ANNUAL REPORT 2010

APRIL 1.2009
MARCH 31.2010

SANYO SPECIAL STEEL-THE CONFIDENT CHOICE

SANYO SPECIAL STEEL

Profile

Sanyo Special Steel manufactures and distributes special steel products such as bearing steel, engineering steel, stainless steel, heat resistant steel and tool steel, heat/corrosion resistant alloys and metal powders, and formed and fabricated materials made from special steel bars/tubes. What makes Sanyo Special Steel unique is the fact that it is Japan's only special steel manufacturer that has steel tube manufacturing equipment.
We enjoy a high level of market confidence in every aspect of our undertakings - development, product quality and stable supply - based on our high cleanliness steel manufacturing technology, which controls the sizes of inclusions in steel and reduces oxygen content to a minimum.
Featuring superior quality characteristics such as fatigue life, cold workability and impact resistance, our highly reliable steel is used in a broad range of industrial applications, most notably in automobiles, industrial machinery, railways and wind-power generation equipment, as materials for their essential components for which a high level of reliability is required. Above all, the unmatched quality of our bearing steel means that Sanyo Special Steel is the world’s leading bearing steel manufacturer.

Corporate Philosophy: Confidence-based Management

Confidence of Society

Through our “high-quality special steel manufacturing” and “harmony with local communities,” we aim to acquire the confidence of society by contributing to the realization of an affluent and culturally rich society.

Confidence of Customers

We aim at acquiring the confidence of customers through our principle “to earnestly seek out customer needs and to solve them with speed and precision.”

Confidence among People

We aim to build confidence among people by maintaining a corporate culture where individual employees can feel “the joy of creation” and realize job satisfaction.

Contents

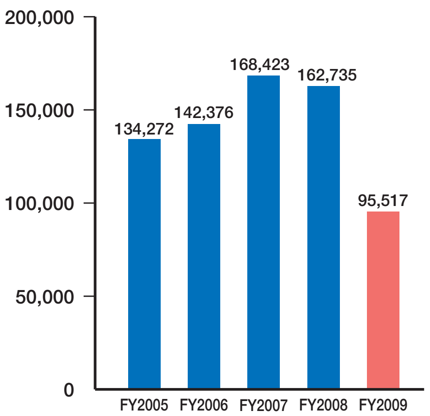
CONSOLIDATED FINANCIAL HIGHLIGHTS

Sanyo Special Steel Co., Ltd. and consolidated subsidiaries

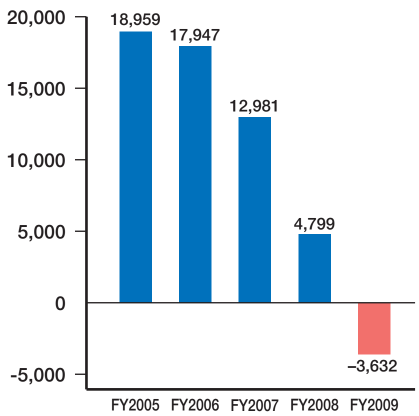
	FY2007 (year ending March 31, 2008)	FY2008 (year ending March 31, 2009)	FY2009 (year ending March 31, 2010)	Change FY2009 / FY2008	FY2009 (year ending March 31, 2010)
Operating Results (for the year)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net Sales	¥ 168,423	¥ 162,735	¥ 95,517	—41.3	$ 1,026,507
Operating income (loss)	13,904	5,148	(3,946)	—	(42,408)
Ordinary income (loss)	12,981	4,799	(3,632)	—	(39,038)
Net income (loss)	7,232	(1,023)	(2,585)	—	(27,776)
Financial Position (at year-end)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net assets *2	92,459	87,027	86,415	—0.7	928,694
Total assets	157,489	147,779	159,733	8.1	1,716,636
Financial Indicator			(%)		
ROS (Ordinary income to Net sales)	7.7	2.9	—3.8	—	—
ROE (Net income to Net assets)	7.9	—1.2	—3.0	—	—
Net D/E Ratio *3	0.30	0.23	0.42 (0.21) *4	—	—
			(Yen)		(US Dollars)*1
Net income (loss) per share	44.34	(6.32)	(16.01)	—	(0.17)
Net assets per share	564	536	533	—	5.73
Cash dividends per share	11.00	5.00	—	—	—

*1 US dollar amounts are converted, for convenience purpose only, at the rate of ¥93.05=US$1, the approximate rate of exchange on March 31, 2010.
*2 Minority interests are included in net assets.
*3 Net equity ratio ･･･ (gross interest-bearing dept — cash and deposits) / equity
*4 Our cash position deteriorated by the margin of ¥17.5 billion because we did not liquidize receivables at the end of FY2009. If we had liquidized receivables, our Net D/E Ratio would have been 0.21, not 0.42.

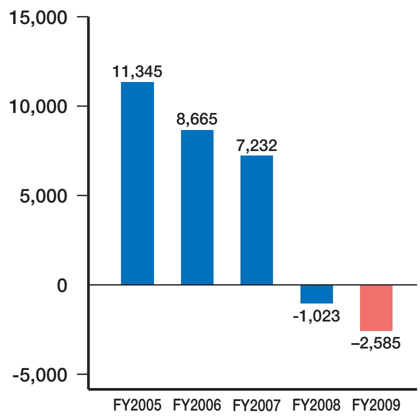
Net Sales
(Millions of Yen)



Ordinary income
(Millions of Yen)



Net income
(Millions of Yen)



