scheme for suppliers. Under the supplier award scheme, we comprehensively evaluate a number of factors to select suppliers who have attained outstanding achievements and present them with an award. The scheme covers raw materials, various other materials, maintenance, and outsourcing services supplied to each division, and the factors used in evaluations include the quality, cost competitiveness, delivery deadline management, business status of the supplier, environmental measures taken, and service provided with regard to transactions carried out with Sanyo Special Steel over a fixed period of time. In fiscal 2020, we also commended six companies that made outstanding achievements.

Procurement of ferro-alloys considered to be “conflict minerals”

“Conflict minerals” indicate four minerals mined in the Democratic Republic of Congo (DRC) and its neighboring countries; these are tin, tantalum, tungsten, and gold, and they are referred to as 3TG (from their initials). There are concerns that some of the profits from the trade in 3TG are used as a source of funding for militia groups, contributing to human rights violations and conflict. While we purchase tantalum and tungsten needed in the manufacture of special steel, we check through our suppliers that any purchases are “DRC conflict-free” (i.e. not used to fund militia groups.) In addition, if customers ask whether our products are “DRC conflict-free,” then we issue a statement declaring them to be so using the “Conflict Mineral Report Template.”



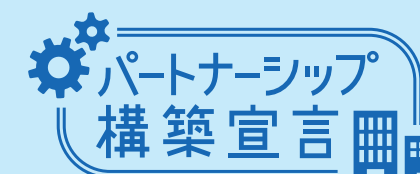
Declaration of Partnership Building

Sanyo Special Steel announced a Declaration of Partnership Building that aims to improve value addition throughout our supply chain by working together to co-exist and co-prosper with our supply chain partners.

The Declaration of Partnership Building is an initiative for which the framework and system has been affirmed by the “Council on Promoting Partnership Building for Cultivating the Future” comprising representatives from the business circles and the labor organizations as well as related ministers and promoted by the Cabinet Office and the Small and Medium Enterprise Agency.

The initiative aims to: prevent SMEs and small enterprises from “bearing burdens caused by unfair trade conditions” and continuing to advance efforts for encouraging companies to introduce appropriate trade practices, while taking into consideration impacts of the COVID-19; and to encourage companies to build new partnerships involving efforts for increasing value added across supply chains and open innovation across business scales, groups and borders, and others.

We will continue strengthening partnership ties with our suppliers to seek mutual development as business partners.



To ensure sustainable growth of a company, "human resource development" and "the creation of a worker-friendly environment that takes health and safety into account" are important. To materialize these, the Group is working to prevent occupational accidents, provide mental health care and promote a good work-life balance, among other initiatives, to develop an environment where various talents can play an active part. In addition, and most importantly, as a manufacturing company, we are committed to creating a safe workplace. Furthermore, the Group needs personnel who can "think autonomously," regulating themselves and thinking and acting independently. The requirements for this are self-direction and the spirit to take on a challenge. In order to realize this, under our basic policy of "developing employees and make full use of their potential," we not only offer various training in accordance with job role and career, but we have also adopted a personnel system that encourages a strong desire for self-growth and the achievement of goals in our employees and allows them to always challenge high-level problems.

Human resource development

Personnel system:

~Establishing work tasks and training themes through dialog~

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Training for international personnel

In response to the globalization of the business environment, we are accelerating our training of employees capable of performing on the international stage. We are carrying out various initiatives including the dispatch of young employees to subsidiaries and affiliates, systematic foreign language training for new employees, dispatch of selected candidates to overseas universities, graduate schools, and research institutes to study or on temporary assignment, and short-term language study programs abroad for selected mid-career employees. In addition to efforts to improve language proficiency, we will enhance our training programs on themes for acquiring international sensitivity through experience and promote the development of international human resources.

■ FY2019 training pick-up

■ Management training

We held a management training session targeting those in managerial positions, who are the candidates for future senior management, with focus on thinking matters through so as to let the participants develop "strategic thinking" skills required of a senior management. We have been conducting this training with the aim of developing personnel who are capable of taking a risk to make the right decision and judgement even in a situation where the perspective is uncertain, and looking across the company and business from a viewpoint of total optimization. In the latest training session, which was themed "developing a business vision for 2033 (the 100th anniversary of our foundation)" (future prediction), participants thoroughly analyzed the present state, made suppositions on possible changes that might happen from different angles and without being bound by precedent, and discussed new business models, which they presented before the management team. Believing that development and growth of human resources are crucial to the company's sustained growth, we will continue efforts towards this.

■ Training for newly-appointed Associate Managers

Sanyo Special Steel conducts grade-based trainings to let our employees acquire the skills and mindset required for each particular job grade. In FY2019, we held a training for newly-appointed Associate Managers, targeting the grade of employees who were in a gap period between trainings. The main purpose of this training was to make those who had been newly-appointed as Associate Manager, a core position in each workplace, realize their role as a candidate for the next generation of leaders. We aimed to boost their ability to assist their supervisor and draw support from other members, develop their leadership required to guide the organization, and raise their management capability as future candidates for managerial positions. We will continue improving and offering grade-based trainings.

Creating a work-friendly environment

Active participation of women

We have set a goal to raise the ratio of female staff to 25% by the end of March 2028, utilizing them as a valuable asset. To achieve this goal, we have increased the areas where women play an active role by systematically recruiting female employees and expanding the range of their work, while introducing a system that allows women to continue working by alleviating pressure on them during life events by offering childcare leave, childcare allowances, and shorter working hours. In addition, we have been conducting inhouse training to promote awareness of female employees and create an organizational culture that makes it easier for them to play active roles.

As a result of these efforts, the percentage of female staff stood at 13.8% as of March 2020.



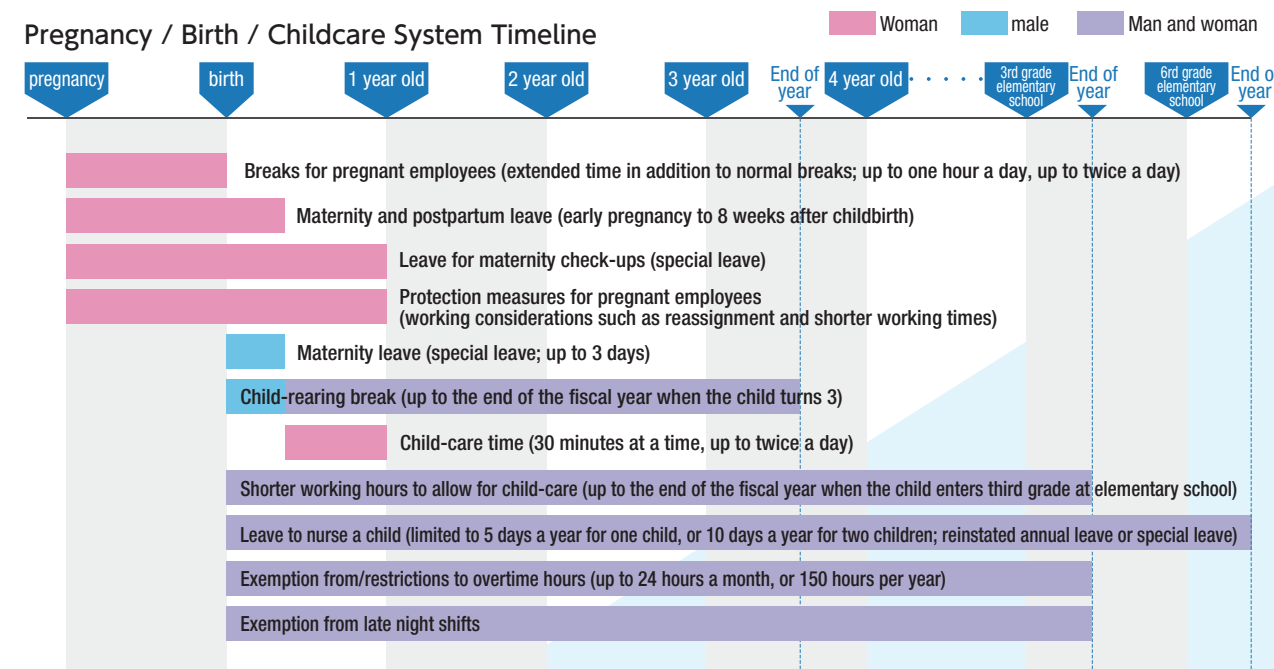
Percentage of female staff

13.8%

(Planning jobs26.1%, Technical jobs6.9%)



Pregnancy / Birth / Childcare System Timeline





Rate of paid leave taken
77.9%

Achieving a work-life balance

To achieve a work-life balance means to perform one's duty at work with a sense of fulfillment and satisfaction while at the same time have a free and diverse choice of lifestyle options in terms of family and community life. The "Work-Style Reform Related Bill," a package of legislation to give a push towards better work-life balance, has been implemented one by one since April 2019. "Work-style reforms" such as the prohibition of long working hours, properly managed working hours, and the obligation for employees to take certain number of annual leave days have become increasingly important in terms of achieving a work-life balance. Sanyo Special Steel promotes Wednesdays as "no-overtime days" and promotes increased productivity in a bid to reduce overtime hours, as well as to improve the rate of paid leave taken. In terms of the amount of paid leave taken in particular, the figure at Sanyo Special Steel has already exceeded 70% (77.9% in FY2019), in contrast to the national average (51.1%); and we are working to keep this figure above the target of "achieving 70% by 2020" set by the Ministry of Health, Labor and Welfare. Furthermore, as well as encouraging employees to take blocks of paid leave or incremental leave and establishing a system that exceeds statutory requirements for maternity leave, childcare leave, and nursing care leave, etc., we are also striving to achieve a work-life balance for each and every employee by creating a work environment and culture that makes it easier to take these leaves.

Promoting health-conscious management

At Sanyo Special Steel, we view employee health management from a business point of view and invest in health initiatives based on the Industrial Safety and Health Act in order to help revitalize the organization by improving employees' energy and productivity. Mental and physical disorders among employees not only cause a fall in productivity but may also lead to an outflow of human resources as employees take leaves of absence or leave the company. Employees are provided with statutory health examinations, metabolic tests, health advice, and similar resources, as well as on-going mandatory stress check-ups since FY2016. The results of tests on staff members are used to conduct an aggregated analysis, and employees with high levels of stress are advised to see an occupational physician. In addition, we have a mental health help-desk, provide treatment to help employees stop smoking, and also provide dietary counseling among other initiatives. Moving forward, we aim to be a company that inspires ever-more confidence as we continue to place the highest priority on the health and safety of our employees (a major assumption of our corporate philosophy of "Confidence-based Management") and promote the creation of workplaces that improve the mental and physical health of our employees and allow them to work in an energetic manner.

Extend employment program

Sanyo Special Steel has established an extended employment program for employees who have reached the age of 65. Making active use of certain older staff members who are healthy, wanting to work, and capable of performing their jobs is consistent with the concept of diversity. Employees who are deemed necessary in the performance of work and from the viewpoint of technology and skills transfer as of the time they turn 65 stay on in extended employment as "senior citizen partners." As of April 1, 2020, there were 46 "senior citizen partners" active across various work sites.

Employment of Disabled Persons

We promote the employment of people with disabilities in a bid to achieve a society where everyone can enjoy an active working life.

We not only promote recruitment initiatives in conjunction with Hello Work (the Japanese government's Employment Service Center) and special support schools, etc., but we are also constantly making efforts to improve the work environment in both hard and soft aspects. In addition, any employee certified as disabled after joining the company is offered support to keep working, with consideration given to his/her work content and working hours. As of June 1, 2020, we had 24 employees with disability playing an active role in a range of work sites.

Percentage of employees with disabilities
2.26%

Creating a safe workplace

As a manufacturing enterprise, our Group believes that "safety" should be afforded top priority above all. Evidence of this is the way that employees greet each other with "Keep Safe!" to impart a sense of safety in one another. In order to put our corporate philosophy of "Corporate-based Management" into practice, our goal is to achieve "no accidents at all over the year" under the Group's safety activities. We believe that we need to achieve a total absence of accidents throughout the year across the entire Group in order to build relationships of trust with various stakeholders and to achieve sustainable growth for the Group. All employees need to work together on safety activities, and if even one person is left out, then the goal cannot be achieved. There are no short-cuts in safety activities. Our objective is to achieve a whole year that is totally free of accidents by building up safety activities in the Group day-by-day to create a workplace where all employees are safe and can work with peace of mind.

2020 Comprehensive Health and Safety Management Policy

- Basic policy Create a work environment and culture in which we can carry through decisions made by the company as a whole and by each workplace.
- Slogan With a sense of ownership, with our minds and eyes aligned, we are all part of the safety activities.
- Three safety principles Stop, Step Back, Check Hands & Feet—then double-check that it is really safe
- Goal achieve a total absence of accidents Occupation accidents "0" Accidents on the way to work "0"

Occupational health and safety activities - to ensure safety -

Safety and health management

Sanyo Special Steel has in place a Safety and Health Committee chaired by the general safety and health manager (Executive Officer in charge of Safety & Disaster Prevention Office) that works to secure safety and security of employees in the workplace. The Committee meets every month to discuss matters such as basic measures to avoid danger to the safety and health of employees, the cause of industrial accidents and measures to prevent their recurrence. Since majority of the members are the labor union representatives in accordance with law, the committee reflects the opinion of workers in the safety and health policies. The state of safety-related activities for each month is checked by the Corporate Policy Committee, while the summary of safety and health activities for the whole year is reported to the Board. We are constantly making progress through effective use of PDCA cycle (planning, implementing, monitoring/supervising, and taking steps for improvement).

Simulated experience training center for safety

We have established a simulated experience training center for safety that allows us to simulate dangers in a bid to eradicate occupational accidents. In 2018, 2,655 employees were trained at the center, and to date the total is 23,736. In 2018, we installed VR (virtual reality) equipment to give a more realistic experience. Moving forward, we will add new training content to allow us to consider the importance of hazard avoidance with our members of staff.

Grade-based training

Safety knowledge, risk behavior, and sensitivity to hazards, etc., vary for each age group and grade. Therefore, we need to conduct specialist training for each respective grade. For the training targeting rehired employees (between ages 60 and 64) and senior citizen partners (ages 65 and above) in 2020, we included employees of the members of our suppliers' organization.

