

Sanyo Special Steel Co., Ltd.

Financial Report for

The Year Ended March 31, 2022

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

As of March 31, 2021 and 2022

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2022	2022
Current Assets:			
Cash and bank deposits (Notes 6 and 23)	¥ 10,924	¥ 14,483	\$ 118,316
Notes and account receivable - trade (Notes 6 and 10)	47,198	—	—
Notes and accounts receivable - trade, and contract assets (Notes 6 and 10)	—	69,019	563,839
Electronically recorded monetary claims (Note 6)	5,132	8,707	71,130
Less: Allowance for doubtful accounts	(260)	(356)	(2,912)
Inventories (Notes 8 and 10)	73,123	113,512	927,306
Income taxes receivable	226	18	146
Deposits paid in parent company (Notes 6 and 23)	14,415	7,924	64,736
Other	7,151	7,196	58,791
Total current assets	157,909	220,503	1,801,352
Property, Plant and Equipment:			
Land (Note 10)	12,826	13,259	108,315
Buildings and structures (Note 10)	73,153	75,042	613,037
Machinery and equipment (Note 10)	273,285	286,723	2,342,320
Construction in progress	9,554	3,408	27,840
Other (Note 10)	13,963	14,953	122,151
	382,781	393,385	3,213,663
Less: Accumulated depreciation	(268,956)	(281,410)	(2,298,910)
Total property, plant and equipment	113,825	111,975	914,753
Intangibles			
Goodwill	34,176	33,284	271,906
Other	4,046	4,102	33,514
Total intangible	38,222	37,386	305,420
Investments and Other Assets:			
Investments in securities (Notes 6, 7 and 9)	5,991	4,996	40,813
Long-term loans receivable	2	2	18
Deferred tax assets (Note 13)	639	2,055	16,783
Net defined benefit assets (Note 12)	1,836	300	2,452
Other	1,140	902	7,364
Less: Allowance for doubtful accounts	(203)	(208)	(1,695)
Total investments and other assets	9,405	8,047	65,735
Total assets	¥ 319,361	¥ 377,911	\$ 3,087,260

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2022	2022
Current Liabilities:			
Short-term loans (Notes 6, 10 and 11)	¥ 34,146	¥ 34,367	\$ 280,757
Current portion of long-term loans (Notes 6, 10 and 11)	13,727	3,306	27,010
Commercial papers (Note 6)	—	12,001	98,042
Notes and accounts payable - trade	27,846	49,426	403,771
Accounts payable - other	12,079	10,262	83,837
Accrued income taxes	650	5,475	44,730
Accrued expenses	7,984	12,685	103,624
Provision for environmental measures	160	4	32
Other (Note 11)	3,048	2,711	22,141
Total current liabilities	99,640	130,237	1,063,944
Long-term Liabilities:			
Bonds payable (Notes 6 and 11)	10,000	10,000	81,693
Long-term loans (Notes 6, 10 and 11)	12,429	19,324	157,863
Accrued directors' and corporate auditors' retirement benefits	66	68	556
Deferred tax liabilities (Note 13)	2,729	4,743	38,749
Provision for loss on guarantees	3	1	11
Provision for environmental measures	310	207	1,684
Net defined benefit liabilities (Note 12)	12,852	12,165	99,381
Other (Note 11)	1,444	2,321	18,957
Total long-term liabilities	39,833	48,829	398,894
Total liabilities	139,473	179,066	1,462,838
Contingent Liabilities (Note 26)			
Net Assets (Note 14)			
Shareholders' Equity:			
Common stock:			
Authorized 94,878,400 shares in 2021 and 2022			
Issued 54,507,307 shares in 2021 and 2022	¥ 53,800	¥ 53,800	\$ 439,508
Capital surplus	51,486	51,486	420,606
Retained earnings	72,924	85,733	700,375
Less: Treasury stock, at cost (16,774 shares in 2021 and 19,566 shares in 2022)	(23)	(28)	(231)
Total shareholders' equity	178,187	190,991	1,560,258
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	1,661	1,383	11,297
Deferred gains on hedges	885	2,134	17,438
Foreign currency translation adjustments	(650)	4,120	33,657
Remeasurements of defined benefit plans	(1,690)	(1,634)	(13,349)
Total accumulated other comprehensive income	206	6,003	49,043
Non-controlling Interests	1,495	1,851	15,121
Total net assets	179,888	198,845	1,624,422
Total liabilities and net assets	¥ 319,361	¥ 377,911	\$ 3,087,260

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2022	2022
Net Sales (Note 29)	¥ 210,722	¥ 363,278	\$ 2,967,719
Cost of Sales (Notes 8 and 15)	187,949	303,394	2,478,514
Gross profit	22,773	59,884	489,205
Selling, General and Administrative Expenses (Notes 15 and 17)	28,266	38,467	314,245
Operating income (loss)	(5,493)	21,417	174,960
Other Income:			
Interest and dividends	196	263	2,147
Rent income	539	442	3,609
Income from deposit transfer following extinctive prescription	99	—	—
Exchange gains	539	164	1,340
Other	175	243	1,989
	1,548	1,112	9,085
Other Expenses:			
Interest	(641)	(615)	(5,025)
Other	(177)	(250)	(2,041)
	(818)	(865)	(7,066)
Ordinary income (loss)	(4,763)	21,664	176,979
Extraordinary Gains and Losses:			
Impairment loss (Note 21)	(3,929)	—	—
Loss on sale and disposition of property, plant and equipment (Note 19)	(625)	(193)	(1,576)
Loss on liquidation of subsidiaries (Note 20)	—	(414)	(3,388)
Extra retirement payments	(425)	—	—
Loss on evaluation of investments in securities	(30)	(219)	(1,791)
Gain on sale of property, plant and equipment (Note 18)	—	43	355
Gain on sales of land	169	—	—
Gain on sale of investment in securities	84	92	755
	(4,756)	(691)	(5,645)
Income (loss) before income taxes	(9,519)	20,973	171,334
Income Taxes (Note 13):			
Current	674	5,252	42,905
Deferred	(1,231)	224	1,827
	(557)	5,476	44,732
Net income (loss)	(8,962)	15,497	126,602
Net Income (Loss) Attributable to Non-controlling Interests	(2,092)	230	1,880
Net Income (Loss) Attributable to Owners of the Parent	¥ (6,870)	¥ 15,267	\$ 124,722

Per Share:

Net income (loss) (Note 22)

Cash dividends

Net assets

	Yen		U.S. dollars (Note 3)
	2021	2022	2022
	¥ (126.07)	¥ 280.19	\$ 2.29
	¥ —	¥ 90.00	\$ 0.74
	¥ 3,273.84	¥ 3,615.39	\$ 29.54

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2022	2022
Net Income (Loss)	¥ (8,962)	¥ 15,497	\$ 126,602
Other Comprehensive Income (Loss):			
Valuation difference on available-for-sale securities	1,099	(278)	(2,273)
Deferred gains on hedges	530	1,249	10,205
Foreign currency translation adjustments	1,908	4,828	39,439
Remeasurements of defined benefit plans	3,152	56	456
Share of other comprehensive income of affiliates accounted for by the equity method	(36)	69	567
Total other comprehensive income (Note 4)	6,653	5,924	48,394
Comprehensive Income (Loss)	(2,309)	21,421	174,996
Comprehensive income (loss) attributable to:			
Owners of the parent	34	21,064	172,075
Non-controlling interests	(2,343)	357	2,921

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2021

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	54,494,173	¥ 53,800	¥ 51,486	¥ 79,794
Cumulative effects of changes in accounting policies	—	—	—	—
Restated balance	54,494,173	53,800	51,486	79,794
Net income (loss) attributable to owners of the parent	—	—	—	(6,870)
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(3,710)	—	—	—
Disposal of treasury stock	70	—	(0)	—
Other changes for fiscal year 2020, net	—	—	—	—
Total changes for fiscal year 2020	(3,640)	—	(0)	(6,870)
Balance at end of year	54,490,533	¥ 53,800	¥ 51,486	¥ 72,924