Fiscal 2009 Overview

First, the overview of fiscal 2009 can be summarized as follows:
During the first half of fiscal 2009, the Japanese economy was in an extremely severe state, due to a steep decline in demand in both domestic and international markets and subsequent inventory adjustments which led to a sharp decline in production levels, deteriorated corporate earnings, and a decrease in capital investment, amid the global recession triggered by the financial problems in the U.S. in September, 2008. Although demand and production eventually picked up from the second half as a result of the effects of various stimulus packages and the upturn in economies abroad, mainly in Asia, Japan's recovery lacked momentum in comparison with the performance of such economies in as China, India and the U.S., leaving its future prospects uncertain.
Looking at the special steel industry, the automobile industry, one of the main sectors that use special steel, saw demand and production turn around from the middle of the first half of the fiscal year, with support from tax incentives for environment-friendly vehicles. The industrial machinery and construction machinery sectors, meanwhile, showed some sign of eventually picking up in the second half, but production levels remained relatively low due to sluggish capital spending.
Because demand and production generally remained at low levels throughout the fiscal year, output of hot-rolled special steel products fell short of the previous year's level.
Against this backdrop, the Sanyo Special Steel Group's consolidated net sales were down by ¥67,218 million from the previous fiscal year, to ¥95,517 million, due to a decline in sales volume and selling price adjustments associated with the changes in iron scrap prices.
As for profitability, cost-cutting measures and the upturn in the overall economy helped to improve our earnings quarter by quarter, bringing them back into the black from the third quarter onwards. However, for fiscal 2009 on an annual basis, we registered an ordinary loss of ¥3,632 million (vs. ordinary income

THE 7TH MEDIUM-TERM BUSINESS PLAN --CONSOLIDATED--

1. Basic Strategy

Achieve greater corporate value by enhancing the brand power of "Sanyo Special Steel – the Confident Choice"

Through the stable supply of high-quality special steel, we assist our customers in sharpening their competitive edge. At the same time, we will achieve profit growth and further consolidate our business foundation with the aim of becoming a "special steel manufacturer that has a strong presence in the world market."

2. Financial Targets

(Billions of yen)

	FY2007 (Actual performance)	FY2010 (Target)	Change
Net sales	168.4	200.0	31.6
Operating Income	13.9	20.0	6.1
Ordinary income	13.0	19.0	6.0
Net income	7.2	11.0	3.8
Total assets	157.5	210.0	52.5
Interest-bearing debts	32.9	43.0	10.1
ROS	7.7%	9.5%	1.8%
ROE	7.9%	9.2%	1.3%
Sales Tonnage	80,000 tons per month	90,000 tons per month	10,000 tons per month

of ¥4,799 million for fiscal 2008) and a net loss of ¥2,585 million (vs. net loss of ¥1,023 million for fiscal 2008).
With regard to dividend payment for fiscal 2009, we regrettably decided not to pay any dividend, due to having ended the fiscal year with a net loss of ¥2,585 million. We would appreciate our shareholders' understanding of this decision and acceptance of our apologies.

Fiscal 2010 Outlook

The Japanese economy is expected to continue recovering at a gradual pace in coming years, aided by economic growth in emerging countries, especially China and India. Nevertheless, the management environment surrounding the Sanyo Special Steel Group will be increasingly uncertain amid concerns over various factors, including the influence of the economic slowdown in Europe that was triggered by Greece's financial crises, intensifying cost competition due to depreciation of the euro and the dollar against the yen, fears of a slowdown in economic growth associated with inventory adjustments in emerging economies, and anxiety over a potential fall in domestic demand following the termination of various subsidy programs.
In these circumstances, we will remain committed to production based on demand trends while concentrating greater energy on properly responding to customer needs and boosting our non-price competitiveness, and we will make concerted efforts to establish a business structure that ensures adequate supplies of high-quality special steel. These efforts will include implementation of in-house measures such as more thoroughgoing cost reduction and the application of a more extensive and well-established iron scrap surcharge system. The overriding objective is to further improve our corporate value.
Taking all of the above into consideration, we expect consolidated net sales of ¥153,000 million, ordinary income of ¥11,700 million and net income of ¥6,900 million for fiscal 2010.
As regards dividends for fiscal 2010, we seek to implement dividend payments that closely reflect our periodic performance, in line with our basic policy on distribution of profits. At this point, no specific dividend amount has been decided.
To our shareholders and investors, we would like to ask for your ongoing support and understanding of the Sanyo Special Steel Group in coming years.

September 2010

Nobuyoshi Fujiwara

Nobuyoshi Fujiwara
Representative Director and President

3. Key Action Programs

【1】Achieve profit growth by constantly meeting the expanding demand in the domestic and international markets, and providing appropriate products

Accurately ascertain the needs of customers that are developing/expanding businesses on a global scale, especially in BRICs and other resource-rich countries such as China and India, and provide these customers with high-quality special steel, thereby helping them to improve their competitiveness and pursuing our own profit growth.

【2】Ensure adequate profit margins

Constantly make efforts to cope with continuously escalating prices for iron scrap, other raw materials and fuel. For price increases that cannot be absorbed, adjust our selling prices by gaining our customers' understanding, thereby ensuring adequate margins.

【3】Respond to increasingly sophisticated customer needs by increasing non-price competitiveness

Promote expansion of technological innovation through the development of highly functional, differentiated products and manufacturing technologies, and enhance non-price competitiveness by providing higher-level quality assurance and acquiring more agile production/delivery capabilities, thereby responding to the increasingly sophisticated needs of customers at home and abroad.

【4】Establish a supply system capable of responding to steady demand (Realize a production capacity of 100,000 tons/M)

In order to make supplies responsive to steady demand over the medium term, improve the rate of capacity utilization to the full and boost production efficiency, and make capital expenditures to eliminate bottlenecks, thereby establishing a supply system that can constantly deliver an output of "100,000 tons per month." Also, we will further review our sales volume according to the demand situation.