The new 3S activities

The 3S activities in Sanyo Special Steel had been addressing issues that had caused accidents or problems that had been found during patrols.

In addition, under the existing system for 6S certification, activities had been seen to increase temporarily in the period leading up to certification but had not truly taken root as ongoing efforts. These issues prompted us to put in place a structure for the new 3S activities in which everyone from section managers to workers on site take part in making improvements in the workplace, starting from around themselves, to find and eliminate waste in things, space, and time, towards the goal of creating an efficient, worker-friendly, and safe workplace that is free of any obstacles to hamper workers' flow of movement, as well as an environment that enables its maintenance. So far, one section has obtained a certificate while other sections are working towards it.

Safety Proposal Making System

We have launched a Safety Proposal Making System aimed at strengthening measures to prevent accidents by inviting proposals on ways to identify unsafe spots in each workplace, ideas for safeguarding, and methods for working in safety, based on which we implement improvements. Sourcing proposals from workers who are actually working on site is not only effective in developing specific safety measures but also promises improvement in the workers' safety consciousness while preparing a proposal. We believe that the system will turn into a safety activity of truly bottom-up nature, which forms the core of our safety activities. In FY2019, 92 safety proposals were made.

Moreover, we designate Safety Pros from among team leaders of work sites who are expected to lead by example in initiating improvement in work operations and environments of the team. In this way, we are working to raise safety awareness and create a synergy with the Safety Proposal Making System.

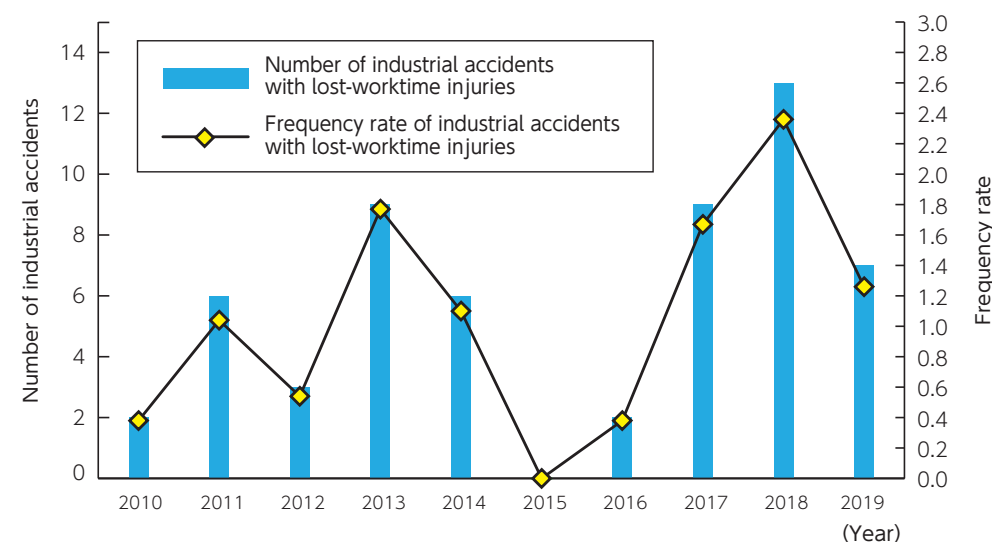
Activities of Safety Promoters

Sanyo Special Steel has been running the Safety Promoter activities since 2016 with the goal of "bringing true safety" through an integration of top-down style and bottom-up style safety activities. We select young to mid-career employees from each workplace and educate them on accurate safety knowledge and the importance of adherence to rules, and thereby train personnel who can independently judge on safety and take action.

Young and mid-career employees who are designated as a Safety Promoter will patrol the work sites of their own as well as of others, through which they notice the strengths and weaknesses of their own workplace and hone their sensitivity to recognize hazards. They also engage in risk assessment activities to sort out hazardous works, all of which are combined with improvement measures for facilities to put in place a state of substantial safety.



<Number and Frequency Rate of Industrial Accidents with Lost-worktime Injuries>



<For reference> Frequency rate = number of lost-worktime injuries ÷ cumulative hours worked × 1,000,000

Disaster prevention initiatives

Risk management in emergency situations

Many employees work at our company, where we have various types of facilities and equipment. In addition to establishing a regular fire and disaster prevention management system, we take various steps to prevent accidents and stop the spread of (minimize) damage when a disaster does occur. For example, we have developed manuals in preparation for possible plant accidents such as fires or explosions and natural disasters such as earthquakes, and we hold regular disaster drills, among other measures.

The basic policy for FY2018 was "to aim to raise awareness of fire and disaster prevention measures through drills and training and create a workplace culture and staff well able to respond to disaster situations," with the following four points set as priority items.

- "Enhance fire and disaster prevention management"
- "Enhance management of facilities at high risk of fire, explosion, or leakage"
- "Improve capacity to respond to disasters through on-going training and drills for fire and disaster prevention"
- "Enhance disaster prevention measures by using specialist disaster prevention teams."

Based on these priority management items, we have been working hard to enhance and strengthen disaster prevention management systems to prepare for emergencies while, at the same time, conducting on-going activities that emphasize increased awareness of disaster prevention.

Initiatives to heighten disaster prevention and readiness awareness

To further enhance disaster prevention and readiness awareness among staff, the company holds workshops each year targeting supervisors and officers responsible for hazardous materials as well as workshops for fire prevention officers and disaster prevention officers. We are making efforts to improve the level of control of small and minute amounts of hazardous materials at licensed facilities by providing direct instruction to workplace managers and those responsible for handling hazardous materials and high-pressure gas.

At the workshop for supervisors and officers responsible for hazardous materials held in July, participants were reminded of the types of hazardous materials regulated under the Fire Service Act and the current state of hazardous materials facilities, etc., on our factory premises. We also raised their awareness of their responsibilities and duties as supervisors and responsible officers.

At the workshops for fire prevention officers and disaster prevention officers held in September, participants were reminded to carry out disaster prevention management inspections (once a year) in each workplace using a voluntary inspection check sheet to prevent shelves and cabinets from toppling and items from falling. They also deepened their understanding of the need of first aid, cardiopulmonary resuscitation and AED in saving lives from disasters, accidents or sudden sickness.

Regarding the management of facilities, we worked on 3S activities in licensed facilities for hazardous materials and high-pressure gas equipment, with June and March designated as the months for improving controls in the licensed facilities, and October as the designated month for improving controls on high-pressure gas equipment. Moving forward, we will continue to promote further awareness of disaster prevention issues among employees through these disaster prevention training programs and control enhancement activities.

In FY2018, we started holding a first-aid course for operating managers. The course provided training on critical care/ cardiopulmonary resuscitation (chest compressions/use of AED), preventing blood loss, and other first-aid related topics with help from nurses.

Conducting disaster drills

The equipment and hazardous materials used at our company differ from workplace to workplace. Furthermore, awareness of disaster prevention, as well as experience in disaster prevention, varies widely among employees, not to mention new employees participating in disaster prevention training for the first time. In addition, the scale of a disaster may require coordination with affiliated companies. In view of this, when conducting disaster prevention drills, we identify appropriate emergency situations to ensure that drills are more specific and practical.

Typical disaster prevention drills in FY2019

In FY2019, we conducted a large number of drills, including a large-scale earthquake disaster drill, a joint factory disaster drill with the Shikama Fire Department, and initial firefighting drills at each workplace.

Disaster drills carried out in FY2019 **83**

•Disaster drills for major earthquakes

We conducted a major earthquake disaster drill on September 2 based on the scenario of a huge earthquake with epicenter in the Nankai Trough that has caused disruption of lifeline systems providing power, water, gas, and transportation. The goal of the drill was to "walk home." At the beginning of the drill, participants evacuated to the primary evacuation point to be accounted for, and then moved on to a car park on the factory premises, split into groups according to the direction of their homes, formed up in lines, and started walking towards home (up to the factory gates). When a large earthquake actually occurs, it is highly likely that transport facilities would be in a chaos and roads disrupted. Through these drills, we will continue working to raise awareness and readiness of the employees.

•Emergency drill conducted jointly with the Shikama fire station

On November 22, we held a disaster drill at the metal powder factory in conjunction with the Shikama Fire Department, based on the scenario of a fire occurring at the plant. In assumption of an oxygen deficiency hazard due to the leakage of inert gas, in addition to smoke from the fire, we exercised a series of operations from first-aid fire fighting by our occupational fire-fighting unit to fire fighting by the self-defense fire brigade and the public fire brigade, rescue and first-aid treatment of the injured, and setting up a Disaster Response Headquarters to collect information and give out instructions. Moving forward, we will continue to work towards improving our awareness and response skills to help prevent fires/disasters in the workplace by practicing these kinds of disaster drills.

Introduction of a system to account for the safety of employees

For a company to properly continue business in the event of a large earthquake and other wide area disasters, it is important that it quickly grasp the situation and safety of its employees and others concerned.

As part of our business continuity program (BCP) in anticipation of earthquakes and other wide area disasters that are happening often across Japan in recent years, Sanyo Special Steel introduced a system to account for the safety of our employees in August 2020.

In the event of a huge earthquake and other disasters, it would be difficult to confirm and consolidate information on employees' safety and whereabouts by phone or other conventional means. The system will allow us to do this swiftly and put the information into use in taking measures required to continue business.

Corporate Governance

The Group practices a basic philosophy of "Confidence-based Management" and, by supplying useful steel products to society at large, we aim to achieve sustainable growth and increase corporate value over the medium- to long-term as we support the development of the global economy, while also building a recycle-oriented society and focusing on environmental conservation. In order to establish a management platform required to achieve this goal, we are working to upgrade our corporate governance.

Fundamental thoughts on corporate governance

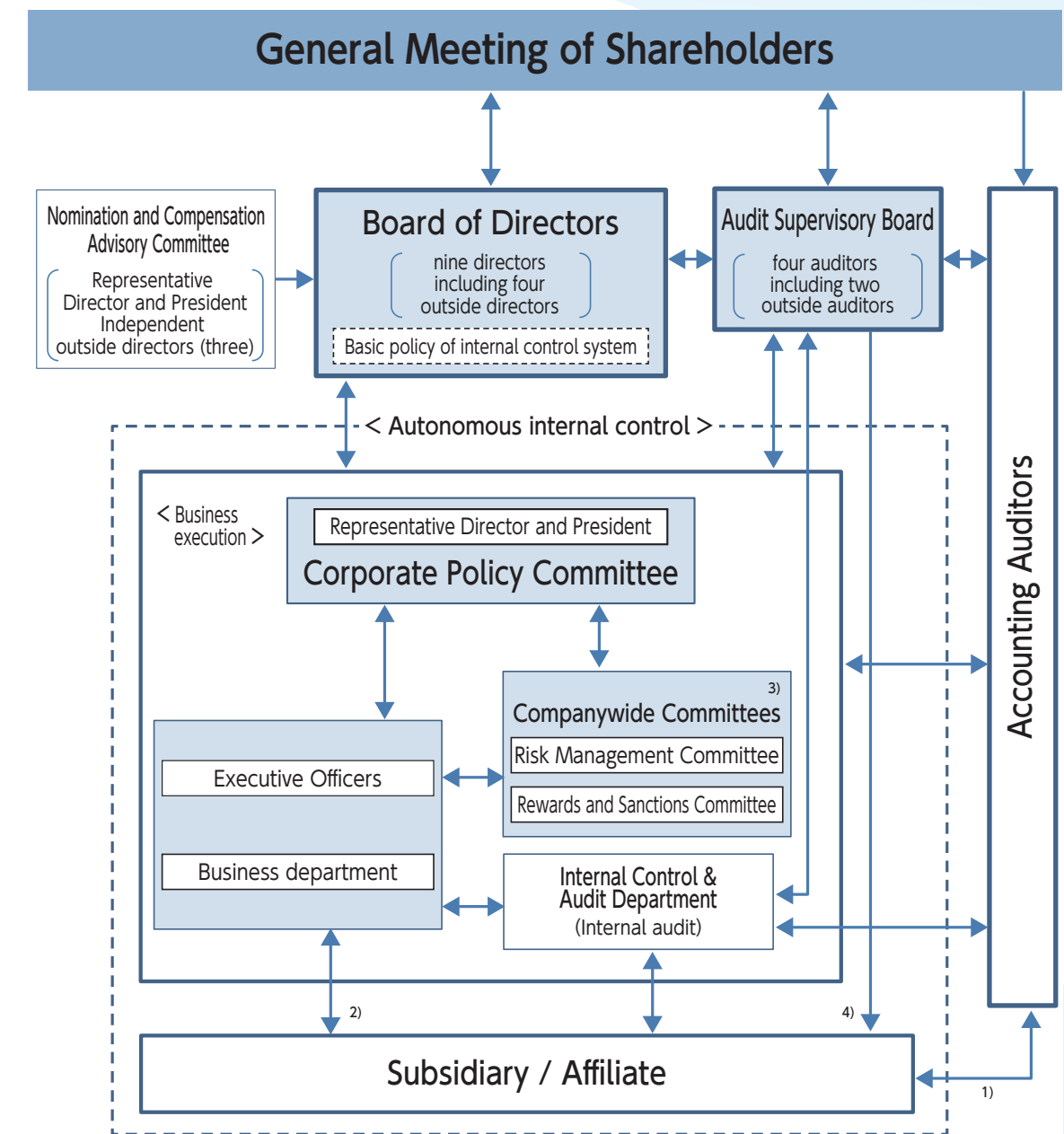
In order to ensure further confidence among our stakeholders, including shareholders, consumers, and the local community, Sanyo Special Steel has developed a corporate governance structure suited to the Group's business, and we will work to enhance corporate governance in a bid to improve efficiency, soundness, and transparency in our management.