	Millions of yen			
	Treasury stock, at cost	Valuation difference on available-for- sale securities	Deferred gains on hedges	Foreign currency translation adjustments
Balance at beginning of year	¥ (20)	¥ 562	¥ 355	¥ (2,772)
Cumulative effects of changes in accounting policies	—	—	—	—
Restated balance	(20)	562	355	(2,772)
Net income (loss) attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(3)	—	—	—
Disposal of treasury stock	0	—	—	—
Other changes for fiscal year 2020, net	—	1,099	530	2,122
Total changes for fiscal year 2020	(3)	1,099	530	2,122
Balance at end of year	¥ (23)	¥ 1,661	¥ 885	¥ (650)

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2022

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	54,490,533	¥ 53,800	¥ 51,486	¥ 72,924
Cumulative effects of changes in accounting policies	—	—	—	(6)
Restated balance	54,490,533	53,800	51,486	72,918
Net income (loss) attributable to owners of the parent	—	—	—	15,267
Cash dividends paid	—	—	—	(2,452)
Acquisition of treasury stock	(2,913)	—	—	—
Disposal of treasury stock	121	—	0	—
Other changes for fiscal year 2021, net	—	—	—	—
Total changes for fiscal year 2021	(2,792)	—	0	12,815
Balance at end of year	54,487,741	¥ 53,800	¥ 51,486	¥ 85,733

	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	¥ (23)	¥ 1,661	¥ 885	¥ (650)
Cumulative effects of changes in accounting policies	—	—	—	—
Restated balance	(23)	1,661	885	(650)
Net income (loss) attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(5)	—	—	—
Disposal of treasury stock	0	—	—	—
Other changes for fiscal year 2021, net	—	(278)	1,249	4,770
Total changes for fiscal year 2021	(5)	(278)	1,249	4,770
Balance at end of year	¥ (28)	¥ 1,383	¥ 2,134	¥ 4,120

	Millions of yen		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	¥ (1,690)	¥ 1,495	¥ 179,888
Cumulative effects of changes in accounting policies	—	—	(6)
Restated balance	(1,690)	1,495	179,882
Net income (loss) attributable to owners of the parent	—	—	15,267
Cash dividends paid	—	—	(2,452)
Acquisition of treasury stock	—	—	(5)
Disposal of treasury stock	—	—	0
Other changes for fiscal year 2021, net	56	356	6,153
Total changes for fiscal year 2021	56	356	18,963
Balance at end of year	¥ (1,634)	¥ 1,851	¥ 198,845

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	54,490,533	\$ 439,508	\$ 420,606	\$ 595,731
Cumulative effects of changes in accounting policies	—	—	—	(47)
Restated balance	54,490,533	439,508	420,606	595,684
Net income (loss) attributable to owners of the parent	—	—	—	124,722
Cash dividends paid	—	—	—	(20,031)
Acquisition of treasury stock	(2,913)	—	—	—
Disposal of treasury stock	121	—	0	—
Other changes for fiscal year 2021, net	—	—	—	—
Total changes for fiscal year 2021	(2,792)	—	0	104,691
Balance at end of year	54,487,741	\$ 439,508	\$ 420,606	\$ 700,375

	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	\$ (191)	\$ 13,570	\$ 7,233	\$ (5,307)
Cumulative effects of changes in accounting policies	—	—	—	—
Restated balance	(191)	13,570	7,233	(5,307)
Net income (loss) attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(41)	—	—	—
Disposal of treasury stock	1	—	—	—
Other changes for fiscal year 2021, net	—	(2,273)	10,205	38,964
Total changes for fiscal year 2021	(40)	(2,273)	10,205	38,964
Balance at end of year	\$ (231)	\$ 11,297	\$ 17,438	\$ 33,657

	Thousands of U.S. dollars (Note 3)		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	\$ (13,805)	\$ 12,209	\$ 1,469,554
Cumulative effects of changes in accounting policies	—	—	(47)
Restated balance	(13,805)	12,209	1,469,507
Net income (loss) attributable to owners of the parent	—	—	124,722
Cash dividends paid	—	—	(20,031)
Acquisition of treasury stock	—	—	(41)
Disposal of treasury stock	—	—	1
Other changes for fiscal year 2021, net	456	2,912	50,264
Total changes for fiscal year 2021	456	2,912	154,915
Balance at end of year	\$ (13,349)	\$ 15,121	\$ 1,624,422

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2022	2022
Cash Flows from Operating Activities:			
Income (loss) before income taxes	¥ (9,519)	¥ 20,973	\$ 171,334
Adjustments -			
Depreciation and amortization	14,187	15,904	129,920
Impairment loss	3,929	—	—
Amortization of goodwill	2,621	3,375	27,569
Increase in allowance for doubtful accounts	94	70	568
Increase (decrease) in provision for bonuses	(149)	685	5,593
Increase in net defined benefit liabilities	366	97	789
Decrease in net defined benefit assets	937	205	1,673
Increase (decrease) in accrued directors' and corporate auditors' retirement benefits, less payments	(4)	2	20
Increase (decrease) in provision for environmental measures	157	(274)	(2,235)
Increase (decrease) in provision for loss on guarantees	0	(2)	(13)
Interest and dividend income	(196)	(263)	(2,147)
Interest expense	641	615	5,025
Gain on sale of investments in securities	(84)	(92)	(755)
Loss on evaluation of investments in securities	30	219	1,793
Deposit transfer profit with completion of extinctive prescription	(99)	—	—
Loss (gain) on sale and disposition of property, plant and equipment	456	149	1,221
Loss on liquidation of subsidiaries	—	414	3,388
Extra retirement payments	425	—	—
Changes in assets and liabilities:			
Notes and accounts receivable - trade, and contract assets	(1,334)	(23,620)	(192,960)
Inventories	6,365	(36,970)	(302,016)
Notes and accounts payable - trade	4,628	25,217	206,001
Other, net	(1,967)	1,160	9,476
Subtotal	21,484	7,864	64,244
Interest and dividend income received	198	263	2,152
Interest expense paid	(646)	(617)	(5,040)
Income taxes refund (paid)	1,278	(424)	(3,466)
Net cash provided by operating activities	22,314	7,086	57,890
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(19,175)	(13,832)	(113,000)
Sale of property, plant and equipment	265	106	862
Acquisition of intangible assets	(971)	(711)	(5,806)
Acquisition of investments in securities	(2)	(2)	(18)
Sale of investments in securities	308	553	4,520
Collection of contingent consideration of investments in subsidiaries	117	—	—
Decrease in long-term loans receivable	203	203	1,657
Payments into time deposits	(702)	(1,022)	(8,352)
Proceeds from withdrawal of time deposits	776	931	7,609
Payments of long-term loans receivable	(2)	(2)	(20)
Other, net	(230)	478	3,909
Net cash used in investing activities	(19,413)	(13,298)	(108,639)

	Millions of yen		Thousands of U.S. dollars
	2021	2022	(Note 3) 2022
Cash Flows from Financing Activities:			
Increase (decrease) in short-term loans	¥ 964	¥ (2,098)	\$ (17,142)
Increase in commercial paper	—	12,001	98,042
Proceeds from long-term loans	—	11,000	89,862
Repayment of long-term loans	(5,577)	(15,110)	(123,440)
Repayment of lease obligations	(831)	(1,035)	(8,452)
Payments for purchases of treasury stock	(4)	(5)	(42)
Proceeds from sales of treasury stock	0	0	2
Cash dividends	(1)	(2,449)	(20,004)
Cash dividends to non-controlling interests	(1)	(1)	(10)
Other, net	(24)	(17)	(140)
Net cash provided by (used in) financing activities	(5,474)	2,286	18,676
Effect of Exchange Rate Changes on Cash and Cash Equivalents	234	902	7,368
Net Decrease in Cash and Cash Equivalents	(2,339)	(3,024)	(24,705)
Cash and Cash Equivalents at Beginning of the Year	27,220	24,881	203,262
Cash and Cash Equivalents at End of the Year (Note 23)	¥ 24,881	¥ 21,857	\$ 178,557

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**1. Basis of Presenting Consolidated Financial Statements**

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

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

The Company had 40 subsidiaries as of March 31, 2022 (41 subsidiaries as of March 31, 2021). The consolidated financial statements include the accounts of the Company and its 40 subsidiaries. The 40 subsidiaries that have been consolidated for the fiscal year ended March 31, 2022 are listed below:

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

(※) Mahindra Sanyo Special Steel Private Limited changed its trade name to Sanyo Special Steel Manufacturing India Private Limited on June 23, 2022.