【5】Ensure implementation of environmental measures

Conduct business with a view to creating a resource-recycling society through such measures as cutting carbon dioxide emissions, in addition to the measures we have already implemented, i.e., expanding the dust collecting capacity of the electric arc furnace and shifting energy sources from heavy oil to city gas (liquefied natural gas).

Basic Management Policies

We have been guided by the corporate philosophy of "confidence-based management" (confidence of society, confidence of customers, and confidence among people).
With this corporate philosophy in mind, we aim to contribute to the realization of an affluent and culturally rich society, to earnestly identify customer needs and address them promptly and precisely, and to continue to foster a corporate culture that enables individual employees to experience "the joy of creation" and realize job satisfaction, through our "high-quality special steel manufacturing" and "harmony with local communities." We recognize these as requirements for our sustainable growth and our corporate social responsibility. We are also seeking to reinforce and enhance our corporate value and the common interests of our shareholders by meeting the expectations of our customers in industry sectors.

Dividend Policy

Our basic policy on profit distribution is to reward our shareholders by strengthening our business foundation and increasing profits available for distribution. As for dividend payments, we intend to meet the expectations of our shareholders, primarily through appropriate distribution of profits based on periodic business performance, with due attention being given to both the payout ratio and the amount of funds required for investments and other activities to increase our corporate value. We basically refer to a consolidated payout ratio of about 20% and a non-consolidated payout ratio of about 30% as our measure of profit distribution based on our consolidated performance. However, since reinforcing the business foundation and reforming the financial structure for the purpose of improving corporate value is our highest priority, at least for the present, we have decided to use slightly lower reference values - a consolidated payout ratio of 15%~20% and a non-consolidated payout ratio of 20%~30% - than the standard values in implementing interim and year-end dividend payments from retained earnings.

Basic policy on corporate control

We consider that anyone in a position that involves control over decisions on the Company's financial and operating policies must fully understand the above 'Basic Management Policies', and must seek to maintain and improve our corporate value and the common interests of our shareholders in the future.
Consequently, in order to protect our corporate value and the common interests of our shareholders against the potential harm that could result from a substantial share acquisition by any third party, we consider it necessary to establish in advance proper rules on substantial share acquisitions to be observed by any third party that initiates such an acquisition.
In other words, we think that, in the event of any large-scale purchase offer (buyout offer) from a third party, the decision as to whether or not to accept such an offer rests with the shareholders, once the offer has been made. We also think that, in order to maintain and enhance our corporate value and the common interests of our shareholders, we need to enable shareholders to make considered judgments on any buyout offer within a reasonable period of time, based on adequate information.

CORPORATE GOVERNANCE STRUCTURE

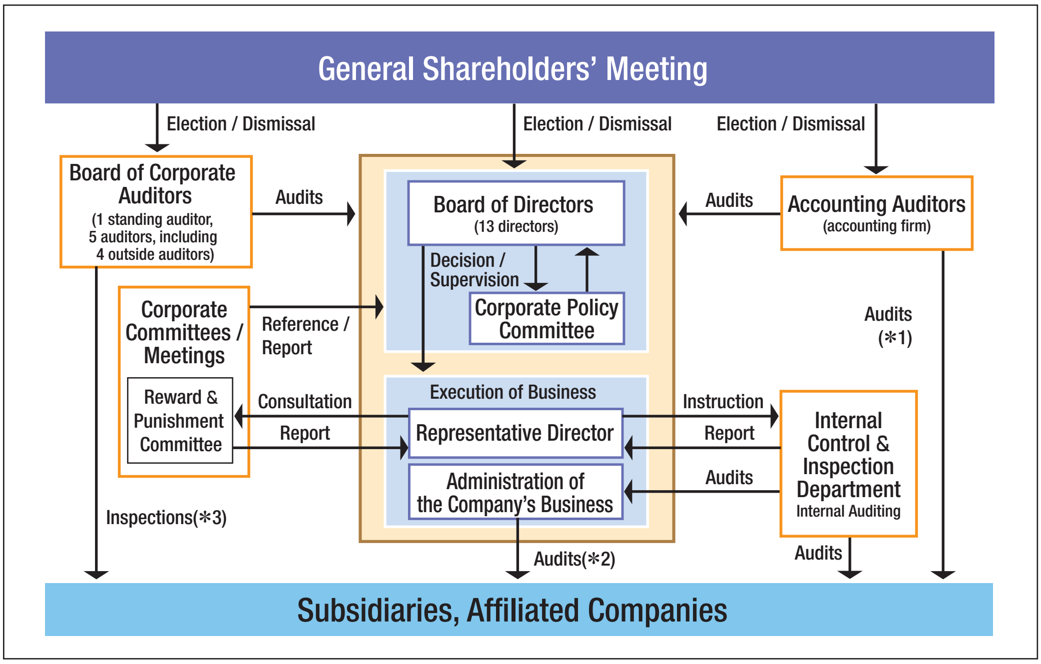
We have been working to enhance the corporate governance and internal control systems that form part of our management infrastructure, in order to ensure the integrity, fairness, and transparency of our operations.