Overview of corporate governance

Sanyo Special Steel is a company with an Audit and Supervisory Board, which supervises how directors execute their duties, and a Board of Directors that consists of nine directors including four outside directors (of which, three are independent outside directors). The Board of Directors meet regularly (at monthly meetings) and as required (at ad hoc meetings) to decide important matters concerning the execution of business. We also have in place company-wide committees and meetings to discuss important operational matters such as the Board of Directors' meetings, which facilitate efficient decision-making on management and the Corporate Policy Committee (held twice a month in principle), which deals with important matters to discuss, the Risk Management Committee, which aims to ensure thorough compliance and further enhancements in corporate governance; the Security Trade Control Committee; and the Rewards and Sanctions Committee. Aiming to set a clear division of responsibilities between "deciding policies and overseeing the management" and "executing business," as well as to be able to make swift decisions amid the changing and diversifying business environment, we have adopted the executive officer system.

With regard to audits by the company auditors, the Audit and Supervisory Board makes an auditing policy for each year and conduct the audits as needed according to the policy. An audit is carried out by the four members of the Audit & Supervisory Board, including two full-time outside members, with a broad perspective and covering not only the performance of duties by the Directors but also the state of risk management, compliance and other matters pertaining to internal control. Based on its results, an audit opinion is presented to the Representative Director and also to other business execution divisions as needed. In order to prepare for a case where the number of Audit & Supervisory Board Members falls below the required number stipulated by laws and regulations, we have appointed one Substitute Audit & Supervisory Board Member.

To improve the functions of the Board of Directors, we also conduct analyses and evaluation of the Board's effectiveness. We do this through a questionnaire survey targeting Directors and the Audit & Supervisory Board Members on all aspects of the Board of Directors, from its composition to the way it is run, the state of discussions, and how the cooperation with outside directors is going, among other topics. The Board then assesses the outcome of the survey.



- 1) Audit of our subsidiaries and affiliates are conducted by Accounting Auditor as part of the audit of our consolidated accounts.
- 2) Each subsidiary and affiliate has a designated section in charge of auditing.
- 3) Committees and meetings include the Security Trade Control Committee, the Environmental Conservation Committee, the Corporate Budget Committee, among others.
We also have a compliance help-desk, a whistle-blowing system to prevent the occurrence or recurrence of any breach of compliance.
- 4) Members of the Audit & Supervisory Board investigate the operations and assets of subsidiaries as needed.

Strengthening the corporate governance system

• Three independent Directors took office, making up one-third of the board

Aiming to have a system for agile decision making to keep up with the changes in business environment and for effective corporate governance, Sanyo Special Steel ensures that its Board of Directors has the right size in relation to its business lineup and challenges, and a well-balanced and diverse mix of members in terms of experience, knowledge and expertise. We also have independent directors, from whom we expect opinions and oversight of our management from objective and expert viewpoints. With effect from June 26, 2020, three of the nine members or one-third of our Board of Directors are independent directors. As a listed company with a parent company, we will continue upgrading our governance in conformity with the principles of the Corporate Governance Code.

• Establishment of the Nomination & Compensation Advisory Committee

We have set up a Nomination & Compensation Advisory Committee, a non-statutory advisory body comprising the Representative Director and President and all (three) of the independent outside directors.

This has enabled us to seek the appropriate involvement and advice of our independent outside directors on matters of particular importance regarding the nomination and compensation of directors responsible for corporate management, and thereby enhance the independence, objectivity and accountability of our Board of Directors towards a further improvement of its governance function.

• Increase and improve discussions with outside directors

Our outside directors have been joining the regular meetings between the Representative Director and the members of the Audit & Supervisory Board. In addition to this, we have created new platforms for exchange of views between internal and outside directors, and between outside directors and the Audit & Supervisory Board Members, so as to facilitate the exchange of information and sharing of understanding between our outside directors and other members via communication with these groups.

• Training sessions for Directors and Audit & Supervisory Board Members

We offer training sessions by guest lecturers to the members of the Board of Directors and the Audit & Supervisory Board on their responsibilities required by the Companies Act and other crucial laws and regulations, various systems relevant to our business, and other topics. These trainings are designed to provide them with continuous opportunities to earn the knowledge they need and deepen their understanding.

Corporate Governance

Officer



Representative Director and President
HIGUCHI Shinya



Director, Member of the Board
Managing Executive Officer
TAKAHASHI Kozo
Supervises the Accounting & Finance Department. In charge of the Secretarial Office, Corporate Planning Department, Computer Systems Planning Office, Personnel & Labor Relations Department, General Administration Department, Internal Control & Audit Department, and Procurement Department.



Director, Member of the Board
Managing Executive Officer
OI Shigehiro
Supervises the Safety & Disaster Prevention Office, Environmental Management Department, and Slag Products Manufacturing & Sales Office. In charge of the Production Planning & Administration Department, Industrial Engineering Office, Equipment Department, Steelmaking Department, Bar and Wire Manufacturing Department, and Tube Manufacturing Department. Assists the Director in charge of Metal Powder Manufacturing & Sales Division in work related to manufacturing. Assists the Director in charge of Corporate Planning Department in matters related to the manufacturing technologies of Ovako AB.



Director, Member of the Board
Managing Executive Officer
OMAE Kozo
Supervises the Hiroshima Branch, Kyushu Sales Office, and Formed & Fabricated Products Division. In charge of Sales Planning & Administration Department, Sales Department for Bearings, Sales Department for Automobiles & Industrial Machinery, Special Products Sales Department, Overseas Marketing Department, Osaka Branch, and Nagoya Branch. Commissioned as the Head of Tokyo Regional Office. Assists the Director in charge of Metal Powder Manufacturing & Sales Division in work related to sales.



Director, Member of the Board
Managing Executive Officer
YANAGIMOTO Katsu
In charge of the Metal Powder Manufacturing & Sales Division, Research & Development Center, Technical Planning & Administration Department, and Quality Assurance Department. Assists the Director in charge of Corporate Planning Department in work related to Mahindra Sanyo Special Steel Pvt.Ltd. Assists the Director in charge of Formed & Fabricated Products Division in work related to technologies.



Independent Outside Director,
Member of the Board
KOBAYASHI Takashi
Grounds for appointment
• Extensive experience and expertise in legal circles
• Able to supervise and make recommendations on the management of the company from a standpoint that is independent of the management team responsible for executing business



Independent Outside Director,
Member of the Board
ONISHI Tamae
Grounds for appointment
• Rich experience and broad insight from key positions held in national and regional government agencies or national universities, etc.
• Able to supervise and make recommendations on the management of the company from a standpoint that is independent of the management team responsible for executing business



Independent Outside Director,
Member of the Board
USUKI Masaharu
Grounds for appointment
• Rich experience and broad insight cultivated in his career at think tanks, universities, and by overseeing business execution of executive officers at an investment corporation
• Provision of oversight and suggestions on the management of Sanyo Special Steel from a standpoint independent from the executive team



Outside Director, Member of the Board
MASUMITSU Noriyuki
Grounds for appointment
• Rich experience and broad insight in management at NIPPON STEEL TEXENG.CO.,LTD., or similar



Senior Audit & Supervisory Board Member
NAGANO Kazuhiko
Grounds for appointment
• Experience in a wide range of fields as a director of Sanyo Special Steel



Independent Outside Audit & Supervisory Board Member
OE Katsuaki
Grounds for appointment
• Rich experience and broad insight cultivated at Mizuho Bank, or similar



Independent Outside Audit & Supervisory Board Member
YOGI Hiroshi
Grounds for appointment
• Rich experience and broad insight cultivated at Sumitomo Mitsui Banking Corporation



Audit & Supervisory Board Member
TSUGA Hiroshi
Grounds for appointment
• Rich experience and broad insight cultivated at Nippon Steel Corporation, in addition to experience as director of Sanyo Special Steel

The expertise and experience of Board members

Our policy for selecting the senior management is to judge a person by experience, knowledge and expertise regardless of their gender, age or nationality, so as to create an optimum structure in which each person can adequately fulfill their role and responsibility and together aptly address managerial challenges facing the Group. Additionally, the size and composition of the Board of Directors and Audit & Supervisory Board, as a policy, are decided with consideration to the balance among members.

		Full name	expertise and experience								
		Corporate management	Manufacturing, engineering, research & development	Sales	Finance and accounting	Personnel & labor relations	International experience	Legal	ESG	Other	
Director, Member of the Board	Business execution	HIGUCHI Shinya *	●		●	●	●	●	●	●	
		TAKAHASHI Kozo	●			●	●		●	●	
		OI Shigehiro	●	●	●					●	
		OMAE Kozo	●		●			●		●	
		YANAGIMOTO Katsu	●	●	●			●			
	Non-executive	(Independent・Outside) KOBAYASHI Takashi *							●	●	●
		(Independent・Outside) ONISHI Tamae *					●			●	●
		(Independent・Outside) USUKI Masaharu *	●			●					●
		(Outside) MASUMITSU Noriyuki	●	●				●		●	●
		NAGANO Kazuhiko	●		●	●	●		●	●	
Audit & Supervisory Board Member	(Independent・Outside) OE Katsuaki				●	●				●	
	(Independent・Outside) YOGI Hiroshi				●		●			●	
	TSUGA Hiroshi	●			●	●			●	●	

* Higuchi Shinya, Kobayashi Takashi, Onishi Tamae and Usuki Masaharu are the four directors comprising the Nomination & Compensation Advisory Committee, a non-statutory advisory body of Sanyo Special Steel.

Internal Control Systems

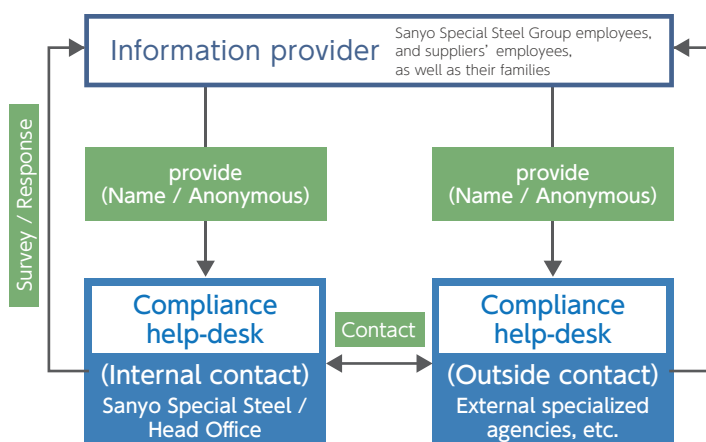
Compliance System and Risk Management System

Sanyo Special Steel has established the "Guidelines for Corporate Behavior" that prescribe the standards of behavior we should follow as a corporation, and a "Code of Conduct" as guidance on conduct to be observed in the course of business activities within the framework of the Guidelines for Corporate Behavior. Moreover, we make efforts to ensure all officers and employees are thoroughly familiar with these standards. (Guidelines for Corporate Behavior and Code of Conduct can be found on pages 41-42 of this report.)

We are building a system to promote compliance by prescribing in our company rules the placement of a compliance help-desk, regular meetings of the Risk Management Committee, and other matters.

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

■ Compliance help-desk (Whistle-blowing system)



* No disadvantage will be suffered as a result of a consultation or report. Secrecy is maintained in strictest confidence.

We have set up a compliance help-desk to prevent the occurrence or recurrence of circumstances or actions that violate, or appear to have violated, statutory laws, social norms, company rules, or similar regulations.

The help-desk can be used by anyone, including Sanyo Special Steel Group employees, casual workers, temporary workers, and suppliers' employees, as well as their families, and it provides a system for consultation to ensure that no-one has to handle problems alone—whether these concern issues that are difficult to solve in the workplace or troubles that people are unable to discuss with anyone else.

Consultations and reporting may be done anonymously, and no-one will suffer to his/her disadvantage as a result of any consultation or report.

It is company policy to respond promptly and appropriately to any consultation or report.

■ Implementation of compliance training

Every year, the Sanyo Special Steel Group holds compliance lectures to raise awareness of compliance issues among executive officers and employees.

We conduct training on different topics, such as e-learning compliance training, compliance training for new employees, and also grade-based training on harassment. Furthermore, all departments and affiliated companies conduct compliance training appropriate to the individual department and ensure that employees are familiar with laws, regulations, and rules necessary for the execution of business.



Compliance lecture

We have set up an Internal Control Department responsible for planning and auditing internal controls, as well as functional departments responsible for risk management in individual sectors to form an organizational structure to run the internal control system in the Group. In addition, we have assigned risk management officers to each department and group company; these officers are responsible for planning and promoting autonomous internal control activities in their respective departments/companies. Based on this organizational structure, we operate the internal control system as described below.

1 Internal control plans

Each year, we formulate a Group-wide internal control plan based on amendments to statutory laws and regulations and changes in the business environment. This plan contains basic policies; plans for different functions such as safety, the environment, disaster prevention, and quality; internal audit plans; and training plans. Each department and group company then formulates their respective plans based on the Group-wide plan.

2 Autonomous internal control activities

Sanyo Special Steel's individual departments and group companies implement their own, autonomous internal control activities in accordance with internal control plans, based on the nature of their business operations and inherent risks. Specifically, they develop operating regulations, manuals, and other materials and conduct training. They also conduct self-inspections and carry out improvements to operations based on the results. In the event of an accident, disaster, or situation that risks violating the law, the department or group company concerned immediately reports the fact to the Internal Control Department; in addition, corrective measures, such as measures to prevent any recurrence, are taken in collaboration with associated departments. Furthermore, the Internal Control Department gathers these cases together and shares them within the Group, allowing individual departments and group companies to carry out inspections to check for similar risks.

3 Internal audits, etc.

In internal audits, the Internal Control Department and respective functional departments not only check the status of internal controls using documentation such as internal control checklists but also monitor each department/group company. In addition, as a measure to complement internal controls, we have established and operate a whistle-blowing help-desk that can be used by employees of Sanyo Special Steel and its group companies, their families, and suppliers' employees.

We also conduct surveys on employee awareness regarding internal controls and compliance.

4 Assessments and improvements

The Internal Control Department and the Director in charge of respective functional departments report on the operational status of the internal control system to the quarterly meeting of the Risk Management Committee, and to the Board of Directors; in addition, these reports are also shared with individual departments/group companies at the quarterly meetings of risk management officers.

The Director in charge of Internal Control Department assesses the effectiveness of the internal control system based on information such as the status of internal control activities implemented and the results of internal audits, and once the results of assessments are compiled, they are reported to the Risk Management Committee and the Board of Directors.