Santoku Security Service Co., Ltd., which had been a consolidated subsidiary of the Company, was excluded from the scope of consolidation for the current fiscal year since it was extinguished on April 1, 2021 in the absorption-type merger with Santoku Kogyo Co., Ltd., which was the surviving company.

The consolidated subsidiaries, except for the 7 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.,) use a fiscal year ending March 31, which is the same as that of the Company. The 7 foreign subsidiaries use a fiscal year ending December 31. For these 7 subsidiaries, certain adjustments are made, if appropriate, in preparing the consolidated financial statements to reflect material transactions which occur 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.

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.

From the year ended March 31, 2022, Ovako has changed its fiscal year-end date from December 31 to March 31. As a result for the year ended March 31, 2022, the Ovako fiscal year comprises 15 months.

From January 1, 2021 to March 31, 2021, Ovako had net sales of 30,383 million yen (\$248,207 thousand), operating income of 2,747 million yen (\$22,441 thousand), ordinary income and income before income taxes of 2,529 million yen (\$20,660 thousand), and goodwill amortization of 672 million yen (\$5,490 thousand).

(b) Investments in affiliates

Investments in Advanced Green Components, LLC and AB Järnbruksförmödenheter, two affiliates of the Company over which the Company has significant influence, are accounted for by the equity method.

(2) Foreign currency translation

Foreign currency transactions are translated into Japanese yen at the exchange rate prevailing at the respective transaction date. All monetary assets and liabilities denominated in foreign currencies, 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.

Revenues and expenses are translated into yen based on the average exchange rate during the period.

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. Equality securities without market prices classified as available-for-sale securities are carried at cost. A decline in the value of available-for-sale securities is reflected in net 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 and commodity futures contracts to reduce their exposure to market risks from fluctuations in foreign currencies 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.

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

(5) Amortization of goodwill

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

(6) Inventories

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

(7) Depreciation and amortization

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

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

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

(8) Research and development costs

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

(9) Allowance for doubtful accounts

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

(10) Provision for bonuses

Provision for employees bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year. It was recorded as accrued expenses on the consolidated balance sheet.

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

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

(12) Provision for loss on guarantees

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

(13) Provision for environmental measures

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

(14) Accounting methods for employees' retirement benefits

In the calculation of retirement benefit obligations, the estimated amount of retirement benefits is attributed to the consolidated fiscal

year using the benefit formula basis.

Prior service costs are posted in expenses from the consolidated fiscal year of accrual by the straight-line method over a period of 10 years, which is within the average remaining service years of the employees.

Actuarial gains and losses are posted in expenses after the consolidated fiscal year of accrual by the straight-line method over periods of mainly 10 years and 17 years, which are 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 have adopted a simplified method that determines the benefits payable assuming the voluntary retirement of all employees at the fiscal year-end as retirement benefit obligations.

(15) Income taxes

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

(16) Accounting policy for revenue and expenses

The Companies recognize revenue based on the following five-step approach.

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.

Revenue in the Companies are mainly generated from the sale of special steel products in which the performance obligation is to transfer the merchandise and finished goods to the customer based on the sales contracts.

The Companies recognize revenue when the customer receives the merchandise and finished goods, control of the goods is transferred to the customer and the performance obligations are satisfied.

However, the Companies and its subsidiaries recognize revenue from domestic sales at the point of shipment in cases in which control of the goods is transferred to the customer within a reasonable period according to Paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition.

The transaction price is measured based on the contract with customers. In cases in which there is variable consideration in the contract, it is estimated and included in the transaction price to the extent that there is no material reversal.

The consideration involved in the transaction does not contain a significant financing component because the relevant payment period is within a short-term after the satisfaction of the performance obligation.

(17) Net income and cash dividends per share

Net income per share is computed by dividing net income available for distribution to shareholders of common stock by the

weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is not disclosed because potentially dilutive securities are not issued.

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

(18) Cash and cash equivalents

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

(19) Significant accounting estimates

Property, Plant and Equipment and Intangibles

(a) Carrying amounts in the current year's financial statements

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Property, Plant and Equipment	¥ 113,825	¥ 111,975	\$ 914,753
Intangibles	¥ 38,222	¥ 37,386	\$ 305,420

(b) Significant accounting estimates for identified items

For property, plant and equipment and intangibles to determine whether the recognition of an impairment loss is required it is necessary to compare the undiscounted future cash flows that are expected to be generated from the asset or the asset groups with its book value whenever there is an impairment indicator in the asset or the asset groups. If the recognition of an impairment loss is deemed necessary, the book value is reduced to the recoverable amount, and the resulting decrease in the book value is recognized as an impairment loss.

The Companies group assets with consideration for business management segments. In principle, the Company is classified by business segment and its consolidated subsidiaries are classified by each company as one asset group. In addition to the asset groups that recorded impairment loss in the current consolidated fiscal year, the asset groups of Sanyo Special Steel Manufacturing de México, S.A.de C.V., which are recognized indications of impairment, did not record impairment loss because the undiscounted future cash flows exceeded the book value. The book value of property, plant and equipment were recorded at 3,930 million yen (\$32,105 thousand) and intangibles were recorded at 115 million yen (\$939 thousand).

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

(20) Changes in accounting policies

(a) Application of accounting Standard for Revenue Recognition

The Company and its subsidiaries have applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) on the relevant guidance issued by ASBJ from the beginning of the current consolidated fiscal year.

As a result of this application, the Company and its subsidiaries

have changed their policy to recognize revenue at an amount expected to be received in exchange for the promised goods or services as control of such goods or services is transferred to the customer.

However, the Companies and its subsidiaries recognize domestic sales at the point of shipment in cases in which control of the goods is transferred to the customer within a reasonable period according to Paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition.

The application of the changes in accounting policies follows the transitional treatment prescribed in Paragraph 84 of the Accounting Standard for Revenue Recognition such that the new accounting policy was applied from the beginning balance of retained earnings of the current consolidated fiscal year to add to or deduct from the amount of beginning balance of retained earnings of the current consolidated fiscal year the cumulative effects of applying retrospectively the new accounting policy from the beginning of the current consolidated fiscal year.

There has been no material effects on net income, the beginning balance of retained earnings and earnings per share of the current consolidated fiscal year.

(b) Application of accounting Standard for Fair Value Measurement

The Company and its subsidiaries apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) to the consolidated financial statements from the beginning of the consolidated fiscal year and prospectively apply the new accounting policies under the Accounting Standard for Fair Value Measurement in accordance with the transitional provision set out in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The effects on the consolidated financial statement were not significant.

In addition, fair value information of financial instruments by level are disclosed in Note 6 to the consolidated fiscal statements. However, following the transitional treatment in Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019), relevant information for the previous consolidated fiscal year is not provided.

(c) Changes in the method of translating revenues and expenses of overseas subsidiaries, etc., into Japanese currency

Revenues and expenses of foreign subsidiaries, etc., had been translated into yen at the spot exchange rate on the closing date of the foreign subsidiaries, etc., but the Companies have changed the method of translation them to yen at the average exchange rate during the period from this consolidated fiscal year.

As the importance of revenue and expenses of foreign subsidiaries has increased, this change was made in order to mitigate the impact of temporary fluctuations in exchange rates on profits and losses and to more appropriately reflect the profits and losses of foreign subsidiaries, etc., that occur throughout the accounting period in the consolidated financial statements.

Since the impact of this change has been immaterial, it has not been applied retroactively.

(21) Additional information

Regarding COVID-19, it is still unclear when the pandemic is over. Even though restrictions on people's movement have been gradually eased as a result of various anti-COVID measures such as vaccinations, there remains the possibility that the disease could rebound.

In preparing the consolidated financial statements for the current consolidated fiscal year, the Company assumed that demand for special steel would not drop significantly in the future and made the accounting estimates such its evaluation of fixed assets and recoverability of deferred tax assets on that basis.