Fundamental measures for corporate governance

The Company has adopted a corporate auditor system.
With respect to business execution, the Company makes decisions concerning important issues and supervises the execution of business operations at meetings of the Board of Directors (held monthly) and at extraordinary meetings of the Board of Directors (held as necessary).
We have set up company-wide committees and meetings to discuss important matters regarding operations. These include the Corporate Policy Committee to facilitate efficient management decision-making such as meetings of the Board of Directors, the Corporate Behavior and Ethics Special Committee to ensure thorough compliance and solid corporate governance, the Security & Trade Control Committee, the Environmental Conservation Committee and the Corporate Budget Committee.
Corporate auditors' audits are conducted as necessary based on the auditing policies formulated each year by the Board of Corporate Auditors. Audits are conducted in a broad range of areas including not only directors' execution of their duties but also risk management and compliance from an internal control perspective. Based on the audit results, the auditors express their opinions to the representative director and, if necessary, business execution functions. Also, for reinforcing its audit structure further, the Company adopted a standing auditor system on June 29, 2010, with an increase in the number of corporate auditors from four (including two appointed from outside) to six (including four from outside).
As for accounting audits, audit policies are formulated through discussions between corporate auditors and accounting auditors, and then audits are performed on these policies.
Internal audits are also performed by the Internal Control & Inspection Department on business execution by our respective functions and subsidiaries.

Our organizational structure for corporate governance and internal control

As of June 29, 2010



(*1) Auditing of our subsidiaries and affiliated companies is conducted through the auditing of consolidated financial statements by an accounting firm.
(*2) Each of our subsidiaries and affiliated companies has a supervisory department.
(*3) Corporate auditors perform inspections as necessary on the operations and asset status of subsidiaries. Full-time corporate auditors serve concurrently as corporate auditors of Sanyo Special Steel's domestic subsidiaries, and fulfill their responsibilities in that capacity.

Development and operation of internal control systems

At the Board of Directors meeting held on May 9, 2006, in order to improve our internal control systems, we settled on a basic policy for the creation of internal control systems in accordance with the Company Law of Japan and relevant laws and ordinances.
Under this policy, we have been developing our internal control systems, on which our corporate management approach, which emphasizes integrity, fairness, and transparency, is built.
In addition, the Internal Control & Inspection Department was established in October 2007 as a function to evaluate the Sanyo Special Steel Group's internal control systems, and we have been working on the development and operation of a system that supports "Management's Report on Internal Control Over Financial Reporting," which has been a requirement since fiscal 2008 under the Financial Instruments and Exchange Act.
In this regard, in April 2008, we set up a working group for internal control management, which is a cross-functional committee composed of members from across the Sanyo Special Steel Group, in order to address risks in financial reporting, share relevant information, and discuss educational guidelines, and we are working to further reinforce our internal control systems in order to ensure the adequacy of information in financial reporting.

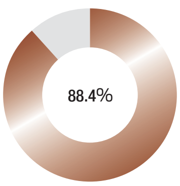
Specialty Steel

In the Special Steel segment, we manufacture and distribute various special steel products, capitalizing on our high cleanliness steel manufacturing technology, including bearing steel, for which we have a dominant share of domestic production, engineering steel, stainless steel, heat resistant steel and tool steel.

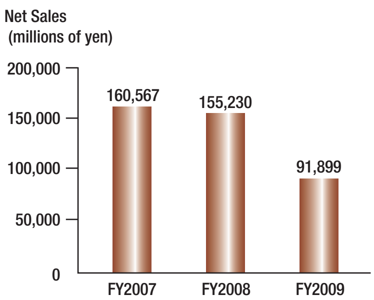
Our steel products have attained the world's highest level of cleanliness, which has been underpinned by our steelmaking and operation technologies including the SNRP (Sanyo New Refining Process) developed based on our unique concept of "controlling the size of the largest inclusion in steel for maximizing the inherent performance of steel." Another of our distinctive characteristics is that we are the only special steel manufacturer in Japan which has seamless steel tube manufacturing equipment.

Fiscal 2009 Overview

Demand, which began to decline sharply in early autumn two years ago, stayed at low levels throughout fiscal 2009, although it eventually showed some sign of picking up after the middle of the fiscal year. Due to a decline in sales volume, which reflected the sluggish demand, net sales decreased to ¥91,899 million (down ¥63,331 million on a year earlier). As for income or loss from operations, the Company registered an operating loss of ¥3,197 million (vs. operating income of ¥4,963 million for fiscal 2008) due to a decline in sales volume, although we made great efforts to cut costs.



Sales Breakdown
(FY2009)

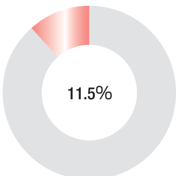


Formed & Fabricated Materials

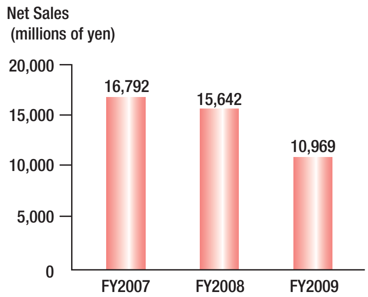
The Formed & Fabricated Materials segment uses an integrated, serial process to manufacture high-quality formed and fabricated materials from “steel you can count on,” which is produced using our high cleanliness steel manufacturing technology. Our formed and fabricated materials include cut rings produced by cutting special steel tubes with high precision, forged rings/die forged products/hot rolled rings made from steel bars, and cold roll formed rings made from ring materials.

Fiscal 2009 Overview

As in the Special Steel segment, net sales decreased to ¥10,969 million (down ¥4,672 million on fiscal 2008) due to a decline in sales volume. As for operating income or loss, the Company registered an operating loss of ¥745 million (vs. operating income of ¥53 million for fiscal 2008) due to a decline in sales volume.



Sales Breakdown
(FY2009)

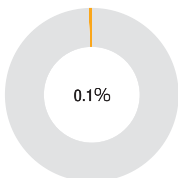


Other Segment

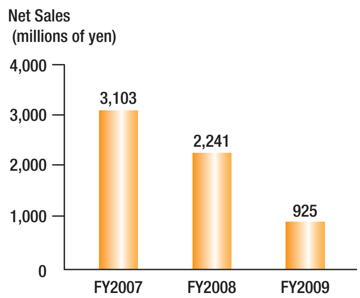
We provide information processing services through our subsidiaries.