Based on the assessment results, we formulate improvement initiatives to help make the internal control system more effective, and these initiatives are reflected in the internal control plan for the following fiscal year.

5 Training and raising awareness

We have set up courses on internal controls through grade-based training and other methods to provide training for executives and employees of Sanyo Special Steel and its group companies. Furthermore, we are pro-actively working to raise awareness of internal control concepts and improvements in workplace culture, among other topics, through talks between the Internal Control Department and respective departments/group companies.

6 Links with outside directors, corporate auditors, and accounting auditors

Independent outside directors, as members of the Nomination & Compensation Advisory Committee—a body independent from the Board of Directors and other organs—discuss overall issues related to the appointment and compensation of executives, the content of which, as well as opinions, are reported as needed to the Board of Directors via the Representative Director and President.

As members of the Risk Management Committee, the outside directors and members of the Audit & Supervisory Board attend the Committee meetings, where they present and exchange opinions. Outside directors and Audit & Supervisory Board members also hold regular meetings with the Representative Director and other attendees, through which smooth and appropriate mutual exchange of information is maintained. In terms of interaction with the accounting auditor, we submit regular reports on the operating status of the Risk Management Committee, as well as assessment results on internal controls pertaining to financial reporting, and exchange opinions.

Financial Section

40 Financial Statements

72 Independent Auditor's Report

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2020	2020
Current Assets:			
Cash and bank deposits (Notes 6 and 22)	¥ 22,385	¥ 27,782	\$ 255,322
Notes and accounts receivable - trade (Notes 6, 10 and 11)	75,202	44,883	412,488
Electronically recorded monetary claims (Note 11)	7,372	6,031	55,423
Less: Allowance for doubtful accounts	(174)	(175)	(1,606)
Inventories (Notes 8 and 10)	95,492	78,652	722,836
Income taxes receivable	61	1,954	17,958
Shares in parent company (Note 6)	1,128	—	—
Other	10,084	4,392	40,374
Total current assets	211,550	163,519	1,502,795
Property, Plant and Equipment:			
Land (Note 10)	13,413	13,249	121,768
Buildings and structures (Note 10)	71,077	72,088	662,509
Machinery and equipment (Note 10)	262,976	264,185	2,427,952
Construction in progress	6,289	13,491	123,989
Other	9,781	13,138	120,733
	363,536	376,151	3,456,951
Less: Accumulated depreciation	(259,689)	(259,263)	(2,382,713)
Total property, plant and equipment	103,847	116,888	1,074,238
Intangibles			
Goodwill	42,401	35,630	327,451
Other	3,189	3,591	33,002
Total intangible	45,590	39,221	360,453
Investments and Other Assets:			
Investments in securities (Notes 6, 7 and 9)	7,159	4,158	38,216
Long-term loans receivable	403	203	1,865
Deferred tax assets (Note 14)	1,593	2,055	18,888
Net defined benefit assets (Note 13)	2,791	944	8,676
Other	1,480	1,182	10,865
Less: Allowance for doubtful accounts	(167)	(207)	(1,905)
Total investments and other assets	13,259	8,335	76,605
Total assets	¥ 374,246	¥ 327,963	\$ 3,014,091

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2020	2020
Current Liabilities:			
Short-term loans (Notes 6, 10 and 12)	¥ 52,746	¥ 32,834	\$ 301,755
Current portion of long-term loans (Notes 6, 10 and 12)	98	5,502	50,561
Commercial paper	8,000	—	—
Notes and accounts payable - trade (Notes 6 and 11)	39,000	22,387	205,740
Accounts payable - other	11,354	18,878	173,497
Accrued income taxes	2,615	390	3,580
Accrued expenses	9,148	7,623	70,059
Provision for environmental measures	169	59	545
Other	4,332	2,913	26,776
Total current liabilities	127,462	90,586	832,513
Long-term Liabilities:			
Bonds payable (Notes 6 and 12)	10,000	10,000	91,903
Long-term loans (Notes 6, 10 and 12)	20,512	25,934	238,347
Accrued directors' and corporate auditors' retirement benefits	49	69	636
Deferred tax liabilities (Note 14)	4,324	3,540	32,537
Provision for loss on guarantees	4	3	26
Provision for environmental measures	143	248	2,281
Net defined benefit liabilities (Note 13)	11,266	13,635	125,313
Other	286	1,745	16,030
Total long-term liabilities	46,584	55,174	507,073
Total liabilities	174,046	145,760	1,339,586
Contingent Liabilities (Note 26)			
Net Assets (Note 15)			
Shareholders' Equity:			
Common stock:			
Authorized 94,878,400 shares in 2019 and 2020			
Issued 57,437,307 shares in 2019 and 54,507,307 shares in 2020	¥ 53,800	¥ 53,800	\$ 494,441
Capital surplus	55,896	51,486	473,177
Retained earnings	85,716	79,794	733,328
Less: Treasury stock, at cost (1,212,166 shares in 2019 and 13,134 shares in 2020)	(1,924)	(20)	(181)
Total shareholders' equity	193,488	185,060	1,700,765
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	2,178	562	5,166
Deferred gains on hedges	—	355	3,263
Foreign currency translation adjustments	(40)	(2,772)	(25,478)
Remeasurements of defined benefit plans	71	(4,842)	(44,501)
Total accumulated other comprehensive income	2,209	(6,697)	(61,550)
Non-controlling Interests	4,503	3,840	35,290
Total net assets	200,200	182,203	1,674,505
Total liabilities and net assets	¥ 374,246	¥ 327,963	\$ 3,014,091

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2020	2020
Net Sales	¥ 185,818	¥ 262,453	\$ 2,412,027
Cost of Sales (Notes 8 and 16)	159,256	230,625	2,119,517
Gross profit	26,562	31,828	292,510
Selling, General and Administrative Expenses (Notes 16 and 17)	16,439	33,245	305,536
Operating income (loss)	10,123	(1,417)	(13,026)
Other Income:			
Interest and dividends	326	367	3,372
Rent income	64	335	3,077
Income from sale of emission allowances	—	181	1,667
Other	283	171	1,570
	673	1,054	9,686
Other Expenses:			
Interest	(521)	(830)	(7,624)
Exchange losses	—	(166)	(1,528)
Other	(837)	(162)	(1,489)
	(1,358)	(1,158)	(10,641)
Ordinary income (loss)	9,438	(1,521)	(13,981)
Extraordinary Gains and Losses:			
Amortization of goodwill (Note 20)	—	(1,289)	(11,850)
Loss on sale of investment securities and others	—	(647)	(5,943)
Loss on sale and disposition of property, plant and equipment (Note 19)	(552)	(498)	(4,573)
Loss on evaluation of investments in securities	(49)	(248)	(2,282)
Gain on sale of property, plant and equipment (Note 18)	—	55	508
Gain on step acquisitions	1,459	—	—
Gain on sale of investment in securities	80	849	7,805
	938	(1,778)	(16,335)
Income (loss) before income taxes	10,376	(3,299)	(30,316)
Income Taxes (Note 14):			
Current	3,507	383	3,522
Deferred	(559)	620	5,700
	2,948	1,003	9,222
Net income (loss)	7,428	(4,302)	(39,538)
Net Loss Attributable to Non-controlling Interests	(293)	(585)	(5,377)
Net Income (Loss) Attributable to Owners of the Parent	¥ 7,721	¥ (3,717)	\$ (34,161)

Per Share:

Net income (loss) (Note 21)
Cash dividends
Net assets

Yen		U.S. dollars (Note 3)
2019	2020	2020
¥ 237.75	¥ (67.14)	\$ (0.62)
¥ 69.00	¥ 15.50	\$ 0.14
¥ 3,480.62	¥ 3,273.07	\$ 30.08

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2020	2020
Net Income (Loss)	¥ 7,428	¥ (4,302)	\$ (39,538)
Other Comprehensive Income:			
Valuation difference on available-for-sale securities	(1,341)	(1,616)	(14,850)
Deferred gains on hedges	—	355	3,263
Foreign currency translation adjustments	(720)	(2,796)	(25,698)
Remeasurements of defined benefit plans	(1,858)	(4,913)	(45,150)
Share of other comprehensive income of affiliates accounted for by the equity method	(421)	(9)	(82)
Total other comprehensive income (Note 4)	(4,340)	(8,979)	(82,517)
Comprehensive Income	3,088	(13,281)	(122,055)
Comprehensive income attributable to:			
Owners of the parent	3,521	(12,623)	(116,012)
Non-controlling interests	(433)	(658)	(6,043)

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2019

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	33,424,807	¥ 20,183	¥ 22,672	¥ 80,250
Issuance of new shares	24,012,500	33,617	33,617	—
Net income attributable to owners of the parent	—	—	—	7,721
Cash dividends paid	—	—	—	(2,255)
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	0	—
Cancellation of treasury stock	—	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(393)	—
Other changes for fiscal year 2018, net	—	—	—	—
Total changes for fiscal year 2018	24,012,500	33,617	33,224	5,466
Balance at end of year	57,437,307	¥ 53,800	¥ 55,896	¥ 85,716

	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	¥ (1,920)	¥ 3,519	¥ —	¥ 966
Issuance of new shares	—	—	—	—
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(4)	—	—	—
Disposal of treasury stock	0	—	—	—
Cancellation of treasury stock	—	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—
Other changes for fiscal year 2018, net	—	(1,341)	—	(1,006)
Total changes for fiscal year 2018	(4)	(1,341)	—	(1,006)
Balance at end of year	¥ (1,924)	¥ 2,178	¥ —	¥ (40)

	Millions of yen		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	¥ 1,929	¥ 1,361	¥ 128,960
Issuance of new shares	—	—	67,234
Net income attributable to owners of the parent	—	—	7,721
Cash dividends paid	—	—	(2,255)
Acquisition of treasury stock	—	—	(4)
Disposal of treasury stock	—	—	0
Cancellation of treasury stock	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(393)
Other changes for fiscal year 2018, net	(1,858)	3,142	(1,063)
Total changes for fiscal year 2018	(1,858)	3,142	71,240
Balance at end of year	¥ 71	¥ 4,503	¥ 200,200

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

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
Issuance of new shares	—	—	—	—
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)	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—
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)
Issuance of new shares	—	—	—	—
Net income 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	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—
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
Issuance of new shares	—	—	—
Net income 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	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—
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

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	57,437,307	\$ 494,441	\$ 513,708	\$ 787,756
Issuance of new shares	—	—	—	—
Net loss attributable to owners of the parent	—	—	—	(34,160)
Cash dividends paid	—	—	—	(20,268)
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	(1)	—
Cancellation of treasury stock	(2,930,000)	—	(40,530)	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—
Other changes for fiscal year 2019, net	—	—	—	—
Total changes for fiscal year 2019	(2,930,000)	—	(40,531)	(54,428)
Balance at end of year	54,507,307	\$ 494,441	\$ 473,177	\$ 733,328

	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	\$ (17,674)	\$ 20,016	\$ —	\$ (363)
Issuance of new shares	—	—	—	—
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(23,042)	—	—	—
Disposal of treasury stock	5	—	—	—
Cancellation of treasury stock	40,530	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—
Other changes for fiscal year 2019, net	—	(14,850)	3,263	(25,115)
Total changes for fiscal year 2019	17,493	(14,850)	3,263	(25,115)
Balance at end of year	\$ (181)	\$ 5,166	\$ 3,263	\$ (25,478)

	Thousands of U.S. dollars (Note 3)		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	\$ 649	\$ 41,375	\$ 1,839,908
Issuance of new shares	—	—	—
Net income attributable to owners of the parent	—	—	(34,160)
Cash dividends paid	—	—	(20,268)
Acquisition of treasury stock	—	—	(23,042)
Disposal of treasury stock	—	—	4
Cancellation of treasury stock	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—
Other changes for fiscal year 2019, net	(45,150)	(6,085)	(87,937)
Total changes for fiscal year 2019	(45,150)	(6,085)	(165,403)
Balance at end of year	¥ (44,501)	¥ 35,290	¥ 1,674,505

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2020	2020
Cash Flows from Operating Activities:			
Income (loss) before income taxes	¥ 10,376	¥ (3,299)	\$ (30,316)
Adjustments -			
Depreciation and amortization	9,338	15,034	138,164
Amortization of goodwill	305	4,231	38,886
Increase (decrease) in allowance for doubtful accounts	(0)	46	422
Increase in net defined benefit liabilities	70	2,735	25,137
Decrease (increase) in net defined benefit assets	145	(1,382)	(12,699)
Increase (decrease) in accrued directors' and corporate auditors' retirement benefits, less payments	(11)	20	188
Increase in provision for environmental measures	—	(5)	(48)
Increase in provision for loss on guarantees	(3)	(1)	(9)
Interest and dividend income	(326)	(367)	(3,372)
Interest expense	521	830	7,624
Gain on sale of investments in securities	(80)	(202)	(1,862)
Loss on evaluation of investments in securities	49	248	2,282
Equity in losses (gains) of unconsolidated subsidiaries and affiliates	(16)	—	—
Loss (gain) on sale and disposition of property, plant and equipment	552	442	4,065
Loss (gain) on step acquisitions	(1,459)	—	—
Changes in assets and liabilities:			
Notes and accounts receivable - trade	(4,056)	31,062	285,467
Inventories	(4,304)	15,442	141,919
Notes and accounts payable - trade	1,909	(19,327)	(177,622)
Other, net	1,241	(1,423)	(13,077)
Subtotal	14,251	44,084	405,149
Interest and dividend income received	332	365	3,357
Interest expense paid	(525)	(837)	(7,699)
Income taxes paid	(3,266)	(4,187)	(38,478)
Net cash provided by operating activities	10,792	39,425	362,329
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(9,162)	(18,572)	(170,678)
Sale of property, plant and equipment	52	312	2,864
Acquisition of intangible assets	(333)	(840)	(7,723)
Acquisition of investments in securities	(2)	(2)	(22)
Sale of investments in securities	93	1,291	11,868
Proceeds from sales of shares of parent	—	871	8,006
Collection of contingent consideration of investments in subsidiaries	—	4,709	43,277
Decrease in long-term loans receivable	203	201	1,848
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 23)	(60,450)	—	—
Increase in over-three-month deposits	1,107	785	7,218
Decrease in over-three-month deposits	(338)	(717)	(6,594)
Other, net	(216)	(501)	(4,606)
Net cash used in investing activities	(69,046)	(12,463)	(114,542)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2020	2020
Cash Flows from Financing Activities:			
Increase (decrease) in short-term loans	¥ 389	¥ (18,322)	\$ (168,389)
Increase (decrease) in commercial paper	5,000	(8,000)	(73,523)
Proceeds from long-term loans	—	12,253	112,609
Repayment of long-term loans	(4,860)	(1,312)	(12,059)
Repayment of lease obligations	—	(971)	(8,920)
Proceeds from issuance of common shares	67,117	—	—
Payments for purchases of treasury stock	(4)	(2,507)	(23,042)
Proceeds from sales of treasury stock	1	0	4
Cash dividends	(2,253)	(2,204)	(20,254)
Cash dividends to non-controlling interests	(4)	(4)	(41)
Proceeds from share issuance to non-controlling shareholders	570	—	—
Other, net	(26)	(26)	(240)
Net cash provided by (used in) financing activities	65,930	(21,093)	(193,855)
Effect of Exchange Rate Changes on Cash and Cash Equivalents			
Net Increase in Cash and Cash Equivalents	(182)	(441)	(4,051)
Cash and Cash Equivalents at Beginning of the Year	7,494	5,428	49,881
Cash and Cash Equivalents at End of the Year (Note 22)	14,298	21,792	200,277
	¥ 21,792	¥ 27,220	\$ 250,158

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, 2020 (41 subsidiaries as of March 31, 2019). 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, 2020 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 (“Ovako Group AB”; a company that changed its name from Triako Holdco AB on June 24, 2020) and its 25 subsidiaries including Ovako AB (“Ovako Group”)

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 Group (26 companies)) 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

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.

the exchange rate prevailing at the respective transaction date. All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rate prevailing at each balance sheet date. Resulting gains and losses are included in net 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 buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) which have been acquired on or after April 1, 1998 and facilities attached to buildings and structures which have been acquired on or after April 1, 2016.

