

Sanyo Special Steel Co., Ltd.

Financial Report for

The Year Ended March 31, 2024

CONSOLIDATED BALANCE SHEETS

As of March 31, 2023 and 2024

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Current Assets:			
Cash and bank deposits (Notes 6 and 23)	¥ 21,653	¥ 26,592	\$ 175,719
Notes and accounts receivable - trade, and contract assets (Notes 6, 10, 11, 12 and 28)	66,372	59,541	393,454
Electronically recorded monetary claims (Notes 6 and 12)	11,637	13,381	88,426
Less: Allowance for doubtful accounts	(449)	(435)	(2,876)
Inventories (Notes 8 and 10)	128,229	119,158	787,407
Income taxes receivable	45	391	2,582
Deposits paid in parent company (Notes 6, 23 and 28)	9,954	4,811	31,790
Other (Notes 6 and 25)	4,258	4,997	33,019
Total current assets	241,699	228,436	1,509,521
Property, Plant and Equipment:			
Land (Note 10)	13,496	17,183	113,548
Buildings and structures (Note 10)	74,816	78,648	519,714
Machinery and equipment (Note 10)	284,450	299,920	1,981,897
Construction in progress (Note 10)	9,026	4,389	29,003
Other (Note 10)	15,651	17,052	112,671
	397,439	417,192	2,756,833
Less: Accumulated depreciation	(282,256)	(293,705)	(1,940,821)
Total property, plant and equipment	115,183	123,487	816,012
Intangible Assets:			
Goodwill	32,441	32,954	217,764
Other	3,677	4,030	26,629
Total intangible assets	36,118	36,984	244,393
Investments and Other Assets:			
Investments in securities (Notes 6, 7 and 9)	5,003	4,329	28,605
Long-term loans receivable	3	3	23
Deferred tax assets (Note 15)	1,489	2,810	18,569
Net defined benefit assets (Note 14)	997	1,828	12,078
Other (Notes 6 and 25)	935	1,043	6,890
Less: Allowance for doubtful accounts	(209)	(213)	(1,406)
Total investments and other assets	8,218	9,800	64,759
Total assets	¥ 401,218	¥ 398,707	\$ 2,634,685

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Current Liabilities:			
Short-term loans (Notes 6, 10 and 13)	¥ 35,481	¥ 54,124	\$ 357,657
Current portion of long-term loans (Notes 6, 10 and 13)	8,251	171	1,130
Commercial paper (Note 6)	30,999	—	—
Current portion of bonds payable (Notes 6 and 13)	—	10,000	66,081
Notes and accounts payable - trade (Note 12)	39,544	39,358	260,078
Accounts payable - other	11,120	9,866	65,197
Accrued income taxes	4,654	4,441	29,345
Accrued expenses	11,823	12,104	79,985
Provision for environmental measures	4	4	28
Other (Notes 6, 11, 13 and 25)	5,516	6,626	43,784
Total current liabilities	147,392	136,694	903,285
Long-term Liabilities:			
Bonds payable (Notes 6 and 13)	10,000	—	—
Long-term loans (Notes 6, 10 and 13)	11,571	16,300	107,712
Accrued directors' and corporate auditors' retirement benefits	56	45	297
Deferred tax liabilities (Note 15)	5,279	4,680	30,926
Provision for loss on guarantees	1	1	7
Provision for environmental measures	133	188	1,244
Net defined benefit liabilities (Note 14)	8,752	10,399	68,716
Other (Notes 6, 13 and 25)	2,010	1,802	11,909
Total long-term liabilities	37,802	33,415	220,811
Total liabilities	185,194	170,109	1,124,096
Contingent Liabilities (Note 26)			
Net Assets (Note 16)			
Shareholders' Equity:			
Common stock:			
Authorized 94,878,400 shares in 2023 and 2024			
Issued 54,507,307 shares in 2023 and 2024	¥ 53,800	¥ 53,800	\$ 355,516
Capital surplus	51,503	48,828	322,658
Retained earnings	101,028	105,725	698,637
Less: Treasury stock, at cost (21,557 shares in 2023 and 23,478 shares in 2024)	(32)	(37)	(247)
Total shareholders' equity	206,299	208,316	1,376,564
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	1,894	1,915	12,655
Deferred gains (losses) on hedges	(1,101)	(417)	(2,754)
Foreign currency translation adjustments	5,626	15,251	100,780
Remeasurements of defined benefit plans	1,657	1,603	10,590
Total accumulated other comprehensive income	8,076	18,352	121,271
Non-controlling Interests	1,649	1,930	12,754
Total net assets	216,024	228,598	1,510,589
Total liabilities and net assets	¥ 401,218	¥ 398,707	\$ 2,634,685

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Net Sales (Note 29)	¥ 393,844	¥ 353,811	\$ 2,338,007
Cost of Sales (Notes 8, 14 and 17)	326,790	304,101	2,009,521
Gross profit	67,054	49,710	328,486
Selling, General and Administrative Expenses (Notes 14, 17 and 18)	38,562	38,343	253,375
Operating income	28,492	11,367	75,111
Other Income:			
Interest and dividends	478	954	6,301
Rent income	347	380	2,513
Power supply and demand adjustment cooperation fund	—	433	2,864
Income from supplying data	—	409	2,703
Exchange gains	494	825	5,449
Other	287	519	3,433
	1,606	3,520	23,263
Other Expenses:			
Interest	(960)	(2,384)	(15,754)
Other	(282)	(383)	(2,531)
	(1,242)	(2,767)	(18,285)
Ordinary income	28,856	12,120	80,089
Extraordinary Gains and Losses:			
Gain on sale of property, plant and equipment (Note 19)	250	37	245
Gain on sale of investment in securities (Note 7)	15	913	6,030
Gain on sale of shares of subsidiaries and affiliates	—	308	2,034
Loss on sale and disposition of property, plant and equipment (Note 20)	(651)	(290)	(1,917)
Loss on liquidation of subsidiaries (Note 21)	(425)	(63)	(414)
	(811)	905	5,978
Income before income taxes	28,045	13,025	86,067
Income Taxes: (Note 15)			
Current	6,529	6,660	44,007
Deferred	711	(2,762)	(18,252)
	7,240	3,898	25,755
Net income	20,805	9,127	60,312
Net Income Attributable to Non-controlling Interests	62	71	469
Net Income Attributable to Owners of the Parent	¥ 20,743	¥ 9,056	\$ 59,843
	Yen		U.S. dollars (Note 3)
	2023	2024	2024
Per Share:			
Net income (Note 22)	¥ 380.70	¥ 166.21	\$ 1.10
Cash dividends	100.00	65.00	0.43
Net assets	3,934.50	4,160.27	27.49

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2023 and 2024

	Millions of yen		Thousands of U.S.
	2023	2024	dollars (Note 3)
Net Income	¥ 20,805	¥ 9,127	\$ 60,312
Other Comprehensive Income (Loss):			
Valuation difference on available-for-sale securities	511	21	142
Deferred gains (losses) on hedges	(3,235)	684	4,516
Foreign currency translation adjustments	1,591	9,776	64,600
Remeasurements of defined benefit plans	3,291	(54)	(357)
Total other comprehensive income (Note 4)	2,158	10,427	68,901
Comprehensive Income	22,963	19,554	129,213
Comprehensive income attributable to:			
Owners of the parent	22,766	19,333	127,750
Non-controlling interests	197	221	1,463

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2023

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	54,487,741	¥ 53,800	¥ 51,486	¥ 85,733
Net income attributable to owners of the parent	—	—	—	20,743
Cash dividends paid	—	—	—	(5,448)
Acquisition of treasury stock	(1,991)	—	—	—
Change in ownership interest due to transactions with non-controlling interests	—	—	17	—
Other changes for fiscal year 2022, net	—	—	—	—
Total changes for fiscal year 2022	(1,991)	—	17	15,295
Balance at end of year	<u>54,485,750</u>	<u>¥ 53,800</u>	<u>¥ 51,503</u>	<u>¥ 101,028</u>