Fiscal 2009 Overview

Net sales decreased to ¥925 million (down ¥1,317 million on fiscal 2008), and operating income was ¥29 million (down ¥37 million on fiscal 2008).



Sales Breakdown
(FY2009)



Notes:

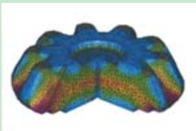
Net sales for each business segment include intersegment transactions. However, the sales breakdown is calculated based on net sales by each segment to outside customers.

We identify actual customer needs through a thorough analysis of data on social and industrial developments collected through a customer satisfaction-oriented marketing approach and respond to such customer needs with fast-paced research and development. We promote R&D that contributes to the expansion of technological innovation with a view to preserving the global environment and addressing soaring resource/fuel prices and the depletion of fuel and other resources, thereby further enhancing the brand power of "Sanyo Special Steel – the confident choice."

Analytical Technology

- Analysis of inclusions and precipitates
- Rapid analysis of fatigue characteristics
- Advanced CAE simulation ranging from fluid dynamics and thermal analysis to deformation analysis

Ultrasonic fatigue testing equipment



Strain distribution of a cold forged gear

Technological Development

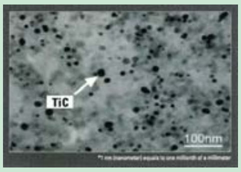
- Steelmaking process
- Manufacturing process
- Forming and fabricating process
- Powder-producing process

Electric furnace operation

SANYO SPECIAL STEEL – the Confident Choice

Materials Development

- Development of state-of-the-art bearing steel
- Development of high-functional engineering steel
- Development of materials related to energy use and the environment
- Development of steel for highly functional dies
- Development of materials for electronics components
- Development of high-functional powder materials



Electron microscopic image of TiC in TMAX steel

Fundamental Research

High-resolution field emission scanning electron microscope

Topics

Proof of the technological power of "Sanyo Special Steel – the Confident Choice" Prestigious awards given to three directors

On March 28, 2010, three directors received prestigious awards from the Iron and Steel Institute of Japan and the Japan Institute of Metals.
These awards symbolize the high-level special steel manufacturing technology which we have cultivated over a number of years and the high reliability of the products realized through that technology. We will continue to boost the brand power of "Sanyo Special Steel – the Confident Choice" through unceasing efforts to strengthen our technological capabilities, and aim to become a "special steel manufacturer with a strong presence in the global market."

Highest honor in the special steel industry Technical Achievement Merit Prize (S. Watanabe Prize) awarded by the Iron and Steel Institute of Japan

Kazuya Kodama, then Senior Managing Director, received the Technical Achievement Merit Prize (S. Watanabe Prize) from the Iron and Steel Institute of Japan. This prize is awarded to a member who has made an outstanding contribution to scientific and technical advancement and development in the field of special steel, and is regarded as the most prestigious accolade in the special steel industry, for which only two winners were selected nationwide for the year.
Mr. Kodama was awarded the prize for his notable achievements in improving the quality level of Japanese-made special steel products and contributing to the advancement and development of the special steel manufacturing process. Those achievements include development and establishment of steel manufacturing technology that dramatically improves the quality and reliability of special steel, establishment of mass-production technology for hard-to-manufacture products, and reduction of environmental loads in the special steel manufacturing process.

Our Major Original Products/Technologies

SP Steel

"Premium cleanliness steel" with its characteristics improved to the limit

SP steel is the "premium" cleanliness steel. It was developed based on our unique concept of "controlling the size of the largest inclusion in steel to utilize its essential characteristics to the full." Its higher fatigue strength and reliability satisfy our customers' needs, especially those of our customers in the automobile industry, who require "small, lightweight high-performance parts that are also friendly to the environment."

Ball bearings

ECOMAX 1

High-strength case-hardening steel without the need for the addition of nickel and molybdenum

ECOMAX1 is a resource-saving, high-strength steel, the strength of which is achieved without the use of rare metals such as nickel and molybdenum.
ECOMAX1 meets the need for more compact and lighter automotive drive components designed to reduce CO2 emissions, and shows promise as a material for parts requiring high strength, such as automobile gears and shafts.

Automotive gears and shafts

SPMR8

Powder metallurgy high-speed steel with significantly improved toughness and corrosion resistance

SPMR8 provides significantly improved toughness and corrosion resistance realized by optimizing carbide dispersion in steel and alloy composition of matrix structures, while retaining the same level of hardness and wear resistance as that of SPM23, general-purpose P/M (powder metallurgy) high-speed steel. Its enhanced characteristics contribute to life extension of dies by reducing the early formation of cracks and chips and the occurrence of unusual corrosion and wear in their use. SPMR8 is especially suitable for punches and dies for cold forging, cold work tools (mandrels, rolls, etc.), and screws for plastic molding.

Mandrel

Fuel cell separator technology

The world's first separator technology that triples fuel cell power generation output

Fuel cells are environmentally friendly sources of clean energy based on a chemical reaction whereby water is produced from hydrogen and oxygen.
By adopting an innovative structure using our spherical metal powders in the separators that are major components of fuel cells, the company has achieved a significant improvement in fuel cell power generation output, which has long been a challenge to practical use.
In the coming years, we will further enhance power generation characteristics and aim at commercialization.

Technical Achievement Contribution Prize (G. Watanabe Commemorative Prize) awarded by the Iron and Steel Institute of Japan

Wataru Nishihama, Director, received the Technical Achievement Contribution Prize (G. Watanabe Commemorative Prize) from the Iron and Steel Institute of Japan. This prize is awarded to a member who has made great achievements toward the advancement and development of the Japanese steel industry.
Mr. Nishihama was awarded the prize for his contribution to the advancement and development of seamless tube manufacturing technology, namely his efforts to improve the quality and productivity of special steel seamless tube, and establishment of operational technology that realizes the world's highest level of quality and productivity in cold pilgering.