The Companies compute depreciation mainly using the declining-balance method for property, plant and equipment other than those described above. Foreign consolidated subsidiaries compute depreciation mainly using the straight-line method.

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) Provision for directors' bonuses

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

(12) 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.

(13) 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.

(14) 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.

(15) 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.

(16) 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.

(17) Revenue recognition

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

(18) 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.

(19) Cash and cash equivalents

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

(20) 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.

(21) Reclassifications and restatement

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

(22) Change in accounting policies

(Subsidiaries in foreign countries)

IFRS 16 “Leases”

Subsidiaries using International Financial Reporting Standards started to apply IFRS 16 “Leases” (here in after referred to as “IFRS 16”) from the current fiscal year. In accordance with IFRS 16, lessees are required to recognize almost all leases as assets or liabilities in the balance sheet. In applying the accounting

standards, the cumulative effect of the application is recognized at the beginning of application, as permitted for transitional fiscal year. As a result, in the consolidated balance sheet at the end of the current consolidated fiscal year "Property, Plant and Equipment" increased by ¥2,213 million (\$20,342 thousand), "Other" under "Current Liabilities" increased ¥703 million (\$6,464 thousand). And "Other" under "Long-term Liabilities" increased ¥1,520 million (\$13,967 thousand). The effect of the application of this accounting standard on profit and loss is immaterial.

(23) Standards and guidance not yet adopted

The following was 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 31, 2020)

1. Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps.
Step 1: Identify contracts with customers.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when the entity satisfies a performance obligation.

2. Effective date

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

3. Effects of the application of the standards

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

(24) Changes in presentation method

(Consolidated balance sheets)

"Tools, furniture and fixtures" in "Machinery and equipment" in the previous consolidated fiscal year, is included "other" for the

current consolidated fiscal year. To reflect this change in presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified. As a result, 272,757 million yen of "Machinery and equipment" in the "Property, Plant and Equipment" has been reclassified as "Machinery and equipment" of 262,976 million yen and "other" of 9,781 million yen.

(Consolidated statements of operations)

1. “Rental income“ in "other" in the "other income" in the previous consolidated fiscal year, is presented separately for the current consolidated fiscal year because its quantitative materiality has increased. “Share of profit of entities accounted for using equity method “presented separately in the "other income" in the previous consolidated fiscal year, is included "other" for the current consolidated fiscal year because its quantitative materiality has decreased. To reflect this change in presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified. As a result, 16 million yen of "Share of profit of entities accounted for using equity method" and 331 million yen of "other" in the "Other Income" has been reclassified as "Rental income" of 64 million yen and "other" of 283 million yen.

2. "Commission fees" and "Share issuance cost" presented separately in the "Other Expenses" in the previous consolidated fiscal year, is included "other" for the current consolidated fiscal year because its quantitative materiality has decreased. To reflect this change in presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified. As a result, 560 million yen of "Commission fees" , 178 million yen of "Share issuance cost" and 99 million yen of "other" in the "Other Expenses" has been reclassified as "other" of 837 million yen.

(25) Additional information

In its preparation of the consolidated financial statements for the current fiscal year, the Company assumed that the effects of the COVID-19 will continue for a certain period in the next fiscal year. Based on this assumption, we made the accounting estimates such as for impairment 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 ¥108.81 to U.S. \$1.00, the approximate rate of exchange as at March 31, 2020, 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
	2019	2020	2020
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ (1,835)	¥ (1,951)	\$ (17,929)
Reclassification adjustments	(30)	46	419
Subtotal, before tax	(1,865)	(1,905)	(17,510)
Tax (expense)	524	289	2,660
Subtotal, net of tax	(1,341)	(1,616)	(14,850)
Deferred gains on hedges			
Increase (decrease) during the year	—	1,225	11,261
Reclassification adjustments	—	(774)	(7,110)
Subtotal, before tax	—	451	4,151
Tax (expense)	—	(96)	(888)
Subtotal, net of tax	—	355	3,263
Foreign currency translation adjustments			
Increase (decrease) during the year	(720)	(2,796)	(25,698)
Remeasurements of defined benefit plans			
Increase (decrease) during the year	(2,550)	(6,475)	(59,511)
Reclassification adjustments	(127)	(153)	(1,404)
Subtotal, before tax	(2,677)	(6,628)	(60,915)
Tax (expense)	819	1,715	15,765
Subtotal, net of tax	(1,858)	(4,913)	(45,150)
Share of other comprehensive income of affiliates accounted for by the equity method			
Increase (decrease) during the year	(116)	(9)	(82)
Reclassification adjustments	(305)	—	—
Subtotal	(421)	(9)	(82)
Total other comprehensive income	¥ (4,340)	¥ (8,979)	\$ (82,517)

5. Statements of cash flows

Significant non-cash transactions at March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Cancellation of treasury stock	¥ —	¥ 4,410	\$ 40,530

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.

Investments in securities, which are mainly shares in companies that have business relationships with the Companies, are exposed to

market price risks. The Companies regularly review the fair value of the securities and the financial position of the companies and revise their portfolios taking into consideration their relationships with the Companies.

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

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

As to derivative transactions, certain foreign subsidiaries have conducted forward exchange contracts to cope with the foreign currency fluctuation risk arising from foreign currency business transactions and commodity futures contracts to cope with the fluctuation risk of electricity prices.

The Companies have established regulations which stipulate the authorization and management of derivative transactions. See Note 2 (4), “Derivative transactions and hedge accounting.” Notes and accounts payable and bank loans are exposed to liquidity risks. The Companies reduce such risks by making monthly cash flow plans. In addition, the Company has commitment line contracts in preparation for contingencies.

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

(2) Fair values of financial instruments

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2019 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	¥ 22,385	¥ 22,385	¥ —
(2) Notes and accounts receivable - trade	75,202	75,202	—
(3) Shares in parent company	1,128	1,128	—
(4) Investments in securities			
Available-for-sale securities	5,924	5,924	—
(5) Notes and accounts payable - trade	(39,000)	(39,000)	—
(6) Short-term loans (including current portion of long-term loans payable)	(52,844)	(52,844)	—
(7) Accounts payable	(11,362)	(11,362)	—
(8) Bonds payable	(10,000)	(10,041)	△41
(9) Long-term loans	(20,512)	(20,498)	14
(10) Derivative transactions			
① Hedge accounting not applied	39	39	—
② Hedge accounting applied	1,247	1,247	—

(※) The Debt is displayed by ().

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			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and bank deposits	¥ 27,782	¥ 27,782	¥ —	\$ 255,322	\$ 255,322	\$ —
(2) Notes and accounts receivable - trade	44,883	44,883	—	412,488	412,488	—
(3) Shares in parent company	—	—	—	—	—	—
(4) Investments in securities						
Available-for-sale securities	2,940	2,940	—	27,024	27,024	—
(5) Notes and accounts payable - trade	(22,387)	(22,387)	—	(205,740)	(205,740)	—
(6) Short-term loans (including current portion of long-term loans payable)	(38,336)	(38,336)	—	(352,284)	(352,284)	—
(7) Accounts payable	(18,878)	(18,878)		(173,497)	(173,497)	
(8) Bonds payable	(10,000)	(9,982)	18	(91,903)	(91,738)	165
(9) Long-term loans	(25,934)	(25,939)	△5	(238,347)	(238,390)	△43
(10) Derivative transactions						
① Hedge accounting is not applied	(45)	(45)	—	(414)	(414)	—
② Hedge accounting is applied	408	408	—	3,747	3,747	—

(※) 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 and (2) Notes and accounts receivable - trade
The book value approximates the fair value because of the short-term maturities of these instruments.
- (3) Shares in parent company and (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, 2019 were 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Shares of affiliates	¥ 681	¥ 671	\$ 6,167
Other securities	554	547	5,025

3. The aggregate maturities subsequent to March 31, 2019 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	¥ 22,385	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	75,202	—	—	—
Total	¥ 97,587	¥ —	¥ —	¥ —

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	¥ —	¥ —	¥ —		
	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	\$ 255,322	\$ —	\$ —	\$ —		
Notes and accounts receivable - trade	412,488	—	—	—		
Total	\$ 667,810	\$ —	\$ —	\$ —		

4. The aggregate maturities subsequent to March 31, 2019 for short-term loans and long-term loans were as follows:

	Millions of yen					
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	10 years or more		
Short-term loans (including current portion of long-term loans payable)	¥ 52,844	¥ —	¥ —	¥ —		
Bonds payable	—	—	10,000	—		
Long-term loans	—	20,172	340	—		
Total	¥ 52,844	¥ 20,172	¥ 10,340	¥ —		

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	¥ —	¥ —		
	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)	\$ 352,285	\$ —	\$ —	\$ —		
Bonds payable	—	91,903	—	—		
Long-term loans	—	238,347	—	—		
Total	\$ 352,285	\$ 330,250	\$ —	\$ —		

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, 2019 and 2020 were as follows:

	Millions of yen						Thousands of U.S. dollars			
	2019			2020			2020			
	Acquisition cost	Fair value (book value)	Unrealized gain (loss)	Acquisition cost	Fair value (book value)	Unrealized gain (loss)	Acquisition cost	Fair value (book value)	Unrealized gain (loss)	
Securities whose book value exceeds acquisition cost:										
Stock	¥ 2,704	¥ 5,725	¥ 3,021	¥ 1,134	¥ 1,906	¥ 772	\$ 10,418	\$ 17,522	\$ 7,104	
Securities whose acquisition cost exceeds book value:										
Stock	1,738	1,327	(411)	1,103	1,034	(69)	10,134	9,502	(632)	
Total	¥ 4,442	¥ 7,052	¥ 2,610	¥ 2,237	¥ 2,940	¥ 703	\$ 20,552	\$ 27,024	\$ 6,472	

2. Available-for-sale securities sold in the year ended March 31, 2019 and 2020 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2019			2020			2020		
	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses
Stock	¥ 93	¥ 80	¥ —	¥ 2,163	¥ 849	¥ 647	\$ 19,875	\$ 7,805	\$ 5,943

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 ¥49 million and ¥248 million (\$2,282 thousand) for the year ended March 31, 2019 and 2020, respectively.

8. Inventories

Inventories held by the Companies at March 31, 2019 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Merchandise	¥ 1,970	¥ 1,820	\$ 16,729
Finished products	24,298	19,762	181,621
Work-in-process	43,735	34,623	318,198
Raw materials and supplies	25,489	22,447	206,288
Total	¥ 95,492	¥ 78,652	\$ 722,836

The amount of inventories written down for the years ended March 31, 2019 and 2020 were ¥73 million and ¥121 million (\$1,116 thousand) , respectively.

9. Unconsolidated Subsidiaries and Affiliates

Items relevant to unconsolidated subsidiaries and affiliates at March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Investments in securities (stocks)	¥ 681	¥ 671	\$ 6,167

10. Assets Pledged as Collateral

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Assets pledged as collateral:			
Notes and accounts receivable - trade	¥ 4,449	¥ 2,509	\$ 23,059
Inventories	4,172	2,757	25,332
Land	3,595	3,504	32,199
Buildings and structures	1,083	1,008	9,264
Machinery and equipment	2,467	2,457	22,590
Total	¥ 15,766	¥ 12,235	\$ 112,444
Secured liabilities:			
Short-term loans (including current portion of long-term loans payable)	2,261	1,176	10,806
Long-term loans	1,368	296	2,718
Total	¥ 3,629	¥ 1,472	\$ 13,524

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

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

Notes receivable and payable and electronically recorded monetary claims which reached maturity at the year-end are treated as if they were settled at the clearing date for notes. Consequently, as March 31, 2019 was a holiday for banking institutions, the following notes receivable and payable and electronically recorded monetary claims which reached the maturity at the year-end were included in the ending balance of notes receivable and payable and electronically recorded monetary claims:

	Millions of yen			Thousands of U.S. dollars	
	2019	2020		2020	
Notes receivable	¥ 1,084	¥ —		\$ —	
Electronically recorded monetary claims	424	—		—	
Notes payable	86	—		—	

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

Short-term loans at March 31, 2019 and 2020 represent bank overdrafts with weighted-average interest rates of 0.76% and 1.09%, 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 ¥21,225 million (\$195,068 thousand). At March 31 2020, the total ¥21,225 million (\$195,068 thousand) was unused.