	Millions of yen			
	Treasury stock, at cost	Valuation difference on available-for- sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments
Balance at beginning of year	¥ (28)	¥ 1,383	¥ 2,134	¥ 4,120
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(4)	—	—	—
Change in ownership interest due to transactions with non-controlling interests	—	—	—	—
Other changes for fiscal year 2022, net	—	511	(3,235)	1,506
Total changes for fiscal year 2022	(4)	511	(3,235)	1,506
Balance at end of year	<u>¥ (32)</u>	<u>¥ 1,894</u>	<u>¥ (1,101)</u>	<u>¥ 5,626</u>

	Millions of yen		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	¥ (1,634)	¥ 1,851	¥ 198,845
Net income attributable to owners of the parent	—	—	20,743
Cash dividends paid	—	—	(5,448)
Acquisition of treasury stock	—	—	(4)
Change in ownership interest due to transactions with non-controlling interests	—	—	17
Other changes for fiscal year 2022, net	3,291	(202)	1,871
Total changes for fiscal year 2022	3,291	(202)	17,179
Balance at end of year	<u>¥ 1,657</u>	<u>¥ 1,649</u>	<u>¥ 216,024</u>

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2024

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	54,485,750	¥ 53,800	¥ 51,503	¥ 101,028
Net income attributable to owners of the parent	—	—	—	9,056
Cash dividends paid	—	—	—	(4,359)
Acquisition of treasury stock	(1,921)	—	—	—
Change in ownership interest due to transactions with non-controlling interests	—	—	(2,675)	—
Other changes for fiscal year 2023, net	—	—	—	—
Total changes for fiscal year 2023	(1,921)	—	(2,675)	4,697
Balance at end of year	54,483,829	¥ 53,800	¥ 48,828	¥ 105,725

	Millions of yen			
	Treasury stock, at cost	Valuation difference on available-for- sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments
Balance at beginning of year	¥ (32)	¥ 1,894	¥ (1,101)	¥ 5,626
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(5)	—	—	—
Change in ownership interest due to transactions with non-controlling interests	—	—	—	—
Other changes for fiscal year 2023, net	—	21	684	9,625
Total changes for fiscal year 2023	(5)	21	684	9,625
Balance at end of year	¥ (37)	¥ 1,915	¥ (417)	¥ 15,251

	Millions of yen		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	¥ 1,657	¥ 1,649	¥ 216,024
Net income attributable to owners of the parent	—	—	9,056
Cash dividends paid	—	—	(4,359)
Acquisition of treasury stock	—	—	(5)
Change in ownership interest due to transactions with non-controlling interests	—	—	(2,675)
Other changes for fiscal year 2023, net	(54)	281	10,557
Total changes for fiscal year 2023	(54)	281	12,574
Balance at end of year	¥ 1,603	¥ 1,930	¥ 228,598

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	54,485,750	\$ 355,516	\$ 340,336	\$ 667,597
Net income attributable to owners of the parent	—	—	—	59,843
Cash dividends paid	—	—	—	(28,803)
Acquisition of treasury stock	(1,921)	—	—	—
Change in ownership interest due to transactions with non-controlling interests	—	—	(17,678)	—
Other changes for fiscal year 2023, net	—	—	—	—
Total changes for fiscal year 2023	(1,921)	—	(17,678)	31,040
Balance at end of year	54,483,829	\$ 355,516	\$ 322,658	\$ 698,637

	Thousands of U.S. dollars (Note 3)			
	Treasury stock, at cost	Valuation difference on available-for- sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments
Balance at beginning of year	\$ (214)	\$ 12,513	\$ (7,270)	\$ 37,175
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(33)	—	—	—
Change in ownership interest due to transactions with non-controlling interests	—	—	—	—
Other changes for fiscal year 2023, net	—	142	4,516	63,605
Total changes for fiscal year 2023	(33)	142	4,516	63,605
Balance at end of year	\$ (247)	\$ 12,655	\$ (2,754)	\$ 100,780

	Thousands of U.S. dollars (Note 3)		
	Remeasurements of defined benefit plans	Non- controlling interests	Total
Balance at beginning of year	\$ 10,947	\$ 10,904	\$ 1,427,504
Net income attributable to owners of the parent	—	—	59,843
Cash dividends paid	—	—	(28,803)
Acquisition of treasury stock	—	—	(33)
Change in ownership interest due to transactions with non-controlling interests	—	—	(17,678)
Other changes for fiscal year 2023, net	(357)	1,850	69,756
Total changes for fiscal year 2023	(357)	1,850	83,085
Balance at end of year	\$ 10,590	\$ 12,754	\$ 1,510,589

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Cash Flows from Operating Activities:			
Income before income taxes	¥ 28,045	¥ 13,025	\$ 86,067
Adjustments -			
Depreciation and amortization	13,765	13,745	90,825
Amortization of goodwill	2,925	3,247	21,454
Increase (decrease) in allowance for doubtful accounts	74	(58)	(384)
Increase (decrease) in provision for bonuses	156	(234)	(1,546)
Increase (decrease) in net defined benefit liabilities	53	(41)	(271)
Decrease in net defined benefit assets	227	75	494
Decrease in accrued directors' and corporate auditors' retirement benefits, less payments	(12)	(11)	(71)
Increase (decrease) in provision for environmental measures	(80)	43	287
Increase (decrease) in provision for loss on guarantees	(0)	0	0
Interest and dividend income	(478)	(954)	(6,301)
Interest expense	960	2,384	15,754
Gain on sale of investments in securities	(15)	(913)	(6,030)
Loss on evaluation of investments in securities	—	1	6
Loss (gain) on sale of shares of subsidiaries and affiliates	—	(308)	(2,034)
Loss (gain) on sale and disposition of property, plant and equipment	401	254	1,676
Loss on liquidation of subsidiaries	425	63	414
Changes in assets and liabilities:			
Notes and accounts receivable - trade, and contract assets	1,389	7,986	52,775
Inventories	(11,411)	15,275	100,939
Notes and accounts payable - trade	(14,390)	(3,785)	(25,015)
Other, net	(2,165)	(690)	(4,555)
Subtotal	19,869	49,104	324,484
Interest and dividend income received	477	951	6,281
Interest expense paid	(757)	(1,827)	(12,075)
Income taxes paid	(7,434)	(7,584)	(50,110)
Net cash provided by operating activities	12,155	40,644	268,580
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(13,576)	(17,294)	(114,280)
Sale of property, plant and equipment	493	532	3,517
Acquisition of intangible assets	(276)	(804)	(5,314)
Acquisition of investments in securities	(3)	(203)	(1,338)
Sale of investments in securities	35	1,921	12,696
Proceeds from sales of investments in affiliates accounted for by the equity method	788	—	—
Proceeds from sale of shares of subsidiaries resulting in a change in the scope of consolidation	—	404	2,669
Decrease in long-term loans receivable	3	2	12
Payments into time deposits	(1,066)	(629)	(4,156)
Proceeds from withdrawal of time deposits	1,048	558	3,686
Payments of long-term loans receivable	(4)	(1)	(4)
Other, net	(208)	(411)	(2,720)
Net cash used in investing activities	(12,766)	(15,925)	(105,232)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Cash Flows from Financing Activities:			
Increase (decrease) in short-term loans	¥ (717)	¥ 15,055	\$ 99,482
Increase (decrease) in commercial paper	18,998	(30,999)	(204,844)
Proceeds from long-term loans	300	5,000	33,040
Repayment of long-term loans	(3,414)	(8,611)	(56,900)
Repayments of lease obligations	(797)	(903)	(5,966)
Payments for purchases of treasury stock	(4)	(5)	(33)
Cash dividends	(5,442)	(4,353)	(28,762)
Cash dividends to non-controlling interests	(37)	(24)	(157)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation (Note 30)	(344)	(2,593)	(17,135)
Other, net	(17)	(13)	(91)
Net cash provided by (used in) financing activities	<u>8,526</u>	<u>(27,446)</u>	<u>(181,366)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	<u>1,215</u>	<u>2,398</u>	<u>15,842</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>9,130</u>	<u>(329)</u>	<u>(2,176)</u>
Cash and Cash Equivalents at Beginning of the Year	<u>21,857</u>	<u>30,987</u>	<u>204,764</u>
Cash and Cash Equivalents at End of the Year (Note 23)	<u>¥ 30,987</u>	<u>¥ 30,658</u>	<u>\$ 202,588</u>

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 34 subsidiaries as of March 31, 2024 (37 subsidiaries as of March 31, 2023). The consolidated financial statements include the accounts of the Company and its 34 subsidiaries. The 34 subsidiaries that have been consolidated for the fiscal year ended March 31, 2024 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.
 SKJ Metal Industries Co., Ltd.
 Sanyo Special Steel Manufacturing India Pvt. Ltd.
 Sanyo Special Steel Trading (Shanghai) Co., Ltd.
 Ovako Group AB and its 19 subsidiaries
 and 2 subsidiaries

Ovako Mora AB, Ovako Forsbacka AB, and Ovako Twente B.V., which had been consolidated subsidiaries of Ovako Group AB, were excluded from the scope of consolidation for the current fiscal year, as Ovako Mora AB and Ovako Forsbacka AB were liquidated on September 30, 2023, and all shares of Ovako Twente B.V. were sold on March 27, 2024.