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 ¥122.41 to U.S. \$1.00, the approximate rate of exchange as at March 31, 2022, 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
	2021	2022	2022
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ 1,526	¥ (297)	\$ (2,427)
Reclassification adjustments	(42)	(92)	(755)
Subtotal, before tax	1,484	(389)	(3,182)
Tax (expense)	(385)	111	909
Subtotal, net of tax	1,099	(278)	(2,273)
Deferred gains on hedges			
Increase during the year	890	2,407	19,666
Reclassification adjustments	(227)	(834)	(6,813)
Subtotal, before tax	663	1,573	12,853
Tax (expense)	(133)	(324)	(2,648)
Subtotal, net of tax	530	1,249	10,205
Foreign currency translation adjustments			
Increase during the year	1,908	4,828	39,439
Remeasurements of defined benefit plans			
Increase (decrease) during the year	4,006	(279)	(2,278)
Reclassification adjustments	460	182	1,484
Subtotal, before tax	4,466	(97)	(794)
Tax (expense)	(1,314)	153	1,250
Subtotal, net of tax	3,152	56	456
Share of other comprehensive income of affiliates accounted for by the equity method			
Increase (decrease) during the year	(36)	69	567
Subtotal	(36)	69	567
Total other comprehensive income	¥ 6,653	¥ 5,924	\$ 48,394

5. Statements of cash flows

There were no significant non-cash transactions as of March 31, 2021 and 2022.

6. Financial Instruments

(1) Status of financial instruments

The Companies procure funds required by their business plans through bank loans and bonds payable. Temporary surplus funds are invested in short-term bank deposits, etc., with a low probability of loss of principal. The Companies use derivative transactions mainly to hedge foreign currency operating transactions and electricity price fluctuation risk and limit the amounts to actual demand.

Notes and accounts receivable and electronically recorded monetary claims are exposed to the credit risk of customers. In order to reduce the risk, the Companies regularly monitor the maturity dates and balances of receivables of all customer accounts and evaluate the credit risk of its main customers arising from any deterioration of their financial situation, etc., according to the Company regulations. Notes and accounts receivable denominated in foreign currencies are exposed to exchange rate risks. The Companies reduce the risks by settling both notes and accounts receivable and notes and accounts payable within the same foreign currencies and executing derivative transactions (forward exchange contracts).

Deposits paid in parent company are deposits to Nippon Steel Corporation. The deposits and withdrawals are possible at any time. Investments in securities are mainly the shares of business partners. These shares are exposed to the risk of volatility in market prices, and the Companies periodically monitor the market price and regularly review their portfolios taking into consideration of their relationships with their business partners.

Notes and accounts payable are paid within one year. Notes and accounts payable denominated in foreign currencies are exposed to

exchange rate risks. The Companies reduce the risks by settling both notes and accounts receivable and notes and accounts payable within the same foreign currencies and executing derivative transactions (forward exchange contracts).

Certain foreign subsidiaries have conducted derivative transactions (commodity futures trading) to cope with the risk of purchased electricity price fluctuation. The Companies execute and control derivative transactions in accordance with the internal rules which stipulate the transaction authority. For details on hedging instruments, hedging items, hedging policy and the methods used to evaluate hedge effectiveness, refer to – Note 2(4), “Derivative transactions and hedge accounting.”

Bank loans, bonds payable and commercial paper are primarily used for funds related to operating and investing activities.

To manage the liquidity risks of financing, the Companies prepare and update cash flow plans as appropriate and maintain liquidity on hand. Further, the Company has commitment line contracts in preparation for contingencies.

Because the risks of fluctuation are incorporated into the calculation of fair value of financial instruments, the fair value may fluctuate due to the adoption of different assumptions and other factors. In addition, the contract amounts of derivative transactions in the notes to “Derivative Transactions” are not indicative of the market risk associated with derivative transactions themselves.

(2) Fair value information for financial instruments

Carrying amounts, fair values and differences between carrying amounts and fair values of relevant items are as follows:
2021

	Millions of yen		
	Book value	Fair value	Difference
(1) Investments in securities			
Available-for-sale securities	¥ 4,859	¥ 4,859	¥ —
(2) Bonds payable	(10,000)	(9,981)	19
(3) Long-term loans	(26,156)	(26,267)	(111)
(4) Derivative transactions			
① Hedge accounting not applied	(6)	(6)	—
② Hedge accounting applied	1,086	1,086	—

(※1) Debt is displayed by parentheses.

(※2) “Cash and bank deposits,” “Notes and accounts receivable - trade,” “Electronically recorded monetary claims,” “Deposits paid in parent company,” “Notes and accounts payable - trade,” “Short-term loans” and “Accounts payable” are omitted because they are settled in a short period of time and their fair values approximate their book values.

(※3) The following financial instruments are not included in “(1) Investments in securities” because they do not have market prices and it is extremely difficult to determine their fair value. The book values of those financial instruments are as follows:

	Millions of yen
Unlisted equity securities	¥ 1,132

Carrying amounts, fair values and differences between carrying amounts and fair values of relevant items are as follows:
2022

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Investments in securities						
Available-for-sale securities	¥ 4,011	¥ 4,011	¥ —	\$ 32,767	\$ 32,767	\$ —
(2) Bonds payable	(10,000)	(9,974)	26	(81,693)	(81,480)	213
(3) Long-term loans (including current portion)	(22,630)	(22,605)	25	(184,873)	(184,663)	210
(4) Derivative transactions						
① Hedge accounting not applied	1	1	—	9	9	—
② Hedge accounting applied	2,821	2,821	—	23,047	23,047	—

(※1) Debt is displayed by parentheses.

(※2) “Cash and bank deposits,” “Notes and accounts receivable - trade,” “Electronically recorded monetary claims,” “Deposits paid in parent company,” “Notes and accounts payable - trade,” “Short-term loans,” “Commercial paper” and “Accounts payable” are omitted because they are settled in a short period of time and their fair values approximate their book values.

(※3) Equity securities without market prices are not included in “(1) Investments in securities.” The book values of those financial instruments are as follows:

	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥ 985	\$ 8,046

(3) Financial assets with maturities were as follows:

The aggregate maturities subsequent to March 31, 2021:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	10 years or more
Cash and bank deposits	¥ 10,924	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	47,198	—	—	—
Electronically recorded monetary claims	5,132	—	—	—
Deposits paid in parent company	14,415	—	—	—
Total	¥ 77,669	¥ —	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2022:

	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	¥ 14,483	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	69,019	—	—	—
Electronically recorded monetary claims	8,707	—	—	—
Deposits paid in parent company	7,924	—	—	—
Total	¥ 100,133	¥ —	¥ —	¥ —

	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	\$ 118,316	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	563,839	—	—	—
Electronically recorded monetary claims	71,130	—	—	—
Deposits paid in parent company	64,736	—	—	—
Total	\$ 818,021	\$ —	\$ —	\$ —

(4) Bonds payable, short-term loans, commercial paper and long-term loans were as follows:

The aggregate maturities subsequent to March 31, 2021:

	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	¥ 34,146	¥ —	¥ —	¥ —
Bonds payable	—	10,000	—	—
Long-term loans (including current portion)	13,727	12,429	—	—
Total	¥ 47,873	¥ 22,429	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2022:

	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	¥ 34,367	¥ —	¥ —	¥ —
Commercial paper	12,001	—	—	—
Bonds payable	—	10,000	—	—
Long-term loans (including current portion)	3,306	19,324	—	—
Total	¥ 49,674	¥ 29,324	¥ —	¥ —

	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	\$ 280,757	\$ —	\$ —	\$ —
Commercial paper	98,042	—	—	—
Bonds payable	—	81,693	—	—
Long-term loans (including current portion)	27,010	157,863	—	—
Total	\$ 405,809	\$ 239,556	\$ —	\$ —

(5) Fair value information for financial instruments by level of inputs

Based on the observability and the significance of the inputs used to determine fair value, fair value information of financial instruments is presented by categorizing measurements into the following three levels:

Level 1 fair value: fair values measured by quoted prices of identical assets or liabilities in active markets.

Level 2 fair value: fair values measured using observable inputs other than Level 1.

Level 3 fair value: fair values measured using unobservable inputs.

When multiple inputs of different categories are used in measuring fair value, the Companies classify the fair value into the category from which the lowest inputs are used.