Bonds payable at March 31, 2019 and 2020 consisted of the following:

	Millions of yen			Thousands of U.S. dollars	
	2019	2020		2020	
Bonds payable due 2024 with interest rates of 0.30% at March 31, 2019 and 2020	¥ 10,000	¥ 10,000		\$ 91,903	

The annual maturities of bonds payable outstanding at March 31, 2020 were as follows:

Year ending at March 31,	Millions of yen		Thousands of U.S. dollars
2025	¥	10,000	\$ 91,903

Long-term loans at March 31, 2019 and 2020 consisted of the following:

	Millions of yen			Thousands of U.S. dollars	
	2019	2020		2020	
Loans from banks and other financial institutions due 2020 to 2024 with interest rates ranging from 0.13% to 9.85% at March 31, 2019 and due 2021 to 2024 with interest rates ranging from 0.13% to 10.90% at March 31, 2020	¥ 20,597	¥ 31,433		\$ 288,877	
Lease obligations due 2021 to 2027 with interest rate of 1.50% at March, 31,2020	—	2,223		20,431	
Other payables due 2019 to 2022 with interest rate of 4.05% at March 31, 2018 and due 2020 to 2022 with interest rates of 4.05% at March 31, 2019	13	3		31	
	20,610	33,659		309,339	
Less: Current portion of long-term loans	(98)	(6,205)		(57,025)	
	¥ 20,512	¥ 27,454		\$ 252,314	

The annual maturities of long-term loans outstanding at March 31, 2020 were as follows:

Year ending at March 31,	Millions of yen		Thousands of U.S. dollars
2022	¥	14,150	\$ 130,046
2023		3,393	31,179
2024		8,051	73,990
2025		1,667	15,324
2026 and thereafter		193	1,774
	¥	27,454	\$ 252,313

13. Retirement Benefits

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

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

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

Certain overseas consolidated subsidiaries have funded or unfunded defined benefit pension plans and defined contribution pension plans for employee retirement benefits.

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

Defined benefit plans

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

	Millions of yen			Thousands of U.S. dollars	
	2019	2020		2020	
Balance at beginning of year	¥ 7,341	¥ 19,072		\$ 175,277	
Service cost	491	790		7,264	
Interest cost	18	237		2,174	
Actuarial gain	104	1,387		12,746	
Benefits paid	(329)	(816)		(7,497)	
Increase from newly consolidated subsidiaries	11,450	—		—	
Other	(3)	(460)		(4,223)	
Balance at end of year	¥ 19,072	¥ 20,210		\$ 185,741	

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

	Millions of yen			Thousands of U.S. dollars	
	2019	2020		2020	
Balance at beginning of year	¥ 12,907	¥ 11,418		\$ 104,939	
Expected return on plan assets	228	218		2,003	
Actuarial gain (loss)	(2,446)	(2,850)		(26,193)	
Contributions paid by employer	3	35		321	
Benefits paid	(308)	(415)		(3,811)	
Increase from newly consolidated subsidiaries	1,037	—		—	
Other	(3)	16		144	
Balance at end of year	¥ 11,418	¥ 8,422		\$ 77,403	

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

	Millions of yen			Thousands of U.S. dollars	
	2019	2020		2020	
Balance at beginning of year	¥ 751	¥ 821		\$ 7,550	
Retirement benefit costs	158	185		1,702	
Benefits paid	(75)	(94)		(860)	
Others	(13)	(9)		(93)	
Balance at end of year	¥ 821	¥ 903		\$ 8,299	

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

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Funded retirement benefit obligations	¥ 19,072	¥ 20,210	\$ 185,741
Plan assets	(11,418)	(8,422)	(77,402)
	7,654	11,788	108,339
Unfunded retirement benefit obligations	821	903	8,298
Total net liability (asset) for retirement benefits at end of year	8,475	12,691	116,637
Net defined benefit liabilities	11,266	13,635	125,313
Net defined benefit assets	(2,791)	(944)	(8,676)
Total net liability (asset) for retirement benefits at end of year	¥ 8,475	¥ 12,691	\$ 116,637

(5) Retirement benefit costs:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Service cost	¥ 491	¥ 790	\$ 7,264
Interest cost	18	237	2,174
Expected return on plan assets	(228)	(218)	(2,003)
Net actuarial gain (loss) amortization	(127)	(150)	(1,376)
Retirement benefit costs based on the simplified method	158	185	1,702
Total retirement benefit costs	¥ 312	¥ 844	\$ 7,761

(6) Remeasurements of defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Actuarial loss	¥ (2,677)	¥ (6,628)	\$ (60,916)

(7) Accumulated remeasurements of defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Actuarial gain (loss) yet to be unrecognized	¥ (102)	¥ 6,526	\$ 59,980

(8) Plan assets:

① Plan assets comprise:

	2019	2020
Equity securities	76%	67%
Cash and bank deposits	18%	24%
Other	6%	9%
Total	100%	100%

Assets in retirement benefit trusts accounted for 9% and 10% of total plan assets at March 31, 2019 and 2020, respectively.

② Long-term expected rate of return

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

(9) Actuarial assumptions

The principal actuarial assumptions at March 31, 2019 and 2020 were as follows:

	2019	2020
Discount rate (mainly)	0.0%, 2.7%	0.1%, 2.3%
Long-term expected rate of return (mainly)	1.7%, 2.4%	1.7%, 2.9%
Expected rate of pay increase	3.0%	3.0%

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 pension plans

The Company and certain consolidated subsidiaries have contributed a total of ¥202 million and ¥204 million (\$1,875 thousand) to the defined contribution pension plans for the years ended March 31, 2019 and 2020, respectively.

14. Income Taxes

1. Significant components of deferred tax assets and liabilities at March 31, 2019 and 2020 were as follows:				
	Millions of yen		Thousands of U.S. dollars	
	2019	2020	2020	
Deferred tax assets:				
Tax loss carryforwards	¥ 2,531	¥ 2,786	\$ 25,607	
Net defined benefit liabilities	1,502	2,710	24,909	
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trusts	2,089	2,089	19,198	
Gain on investment of certain marketable securities to employee retirement benefit trusts	637	603	5,538	
Accrued bonuses	685	513	4,719	
Devaluation loss on inventories	272	266	2,442	
Devaluation loss on marketable securities	850	215	1,977	
Excess depreciation of depreciable assets	102	201	1,849	
Unrealized gains	361	191	1,752	
Business tax payable	248	83	766	
Other	280	587	5,389	
Gross deferred tax assets	9,557	10,244	94,146	
Valuation allowance for tax loss carryforwards	(2,150)	(2,367)	(21,752)	
Valuation allowance for deductible temporary differences	(980)	(628)	(5,777)	
Less: Valuation allowance	(3,130)	(2,995)	(27,529)	
Total deferred tax assets	¥ 6,427	¥ 7,249	\$ (66,617)	
Deferred tax liabilities:				
Depreciation, etc., of foreign subsidiaries	¥ (2,795)	¥ (2,643)	\$ (24,285)	
Adjustment of carrying amount based on fair value	(2,404)	(2,157)	(19,827)	
Securities to employee retirement benefit trusts	(1,110)	(1,110)	(10,202)	
Reserve for deferred capital gains from property, plant and equipment	(900)	(880)	(8,087)	
Net defined benefit assets	(850)	(822)	(7,556)	
Unrealized holding gains on securities	(432)	(142)	(1,307)	
Other	(667)	(980)	(9,002)	
Total deferred tax liabilities	(9,158)	(8,734)	(80,266)	
Net deferred tax assets (liabilities)	¥ (2,731)	¥ (1,485)	\$ (13,649)	

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

	As of March 31, 2019							
	Millions of yen							
	2020	2021	2022	2023	2024	2025 and beyond	total	
Tax loss carryforwards (a)	¥ 2	¥ 21	¥ 212	¥ 256	¥ 303	¥ 1,737	¥ 2,531	
Valuation allowance	(2)	(21)	(212)	(256)	(303)	(1,356)	(2,150)	
Net deferred tax assets	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 381	¥ 381	

(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, 2020							
	Millions of yen							
	2021	2022	2023	2024	2025	2026 and beyond	total	
Tax loss carry forwards (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	

	Thousands of U.S. dollars						
	2021	2022	2023	2024	2025	2026 and beyond	total
Tax loss carryforwards (a)	\$ 208	\$ 1,894	\$ 2,321	\$ 3,324	\$ 1,297	\$ 16,562	\$ 25,606
Valuation allowance	(208)	(1,894)	(2,321)	(3,324)	(1,297)	(12,708)	(21,752)
Net deferred tax assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,854	\$ 3,854

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

2. The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2019 was as follows:

Statutory income tax rate	30.6%
Add (deduct)	
Non-deductible expenses, including entertainment expenses	0.4
Non-taxable income, including dividend income	(0.2)
Equalization tax	0.2
Decrease in valuation allowance	(2.3)
Effect of special tax credits	(2.1)
Subsidiary deficit - not appropriated deferred tax assets	3.7
Gain on step acquisitions	(4.3)
Costs for obtainment of shares	1.7
Amortization of goodwill	0.9
Other	(0.2)
Effective income tax rate	28.4%

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

15. 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 17, 2019, the directors approved cash dividends in the amount of ¥1,349 million. At the Company’s Board of Directors meeting held on October 30, 2019, the directors approved cash dividends in the amount of ¥856 million. At the Company’s Board of Directors meeting held on May 27, 2020, the directors approved of no cash dividends .

16. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2019 and 2020 totaled ¥1,773 million and ¥2,476 million (\$22,753 thousand), respectively. For the year ended March 31, 2020, research and development cost in the Specialty Steel, Metal Powder and Formed & Fabricated Materials segments amounted to ¥1,897 million (\$17,434 thousand), ¥550 million (\$5,056 thousand) and ¥29 million (\$263 thousand), respectively.

17. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Packing and delivery expenses	¥ 6,482	¥ 11,598	\$ 106,590
Salaries	4,042	8,929	82,061
Provision of allowance for doubtful accounts	3	53	488
Provision for bonuses	534	395	3,628
Provision for directors' bonuses	98	—	—
Retirement benefit expenses	141	445	4,088
Provision for directors' retirement benefits	16	18	163

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, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Machinery and equipment	—	50	457
Others	—	5	51
Total	¥ —	¥ 55	\$ 508

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, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Buildings and structures	¥ 44	¥ 50	\$ 455
Machinery and equipment	201	188	1,730
Others	307	260	2,388
Total	¥ 552	¥ 498	\$ 4,573

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. Net Income Per Share

Net income (loss) per share for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Net income (loss) attributable to owners of the parent	¥ 7,721	¥ (3,717)	\$ (34,161)
Net income (loss) of common stock attributable to owners of the parent	¥ 7,721	¥ (3,717)	\$ (34,161)

	Thousands of shares	
	2019	2020
Weighted-average number of shares of common stock	32,477	55,364

	Yen		U.S. dollars
	2019	2020	2020
Net income (loss) per share	¥ 237.75	¥ (67.14)	\$ (0.62)

The Companies had no dilutive securities for the years ended March 31, 2019 and 2020.

22. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2019 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Cash and bank deposits	¥ 22,385	¥ 27,782	\$ 255,322
Time deposits with deposit terms of over 3 months and other	(593)	(562)	(5,164)
Cash and cash equivalents	¥ 21,792	¥ 27,220	\$ 250,158

23. Assets and Liabilities of Newly Consolidated Subsidiaries Through Acquisition of Shares

Assets and liabilities of acquired companies (Ovako Group AB (formerly “Triako Holdco AB”) and its subsidiaries), the acquisition cost of shares and net cash outflow for the acquisition for the year ended March 31, 2019 were as follows:

	Millions of yen	
	2019	
Current assets	¥ 63,507	
Non-current assets	40,284	
Goodwill	40,671	
Current liabilities	(66,375)	
Long-term liabilities	(15,247)	
Acquisition cost of newly consolidated subsidiaries	62,840	
Adjustment amount of acquisition cost of newly consolidated subsidiaries	4,395	
Cash and cash equivalents held by newly consolidated subsidiaries at acquisition	(8,960)	
Net cash used for the acquisition	¥ 58,275	

The value of assets and liabilities for the other that was newly consolidated as a result of the acquisition of shares is not significant, and has therefore been omitted.

Assets and liabilities of acquired companies, the acquisition cost of shares and net cash outflow for the acquisition for the year ended March 31, 2020 were as follows:

Not applicable.

24. Accounting for Leases

1. Non-cancelable operating leases

As a lessee

Outstanding future lease payments under non-cancelable operating leases at March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Due within one year	¥ 1,174	¥ 274	\$ 2,514
Due after one year	2,160	1,376	12,649
Total	¥ 3,334	¥ 1,650	\$ 15,163

Some overseas consolidated subsidiaries have applied IFRS 16 “Leases” from the beginning of the current consolidated fiscal year, the operating lease related to those subsidiaries is included only in the amount for the previous consolidated fiscal year.

2. IFRS 16 “Leases”

(a) Outline of leased assets

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

(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, 2019 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	¥ 269	¥ 4	¥ 29	¥ 29
Japanese yen	202	—	3	3
Selling				
U.S. dollars	1	—	1	1
Euros	3	—	6	6
Total	¥ 475	¥ 4	¥ 39	¥ 39

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				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	¥ 501	¥ —	¥ (42)	¥ (42)	\$ 4,609	\$ —	\$ (384)	\$ (384)
Japanese yen	87	—	(1)	(1)	798	—	(10)	(10)
Selling								
U.S. dollars	1	—	0	0	9	—	0	0
Euros	4	—	(2)	(2)	35	—	(20)	(20)
Total	¥ 593	¥ —	¥ (45)	¥ (45)	\$ 5,451	\$ —	\$ (414)	\$ (414)

(2) Derivative transactions to which hedge accounting was applied

Derivative transactions to which hedge accounting was applied for the years ended March 31, 2019 and 2020 were as follows:

① Currency-related transactions

	2019	2020
Method of hedge accounting	Principle method	Principle method
Type of derivative transactions	Forward exchange contracts Selling Euro	Forward exchange contracts Selling Euros
Main hedged items	Accounts payable - trade	Accounts payable - trade
Contract amount	¥22,544 million	¥22,386 million (\$205,737 thousand)
1 year or more amount of contract	¥5,842 million	¥7,413 million (\$68,129 thousand)
Fair value	¥(55) million	¥295 million (\$2,715 thousand)

② Interest rate and currency swap transactions

	2019	2020
Method of hedge accounting	Unified method of interest rate and currency swap transactions	Unified method of interest rate and currency swap transactions
Type of derivative transactions	Interest rate and currency swap transactions Payment fixed, receipt floating Receive floating US\$ and pay fixed yen	Interest rate and currency swap transactions Payment fixed, receipt floating Receive floating US\$ and pay fixed yen
Main hedged items	Long-term loans	Short-term loans
Contract amount	¥2,929 million	¥2,929 million (\$26,918 thousand)
1 year or more amount of contract	¥2,929 million	—
Fair value	※1	※2

※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 long-term loans that are the hedged items, the fair value is included in the fair value of the long-term loans.