The consolidated subsidiaries, except for the seven 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., and Sanyo Special Steel Trading (Shanghai) Co., Ltd.), use a fiscal year ending March 31, which is the same as that of the Company. The seven foreign subsidiaries use a fiscal year ending December 31. Although Sanyo Special Steel Manufacturing India Pvt. Ltd. and Sanyo Special Steel India Pvt. Ltd. use a fiscal year ending March 31, provisional financial statements as of December 31 are used in preparing the consolidated financial statements.

For these nine 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.

(b) Investments in affiliates

The Company’s investment in AB Järnbruksförmödenheter, an affiliate of the Company over which the Company has significant influence, is 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 four 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.

For assets acquired on or before March 31, 2007, the Company and its domestic subsidiaries depreciated the assets using the straight-line method over five years from the year following the 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 of the asset estimated to be mainly five 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 at 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 15 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

benefit 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 bases.

(16) Accounting policy for revenue and expenses

Revenue in the Companies are generated mainly 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 Intangible Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Property, Plant and Equipment	¥ 115,183	¥ 123,487	\$ 816,012
Intangible Assets	¥ 36,118	¥ 36,984	\$ 244,393

(b) Significant accounting estimates for identified items

For property, plant and equipment and intangible assets, 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 group with its book value whenever there is an indication of impairment in the asset or the asset group. 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 each consolidated subsidiary is classified 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. and SKJ Metal Industries Co., Ltd., which had recognized indications of impairment, did not record impairment loss because the undiscounted future cash flows for each asset group exceeded

the book value.

Property, plant and equipment and intangible assets 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 business declines significantly.

(20) Changes in Accounting Estimates

The number of years over which the amortization of actuarial gains and losses were expensed to account for the termination and retirement benefits was 17 years. However, since the average remaining service years of the employees was shortened, the number of years over which the amortization of actuarial gains and losses are expensed has been changed to 15 years from the current fiscal year.

The effect of this change on profit or loss for the current consolidated fiscal year is immaterial.

3. U.S. Dollar Amounts

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan. These translations should not be construed as representations that the Japanese yen amounts actually represent or have been or could be converted into U.S. dollars. The rate of ¥151.33 to U.S. \$1.00, the approximate rate of exchange as at March 31, 2024, 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 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Valuation difference on available-for-sale securities			
Increase during the year	¥ 726	¥ 1,043	\$ 6,895
Reclassification adjustments	(11)	(913)	(6,030)
Subtotal, before tax	715	130	865
Tax (expense)	(204)	(109)	(723)
Subtotal, net of tax	511	21	142
Deferred gains on hedges			
Increase (decrease) during the year	(1,220)	2,095	13,847
Reclassification adjustments	(2,854)	(1,235)	(8,160)
Subtotal, before tax	(4,074)	860	5,687
Tax (expense)	839	(176)	(1,171)
Subtotal, net of tax	(3,235)	684	4,516
Foreign currency translation adjustments			
Increase during the year	1,591	9,776	64,600
Remeasurements of defined benefit plans			
Increase during the year	4,229	250	1,650
Reclassification adjustments	150	(204)	(1,346)
Subtotal, before tax	4,379	46	304
Tax (expense)	(1,088)	(100)	(661)
Subtotal, net of tax	3,291	(54)	(357)
Total other comprehensive income	¥ 2,158	¥ 10,427	\$ 68,901

5. Statements of cash flows

There were no significant non-cash transactions as of March 31, 2023 and 2024.

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 - trade 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 in their financial situation, etc., according to the Company regulations. Notes and accounts receivable - trade denominated in foreign currencies are exposed to exchange rate risks. The Companies reduce the risks by settling both notes and accounts receivable - trade 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 deposit and withdrawal of such funds 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 prices and regularly review their share portfolios taking into consideration 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 risk. The Companies reduce the risk by settling both notes and accounts receivable - trade and notes and accounts payable within the same foreign currencies and executing derivative transactions (forward exchange contracts).

Certain foreign subsidiaries enter into derivative transactions (commodity futures trading) to manage the risk of purchased electricity price fluctuation. The Companies execute and manage 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 to procure funds related to operating and investing activities.

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

Because the risk of fluctuation is incorporated into the calculation of the fair values of financial instruments, the fair values 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 values of financial instruments

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

2023

	Millions of yen		
	Book value	Fair value	Difference
(1) Investments in securities			
Available-for-sale securities	¥ 4,716	¥ 4,716	¥ —
(2) Bonds payable	(10,000)	(9,982)	18
(3) Long-term loans (including current portion)	(19,822)	(19,684)	138
(4) Derivative transactions			
① Hedge accounting not applied	(4)	(4)	—
② Hedge accounting applied	(1,198)	(1,198)	—

(※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 were as follows:

	Millions of yen
Unlisted equity securities	¥ 287

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

2024

	Millions of yen			Thousands of U.S. dollars (Note 3)		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Investments in securities						
Available-for-sale securities	¥ 3,841	¥ 3,841	¥ —	\$ 25,381	\$ 25,381	\$ —
(2) Bonds payable (including current portion)	(10,000)	(9,983)	17	(66,081)	(65,968)	113
(3) Long-term loans (including current portion)	(16,471)	(16,382)	89	(108,842)	(108,257)	585
(4) Derivative transactions						
① Hedge accounting not applied	(6)	(6)	—	(41)	(41)	—
② Hedge accounting applied	(446)	(446)	—	(2,946)	(2,946)	—

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

	Millions of yen	Thousands of U.S. dollars (Note 3)
Unlisted equity securities	¥ 488	\$ 3,224

(3) Financial assets with maturities were as follows:

The aggregate maturities subsequent to March 31, 2023:

	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	¥ 21,653	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	66,372	—	—	—
Electronically recorded monetary claims	11,637	—	—	—
Deposits paid in parent company	9,954	—	—	—
Total	¥ 109,616	¥ —	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2024:

	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	¥ 26,592	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	59,541	—	—	—
Electronically recorded monetary claims	13,381	—	—	—
Deposits paid in parent company	4,811	—	—	—
Total	¥ 104,325	¥ —	¥ —	¥ —

	Thousands of U.S. dollars (Note 3)			
	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	\$ 175,719	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	393,454	—	—	—
Electronically recorded monetary claims	88,426	—	—	—
Deposits paid in parent company	31,790	—	—	—
Total	\$ 689,389	\$ —	\$ —	\$ —

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

The aggregate maturities subsequent to March 31, 2023:

	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	¥ 35,481	¥ —	¥ —	¥ —
Commercial paper	30,999	—	—	—
Bonds payable	—	10,000	—	—
Long-term loans (including current portion)	8,251	11,571	—	—
Total	¥ 74,731	¥ 21,571	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2024:

	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	¥ 54,124	¥ —	¥ —	¥ —
Commercial paper	—	—	—	—
Bonds payable (including current portion)	10,000	—	—	—
Long-term loans (including current portion)	171	16,300	—	—
Total	¥ 64,295	¥ 16,300	¥ —	¥ —

	Thousands of U.S. dollars (Note 3)			
	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	\$ 357,657	\$ —	\$ —	\$ —
Commercial paper	—	—	—	—
Bonds payable (including current portion)	66,081	—	—	—
Long-term loans (including current portion)	1,130	107,712	—	—
Total	\$ 424,868	\$ 107,712	\$ —	\$ —

(5) Fair values of financial instruments by level of inputs

Based on the observability and the significance of the inputs used to determine fair values, fair values of financial instruments are 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