(a) Financial instruments measured at fair values in the consolidated balance sheet
2022

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Available-for-sale securities				
Stock	¥ 4,011	¥ —	¥ —	¥ 4,011
Derivative transactions				
Currency related	—	9	—	9
Commodity related	—	2,937	—	2,937
Total assets	¥ 4,011	¥ 2,946	¥ —	¥ 6,957

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Derivative transactions				
Currency related	¥ —	¥ 124	¥ —	¥ 124
Commodity related	—	—	—	—
Total liabilities	¥ —	¥ 124	¥ —	¥ 124

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Available-for-sale securities				
Stock	\$ 32,767	\$ —	\$ —	\$ 32,767
Derivative transactions				
Currency related	—	77	—	77
Commodity related	—	23,995	—	23,995
Total assets	\$ 32,767	\$ 24,072	\$ —	\$ 56,839

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Derivative transactions				
Currency related	\$ —	\$ 1,015	\$ —	\$ 1,015
Commodity related	—	—	—	—
Total liabilities	\$ —	\$ 1,015	\$ —	\$ 1,015

(b) Financial instruments other than those measured at fair values in the consolidated balance sheet
2022

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Bonds payable	¥ —	¥ 9,974	¥ —	¥ 9,974
Long-term loans (including current portion)	—	22,605	—	22,605
Total liabilities	¥ —	¥ 32,579	¥ —	¥ 32,579

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Bonds payable	\$ —	\$ 81,480	\$ —	\$ 81,480
Long-term loans (including current portion)	—	184,663	—	184,663
Total liabilities	\$ —	\$ 266,143	\$ —	\$ 266,143

(※) Valuation techniques and inputs used in measuring fair values

Investments in securities

Fair values of listed equity securities are measured using quoted prices. The fair values are classified as Level 1 because the securities are exchanged in active markets.

Derivative transactions

The fair value of currency forward contracts is classified as Level 2 because the fair value is based on prices, etc., provided by financial institutions. Fair values of derivative transactions for commodity related purchased electricity price risk is classified as Level 2 because the fair value is measured using the discounted present value method using quoted market prices and other observable inputs.

Bonds payable

The fair value of the bonds payable issued by the Company is based on quoted market prices. However, the fair value of the bonds is classified as Level 2 because the fair value is not determined by quoted market prices in an active market.

Long-term loans

The fair value of long-term loans is classified as Level 2 because the fair value is measured using the discounted present value method, i.e., the interest rate that would be applicable to a similar new loan and that reflects the total amount of the payment obligations of principal and interests and the remaining period adjusted by credit risks.

7. Securities

The aggregate acquisition costs and fair values (book values) of marketable securities classified as available-for-sale securities as of March 31, 2021 and 2022 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2021			2022			2022		
	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	¥ 2,458	¥ 4,658	¥ 2,200	¥ 1,999	¥ 3,803	¥ 1,804	\$ 16,333	\$ 31,069	\$ 14,736
Securities whose acquisition cost exceeds book value:									
Stock	213	201	(12)	213	208	(5)	1,741	1,698	(43)
Total	¥ 2,671	¥ 4,859	¥ 2,188	¥ 2,212	¥ 4,011	¥ 1,799	\$ 18,074	\$ 32,767	\$ 14,693

Available-for-sale securities sold in the year ended March 31, 2021 and 2022 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2021			2022			2022		
	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses
Stock	¥ 308	¥ 84	¥ —	¥ 553	¥ 92	¥ —	\$ 4,520	\$ 755	—

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 ¥30 million and ¥219 million (\$1,791 thousand) for the year ended March 31, 2021 and 2022, respectively.

8. Inventories

Inventories held by the Companies at March 31, 2021 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Merchandise	¥ 1,328	¥ 2,214	\$ 18,085
Finished products	17,156	24,548	200,537
Work-in-process	32,328	58,088	474,538
Raw materials and supplies	22,311	28,662	234,146
Total	¥ 73,123	¥ 113,512	\$ 927,306

The net loss (gain) included in cost of sales due to inventories written down for the years ended March 31, 2021 and 2022 were ¥(252) million and ¥137 million (\$1,119 thousand), respectively.

9. Affiliates

Items relevant to affiliates at March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Investments in securities (stocks)	¥ 637	¥ 705	\$ 5,760

10. Assets Pledged as Collateral

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Assets pledged as collateral:			
Notes and accounts receivable - trade	¥ 3,382	¥ —	\$ —
Notes and accounts receivable - trade, and contract assets	—	4,914	40,144
Inventories	2,613	3,867	31,590
Land	3,057	3,361	27,455
Buildings and structures	—	135	1,103
Machinery and equipment	—	178	1,452
Other property, plant and equipment	—	318	2,596
Total	¥ 9,052	¥ 12,773	\$ 104,340
Secured liabilities:			
Short-term loans (including current portion of long-term loans payable)	556	488	3,984
Long-term loans	780	588	4,802
Total	¥ 1,336	¥ 1,076	\$ 8,786

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

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

Short-term loans at March 31, 2021 and 2022 represent bank overdrafts with weighted-average interest rates of 0.54% and 0.73%, respectively. In business in Japan, it is customary for short-term borrowings to be rolled over every year. For short-term financing, the Companies have commitment line contract arrangements with several financial institutions for an aggregate maximum amount of ¥13,368 million (\$109,208 thousand). At March 31 2022, the total ¥13,368 million (\$109,208 thousand) was unused.

Bonds payable at March 31, 2021 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Bonds payable due 2024 with interest rates of 0.30% at March 31, 2021 and 2022	¥ 10,000	¥ 10,000	\$ 81,693

The annual maturities of bonds payable outstanding at March 31, 2022 were as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars
2025	¥ 10,000	\$ 81,693

Long-term loans at March 31, 2021 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Loans from banks and other financial institutions due 2022 to 2024 with interest rates ranging from 0.13% to 10.15% at March 31, 2021 and due 2023 to 2027 with interest rates ranging from 0.3% to 10.40% at March 31, 2022	¥ 26,156	¥ 22,630	\$ 184,873
Lease obligations due 2023 to 2028 with interest rate of 1.50% at March, 31,2022	1,956	2,117	17,290
	28,112	24,747	202,163
Less: Current portion of long-term loans	(14,432)	(3,982)	(32,532)
	¥ 13,680	¥ 20,765	\$ 169,631

The annual maturities of long-term loans outstanding at March 31, 2022 were as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars
2024	¥ 8,603	\$ 70,278
2025	645	5,269
2026	261	2,131
2027	11,172	91,269
2028 and thereafter	84	684
	¥ 20,765	\$ 169,631

12. Retirement Benefits

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

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

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

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

(1) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Balance at beginning of year	¥ 20,210	¥ 21,092	\$ 172,307
Service cost	869	927	7,572
Interest cost	178	171	1,393
Actuarial loss	(332)	(1,248)	(10,196)
Benefits paid	(578)	(732)	(5,979)
Prior service cost	—	(262)	(2,137)
Other	745	678	5,542
Balance at end of year	¥ 21,092	¥ 20,626	\$ 168,502

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

	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Balance at beginning of year	¥ 8,422	¥ 11,029	\$ 90,102
Expected return on plan assets	156	195	1,595
Actuarial gain (loss)	3,701	(1,758)	(14,359)
Contributions paid by employer	28	265	2,168
Benefits paid	(170)	(157)	(1,285)
Decrease from the termination of corporate pension plans	(1,074)	—	—
Other	(34)	162	1,313
Balance at end of year	¥ 11,029	¥ 9,736	\$ 79,534

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

	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Balance at beginning of year	¥ 903	¥ 953	\$ 7,790
Retirement benefit costs	163	134	1,098
Benefits paid	(97)	(112)	(927)
Other	(16)	—	—
Balance at end of year	¥ 953	¥ 975	\$ 7,961

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

	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Funded retirement benefit obligations	¥ 21,092	¥ 20,626	\$ 168,502
Plan assets	(11,029)	(9,736)	(79,534)
	10,063	10,890	88,968
Unfunded retirement benefit obligations	953	975	7,961
Total net liability (asset) for retirement benefits at end of year	11,016	11,865	96,929
Net defined benefit liabilities	12,852	12,165	99,381
Net defined benefit assets	(1,836)	(300)	(2,452)
Total net liability (asset) for retirement benefits at end of year	¥ 11,016	¥ 11,865	\$ 96,929

(e) Retirement benefit costs:

	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Service cost	¥ 869	¥ 927	\$ 7,572
Interest cost	178	171	1,393
Expected return on plan assets	(156)	(195)	(1,595)
Amortization of actuarial gain	466	190	1,552
Amortization of prior service cost	—	(4)	(36)
Retirement benefit costs based on the simplified method	163	134	1,098
Total retirement benefit costs	¥ 1,520	¥ 1,223	\$ 9,984
Loss on termination of corporate pension plans	7	—	—
Extra retirement payments	425	25	205

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

(f) Remeasurements of defined benefit plans:

	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Prior service cost	¥ —	¥ 257	\$ 2,101
Actuarial gain (loss)	4,466	(354)	(2,895)
Total	¥ 4,466	¥ (97)	\$ (794)

(g) Accumulated remeasurements of defined benefit plans:

	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Prior service cost yet to be unrecognized	¥ —	¥ (257)	\$ (2,101)
Actuarial gain yet to be unrecognized	2,060	2,414	19,723
Total	¥ 2,060	¥ 2,157	\$ 17,622

(h) Plan assets:

① Plan assets comprise:

	2021	2022
Equity securities	81%	62%
Cash and bank deposits	16%	33%
Other	3%	5%
Total	100%	100%

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.

(i) Actuarial assumptions

The principal actuarial assumptions at March 31, 2021 and 2022 were as follows:

	2021	2022
Discount rate (mainly)	0.1%, 1.1%	0.4%, 2.6%
Long-term expected rate of return (mainly)	1.3%, 1.9%	1.7%, 2.5%
Expected rate of pay increase	2.5%	3.7%

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.

(2) Defined contribution plans

The Company and certain consolidated subsidiaries have contributed a total of ¥1,308 million and ¥1,638 million (\$13,384 thousand) to the defined contribution plans for the years ended March 31, 2021 and 2022, respectively.

13. Income Taxes

Significant components of deferred tax assets and liabilities at March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Deferred tax assets:			
Tax loss carryforwards	¥ 3,249	¥ 2,979	\$ 24,335
Net defined benefit liabilities	1,802	1,540	12,584
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trusts	1,307	1,043	8,525
Gain on investment of certain marketable securities to employee retirement benefit trusts	502	887	7,246
Impairment loss	1,006	863	7,052
Accrued bonuses	464	675	5,516
Unrealized gains	267	414	3,385
Devaluation loss on marketable securities	224	176	1,439
Excess depreciation of depreciable assets	200	230	1,882
Devaluation loss on inventories	135	169	1,381
Business tax payable	107	308	2,517
Other	660	936	7,626
Gross deferred tax assets	9,923	10,220	83,488
Valuation allowance for tax loss carryforwards	(2,694)	(2,877)	(23,504)
Valuation allowance for deductible temporary differences	(1,540)	(1,425)	(11,638)
Less: Valuation allowance	(4,234)	(4,302)	(35,142)
Total deferred tax assets	¥ 5,689	¥ 5,918	\$ 48,346
Deferred tax liabilities:			
Depreciation, etc., of foreign subsidiaries	¥ (2,593)	¥ (3,779)	\$ (30,869)
Adjustment of carrying amount based on fair value	(1,466)	(1,250)	(10,210)
Reserve for deferred capital gains from property, plant and equipment	(861)	(842)	(6,875)
Securities to employee retirement benefit trusts	(683)	(547)	(4,468)
Net defined benefit assets	(561)	(91)	(744)
Unrealized holding gains on securities	(527)	(416)	(3,397)
Other	(1,088)	(1,682)	(13,749)
Total deferred tax liabilities	(7,779)	(8,607)	(70,312)
Net deferred tax assets (liabilities)	¥ (2,090)	¥ (2,689)	\$ (21,966)

Valuation allowance increased by ¥68 million (\$545 thousand). The main factors in the increase were impairment loss and recognition of valuation allowance for tax loss carryforwards.

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

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

(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, 2022						
	Millions of yen						
	2023	2024	2025	2026	2027	2028 and beyond	Total
Tax loss carry forwards (b)	¥ 153	¥ 237	¥ 187	¥ 146	¥ 105	¥ 2,151	¥ 2,979
Valuation allowance	(153)	(237)	(180)	(146)	(105)	(2,056)	(2,877)
Net deferred tax assets	¥ —	¥ —	¥ 7	¥ —	¥ —	¥ 95	¥ 102

	Thousands of U.S. dollars						
	2023	2024	2025	2026	2027	2028 and beyond	Total
Tax loss carryforwards (b)	\$ 1,253	\$ 1,940	\$ 1,521	\$ 1,190	\$ 859	\$ 17,572	\$ 24,335
Valuation allowance	(1,253)	(1,940)	(1,468)	(1,190)	(859)	(16,794)	(23,504)
Net deferred tax assets	\$ —	\$ —	\$ 53	\$ —	\$ —	\$ 778	\$ 831

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

The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2022 was as follows:

Statutory income tax rate	30.6%
Add (deduct)	
Non-deductible expenses, including entertainment expenses	0.2
Non-taxable income, including dividend income	(0.1)
Equalization tax	0.1
Decrease in valuation allowance	(2.4)
Effect of special tax credits	(0.6)
Difference in applicable tax rates between consolidated subsidiaries	(5.7)
Amortization of goodwill	4.9
Other	(0.9)
Effective income tax rate	<u>26.1%</u>

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

14. Net Assets

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

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

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

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

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

At the Company's Board of Directors meeting held on October 29, 2021, the directors approved cash dividends in the amount of ¥2,452 million. At the Company's Board of Directors meeting held on May 19, 2022, the directors approved cash dividends in the amount of ¥2,452 million.

15. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2021 and 2022 totaled ¥2,110 million and ¥2,220 million (\$18,132 thousand), respectively. For the year ended March 31, 2022, research and development cost in the Specialty Steel, Metal Powders and Formed & Fabricated Materials segments amounted to ¥1,680 million (\$13,723 thousand), ¥502 million (\$4,097 thousand) and ¥38 million (\$312 thousand), respectively.

16. Employment Adjustment Subsidies

Employment adjustment subsidies of the Companies recorded in manufacturing costs and selling, general and administrative expenses at March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Employment adjustment subsidies	¥ 2,153	¥ 127	\$ 1,034

17. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Packing and delivery expenses	¥ 9,896	¥ 14,892	\$ 121,654
Salaries	7,733	9,731	79,494
Provision of allowance for doubtful accounts	38	1	10
Provision for bonuses	341	518	4,228
Retirement benefit expenses	578	618	5,052
Provision for directors' retirement benefits	15	14	115

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, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Buildings and structures	¥ —	¥ 37	\$ 300
Machinery and equipment	—	6	55
Total	¥ —	¥ 43	\$ 355

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, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Buildings and structures	¥ 1	¥ 24	\$ 194
Machinery and equipment	255	86	702
Other	369	83	680
Total	¥ 625	¥ 193	\$ 1,576

20. Loss on Liquidation of Subsidiaries

In the fiscal year ended March 31, 2022, the Company decided to liquidate P.T. Sanyo Special Steel Indonesia, a consolidated subsidiary. The estimated amount of special retirement benefits, etc., to be incurred as a result of this liquidation (55 million yen (\$452 thousand)) was recorded as loss on liquidation of subsidiaries.

The Company also decided to transfer a portion of the business of Siam Sanyo Special Steel Product Co., Ltd., a consolidated subsidiary. As a result, a loss on liquidation of subsidiaries was recorded in impairment loss on the following asset group:

Segment	Company	Location	Use	Type	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Formed and Fabricated Materials	Siam Sanyo Special Steel Product Co.,Ltd.	Samutprakarn, Thailand	Business assets	Buildings and structures	¥ 307	\$ 2,509
				Machinery and equipment	45	364
				Construction in progress	1	10
				Property, plant and equipment and other	1	12
				Intangibles and other	5	41
				Total	¥ 359	\$ 2,936

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

Regarding the above asset groups, the changes in the range or method of use due to a transfer of a portion of the business have significantly reduced the recoverable amounts. Since the recoverable values declined below the book values, the book values were reduced to the recoverable values and the reductions were recorded as loss on liquidation of subsidiaries (359 million yen (\$2,936 thousand)) in extraordinary losses.