※2 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 long-term loans.

③ Other

	2019	2020
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	¥2,084 million	¥1,008 million (\$9,267 thousand)
1 year or more amount of contract	¥746 million	—
Fair value	¥1,302 million	¥112 million (\$1,032 thousand)

26. Contingent Liabilities

Guarantees for loans of employees and others at March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
UCHIDA-SATO TECH (THAILAND) CO., LTD.	¥ 4	¥ 3	\$ 31
Employees	0	—	—
Total	¥ 4	¥ 3	\$ 31

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.

(3) Information about reportable segment profit or loss and other material items
Segment information for the years ended March 31, 2019 and 2020 was as follows:

		For the year ended March 31, 2019													
		Millions of yen													
		Reportable segments													
		Specialty Steel		Metal Powder		Formed and Fabricated Materials	Other		Total		Adjustments		Consolidated total		
(a) Sales and operating income:															
Net sales															
Outside customers		¥	160,803	¥	4,897	¥	19,984	¥	134	¥	185,818	¥	—	¥	185,818
Intersegment transactions		9,431		—		—		1,508		10,939		(10,939)		—	
Total		170,234		4,897		19,984		1,642		196,757		(10,939)		185,818	
Segment income		¥	8,452	¥	683	¥	879	¥	43	¥	10,057	¥	66	¥	10,123
(b) Other:															
Depreciation		¥	8,031	¥	521	¥	737	¥	11	¥	9,300	¥	(20)	¥	9,280
Amortization of goodwill		305		—		—		—		305		—		305	

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

		For the year ended March 31, 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

	Thousands of U.S. dollars							
	Reportable segments							
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other	Total	Adjustments	Consolidated total	
(a) Sales and operating income (loss):								
Net sales								
Outside customers	\$ 2,207,858	\$ 37,917	\$ 164,857	\$ 1,395	\$ 2,412,027	\$ —	\$ 2,412,027	
Intersegment transactions	74,732	—	1	15,824	90,557	(90,557)	—	
Total	2,282,590	37,917	164,858	17,219	2,502,584	(90,557)	2,412,027	
Segment income (loss)	\$ (15,403)	\$ 2,416	\$ (1,116)	\$ 620	\$ (13,483)	\$ 457	\$ (13,026)	
(b) Other:								
Depreciation	\$ 127,661	\$ 3,192	\$ 6,926	\$ 111	\$ 137,890	\$ (240)	\$ 137,650	
Amortization of goodwill	27,036	—	—	—	27,036	—	27,036	

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments are intersegment eliminations.
3. Segment income (loss) is adjusted with operating income (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 (\$11,850 thousand)) included in extraordinary loss.

(4) Related Information

(a) Segment related information for the year ended March 31, 2019 was as follows:

① Information about products and services

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

② Information about geographic areas

1. Net sales												
For the year ended March 31, 2019												
Millions of yen												
	Japan		Asia		North America		Europe		Others	Total		
Net sales	¥	128,153	¥	50,333	¥	4,287	¥	2,654	¥	391	¥	185,818

2. Property, plant and equipment														
As of March 31, 2019														
Millions of yen														
	Japan		Europe (Sweden of Europe)		Asia		North America		Others		Total			
Property, plant and equipment	¥	53,594	¥	36,006	¥	(29,786)	¥	10,172	¥	—	¥	4,075	¥	103,847

③ Information about major customers

		For the year ended March 31, 2019	
		Net sales	Related segment
		Millions of yen	
Marubeni-Itochu Steel Inc.	¥	36,717	Specialty Steel
Mitsui & Co., Ltd.	¥	21,606	Specialty Steel

(b) Segment related information for the year ended March 31, 2020 is as follows:

① Information about products and services

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

② Information about geographic areas

1. Net sales		For the year ended March 31, 2020					
		Millions of yen					
		Japan	Asia	North America	Europe	Others	Total
Net sales	¥	108,997	¥ 43,892	¥ 8,476	¥ 99,906	¥ 1,182	¥ 262,453
		Thousands of U.S. dollars					
		Japan	Asia	North America	Europe	Others	Total
Net sales	\$	1,001,715	\$ 403,380	\$ 77,899	\$ 918,166	\$ 10,867	\$ 2,412,027

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
		Thousands of U.S. dollars											
		Japan	Europe (Sweden of Europe)		Asia	North America	Others	Total					
Property, plant and equipment	\$	605,327	\$	333,884	\$ (266,421)	\$	94,426	\$	251	\$	40,350	\$	1,074,238

③ Information about major customers

For the year ended March 31, 2020			
	Net sales		Related segment
	Millions of yen	Thousands of U.S. dollars	
Marubeni-Itochu Steel Inc.	¥ 29,603	\$ 272,060	Specialty Steel

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

As of March 31, 2019							
Millions of yen							
	Reportable segments				Total	Adjustments	Consolidated total
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other			
Unamortized amount of goodwill	¥ 42,401	¥ —	¥ —	¥ —	¥ 42,401	—	¥ 42,401
As of March 31, 2020							
Millions of yen							
	Reportable segments				Total	Adjustments	Consolidated total
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other			
Unamortized amount of goodwill	¥ 35,630	¥ —	¥ —	¥ —	¥ 35,630	—	¥ 35,630
Thousands of U.S. dollars							
	Reportable segments				Total	Adjustments	Consolidated total
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other			
Unamortized amount of goodwill	\$ 327,451	\$ —	\$ —	\$ —	\$ 327,451	—	\$ 327,451

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, 2019 were as follows:

	Transactions during the year ended March 31, 2019		Resulting account balances	
	Description of transaction	Amount Millions of yen	Account	Amount Millions of yen
Category: Parent company				
Name: Nippon Steel Corporation	Capital increase through third party allocation of shares	¥ 67,235	—	¥ —
Head office address: Chiyoda-ku, Tokyo				
Paid-in capital: ¥419,524 million				
Business content: Production, selling and engineering of steel products, etc	Purchase of shares of subsidiaries and affiliates	¥ 62,840	Other current assets	¥ 4,395
Equity ownership percentage: Holding 51.44% directly Holding 0.10% indirectly				
Relation with related party: Selling products of the company				

(Terms and conditions and decision policy of it)

- ① The capital increase through third party allocation of shares was resolved at the Board of Directors meeting held on August 2, 2018 and at the extraordinary general shareholders meeting held on February 28, 2019. By this resolution, Nippon Steel obtained 24,012,000 shares of the Company’s stock through third party allocation of shares and became the parent company. The issue price per share average closing value of our shares of common stock from July 2, 2018 to August 1, 2018 on the Tokyo Stock Exchange.
- ② The Company obtained all the shares of Ovako Group AB (formerly rTriako Holdco AB”H. Therefore, Ovako Group AB became a subsidiary of the Company. The acquisition price of shares of Ovako Group AB was valued on the basis of an outside evaluation. The estimated refund amount by adjustment of the acquisition cost is included in other current assets.

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

Not applicable.

(3) Related party transactions between a consolidated subsidiaries and related parties for the years ended March 31, 2019 and 2020 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, 2020 and 2019, 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, 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, 2020 and 2019, and its consolidated financial performance and 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.

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 including 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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

/S/ Naoki Sugita
Designated Engagement Partner
Certified Public Accountant

/S/ Yu Kohno
Designated Engagement Partner
Certified Public Accountant

/S/ Tatsuya Furusawa
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
July 29, 2020

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.

Company Profile

(As of March 31, 2020)

Company Name : Sanyo Special Steel Co., Ltd.
Head Office : 3007, Nakashima, Shikama-ku, Himeji, Hyogo
672-8677, Japan
Established : January 11, 1935
President : Higuchi Shinya
Number of Employees : 6,726 (consolidated basis)
[Domestic 2,053, Overseas 4,673]
1,366 (non-consolidated basis)



Head office/Factory Whole view

Capital : 53,800 million yen
Net Sales : Consolidated basis : 262,452 million yen (Fiscal 2019)
Fiscal Year End : March 31
Business Segment : Specialty Steel/Manufacturing and marketing of various special steel products, including bearing steel, engineering steel, stainless steel, heat resistant steel and tool steel.
Metal powder : Manufacturing and marketing of metal powders and powder metallurgy products.
Formed and Fabricated Materials : Manufacturing and marketing of formed and fabricated materials made from special steel bars and tubes.
Others : Providing information processing services.

Stock Information

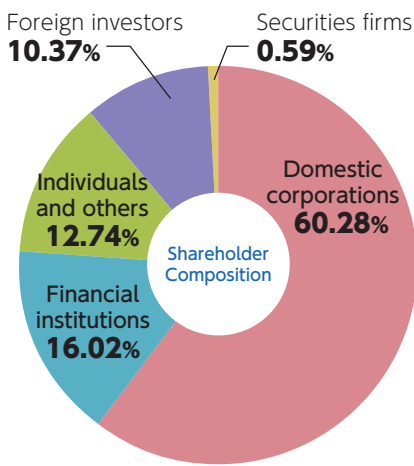
(As of March 31, 2020)

Total Number of Shares Authorized to be Issue : 94,878,400
Total Number of Shares Issued : 54,507,307
Stock Listings : Tokyo Securities Exchange(1st Section)
Number of Shareholders : 11,486

Principal Shareholders

NIPPON STEEL CORPORATION	28,863,000	52.97%
Company's Kyoeikai Association	2,418,000	4.44%
Japan Trustee Services Bank, Ltd. (trustaccount)	1,258,000	2.31%
The Master Trust Bank of Japan, Ltd.(trust account)	1,206,000	2.21%
Sumitomo Mitsui Banking Corporation	1,139,000	2.09%
NORTHERN TRUST CO.(AVFC)RE-HCR00	953,000	1.72%
NSK Ltd.	772,000	1.42%
Mizuho Bank, Ltd.	728,000	1.34%
Company's employee shareholding association	674,000	1.24%
Marubeni-Itochu Steel Inc.	621,000	1.14%

*The number of shares omits fractions of less than 1,000 shares.
*The Company holds 1,212 thousand shares of its own stock in treasury, but is excluded from the above list of principal shareholders.



Subsidiaries and Affiliates

(As of March 31, 2020)



- ①Yohkoh Bussan Co., Ltd.
(Osaka City, Osaka)
Trading of special steel products,
steelmaking raw materials, and other materials

Santoku Kogyo Co., Ltd.
(Himeji City, Hyogo)
Processing of special steel and machinery maintenance

Santoku Tech Co., Ltd.
(Himeji City, Hyogo)
Manufacturing of special steel product
(formed & fabricated materials)

Santoku Computer Service Co., Ltd.
(Himeji City, Hyogo)
Construction, operation,
and consulting services for information systems

Santoku Security Service Co., Ltd.
(Himeji City, Hyogo)
Services such as security services and facility management
- ⑥SANYO SPECIAL STEEL TRADING
(SHANGHAI) CO., LTD.(China)
Involved in business
and sales of special steel products in China

⑦Ningbo Sanyo Special Steel
Products Co., Ltd.(China)
Manufacturing and marketing of special steel products
(formed & fabricated materials)

⑧Siam Sanyo Special Steel
Product Co., Ltd.(Thailand)
Manufacturing and marketing of special steel products
(formed & fabricated materials)

SKJ Metal Industries Co., Ltd.(Thailand)
Manufacturing and marketing of special steel products
- ②Santoku Seiken Co., Ltd.(Tokyo Headquarters)
(Taito-ku,Tokyo)
Manufacturing and marketing of special steel products

③Ovako AB(Sweden)
Manufacturing and sales of special steel products

④Sanyo Special Steel India Pvt. Ltd.(India)
Involved in business
and sales of special steel products in India

⑤Mahindra Sanyo Special Steel
Pvt. Ltd.(India)
Manufacturing and sales of special steel products
- ⑨P.T. SANYO SPECIAL STEEL
INDONESIA(Indonesia)
Manufacturing and marketing of special steel products

⑩Sanyo Special Steel
Manufacturing de México,
S.A. de C.V. (Mexico)
Manufacturing and marketing of special steel products
(formed & fabricated materials)

⑪Advanced Green
Components, LLC(U.S.A)
Manufacturing and marketing of special steel products
(formed & fabricated materials)

⑫SANYO SPECIAL
STEEL U.S.A., INC.(U.S.A)
Trading of special steel products

Guidelines for Corporate Behavior

The steel industry in Japan, which is the base material industry, is required to carry out the mission of contributing to the improvement of people's lives and development of the Japanese economy and society, through constantly supplying steel products that are useful in wide-ranging applications to society. Based on this mission and a strong awareness that it is a member of society, Sanyo Special Steel has established a trusting relationship with society, through faithful and fair business operations.

Business corporations should widely contribute to society and are expected to create added values through fair competition and develop the economy and society through generation of jobs. Sanyo Special Steel aims to respect human rights inside and outside Japan, abide by the relevant laws and regulations and conform to and respect the spirit of international rules. We also aim to fulfill our social responsibilities regarding creation of a sustainable society, based on high ethical standards.

To fulfill these missions, Sanyo Special Steel has established the "Guidelines for Corporate Behavior" that specify the expected actions in detail.