2023

	Millions of yen			
	Level1	Level2	Level3	Total
Investments in securities				
Available-for-sale securities				
Stock	¥ 4,716	¥ —	¥ —	¥ 4,716
Derivative transactions				
Currency related	—	6	—	6
Commodity related	—	184	—	184
Total assets	¥ 4,716	¥ 190	¥ —	¥ 4,906

	Millions of yen			
	Level1	Level2	Level3	Total
Derivative transactions				
Currency related	¥ —	¥ 1,392	¥ —	¥ 1,392
Commodity related	—	—	—	—
Total liabilities	¥ —	¥ 1,392	¥ —	¥ 1,392

2024

	Millions of yen			
	Level1	Level2	Level3	Total
Investments in securities				
Available-for-sale securities				
Stock	¥ 3,841	¥ —	¥ —	¥ 3,841
Derivative transactions				
Currency related	—	0	—	0
Commodity related	—	—	—	—
Total assets	¥ 3,841	¥ 0	¥ —	¥ 3,841

	Millions of yen			
	Level1	Level2	Level3	Total
Derivative transactions				
Currency related	¥ —	¥ 452	¥ —	¥ 452
Commodity related	—	—	—	—
Total liabilities	¥ —	¥ 452	¥ —	¥ 452

	Thousands of U.S. dollars (Note 3)			
	Level1	Level2	Level3	Total
Investments in securities				
Available-for-sale securities				
Stock	\$ 25,381	\$ —	\$ —	\$ 25,381
Derivative transactions				
Currency related	—	0	—	0
Commodity related	—	—	—	—
Total assets	\$ 25,381	\$ 0	\$ —	\$ 25,381

	Thousands of U.S. dollars (Note 3)			
	Level1	Level2	Level3	Total
Derivative transactions				
Currency related	\$ —	\$ 2,987	\$ —	\$ 2,987
Commodity related	—	—	—	—
Total liabilities	\$ —	\$ 2,987	\$ —	\$ 2,987

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

2023

	Millions of yen						
	Level1		Level2		Level3		Total
Bonds payable	¥	—	¥	9,982	¥	—	¥ 9,982
Long-term loans (including current portion)		—		19,684		—	19,684
Total liabilities	¥	—	¥	29,666	¥	—	¥ 29,666

2024

	Millions of yen						
	Level1		Level2		Level3		Total
Bonds payable (including current portion)	¥	—	¥	9,983	¥	—	¥ 9,983
Long-term loans (including current portion)		—		16,382		—	16,382
Total liabilities	¥	—	¥	26,365	¥	—	¥ 26,365

	Thousands of U.S. dollars (Note 3)						
	Level1		Level2		Level3		Total
Bonds payable (including current portion)	\$	—	\$	65,968	\$	—	\$ 65,968
Long-term loans (including current portion)		—		108,257		—	108,257
Total liabilities	\$	—	\$	174,225	\$	—	\$ 174,225

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

Investments in securities

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

Bonds payable

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

Long-term loans

The fair values of long-term loans are classified as Level 2 because the fair values are measured using the discounted present value method, i.e., the interest rates that would be applicable to similar new loans and reflect the total amount of payment obligations of principal and interest and the remaining payment 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, 2023 and 2024 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 3)		
	2023			2024			2024		
	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	¥ 2,203	¥ 4,716	¥ 2,513	¥ 1,197	¥ 3,841	¥ 2,644	\$ 7,908	\$ 25,381	\$ 17,473
Securities whose acquisition cost exceeds book value:									
Stock	—	—	—	—	—	—	—	—	—
Total	¥ 2,203	¥ 4,716	¥ 2,513	¥ 1,197	¥ 3,841	¥ 2,644	\$ 7,908	\$ 25,381	\$ 17,473

Available-for-sale securities sold in the year ended March 31, 2023 and 2024 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 3)		
	2023			2024			2024		
	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses
Stock	¥ 35	¥ 15	¥ —	¥ 1,924	¥ 913	¥ —	\$ 12,716	\$ 6,030	\$ —

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.

8. Inventories

Inventories held by the Companies at March 31, 2023 and 2024 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Merchandise	¥ 3,226	¥ 2,721	\$ 17,981
Finished products	30,455	27,141	179,351
Work-in-process	58,792	54,595	360,770
Raw materials and supplies	35,756	34,701	229,305
Total	¥ 128,229	¥ 119,158	\$ 787,407

The net loss (gain) included in cost of sales due to inventories written down for the years ended March 31, 2023 and 2024 were ¥673 million and ¥(300) million (\$ (1,980) thousand), respectively.

9. Affiliates

Items relevant to affiliates at March 31, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Investments in securities (stocks)	¥ 13	¥ 13	\$ 83

10. Assets Pledged as Collateral

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Assets pledged as collateral:			
Notes and accounts receivable - trade, and contract assets	¥ 4,984	¥ 5,315	\$ 35,122
Inventories	4,281	3,966	26,210
Property, plant and equipment	4,601	4,857	32,096
Total	¥ 13,866	¥ 14,138	\$ 93,428
Secured liabilities:			
Short-term loans (including current portion of long-term loans payable)	421	—	—
Long-term loans	271	—	—
Total	¥ 692	¥ —	\$ —

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

11. Receivables arising from contracts with customers, contract assets and contract liabilities

Receivables arising from contracts with customers, contract assets as of March 31, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Notes receivable - trade	¥ 3,478	¥ 2,458	\$ 16,246
Accounts receivable - trade	62,894	57,083	377,208
Contract assets	—	—	—

Receivables arising from contracts with customers, contract liabilities as of March 31, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Contract liabilities	¥ 42	¥ 18	\$ 119

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

Notes receivable - trade and payable and electronically recorded monetary claims which reached maturity at the year-end are treated as if they were settled at the clearing date for notes. Consequently, as March 31, 2024 was a holiday for banking institutions, the following notes receivable - trade and payable and electronically recorded monetary claims which reached the maturity at the year-end were included in the ending balance of notes receivable - trade and payable and electronically recorded monetary claims:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Notes receivable - trade	¥ —	¥ 426	\$ 2,816
Electronically recorded monetary claims	—	1,922	12,703
Notes payable - trade	—	47	309

13. Short-term Loans, Bonds Payable, Long-term Loans and Lease Obligations

Short-term loans at March 31, 2023 and 2024 represent mainly bank overdrafts with weighted-average interest rates of 2.48% and 1.86%, 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 ¥13,632 million (\$90,084 thousand). At March 31 2024, the total ¥13,632 million (\$90,084 thousand) was unused.

Bonds payable at March 31, 2023 and 2024 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Bonds payable due 2024 with interest rates of 0.30% at March 31, 2023 and 2024	¥ 10,000	¥ 10,000	\$ 66,081

The annual maturities of bonds payable outstanding at March 31, 2024 were as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars (Note 3)
2025	¥ 10,000	\$ 66,081

Long-term loans and lease obligations at March 31, 2023 and 2024 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Current portion of long-term loans with interest rate of 0.68% at March 31, 2023 and 9.05% at March 31, 2024	¥ 8,251	¥ 171	\$ 1,130
Loans from banks and other financial institutions due 2024 to 2027 with interest rates of 0.53% at March 31, 2023			
due 2025 to 2029 with interest rates of 0.39% at March 31, 2024	11,571	16,300	107,712
Current portion of lease obligations with interest rate of 1.51% at March 31, 2024	753	860	5,681
Lease obligations due 2025 to 2030 with interest rate of 1.50% at March 31, 2024	1,240	1,438	9,503
	<u>21,815</u>	<u>18,769</u>	<u>124,026</u>
Less: Current portion of long-term loans and lease obligations	(9,004)	(1,031)	(6,811)
	<u>¥ 12,811</u>	<u>¥ 17,738</u>	<u>\$ 117,215</u>

The annual maturities of long-term loans and lease obligations outstanding at March 31, 2024 were as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars (Note 3)
2026	¥ 927	\$ 6,128
2027	11,437	75,577
2028	247	1,632
2029	5,107	33,744
2030 and thereafter	20	134
	<u>¥ 17,738</u>	<u>\$ 117,215</u>