The recoverable value is based on the estimated transfer value calculated by the net sales value.

21. Impairment Loss

In the fiscal year ended March 31, 2021, the impairment loss was recorded on the following asset group:

Segment	Company	Location	Use	Type	Amount (Millions of yen)
Specialty Steel	Mahindra Sanyo Special Steel Pvt. Ltd.	Maharashtra, India	Business assets	Buildings and structures	¥ 1,027
				Machinery and equipment	1,970
				Land	151
				Construction in progress	766
				Property, plant and equipment and other	15
				Intangibles and other	0
Total	¥ 3,929				

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

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

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

22. Net Income Per Share

Net income (loss) per share for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net income (loss) attributable to owners of the parent	¥ (6,870)	¥ 15,267	\$ 124,722
Net income (loss) of common stock attributable to owners of the parent	¥ (6,870)	¥ 15,267	\$ 124,722
	Thousands of shares		
	2021	2022	
Weighted-average number of shares of common stock	54,492	54,489	
	Yen		U.S. dollars
	2021	2022	2022
Net income (loss) per share	¥ (126.07)	¥ 280.19	\$ 2.29

The Companies had no dilutive securities for the years ended March 31, 2021 and 2022.

23. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2021 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Cash and bank deposits	¥ 10,924	¥ 14,483	\$ 118,316
Time deposits with deposit terms of over 3 months and other	(458)	(550)	(4,495)
Deposits paid in parent company	14,415	7,924	64,736
Cash and cash equivalents	¥ 24,881	¥ 21,857	\$ 178,557

24. Accounting for Leases

(1) Non-cancelable operating leases

(a) As a lessee

Outstanding future lease payments under non-cancelable operating leases at March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Due within one year	¥ 264	¥ 219	\$ 1,788
Due after one year	1,192	1,022	8,348
Total	¥ 1,456	¥ 1,241	\$ 10,136

(2) IFRS 16 “Leases”

(a) Outline of leased assets

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

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

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

25. Derivatives

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

Currency-related transactions

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

	Millions of yen			
	Contract amount	Contract amount after 1 year	Fair value	Unrealized gain (loss)
Forward exchange contracts:				
Buying				
U.S. dollars	¥ 45	¥ —	¥ (4)	¥ (4)
Japanese yen	13	—	(0)	(0)
Selling				
U.S. dollars	1	—	0	0
Euros	2	—	(2)	(2)
Total	¥ 61	¥ —	¥ (6)	¥ (6)

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2022 were as follows:

	Millions of yen				Thousands of U.S. dollars			
	Contract amount	Contract amount after 1 year	Fair value	Unrealized gain (loss)	Contract amount	Contract amount after 1 year	Fair value	Unrealized gain (loss)
Forward exchange contracts:								
Buying								
U.S. dollars	¥ 114	¥ —	¥ (7)	¥ (7)	\$ 938	\$ —	\$ (58)	\$ (58)
Japanese yen	59	—	0	0	481	—	3	3
Selling								
U.S. dollars	2	—	2	2	14	—	13	13
Euros	2	—	6	6	14	—	51	51
Total	¥ 177	¥ —	¥ 1	¥ 1	\$ 1,447	\$ —	\$ 9	\$ 9

(2) Derivative transactions to which hedge accounting was applied

Derivative transactions to which hedge accounting was applied for the years ended March 31, 2021 and 2022 were as follows:

① Currency-related transactions

	2021	2022
Method of hedge accounting	Principle method	Principle method
Type of derivative transactions	Forward exchange contracts Selling Euros	Forward exchange contracts Selling Euros
Main hedged items	Accounts payable - trade	Accounts payable - trade
Contract amount	¥17,331 million	¥28,046 million (\$229,116 thousand)
1 year or more amount of contract	¥4,571 million	¥11,971 million (\$97,793 thousand)
Fair value	¥1,164 million	¥(116) million (\$948) thousand)

② Interest rate and currency swap transactions

Not applicable.

③ Other

	2021	2022
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	¥2,124 million	¥1,372 million (\$11,211 thousand)
1 year or more amount of contract	¥794 million	¥149 million (\$1,217 thousand)
Fair value	¥(78) million	¥2,937 million (\$23,995 thousand)

26. Contingent Liabilities

Guarantees for loans of employees and others at March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of
	2021	2022	U.S. dollars
UCHIDA-SATO TECH (THAILAND) CO., LTD.	¥ 2	¥ 2	\$ 19

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, 2021 and 2022 was as follows:

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

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

For the year ended March 31, 2022									
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	¥ 340,691	¥ 4,555	¥ 17,961	¥ 71	¥ 363,278	¥ —	¥ 363,278		
Intersegment transactions	9,589	—	0	1,073	10,662	(10,662)	—		
Total	350,280	4,555	17,961	1,144	373,940	(10,662)	363,278		
Segment income	¥ 20,144	¥ 818	¥ 360	¥ 28	¥ 21,350	¥ 67	¥ 21,417		
(b) Other:									
Depreciation	¥ 14,895	¥ 271	¥ 710	¥ 8	¥ 15,884	¥ (21)	¥ 15,863		
Amortization of goodwill	3,375	—	—	—	3,375	—	3,375		
Impairment loss (※4)	—	—	359	—	359	—	359		

Thousands of U.S. dollars									
Reportable segments									
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other	Total	Adjustments	Consolidated total		
(a) Sales and operating income:									
Net sales									
Outside customers	\$ 2,783,197	\$ 37,208	\$ 146,726	\$ 588	\$ 2,967,719	\$ —	\$ 2,967,719		
Intersegment transactions	78,335	—	0	8,769	87,104	(87,104)	—		
Total	2,861,532	37,208	146,726	9,357	3,054,823	(87,104)	2,967,719		
Segment income	\$ 164,563	\$ 6,682	\$ 2,940	\$ 228	\$ 174,413	\$ 547	\$ 174,960		
(b) Other:									
Depreciation	\$ 121,680	\$ 2,211	\$ 5,804	\$ 62	\$ 129,757	\$ (166)	\$ 129,591		
Amortization of goodwill	27,569	—	—	—	27,569	—	27,569		
Impairment loss (※4)	—	—	2,936	—	2,936	—	2,936		

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. The impairment loss is included in loss on liquidation of subsidiaries (extraordinary losses) in the consolidated financial statements.
5. As information about segment assets and liabilities is not used to determine the distribution of management resources and evaluate business results, the Companies are not required to disclose information about segment assets and liabilities.

(4) Related Information

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

For the year ended March 31, 2021									
Millions of yen									
	Japan	Europe	(Sweden of Europe)	(Germany of Europe)	Asia	North America	Other	Total	
Net sales	¥ 83,836	¥ 84,296	¥ (21,855)	¥ (20,717)	¥ 35,744	¥ 5,714	¥ 1,132	¥ 210,722	

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

③ Information about major customers

	For the year ended March 31, 2021	
	Net sales	
	Millions of yen	
Marubeni-Itochu Steel Inc.	¥	22,765
		Related segment
		Specialty Steel

(b) Segment related information for the year ended March 31, 2022 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

	For the year ended March 31, 2022							
	Millions of yen							
	Japan	Europe	(Sweden of Europe)	(Germany of Europe)	Asia	North America	Other	Total
Net sales	¥ 134,142	¥ 161,214	¥ (41,256)	¥ (40,563)	¥ 56,209	¥ 9,857	¥ 1,856	¥ 363,278
	Thousands of U.S. dollars							
	Japan	Europe	(Sweden of Europe)	(Germany of Europe)	Asia	North America	Other	Total
	Net sales	\$ 1,095,841	\$ 1,317,003	\$ (337,032)	\$ (331,370)	\$ 459,186	\$ 80,524	\$ 15,165

	As of March 31, 2022							
	Millions of yen							
	Japan	Europe	(Sweden of Europe)	Asia	North America	Other	Total	
Property, plant and equipment	¥ 65,119	¥ 37,252	¥ (30,270)	¥ 5,691	¥ 11	¥ 3,902	¥ 111,975	
	Thousands of U.S. dollars							
	Japan	Europe	(Sweden of Europe)	Asia	North America	Other	Total	
	Property, plant and equipment	\$ 531,974	\$ 304,322	\$ (247,284)	\$ 46,490	\$ 91	\$ 31,876	\$ 914,753

③ Information about major customers

Not applicable because there are no external customers whose sales account for 10% or more of the net sales in the consolidated statements of income.