1. As a company belonging to the basic material industry, Sanyo Special Steel will make efforts to develop and supply high-quality special steel products constantly, to satisfy customers and consumers and to earn their trust.
2. Sanyo Special Steel will ensure fair, transparent and free competition as well as fair trade. We will also maintain sound and proper relationship with political parties and the government.
3. Sanyo Special Steel will make efforts to communicate with shareholders and society in general and disclose corporate information in a positive and fair manner. We will pay careful attention to protecting and administrating information including individual information and customer information.
4. Sanyo Special Steel will respect the versatility, personality and individuality of employees to realize safe and comfortable workplaces with a relaxed and affluent atmosphere.
5. Sanyo Special Steel will take the initiative in solving environmental issues, based on the notion that environmental measures should be implemented by the entire human race and are essential for the existence and activities of business corporations.
6. Sanyo Special Steel will positively perform social contribution activities as a "sound corporation in society."
7. Sanyo Special Steel will handle antisocial forces and groups which pose a threat to the social order and safety in a resolute manner and completely avoid having relationships with such forces and groups.
8. Sanyo Special Steel will abide by the laws of each country and region and respect human rights and international rules in performing global business operations. We will also give consideration to cultures and customs in performing business management, aiming to contribute to the development of the relevant country and region.
9. Top-level executives of Sanyo Special Steel will acknowledge that they are responsible for implementing the Guidelines and act as role models, while making efforts to ensure complete implementation of the guidelines by the group companies and business partners. The executives will also listen actively to the opinions of employees inside and outside the company and establish an internal control system to realize an effective system.
10. In the event of actions being made that go against the Guidelines, top-level executives will clarify the intention to solve the problem with regards to people inside and outside the company and make efforts to identify the cause and prevent recurrence of the trouble. The executives will also provide information promptly and properly and explain the situation, clarify authority and responsibilities, and severely punish the persons involved, including themselves.

Code of Conduct

This Code of Conduct stipulates in concrete terms matters to be observed by Sanyo Special Steel and all of its officers and employees (including Counselors, Senior Advisors, Executive Officers, Executive Councilors, etc. Applies also to those who work on the basis of a commission contract or temporary staffing agreement) in each aspect of our business activities with regard to the ten items set out in the Guidelines for Corporate Behavior. For matters not prescribed in this Code of Conduct, actions should be taken in adherence with the spirit of the Code of Conduct and the Guidelines for Corporate Behavior.

I. In Business Activities

1. Timely and appropriate provision of excellent products and services
We will contribute to the society through providing excellent products and services needed by the society in a timely and appropriate manner, and thereby gaining our customers' satisfaction and trust.
Recognizing that high quality and safety are the prerequisites for excellent products, we will make every effort to achieve them.
(1) Accurate understanding of customer needs
We will constantly gather information as to what is demanded in the market and grasp the needs and "seeds" of our customers. By doing so, we aim to provide attractive products and services that meet our customers' requests in a timely and appropriate manner and thereby improve customer satisfaction.
- (2) Enhancement of customer support system
We will provide after-sales support of our products and services with sincerity, which would help us gain new orders, not to mention successive orders from existing customers. Each division will strengthen its customer support system and improve information materials on products and technologies.
- (3) Compliance with laws and regulations related to safety
We will pay attention to safety at all times throughout the stages from development of products to manufacturing, storage, sales and transportation, so that our customers can use our products without worry. To this end, we will strictly comply with laws, regulations, standards and work standards regarding product safety.
- (4) Preparation of easy-to-understand catalogues and specifications
We will take into consideration the ease of understanding in terms of indications and descriptions when preparing product catalogues and specification documents, so as to prevent any accidents that may occur from wrong usage of products or uses other than their designed use.
- (5) Response to accidents, etc.
When we learn of any product defects or accidents caused by product defects, we will take prompt and appropriate actions including informing relevant divisions, investigating all facts, and taking measures to prevent recurrence.
- (6) Prevention of accident recurrence
We will investigate the cause of product defects or the accidents caused by product defects. We will share information on such investigation among persons involved by appropriately compiling and utilizing its records and strive to prevent similar accidents in the future.
- (7) Protection of personal and customer information
We will pay the closest attention to personal and customer information during the entire process from collecting to using, storing and destroying, and ensure strict management of such information.

2. Healthy and favorable relationship with our buyers and suppliers
We will conduct sales and purchases with integrity, fairness and equitability in our business transactions both in and outside of Japan. We will not offer or demand any unreasonable benefits in the course of business transactions.
(1) Relationship with buyers
We will limit the offer of entertainment and gifts to our buyers within the socially acceptable and minimum necessary level. We will not offer personal or arbitrary discounts, commissions, or any other benefits, even if it is to gain an order. Maintaining healthy and favorable relationship with our buyers and suppliers, we will abide by our corporate rules on internal approval.
 - (2) Relationship with suppliers
We will select suppliers with fairness and equitability, basing on reasonable criteria such as price, quality, delivery, and after-sales services. When choosing a new partner, we inquire into the candidate's credit standing and other matters, in addition to applying the above criteria and with fairness and equitability. We will, whenever possible, decline any offer of entertainment or gifts from our suppliers. When it is not practicable to decline, we will make a report to our superior and never leave the boundary of socially acceptable practice.
 - (3) Relationship with subsidiaries and affiliates
We deal with our subsidiaries and affiliates with good common sense and integrity. We do not impose on them any conditions unreasonably different from the terms of business that we apply to a third party in a fair and free competition. We will, whenever possible, refrain from offering or accepting entertainment or gifts to and from our subsidiaries or affiliates. When it is necessary to offer or accept such entertainment, etc., we will make a report to our superior and keep it within the socially acceptable and minimum necessary level.
 - (4) Relationship with the government, public offices, local authorities and other public organizations
We will not offer any benefits to foreign or domestic government officials or their equivalents in relation to their execution of duties.
3. Promotion of fair and free competition
The aim of the Antimonopoly Act is to maintain and promote fair and free competition, and thereby secure the interest of consumers and promote the democratic and wholesome development of the national economy. The Subcontract Act aims to ensure fair transactions between main subcontracting entrepreneurs and subcontractors. By complying with these laws and related regulations, we will work to maintain and promote fair and free competition.
(1) Compliance with Antimonopoly Act
We will not engage in cartels, bid-rigging, maintenance of resale prices, abuse of superior bargaining position, or any other act in violation of the Antimonopoly Act, and compete fairly and freely with other companies.
1) We will not engage in any unreasonable restraint of trade, such as consulting or making agreements on prices, quantities, or production facilities, or committing bid-rigging, among firms in the same industry or in industrial associations.
 - 2) We will not engage in any act that constitute unfair trade practices, such as refusing to deal with specific firms (discount distributors, etc.) or new entrants, or posing restriction on the buyer's selling prices, in concert with firms in the same industry or industrial associations.
- (2) Compliance with the Subcontract Act

We do not use our superior bargaining position against our partners in manufacturing contracts or repair contracts to request of them any unfair trade practices or to delay our payments, or any other similar acts.

4. Protection of intellectual property rights
Intellectual property rights are the rights by which inventions, devices, manufacturing know-how, literary works and other creations of the mind, as well as trademarks and other identification marks of business, are protected by law. These include the industrial property rights covering patents, utility models, trademarks, etc., copyrights on artwork, computer program, etc., as well as trade secrets (technical or business information useful for business activities, such as manufacturing or marketing methods, that are kept secret and that are not publicly known).
(1) Treatment of Sanyo Special Steel's intellectual property rights
We recognize that the intellectual property rights of Sanyo Special Steel are important assets of the company, and will strive to properly exploit and preserve such rights.
1) Regarding inventions arising from manufacturing and development activities, we will file patent application without delay and take other measures to preserve our intellectual property rights.
2) Recognizing that leakage of intellectual property rights and trade secrets will harm the company's interest and credibility, we will clearly demarcate confidential information from the rest and make such classified management of information clear to third parties.
- (2) Treatment of other firms' intellectual property rights
We will comply with the laws and regulations related to intellectual properties and the Unfair Competition Prevention Act, and respect the intellectual property rights owned by other firms as they were our own.
1) We will not for any reason obtain trade secrets owned by other firms through theft or other illegal means, or exploit such secrets. Moreover, we will never obtain or exploit them knowing that they have been, or may have been, obtained through illegal means.
2) Even when we have rightly acquired information owned by other firms, we will not implement any technologies published in the patent gazette without permission, make a copy of purchased computer software without permission, or conduct any other act that infringes on the intellectual property rights of other firms.
3) We will conclude appropriate agreement before we exploit intellectual property rights of other firms, and will not abuse them.

II. In relation with the Society

1. Ethical and legal compliance
As a member of the society, we will conduct business activities based on social norms, social common sense, and, not to mention, laws and regulations. In particular, we will comply with laws and regulations in our business with regard to matters below, the violation of which would cause serious consequences.
(1) Security Export Control
1) We will not engage in exports of arms, weapons, or any relevant technologies that would disturb the maintenance of world peace and security.
2) With regard to export transactions, we will check the buyer's corporate profile and business activities, and confirm, based on our internal regulations, that the products or technologies to be exported will not be used in development or manufacturing of weapons of mass destruction. As for export transactions and service transactions of products and services that are controlled under relevant laws and regulations, we will take necessary steps pursuant to relevant laws and regulations.
 - (2) Prohibition of insider trading
When we come to learn any insider information of Sanyo Special Steel, its subsidiaries, affiliates, or business partners while performing our work, we will not buy or sell stock of those companies until such information is officially made public. When buying or selling our own shares, we will confirm in advance whether or not we are in possession of any insider information.
 - (3) Treatment of acts of endowment and political contributions
1) When making political contributions or endowments to various organizations, we will comply with the Public Offices Election Act, the Political Funds Control Act, and other relevant laws and regulations, and follow legitimate procedures.
2) We will obtain approval based on our internal regulations prior to making political contributions or endowments.
3) We will strictly avoid any act that may be mistaken to constitute collusion with politics or public administration, or, not to mention, bribery, offer of illegal profit, or illegal political contribution.
2. Avoidance of relationship with anti-social forces
We will stay out of any relationship whatsoever with individuals or organizations that adversely affect social order or impair sound corporate activities. Moreover, we will take a firm stand against such antisocial forces without fear.
(1) To ensure that we do not get involved in any unlawful or antisocial behavior, we will hold basic knowledge of the law, social common sense and a sense of justice, and act according to good common sense at all times.
(2) We will stand firm against antisocial forces and refuse to have any relationship whatsoever with such forces. In addition, if we receive any unreasonable demands from antisocial forces or the like, we will face it with a firm attitude and will not try to settle the situation by offering money or through provision of other unreasonable benefits.
(3) We do not make use of antisocial forces in order to gain benefit for the company or ourselves.
(4) We will not engage in any transaction whatsoever with antisocial forces or with any business partners that are associated with antisocial forces.

3. Disclosure of corporate information
(1) We will disclose corporate information to our shareholders, investors, customers, business partners, the local community and others in a timely and appropriate manner and strive to communicate with the society at all times and improve the transparency of our management. We will also pay careful attention to protecting and administrating information including personal information and customer information.
(2) When disclosing financial statements and other corporate information, we will make every effort to streamline and enhance appropriate internal control that secure the reliability of such information.
4. Environmental conservation and protection
Recognizing that we are drawing various benefits from the earth including resources, energy and other factors needed in our business activities, we will make every effort to preserve the global environment in a better possible condition.
(1) We will strive to produce environmentally friendly products, control waste generation, and ensure proper waste disposal, while fully recognizing the importance of environmental protection and complying with conventions, laws and regulations related to the environment at all times.
(2) We will work to improve our environmental consciousness and actively participate in environmental protection activities for energy conservation and recycling, among others.
5. Social contribution
As a corporate citizen, we will serve our social role through business activities and also actively participate in social contribution activities including support of culture and art, cooperation with local communities, volunteer activities, among others, and thereby contribute to social development.

III. In relation with employees

1. Respect of personality and individuality
(1) Respect of personality and individuality
We will pay respect to the personality and individuality of each and every person, and aim to foster personnel for expertise, creativity and independence.
(2) Respect of human rights and prohibition of discriminatory acts
We will respect the human rights of each and every person, and do not discriminate anyone for their nationality, race, religion, gender, age, or disabilities of any type, or any act that may lead to unjust discrimination.
 - (3) Privacy protection
We will respect the privacy of each and every person, and make every effort towards proper management of personal information.
 - (4) Prohibition of harassment
We will achieve a fair and positive workplace that do not tolerate harassments.
1) We will not commit unnecessary physical contact, sexual jokes, teasing, or any other act that constitutes sexual harassment.
2) We will not commit bullying, defamation, intimidation, or any other act that constitutes power harassment.
2. Safe and healthy working environment
We will strive to secure a safe, worker-friendly, and sound workplace as well as our mental and physical health.
(1) Safety and health in workplace
We will place the highest priority on securing safety and health, comply with the laws, regulations and rules related to occupational safety and health, and endeavor to maintain a safe and healthy work environment. Also, in performing work, we will train our sensitivity to predict hazard and to sense harm before it occurs, and react to them systematically.
 - (2) Compliance with laws and regulations related to labor
We will comply with laws and regulations related to labor and strive to maintain and improve a safe, worker-friendly, and healthy work environment.
 - (3) Disaster prevention
To prevent a disaster and stop the spread of damage, we will endeavor to predict and gauge the scale of hazards that are forecast to occur in the future, discuss countermeasures, develop manuals, and thereby maintain and improve our disaster prevention management system.
3. Prohibition of acts that impair the company's interest
As corporate workers, we will perform our work with high ethical standards, not to mention in compliance with internal rules.
(1) Compliance with working regulations
We will abide by matters set out in our working regulations and carry out duties while maintaining order in the workplace. We will not commit any unjust or dishonest act.
 - (2) Proper use of corporate assets
We will not make unjust use of corporate assets or mix private interest with the interest of the company. We will not use corporate assets or expenses for personal purposes.
 - (3) Proper use of information systems
We will closely protect IDs and passwords and watch out for theft, manipulation, and breach of information, and, needless to say, we will not use the company's information systems for personal purposes.
 - (4) Prohibition of conflict of interest
We will give priority to the interest of the company and will not commit any act that constitutes conflict of interest with the company.

End