14. 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 (Note 3)
	2023	2024	2024
Balance at beginning of year	¥ 20,626	¥ 16,986	\$ 112,246
Service cost	750	492	3,249
Interest cost	351	430	2,843
Actuarial gain (loss)	(3,895)	624	4,119
Benefits paid	(687)	(834)	(5,509)
Foreign currency translation	(159)	963	6,360
Balance at end of year	¥ 16,986	¥ 18,661	\$ 123,308

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Balance at beginning of year	¥ 9,736	¥ 10,164	\$ 67,167
Expected return on plan assets	206	227	1,498
Actuarial gain	341	846	5,588
Contributions paid by employer	34	36	240
Benefits paid	(195)	(347)	(2,294)
Foreign currency translation	42	159	1,048
Balance at end of year	¥ 10,164	¥ 11,085	\$ 73,247

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Balance at beginning of year	¥ 975	¥ 933	\$ 6,165
Retirement benefit costs	147	136	900
Benefits paid	(192)	(77)	(509)
Foreign currency translation	3	3	21
Balance at end of year	¥ 933	¥ 995	\$ 6,577

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Funded retirement benefit obligations	¥ 16,986	¥ 18,661	\$ 123,308
Plan assets	(10,164)	(11,085)	(73,247)
	6,822	7,576	50,061
Unfunded retirement benefit obligations	933	995	6,577
Total net liability (asset) for retirement benefits at end of year	7,755	8,571	56,638
Net defined benefit liabilities	8,752	10,399	68,716
Net defined benefit assets	(997)	(1,828)	(12,078)
Total net liability (asset) for retirement benefits at end of year	¥ 7,755	¥ 8,571	\$ 56,638

(e) Retirement benefit costs:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Service cost	¥ 750	¥ 492	\$ 3,249
Interest cost	351	430	2,843
Expected return on plan assets	(206)	(227)	(1,498)
Amortization of actuarial gain (loss)	182	(150)	(992)
Amortization of prior service cost	(26)	(26)	(173)
Retirement benefit costs based on the simplified method	146	136	900
Total retirement benefit costs	¥ 1,197	¥ 655	\$ 4,329
Extra retirement payments	117	63	414

(f) Remeasurements of defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Prior service cost	¥ (26)	¥ (26)	\$ (173)
Actuarial gain	4,405	72	477
Total	¥ 4,379	¥ 46	\$ 304

(g) Accumulated remeasurements of defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Prior service cost yet to be unrecognized	¥ (231)	¥ (205)	\$ (1,354)
Actuarial gain yet to be unrecognized	(1,873)	(2,062)	(13,628)
Total	¥ (2,104)	¥ (2,267)	\$ (14,982)

(h) Plan assets:

① Plan assets comprise:

	2023	2024
Equity securities	64%	8%
Cash and bank deposits	31%	87%
Other	5%	5%
Total	100%	100%

The retirement benefit trusts, funded for the defined benefit and lump-sum payment plans of our company, constituted 89% of total plan assets in the fiscal year ended March 31, 2023, and 89% in the fiscal year ended March 31, 2024.

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, 2023 and 2024 were as follows:

	2023	2024
Discount rate (mainly)	0.6%, 3.9%	0.9%, 3.4%
Long-term expected rate of return (mainly)	1.5%, 4.8%	1.6%, 4.9%
Expected rate of pay increase	2.8%	2.6%

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 ¥1,603 million and ¥2,110 million (\$13,944 thousand) to the defined contribution plans for the years ended March 31, 2023 and 2024, respectively.

15. Income Taxes

Significant components of deferred tax assets and liabilities at March 31, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Deferred tax assets:			
Tax loss carry forwards	¥ 3,030	¥ 2,498	\$ 16,504
Net defined benefit liabilities	694	882	5,831
Amount of retirement benefit trusts	1,935	3,052	20,165
Impairment loss	863	562	3,711
Accrued bonuses	724	651	4,304
Unrealized gains	646	498	3,294
Devaluation loss on marketable securities	176	88	580
Excess depreciation of depreciable assets	437	1,801	11,898
Devaluation loss on inventories	406	307	2,027
Business tax payable	179	218	1,443
Other	1,086	924	6,108
Gross deferred tax assets	10,176	11,481	75,865
Valuation allowance for tax loss carry forwards	(2,974)	(2,484)	(16,415)
Valuation allowance for deductible temporary differences	(1,666)	(3,032)	(20,036)
Less: Valuation allowance	(4,640)	(5,516)	(36,451)
Total deferred tax assets	¥ 5,536	¥ 5,965	\$ 39,414
Deferred tax liabilities:			
Depreciation, etc., of foreign subsidiaries	¥ (3,569)	¥ (3,587)	\$ (23,704)
Adjustment of carrying amount based on fair value	(1,387)	(1,423)	(9,401)
Reserve for deferred capital gains from property, plant and equipment	(828)	(480)	(3,170)
Securities to employee retirement benefit trusts	(530)	(79)	(521)
Net defined benefit assets	(232)	(496)	(3,276)
Unrealized holding gains on securities	(620)	(729)	(4,819)
Other	(2,160)	(1,041)	(6,880)
Total deferred tax liabilities	(9,326)	(7,835)	(51,771)
Net deferred tax assets (liabilities)	¥ (3,790)	¥ (1,870)	\$ (12,357)

Valuation allowance increased by ¥876 million (\$5,796 thousand). The main factors in the increase were recognition of valuation allowance for excess depreciation of depreciable assets.

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

	As of March 31, 2023							Total
	Millions of yen							
	2024	2025	2026	2027	2028	2029 and beyond		
Tax loss carryforwards (a)	¥ 246	¥ 181	¥ 134	¥ 113	¥ 283	¥ 2,073	¥ 3,030	
Valuation allowance	(246)	(176)	(134)	(113)	(283)	(2,022)	(2,974)	
Net deferred tax assets	¥ —	¥ 5	¥ —	¥ —	¥ —	¥ 51	¥ 56	

(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, 2024							Total
	Millions of yen							
	2025	2026	2027	2028	2029	2030 and beyond		
Tax loss carryforwards (b)	¥ 133	¥ 235	¥ 114	¥ 326	¥ 389	¥ 1,301	¥ 2,498	
Valuation allowance	(125)	(235)	(114)	(326)	(389)	(1,295)	(2,484)	
Net deferred tax assets	¥ 8	¥ —	¥ —	¥ —	¥ —	¥ 6	¥ 14	

	Thousands of U.S. dollars (Note 3)						
	2025	2026	2027	2028	2029	2030 and beyond	Total
Tax loss carryforwards (b)	\$ 876	\$ 1,552	\$ 757	\$ 2,154	\$ 2,572	\$ 8,593	\$ 16,504
Valuation allowance	(827)	(1,552)	(757)	(2,154)	(2,572)	(8,553)	(16,415)
Net deferred tax assets	\$ 49	\$ —	\$ —	\$ —	\$ —	\$ 40	\$ 89

(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, 2023 was as follows:

	2023	2024
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	—
Effect of special tax credits	(1.7)	—
Difference in applicable tax rates between consolidated subsidiaries	(7.3)	—
Amortization of goodwill	3.2	—
Other	0.8	—
Effective income tax rate	25.8 %	— %

For the year ended March 31, 2024, note is omitted because the difference between the statutory income tax rate and effective income tax rate was less than 5/100 of the statutory tax rate.

With the promulgation of the Tax Reform Act of 2024 on March 30, 2024, the external standard taxation will be applied to certain consolidated subsidiaries. As a result, the effective statutory income tax rate used to measure deferred tax assets and deferred tax liabilities for the current fiscal year has been changed from 34.6% for the previous fiscal year to 30.6% for those expected to be collected or paid on or after April 1, 2026.

The effect of this change on the consolidated financial statements for the current fiscal year is immaterial.

16. Net Assets

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

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

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

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

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

At the Company's Board of Directors meeting held on, May 18, 2023, the directors approved cash dividends in the amount of ¥2,452 million (\$16,202 thousand). At the Company's Board of Directors meeting held on, October 31, 2023, the directors approved cash dividends in the amount of ¥1,907 million (\$12,601 thousand). At the Company's Board of Directors meeting held on, May 17, 2024, the directors approved cash dividends in the amount of ¥1,635 million.

17. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2023 and 2024 totaled ¥2,019 million and ¥2,228 million (\$14,723 thousand), respectively. For the year ended March 31, 2024, research and development cost in the Steel Products, Metal Powders and Formed and Fabricated Materials segments amounted to ¥1,780 million (\$11,764 thousand), ¥413 million (\$2,726 thousand) and ¥35 million (\$233 thousand), respectively.

18. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S.
			dollars (Note 3)
	2023	2024	2024
Packing and delivery expenses	¥ 14,815	¥ 14,027	\$ 92,690
Salaries	9,588	9,730	64,295
Provision of allowance for doubtful accounts	43	0	2
Provision for bonuses	576	545	3,604
Retirement benefit expenses	585	518	3,423
Provision for directors' retirement benefits	16	17	114

19. 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, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S.
			dollars (Note 3)
	2023	2024	2024
Land	¥ 183	¥ 3	\$ 19
Buildings and structures	37	—	—
Machinery and equipment	30	34	226
Total	¥ 250	¥ 37	\$ 245

20. 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, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S.
			dollars (Note 3)
	2023	2024	2024
Buildings and structures	¥ 38	¥ 63	\$ 415
Machinery and equipment	162	146	968
Other	451	81	534
Total	¥ 651	¥ 290	\$ 1,917

21. Loss on Liquidation of Subsidiaries

In the fiscal year ended March 31, 2023, the Company decided to liquidate certain subsidiaries of Ovako Group AB, a consolidated subsidiary. As a result, the estimated amount of facility removal costs and special severance payments, etc., (¥403 million) was recorded as loss on liquidation of subsidiaries.

In addition, the amount of special retirement benefits to be incurred as a result of a transfer a portion of the business of Siam Sanyo Special Steel Product Co., Ltd., a consolidated subsidiary (¥22 million) was recorded as loss on liquidation of subsidiaries.

Although in the previous fiscal year, the Company decided to liquidate certain subsidiaries of Ovako Group AB, a consolidated subsidiary, and recorded the estimated amount of facility removal costs and special severance payments, etc., as loss on liquidation of subsidiaries, in the fiscal year ended March 31, 2024, additional special severance payments (¥63 million yen (414 thousand U.S. dollars)) was recorded in loss on liquidation of subsidiaries.

22. Net Income Per Share

Net income per share for the years ended March 31, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Net income attributable to owners of the parent	20,743	9,056	59,843
Net income of common stock attributable to owners of the parent	¥ 20,743	¥ 9,056	\$ 59,843

	Thousands of shares	
	2023	2024
Weighted-average number of shares of common stock	54,486	54,484

	Yen		U.S. dollars (Note 3)
	2023	2024	2024
Net income per share	380.70	166.21	1.10

The Companies had no dilutive securities for the years ended March 31, 2023 and 2024.

23. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2023 and 2024 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Cash and bank deposits	¥ 21,653	¥ 26,592	\$ 175,719
Time deposits with deposit terms of over 3 months and other	(620)	(745)	(4,921)
Deposits paid in parent company	9,954	4,811	31,790
Cash and cash equivalents	¥ 30,987	¥ 30,658	\$ 202,588

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, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2023	2024	2024
Due within one year	¥ 200	¥ 209	\$ 1,381
Due after one year	852	690	4,562
Total	¥ 1,052	¥ 899	\$ 5,943

(2) IFRS 16 or U.S. Accounting Standards Codification “Leases”

(a) Outline of leased assets

Some overseas consolidated subsidiaries have applied IFRS 16 or U.S. Accounting Standards Codification (“ASC”) Topic 842, “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, 2023 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	¥ 122	¥ —	¥ (1)	¥ (1)
Japanese yen	70	—	2	2
Selling				
U.S. dollars	0	—	0	0
Euros	1	—	(5)	(5)
Total	¥ 193	¥ —	¥ (4)	¥ (4)

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2024 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 3)			
	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	¥ 86	¥ —	¥ (6)	¥ (6)	\$ 569	\$ —	\$ (41)	\$ (41)
Japanese yen	3	—	0	0	17	—	0	0
Selling								
U.S. dollars	—	—	—	—	—	—	—	—
Euros	—	—	—	—	—	—	—	—
Total	¥ 89	¥ —	¥ (6)	¥ (6)	\$ 586	\$ —	\$ (41)	\$ (41)

(2) Derivative transactions to which hedge accounting was applied

Derivative transactions to which hedge accounting was applied for the years ended March 31, 2023 and 2024 were as follows:

(a) Currency-related transactions

	2023	2024
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	¥33,559 million	¥29,938 million (\$197,834 thousand)
1 year or more amount of contract	¥13,883 million	¥10,839 million (\$71,626 thousand)
Fair value	¥(1,382) million	¥(446) million (\$ (2,946) thousand)

(b) Interest rate and currency swap transactions

Not applicable.

(c) Other

	2023	2024
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	¥159 million	—
1 year or more amount of contract	—	—
Fair value	¥184 million	—

26. Contingent Liabilities

Guarantees for loans of employees and others at March 31, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2023	2024	2024	
UCHIDA-SATO TECH (THAILAND) CO., LTD.	¥ 3	¥ 3	\$	20

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 "Steel Products," "Metal Powders" and "Formed and Fabricated Materials."

The "Steel Products" 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 Powders" 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, 2023 and 2024 were as follows:

	For the year ended March 31, 2023							Consolidated total
	Millions of yen						Adjustments	
	Reportable segments			Other	Total			
Steel Products	Metal Powders	Formed and Fabricated Materials						
(a) Sales and operating income :								
Net sales								
Outside customers	¥ 368,508	¥ 5,312	¥ 19,860	¥ 164	¥ 393,844	¥ —	¥ 393,844	
Intersegment transactions	8,546	—	0	1,270	9,816	(9,816)	—	
Total	377,054	5,312	19,860	1,434	403,660	(9,816)	393,844	
Segment income	¥ 26,983	¥ 1,004	¥ 367	¥ 31	¥ 28,385	¥ 107	¥ 28,492	
(b) Other:								
Depreciation	¥ 13,015	¥ 97	¥ 684	¥ 4	¥ 13,800	¥ (35)	¥ 13,765	
Amortization of goodwill	2,925	—	—	—	2,925	—	2,925	

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

For the year ended March 31, 2024							
Millions of yen							
Reportable segments							
	Steel Products	Metal Powders	Formed and Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income (loss):							
Net sales							
Outside customers	¥ 329,986	¥ 5,337	¥ 18,389	¥ 99	¥ 353,811	¥ —	¥ 353,811
Intersegment transactions	8,661	—	0	1,408	10,069	(10,069)	—
Total	338,647	5,337	18,389	1,507	363,880	(10,069)	353,811
Segment income (loss)	¥ 10,831	¥ 932	¥ (491)	¥ 38	¥ 11,310	¥ 57	¥ 11,367
(b) Other:							
Depreciation	¥ 13,031	¥ 94	¥ 651	¥ 3	¥ 13,779	¥ (34)	¥ 13,745
Amortization of goodwill	3,247	—	—	—	3,247	—	3,247

Thousands of U.S. dollars (Note 3)							
Reportable segments							
	Steel Products	Metal Powders	Formed and Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income (loss):							
Net sales							
Outside customers	\$ 2,180,571	\$ 35,269	\$ 121,515	\$ 652	\$ 2,338,007	\$ —	\$ 2,338,007
Intersegment transactions	57,230	—	0	9,307	66,537	(66,537)	—
Total	2,237,801	35,269	121,515	9,959	2,404,544	(66,537)	2,338,007
Segment income (loss)	\$ 71,572	\$ 6,157	\$ (3,247)	\$ 251	\$ 74,733	\$ 378	\$ 75,111
(b) Other:							
Depreciation	\$ 86,109	\$ 622	\$ 4,305	\$ 19	\$ 91,055	\$ (230)	\$ 90,825
Amortization of goodwill	21,454	—	—	—	21,454	—	21,454

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 income in the consolidated statements of operations.
4. As information about segment assets and liabilities is not used to determine the distribution of management resources and evaluate business results, the Companies are not required to disclose information about segment assets and liabilities.