Industrial Achievement Award presented by the Japan Institute of Metals

Akihiko Yanagitani, Director, received the Industrial Achievement Award from the Japan Institute of Metals. This award is presented to a technical expert who has contributed to the improvement and advancement of industrial technology.
Mr. Yanagitani was given the award in recognition of his numerous contributions to technological development in the field of functional materials, including engagement in the development of high-performance metal materials and establishment of their mass-production technology, realization of practical applications for a number of high-performance materials, and numerous accomplishments in research activities and for related patents.

CSR-CONSCIOUS MANAGEMENT

While promoting corporate management with integrity, fairness, and transparency through the practice of our corporate philosophy, "confidence-based management," we fulfill our economic and social missions in order to gain the confidence of all our stakeholders and to build a sustainable relationship with society.

Conceptual Diagram

Corporate Philosophy:

Confidence-based Management

CSR-conscious Management

Corporate Management with Integrity, Fairness, and Transparency

Environmental Management
Compliance Management
Social Contributions

CSR in Pursuit of Economic Goals

We aim for sustained company growth and the well-being of society by gaining the confidence of the market through our provision of high-quality special steel products, and by returning our modest profits to society.

Continuous improvement in quality,
Increasing customer satisfaction,
Development of environmentally friendly products, etc.

CSR in Pursuit of Social Goals

We aim to enhance our corporate brand image through achieving harmonious coexistence with society by focusing on the creation of a resource-recycling society, environmental protection, and academic and cultural promotion.

Environmental protection,
Volunteer activities,
Support for scientific and cultural activities

COMPLIANCE STRUCTURE

In order to ensure compliance across the organization, we are working on developing, maintaining and improving our systems for familiarizing personnel at all levels with compliance practice.

Clearly defined Company Rules

Guidelines for Corporate Behavior	The Guidelines for Corporate Behavior indicate how we should behave as a corporation. They underpin all corporate activities.
Code of Conduct	The Code of Conduct provides “guidance on conduct” to be observed in the course of our business activities within the framework set by the Guidelines for Corporate Behavior.
Corporate Behavior and Ethics Regulations	The Corporate Behavior and Ethics Regulations specify the systems and structure used to ensure compliance.

Establishment of a Corporate Behavior and Ethics Special Committee

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

Establishment of a Whistle-blowing System

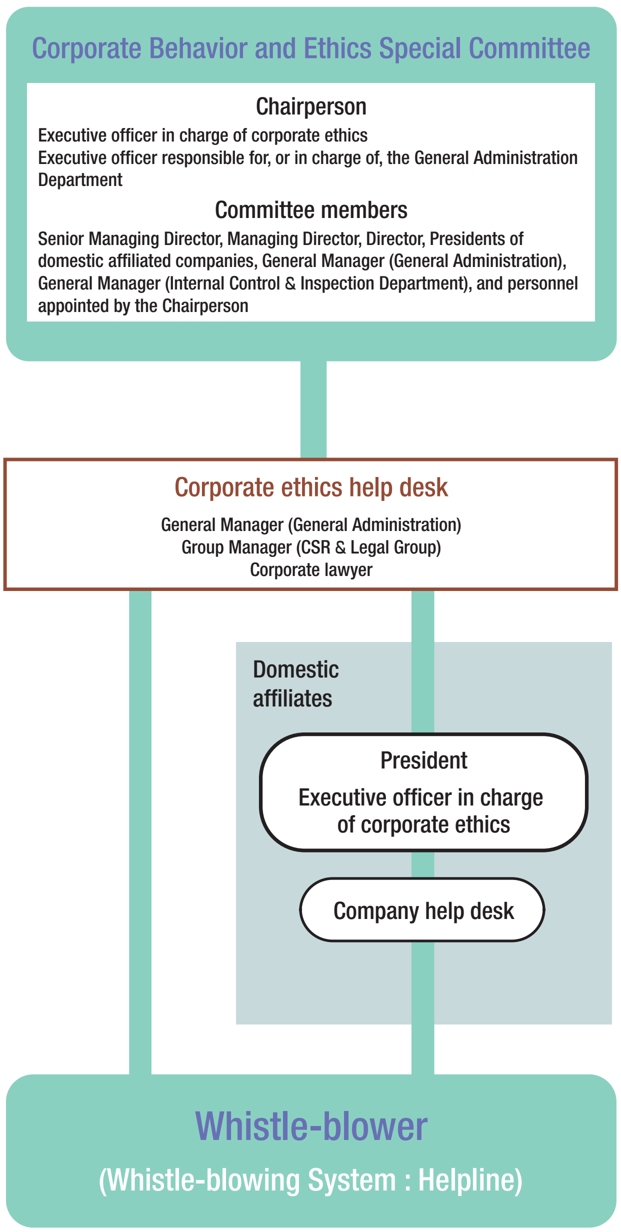
We have initiated a “Helpline,” a whistle-blowing system designed to help prevent occurrence or recurrence of misconduct.

The “Helpline” is aimed at detecting at an early stage any apparent or probable circumstances/acts which are deemed inappropriate in light of laws and regulations, social norms, and/or company rules, and allowing prompt and appropriate action to be taken to prevent misconduct.

Implementation of Compliance Education Programs

We arrange lectures to improve compliance awareness and provide e-learning programs for compliance education.

Compliance Structure



We conduct our business keeping environmental conservation in mind, and seek to create a recycling society.