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

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

As of March 31, 2022										
Millions of yen										
Reportable segments										
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other	Total	Adjustments	Consolidated total			
Unamortized amount of goodwill	¥ 33,284	¥ —	¥ —	¥ —	¥ 33,284	¥ —	¥	—	¥	33,284

Thousands of U.S. dollars										
Reportable segments										
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Other	Total	Adjustments	Consolidated total			
Unamortized amount of goodwill	\$ 271,906	\$ —	\$ —	\$ —	\$ 271,906	\$ —	\$	—	\$	271,906

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

(1) Related party transactions

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

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

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

Related party transactions for the years ended March 31, 2022 were as follows:

	Transactions during the year ended March 31, 2022			Resulting account balances		
	Description of transaction	Amount		Account	Amount	
		Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Category:	Parent company					
Name:	Nippon Steel Corporation					
Head office address:	Chiyoda-ku, Tokyo					
Paid-in capital:	¥419,524 million					
Business content:	Deposit of funds	¥ 9,578	\$ 78,239	Deposits paid in parent company	¥ 7,924	\$ 64,736
Equity ownership percentage:	Production and selling of steel products, etc.					
Relation with related party:	Holding 53.07% directly					
	Holding 0.10% indirectly					
	Deposit of funds					

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

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

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

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

Related party transactions with subsidiaries owned by the same parent company and subsidiaries of other related companies for the years ended March 31, 2022 were as follows:

	Transactions during the year ended March 31, 2022			Resulting account balances		
	Description of transaction	Amount		Account	Amount	
		Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Category: subsidiaries owned by the same parent company						
Name: Nippon Steel Finance Co.,Ltd.						
Head office address: Chiyoda-ku, Tokyo						
Paid-in capital: ¥1,000 million	Transfers of trade receivable	¥ 41,533	\$ 339,294	Accounts receivable-other	¥ 10,129	\$ 82,750
Business content: Engages in the group's financing operations						
Equity ownership percentage: Not applicable						
Relation with related party: Transfers of accounts receivables						

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

Related party transactions between a consolidated subsidiaries and related parties for the years ended March 31, 2021 and 2022 were as follows:

Not applicable.

(2) Disclosures about the parent company and significant affiliates

(a) 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.

(b) Financial statements of significant affiliates

Not applicable.

29. Revenue Recognition

(1) Information about disaggregation of revenue from contracts with customers

The Companies operates in the Specialty Steel business, the Metal Powder business, the Formed and Fabricated Materials business, and other business. The main products of each business segment are as follows. The Specialty Steel business includes various special steel products such as bearing steel, engineering steel, stainless steel, heat resistant steel and tool steel; the Metal Powder business includes metal powder products and the Formed and Fabricated Materials business includes formed and fabricated materials made from special steel bars and tubes. Each business sells products to Japan, Europe, Asia, etc. Net sales of each business segment by geographic areas are as follows.

For the year ended March 31, 2022						
Millions of yen						
	Business segments					Consolidated total
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Total	Other	
Net sales						
Japan	¥ 120,202	¥ 3,473	¥ 10,396	¥ 134,071	¥ 71	¥ 134,142
Europe	161,200	4	10	161,214	—	161,214
Asia	50,555	900	4,754	56,209	—	56,209
North America	7,845	178	1,834	9,857	—	9,857
Other	889	—	967	1,856	—	1,856
Total	¥ 340,691	¥ 4,555	¥ 17,961	¥ 363,207	¥ 71	¥ 363,278

Thousands of U.S. dollars						
	Business segments					Consolidated total
	Specialty Steel	Metal Powder	Formed and Fabricated Materials	Total	Other	
Net sales						
Japan	\$ 981,965	\$ 28,361	\$ 84,927	\$ 1,095,253	\$ 588	\$ 1,095,841
Europe	1,316,884	35	84	1,317,003	—	1,317,003
Asia	412,996	7,355	38,835	459,186	—	459,186
North America	64,083	1,457	14,984	80,524	—	80,524
Other	7,269	—	7,896	15,165	—	15,165
Total	\$ 2,783,197	\$ 37,208	\$ 146,726	\$ 2,967,131	\$ 588	\$ 2,967,719

- All net sales to outside customers are revenues arising from contracts with customers and are classified by country or region based on the location of the customer.
- The "Other" category is the information service segment not included in the business segments.

(2) Basic information to understand revenue from contracts with customers

Basic information to understand revenue from contracts with customers is as described in Note 2,(16) "Accounting policy for revenue and expenses."

(3) Information to understand the amount of revenue in the current and subsequent fiscal years

A description of contract assets and contract liabilities recorded on the consolidated balance sheet is omitted because those balances are immaterial.

Since there are no material transactions with initial scheduled contract terms of more than 1 year in the Companies, a description of transaction price allocated to the remaining obligation is omitted.

30. Subsequent Events

On April 20, 2022, the Company was notified by Mahindra and Mahindra Limited (hereinafter "M&M"), one of the minority shareholders of Mahindra Sanyo Special Steel Private Limited (hereinafter "MSSS"), that M&M was exercising its put-option under the shareholders agreement. Due to this exercise, the Company is obligated to purchase from M&M all of MSSS shares (3,475,260 shares) held by M&M.

The transfer price is to be determined in accordance with the provisions of the shareholders agreement, and the financial impact at this time is uncertain.



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, 2022 and 2021, the consolidated statements of operations, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Appropriateness of the Company's judgment as to whether an impairment loss should be recognized on property, plant and equipment and intangibles of Sanyo Special Steel Manufacturing de México, S.A. de C.V.

The key audit matter	How the matter was addressed in our audit
In the consolidated balance sheet of the Company as of March 31, 2022, property, plant and equipment of ¥3,930 million and intangibles of ¥115 million related to Sanyo Special Steel Manufacturing de México, S.A. de C.V. (hereinafter, "SMM") established in November 2015 were recognized.	The primary procedures we performed to assess the appropriateness of the Company's judgment as to whether an impairment loss should be recognized on property, plant and equipment and intangibles of SMM included the following: <ol style="list-style-type: none">(1) Internal control testing

<p>While these assets are depreciated/amortized in a systematic manner, they need to be tested for impairment whenever there is an impairment indicator. The impairment test is performed by comparing the undiscounted future cash flows that are expected to be generated from the asset groups with their carrying amounts. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.</p> <p>SMM identified an impairment indicator since the realization of profits was delayed compared to what had been budgeted for in the initial business plan. Accordingly, the Company performed an impairment test during the current fiscal year. In the impairment testing, undiscounted future cash flows were estimated based on the business plan of SMM prepared by management that incorporated an increase in sales volume including prospective new orders, an estimate which involved a degree of uncertainty. Accordingly, management's judgment thereon had a significant effect on the estimated undiscounted future cash flows.</p> <p>We, therefore, determined that the appropriateness of the Company's judgment as to whether an impairment loss should be recognized on property, plant and equipment and intangibles of SMM was of most significance in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.</p>	<p>We tested the design and operating effectiveness of certain of the Company's internal controls to determine whether an impairment loss should be recognized on property, plant and equipment and intangibles.</p> <p>(2) Assessment of the reasonableness of the estimated undiscounted future cash flows</p> <p>In order to assess the appropriateness of key assumptions adopted in estimating the undiscounted future cash flows, we inquired of the planning department about the future uncertainty (a sales volume increase) incorporated into the business plan of SMM and the undiscounted future cash flows, which served as the basis for the estimate. In addition, we:</p> <ul style="list-style-type: none"> • compared the sales volume included in the business plan with the available external data on the projection of automobile sales volume in North America; and • assessed the consistency of the projected increase in sales volume from prospective new orders with the most recent orders and the progress of negotiations with customers.
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Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

Responsibilities of Management and the Audit & Supervisory Committee 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.

The Audit & Supervisory Committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting

process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

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

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

Naoki Sugita
Designated Engagement Partner
Certified Public Accountant

Yu Kohno
Designated Engagement Partner
Certified Public Accountant

Tatsuya Furusawa
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
August 30, 2022

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.