(4) Related Information

(a) Segment related information for the year ended March 31, 2023 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, 2023								
Millions of yen								
	Japan	Europe	(Sweden of Europe)	(Germany of Europe)	Asia	North America	Other	Total
Net Sales	¥ 150,488	¥ 160,076	¥ (41,198)	¥ (40,467)	¥ 66,533	¥ 13,499	¥ 3,248	¥ 393,844

Net sales are classified by country or region based on the location of the customer.

As of March 31, 2023							
Millions of yen							
	Japan	Europe	(Sweden of Europe)	Asia	North America	Other	Total
Property, plant and equipment	¥ 67,010	¥ 37,287	¥ (29,992)	¥ 6,030	¥ 48	¥ 4,808	¥ 115,183

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.

(b) Segment related information for the year ended March 31, 2024 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, 2024								
Millions of yen								
	Japan	Europe	(Sweden of Europe)	(Germany of Europe)	Asia	North America	Other	Total
Net Sales	¥ 144,367	¥ 132,306	¥ (35,726)	¥ (32,745)	¥ 58,863	¥ 13,554	¥ 4,721	¥ 353,811
Thousands of U.S. dollars (Note 3)								
	Japan	Europe	(Sweden of Europe)	(Germany of Europe)	Asia	North America	Other	Total
Net Sales	\$ 953,989	\$ 874,287	\$ (236,079)	\$ (216,379)	\$ 388,972	\$ 89,564	\$ 31,195	\$ 2,338,007

Net sales are classified by country or region based on the location of the customer.

As of March 31, 2024							
Millions of yen							
	Japan	Europe	(Sweden of Europe)	Asia	North America	Other	Total
Property, plant and equipment	¥ 67,990	¥ 42,831	¥ (35,050)	¥ 6,201	¥ 58	¥ 6,407	¥ 123,487
Thousands of U.S. dollars (Note 3)							
	Japan	Europe	(Sweden of Europe)	Asia	North America	Other	Total
Property, plant and equipment	\$ 449,283	\$ 283,029	\$ (231,616)	\$ 40,974	\$ 386	\$ 42,340	\$ 816,012

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, 2023							
Millions of yen							
Reportable segments							
	Steel Products	Metal Powders	Formed and Fabricated Materials	Other	Total	Adjustments	Consolidated total
Unamortized amount of goodwill	¥ 32,441	¥ —	¥ —	¥ —	¥ 32,441	¥ —	¥ 32,441
As of March 31, 2024							
Millions of yen							
Reportable segments							
	Steel Products	Metal Powders	Formed and Fabricated Materials	Other	Total	Adjustments	Consolidated total
Unamortized amount of goodwill	¥ 32,954	¥ —	¥ —	¥ —	¥ 32,954	¥ —	¥ 32,954
Thousands of U.S. dollars (Note 3)							
Reportable segments							
	Steel Products	Metal Powders	Formed and Fabricated Materials	Other	Total	Adjustments	Consolidated total
Unamortized amount of goodwill	\$ 217,764	\$ —	\$ —	\$ —	\$ 217,764	\$ —	\$ 217,764

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 year ended March 31, 2023 were as follows:

	Transactions during the year ended March 31, 2023		Resulting account balances	
	Description of transaction	Amount Millions of yen	Account	Amount Millions of yen
Category:				
Parent company				
Name:				
Nippon Steel Corporation				
Head office address:				
Chiyoda-ku, Tokyo				
Paid-in capital:				
¥419,524 million	Deposit of funds	¥ 7,066	Deposits paid in parent company	¥ 9,954
Business content:				
Production and selling of steel products, etc.				
Equity ownership percentage:				
Holding 53.07% directly				
Holding 0.10% indirectly				
Relation with related party:				
Deposit of funds				

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

Related party transactions for the year ended March 31, 2024 were as follows:

	Transactions during the year ended March 31, 2024			Resulting account balances		
	Description of transaction	Amount		Account	Amount	
	Millions of yen	Thousands of U.S. dollars (Note 3)		Millions of yen	Thousands of U.S. dollars (Note 3)	
Category:						
Parent company						
Name:						
Nippon Steel Corporation						
Head office address:						
Chiyoda-ku, Tokyo						
Paid-in capital:						
¥419,799 million	Deposit of funds	¥ 8,405	\$ 55,538	Deposits paid in parent company	¥ 4,811	\$ 31,790
Business content:						
Production and selling of steel products, etc.	Borrowing of funds	18,000	118,945	Short-term loans	18,000	118,945
Equity ownership percentage:						
Holding 53.07% directly						
Holding 0.10% indirectly						
Relation with related party:						
Deposit of funds						
Borrowing of funds						

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

2. For borrowing of funds, the interest rate is reasonably determined in consideration of the market interest rate.

Related party transactions with subsidiaries owned by the same parent company and subsidiaries of other related companies for the year ended March 31, 2023 were as follows:

	Transactions during the year ended		Resulting account balances	
	March 31, 2023			
	Description of transaction	Amount Millions of yen	Account	Amount 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:	Transfers of trade receivable	¥ 47,417	Accounts receivable-other	¥ 10,178
¥1,000 million				
Business content:				
Engages in the group's financing operations				
Equity ownership percentage:				
Not applicable				
Relation with related party:				
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 year ended March 31, 2024 were as follows:

	Transactions during the year ended			Resulting account balances		
	March 31, 2024					
	Description of transaction	Amount		Account	Amount	
	Millions of yen	Thousands of U.S. dollars (Note 3)		Millions of yen	Thousands of U.S. dollars (Note 3)	
Category:						
Subsidiaries owned by the same parent company						
Name:						
Nippon Steel Finance Co., Ltd.						
Head office address:						
Chiyoda-ku, Tokyo						
Paid-in capital:	Transfers of trade receivable	¥ 42,616	\$ 281,608	Accounts receivable-other	¥ 11,987	\$ 79,213
¥1,000 million						
Business content:						
Engages in the group's financing operations						
Equity ownership percentage:						
Not applicable						
Relation with related party:						
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 between a consolidated subsidiaries and related parties for the years ended March 31, 2023 and 2024 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 operate in the Steel Products business, the Metal Powders business, the Formed and Fabricated Materials business, and Other business. The main products of each business segment were as follows. The Steel Products business includes various special steel products such as bearing steel, engineering steel, stainless steel, heat resistant steel and tool steel. The Metal Powders 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 for the year ended March 31, 2023 were as follows:

	For the year ended March 31, 2023					
	Millions of yen					
	Business segments			Total	Other	Consolidated total
Steel Products	Metal Powders	Formed and Fabricated Materials				
Net Sales						
Japan	¥ 135,512	¥ 4,391	¥ 10,421	¥ 150,324	¥ 164	¥ 150,488
Europe	160,053	23	—	160,076	—	160,076
Asia	60,076	710	5,747	66,533	—	66,533
North America	11,275	188	2,036	13,499	—	13,499
Other	1,592	—	1,656	3,248	—	3,248
Total	¥ 368,508	¥ 5,312	¥ 19,860	¥ 393,680	¥ 164	¥ 393,844

1. 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.

2. The "Other" category is the information service segment and not included in the business segments.

Net sales of each business segment by geographic areas for the years ended March 31, 2024 were as follows:

	For the year ended March 31, 2024					
	Millions of yen					
	Business segments			Total	Other	Consolidated total
Steel Products	Metal Powders	Formed and Fabricated Materials				
Net Sales						
Japan	¥ 129,956	¥ 4,535	¥ 9,777	¥ 144,268	¥ 99	¥ 144,367
Europe	132,291	15	—	132,306	—	132,306
Asia	52,968	531	5,364	58,863	—	58,863
North America	12,525	256	773	13,554	—	13,554
Other	2,246	—	2,475	4,721	—	4,721
Total	¥ 329,986	¥ 5,337	¥ 18,389	¥ 353,712	¥ 99	¥ 353,811

	Thousands of U.S. dollars (Note 3)					
	Business segments			Total	Other	Consolidated total
Steel Products	Metal Powders	Formed and Fabricated Materials				
Net Sales						
Japan	\$ 858,760	\$ 29,970	\$ 64,607	\$ 953,337	\$ 652	\$ 953,989
Europe	874,185	102	—	874,287	—	874,287
Asia	350,016	3,510	35,446	388,972	—	388,972
North America	82,766	1,687	5,111	89,564	—	89,564
Other	14,844	—	16,351	31,195	—	31,195
Total	\$ 2,180,571	\$ 35,269	\$ 121,515	\$ 2,337,355	\$ 652	\$ 2,338,007

1. 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.