Environmental policy

Philosophy

We, Sanyo Special Steel, are aware that environmental conservation is an important issue common to all mankind. With this in mind, and as a company operating in a rich environment with a wonderful view of Himeji Castle, a designated UNESCO World Heritage Site and our national treasure, to the north, and the Seto Inland Sea National Park to the south, we seek to contribute to the creation of a recycling society by promoting eco-friendly practices throughout all stages of our operations.

Environmental policy

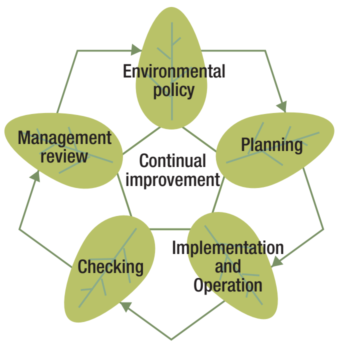
Based on our company mission statements, which are listed below, we, Sanyo Special Steel, promote environmental management as a producer and a seller of special steels and nonferrous metals.

1. We contribute to the recycling of metal as we manufacture steel products from steel scrap.
2. We abide by laws, regulations, and agreements related to the environment, constantly work hard to improve our environmental preservation systems, and strictly control its business activities that may impact the environment.
3. In order to reduce the environmental burden at every stage of our operations and contribute to environmental conservation, we promote resource and energy savings, the recycling of by-products, waste reduction and pollutant discharge control, and strive to prevent environmental pollution.
4. We set environmental goals and targets, review these environmental aims at least once a year and make revisions as necessary, in order to accomplish these environmental missions.
5. The general manager of the Environmental Management Department is designated as the chief administrator of the environmental system, with the purpose of making these environmental missions known to all of our employees and ensuring the environmental system is implemented.

Environmental Management System

In 1997, Sanyo Special Steel acquired ISO 14001 certification, which represents the international standard for environmental management systems. Since then, we have been working hard to improve and enhance our environmental management system.

Environmental management system model



Topics

Electric vehicles introduced for business use

We have been developing various activities for environmental preservation, including the formulation of voluntary action programs aimed at reducing our CO2 emissions. As part of such activities, we introduced environment-friendly electric vehicles for business use in December 2009.
In order to raise awareness of environmental issues among employees, we invited employees of our group companies to submit vehicle body designs proposals. Over 100 designs were submitted, and an excellent concept, selected by an in-house screening panel, was adopted as the body design for the vehicles.
We will continue to proactively promote efforts for environmental preservation.

SOCIAL CONTRIBUTIONS

In order to build greater confidence among all stakeholders and develop in harmony with society, we are actively engaged in social contribution programs.

Community Activities

Beautification of the surrounding area

As part of our community contribution programs, our employees engage in cleanup activities in the area surrounding our plant. In fiscal 2009, some 240 employees took part in the activities, and collected garbage discarded in the surrounding streets, center dividers, and green belts.

Blood Donation Campaign

We run a blood donation campaign on a regular basis. In fiscal 2009, 150,200 ml of blood was collected from a total 405 donors.

Holding of the New Year's Concert (Sanyo Special Steel Cultural Promotion Foundation program)

We hold a "New Year Concert" as part of the programs organized by the Sanyo Special Steel Cultural Promotion Foundation, aiming to encourage children to find out firsthand the joy of music.
At the 15th annual concert, in fiscal 2009, seven local elementary/junior high schools and one guest group participated in choral singing and marching band performances.

Holding of Cultural Lectures (Sanyo Special Steel Cultural Promotion Foundation program)

We hold cultural lectures under the sponsorship of the Sanyo Special Steel Cultural Promotion Foundation, for the purpose of fostering local culture and education of local citizens. In fiscal 2009, we invited Ms. Mariko Bando, President of Showa Women's University, who is famous for her book, "The Dignity of a Woman." Her lecture was entitled "The Dignity of an Adult – What is required of us now –."

FINANCIAL SECTION

Financial Position

Total assets at the end of fiscal 2009 increased to ¥159,733 million (an increase of ¥11,954 million over the end of fiscal 2008) due to increases in trade notes and accounts receivable, tangible fixed assets, and investment securities, despite decreased balances in cash and deposits, and inventories.

Total liabilities increased to ¥73,318 million (an increase of ¥12,567 million over the end of fiscal 2008) due to increases in trade notes and accounts payable, and short-term borrowings.

Net assets decreased to ¥86,415 million (a decrease of ¥613 million over the end of fiscal 2008) due to a net loss registered for the period, despite an increase in unrealized holding gains on securities.

Cash Flows

Cash flows in fiscal 2009 can be summarized as follows. Net cash used in operating activities in fiscal 2009 totaled ¥5,270 million (vs. net cash inflow of ¥19,808 million in fiscal 2008), resulting from such factors as a loss before income taxes (minus ¥4,263 million), depreciation expenses (plus ¥9,376 million), higher trade receivables (minus ¥23,175 million), lower inventories (plus ¥6,846 million), and higher trade payables (plus ¥6,257 million). This result includes the effect of not liquidizing receivables at the end of fiscal 2009, amounting to approximately minus ¥17,500 million.

Net cash used in investing activities totaled ¥10,367 million (a decrease of ¥928 million compared with fiscal 2008), reflecting capital investments including those for productivity improvement, environmental measures, and replacement of existing equipment.

Net cash provided by financing activities totaled ¥5,199 million (a decrease of ¥2,246 million compared with fiscal 2008) due to an increase in borrowings (plus ¥5,384 million).

As a result, the balance of cash and cash equivalents at the end of fiscal 2009 stood at ¥12,055 million (¥10,413 million lower than the balance at the end of fiscal 2008).