2. The "Other" category is the information service segment and 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 was omitted because those balances were immaterial.

Since there were no material transactions of the Companies with initial contract terms of more than 1 year, a description of transaction price allocated to remaining obligations has been omitted.

30. Business Combination

(Transactions conducted by commonly controlled entities)

(Additional acquisition of subsidiary's shares)

(1) Overview of the Business Combination

(a) Name of acquired company and description of business

Acquired company: Sanyo Special Steel Manufacturing India Pvt. Ltd.

Business: Production and sale of special steel products

(b) Date of the business combination

April 27, 2023

(c) Legal form of the business combination

Acquisition of shares from non-controlling shareholders

(d) Name of the company after the business combination

Not changed

(e) Other items regarding overview of transactions

On April 20, 2022, the Company was notified by Mahindra and Mahindra Limited (hereinafter "M&M"), one of the minority shareholders of Sanyo Special Steel Manufacturing India Pvt. Ltd (hereinafter "SSMI"), that M&M was exercising its put-option under the shareholders agreement. As a result of negotiations and discussions with M&M, on April 27, 2023, the Company purchased from M&M all SSMI shares (3,475,264 shares) held by M&M.

The Company acquired an additional 22.81% of the voting rights of SSMI, resulting in the Company holding 80.0% of the voting rights of SSMI.

(2) Overview of accounting treatment to be applied

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21) as well as the "Implementation guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10), the Company will account for the business combination as a transaction with non-controlling shareholders under the classification of transactions under common control.

(3) Matters to be provided upon additional acquisition of subsidiary's shares

Acquisition cost and breakdown by type of consideration

Consideration for acquisition: cash in the amount of INR (India rupee) 1,581 million (¥2,593 million, \$17,135 thousand)

Acquisition cost: INR (India rupee) 1,581 million (¥2,593 million, \$17,135 thousand)

(4) Change in the Company's ownership interest due to transactions with non-controlling shareholders

(a) Cause for change in capital surplus

Additional acquisition of subsidiary's shares

(b) Amount of capital surplus decreased by transactions with non-controlling shareholders

¥2,366 million (\$15,637 thousand)

31. Subsequent Events

(Additional acquisition of subsidiary's shares)

(1) Overview of the Business Combination

(a) Name of acquired company and description of business

Acquired company: Sanyo Special Steel Manufacturing India Pvt. Ltd.

Business: Production and sale of special steel products

(b) Date of the business combination

May 24, 2024

(c) Legal form of the business combination

Acquisition of shares from non-controlling shareholders

(d) Name of the company after the business combination

Not changed

(e) Other items regarding overview of transactions

On March 9, 2023, the Company was notified by MITSUI & CO., LTD (hereinafter "Mitsui"), a minority shareholder of SSMI, that Mitsui was exercising its put-option under the shareholders agreement. As a result of negotiations and discussions with Mitsui, the Company purchased all SSMI shares (3,046,821 shares) held by Mitsui on May 24, 2024.

The Company acquired an additional 15.43% of the voting rights of SSMI, resulting in the Company holding 100.0% of the voting rights of SSMI.

(2) Overview of accounting treatment to be applied

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21) as well as the "Implementation guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10), the Company will account for the business combination as a transaction with non-controlling shareholders under the classification of transactions under common control.

(3) Matters to be provided upon additional acquisition of subsidiary's shares

Acquisition cost and breakdown by type of consideration

Consideration for acquisition: cash in the amount of INR (India rupee) 1,325 million (¥2,492 million, \$16,465 thousand)

Acquisition cost: INR (India rupee) 1,325 million (¥2,492 million, \$16,465 thousand)

(4) Change in the Company's ownership interest due to transactions with non-controlling shareholders

(a) Cause for change in capital surplus

Additional acquisition of subsidiary's shares

(b) Amount of capital surplus decreased by transactions with non-controlling shareholders

¥1,923 million (\$12,707 thousand)



Independent auditor's report

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

Report on the Audit of the Consolidated Financial Statements

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, 2024 and 2023, 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, 2024 and 2023, 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 intangible assets of Sanyo Special Steel Manufacturing de México, S.A. de C.V.

The key audit matter

In the consolidated balance sheets of the Company as of March 31, 2024, property, plant and equipment of ¥6,428 million and intangible assets of ¥160 million related to Sanyo Special Steel Manufacturing de México, S.A. de C.V. (hereinafter referred to as “SMM”).

While these assets are depreciated/amortized in a systematic manner, they need to be tested for impairment whenever there is an indication of impairment. 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.

SMM identified an indication of impairment since operating loss has continued in spite of the improvement of the revenue due to increased sales volume. 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, and such estimate accompanies a degree of uncertainty. Accordingly, management’s judgment thereon had a significant effect on the estimated undiscounted future cash flows.

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 intangible assets of SMM was one of the most significant matters in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.

How the matter was addressed in our audit

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 intangible assets of SMM included the following:

(1) Internal control testing

We tested the design and operating effectiveness of the Company’s internal controls to determine whether an impairment loss should be recognized on property, plant and equipment and intangible assets.

(2) Assessment of the reasonableness of the estimated undiscounted future cash flows

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 (increase in sales volume) incorporated into the business plan of SMM and the undiscounted future cash flows, which served as the basis for the estimate. In addition, we:

- 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.

Appropriateness of the Group’s determination of an accounting period in which revenue was recognized from sales in its Steel Products segment

The key audit matter	How the matter was addressed in our audit
<p>The Group manufactures and sells various special steel products, including bearing steel, engineering steel, stainless steel, heat resistant steel and tool steel, in its Steel Products segment.</p> <p>As described in Note 27, “Segment information” to the consolidated financial statements, the net sales to outside customers in Steel Products segment for the current fiscal year amounted to ¥329,985 million, representing approximately 93% of Net Sales in the consolidated statements of operations.</p> <p>This business is mainly conducted by the Company and its consolidated subsidiaries, Yohkoh Bussan Co., Ltd., Ovako Group AB and its subsidiaries.</p> <p>As described in Note 2 (16) , “Accounting policy for revenue and expenses” to the consolidated financial statements, revenue from sale of merchandise and finished goods is recognized when the customer receives the merchandise and finished goods. This is because control of the goods is transferred to the customer, and the performance obligations are satisfied at the time of the delivery. However, revenue from domestic sales is recognized at the time of shipment in cases where control of the goods is transferred to the customer within a reasonable period of time.</p> <p>In the revenue recognition, there is a potential risk that revenue may not be recorded in the appropriate accounting period because sales may not accurately reflect the timing of delivery or shipment to the customer.</p> <p>We, therefore, determined that our assessment of the appropriateness of the Group’s determination of an accounting period in which revenue is recognized from sales in its Steel Products segment was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>The primary procedures we performed to assess whether revenue from sales in the Steel Products segment was recognized in the appropriate accounting period included the following. We also instructed the component auditor of Ovako Group AB, a consolidated subsidiary of the Company, to perform an audit. Then we evaluated the report of the component auditor and review the audit documentation as to whether sufficient and appropriate audit evidence was obtained from the following procedures among others:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of the Group’s internal controls relevant to the process of recognizing revenue from sales in the Steel Products segment. In this assessment, we focused our testing on the internal controls to ensure that sales are recorded in the appropriate accounting period that adequately reflects the timing of delivery or shipment to the customer.</p> <p>(2) Assessment of whether revenue was recognized in the appropriate accounting period</p> <p>In order to assess whether revenue from sales in the Steel Products segment was recognized in the appropriate accounting period, we:</p> <ul style="list-style-type: none"> ● selected sales transactions based on certain criteria from the sales data recorded before the end of the current fiscal year and compared them with supporting evidence used as the basis for the recording of sales; and ● selected transactions based on certain criteria that would reduce sales after the end of the current fiscal year, inquired about the reasons for any returns and corrections, and compared them with the supporting evidence.

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, actions taken to eliminate threats or safeguards applied.

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.

Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its consolidated subsidiaries for the current year are 206 million yen and 10 million yen, respectively.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2024 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 Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Yasuhiro Wada

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, 2024

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.