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of March 31, 2009 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
ASSETS	2009	**2010**	**2010**
Current Assets:			
Cash and bank deposits (Note 4 and 14)	¥ 22,474	**¥ 12,062**	**$ 129,624**
Notes and accounts receivable, trade (Note 4 and 17)	14,440	**37,628**	**404,382**
Less: Allowance for doubtful accounts	(91)	**(51)**	**(543)**
Inventories (Note 6)	39,365	**32,575**	**350,084**
Deferred income taxes (Note 10)	2,819	**4,099**	**44,056**
Refundable income taxes	906	**895**	**9,614**
Other current assets	1,065	**1,085**	**11,657**
Total current assets	80,978	**88,293**	**948,874**
Property, Plant and Equipment:			
Land (Note 7)	7,221	**7,081**	**76,096**
Buildings and structures (Note 7)	43,112	**43,174**	**463,986**
Machinery and equipment (Note 7)	158,827	**164,238**	**1,765,050**
Construction in progress	1,593	**2,537**	**27,273**
	210,753	**217,030**	**2,332,405**
Less: Accumulated depreciation	(156,049)	**(159,514)**	**(1,714,284)**
Total property, plant and equipment	54,704	**57,516**	**618,121**
Intangibles	997	**863**	**9,275**
Investments and Other Assets:			
Investments in securities (Note 4 and 5)	6,915	**9,283**	**99,769**
Long-term loans receivable	353	**301**	**3,237**
Deferred income taxes (Note 10)	369	**357**	**3,840**
Prepaid pension cost (Note 9)	2,433	**2,225**	**23,910**
Other investments and assets	1,379	**1,331**	**14,300**
Less: Allowance for doubtful accounts	(349)	**(436)**	**(4,690)**
Total investments and other assets	11,100	**13,061**	**140,366**
Total assets	¥ 147,779	**¥ 159,733**	**$ 1,716,636**

These accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2009	Millions of Yen 2010	Thousands of U.S. Dollars (Note 3) 2010
Current Liabilities:			
Short-term loans (Note 4 and 8)	¥ 28,419	¥ **31,515**	$ **338,692**
Current portion of long-term debt (Notes 4, 7 and 8)	93	**1,095**	**11,771**
Notes and accounts payable, trade (Note 4)	5,025	**10,724**	**115,247**
Accounts payable, other	4,314	**6,132**	**65,899**
Accrued income taxes	154	**85**	**908**
Accrued expenses	5,521	**5,579**	**59,953**
Other current liabilities	1,063	**350**	**3,765**
Total current liabilities	44,589	**55,480**	**596,235**
Long-term Liabilities:			
Long-term debt (Notes 4, 7 and 8)	14,226	**15,532**	**166,921**
Accrued employees' retirement benefits (Note 9)	866	**1,193**	**12,825**
Accrued directors' retirement benefits	96	**107**	**1,148**
Provision for loss on guarantees	—	**197**	**2,113**
Provision for environmental measures	376	**376**	**4,041**
Deferred income taxes (Note 10)	391	**252**	**2,706**
Other long-term liabilities	207	**181**	**1,953**
Total long-term liabilities	16,162	**17,838**	**191,707**
Total liabilities	60,751	**73,318**	**787,942**
Contingent Liabilities (Note 17)			
Net Assets (Note 11)			
Shareholders' Equity:			
Common stock:			
Authorized - 474,392,000 shares			
Issued - 167,124,036 shares	¥ 20,183	¥ **20,183**	$ **216,901**
Capital surplus	22,593	**22,594**	**242,819**
Retained earnings	45,869	**43,123**	**463,442**
Less: Treasury stock, at cost (2009: 5,683,993 shares, 2010: 5,715,891shares)	(1,727)	**(1,741)**	**(18,708)**
Total shareholders' equity	86,918	**84,159**	**904,454**
Valuation, Translation Adjustments and Others:			
Unrealized holding gains on securities, net of taxes	182	**2,352**	**25,276**
Foreign currency translation adjustments	(489)	**(499)**	**(5,368)**
Valuation, Translation Adjustments and Others	(306)	**1,853**	**19,908**
Minority Interests	416	**403**	**4,332**
Total net assets	87,027	**86,415**	**928,694**
Total liabilities and net assets	¥ 147,779	¥ **159,733**	$ **1,716,636**

These accompanying notes are an integral part of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2009 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2009	**2010**	**2010**
Net Sales	¥ 162,735	¥ **95,517**	$ **1,026,507**
Cost of Sales (Note 12)	146,802	**90,423**	**971,767**
Gross profit	15,933	**5,094**	**54,740**
Selling, General and Administrative Expenses (Note 12)	10,785	**9,040**	**97,148**
Operating income	5,148	**(3,946)**	**(42,408)**
Other Income:			
Interest and dividends	282	**144**	**1,551**
Other	539	**1,005**	**10,800**
	821	**1,149**	**12,351**
Other Expenses:			
Interest	(576)	**(554)**	**(5,953)**
Other	(594)	**(281)**	**(3,028)**
	(1,170)	**(835)**	**(8,981)**
Ordinary income	4,799	**(3,632)**	**(39,038)**
Extra-ordinary:			
Loss on sale and disposition of property, plant and equipment	(1,188)	**(250)**	**(2,685)**
Loss on impairment of fixed assets	(108)	—	—
Gain on sale of investments in securities and others	(323)	**35**	**380**
Loss on devaluation of investments in securities and others	(3,152)	**(153)**	**(1,646)**
Allowance for doubtful accounts	—	**(66)**	**(715)**
Reversal of allowance for doubtful accounts	31	—	—
Expenses for loss on guarantees	—	**(197)**	**(2,113)**
	(4,740)	**(631)**	**(6,779)**
Income before income taxes and minority interests	59	**(4,263)**	**(45,817)**
Income Taxes (Note 10):			
Current	1,684	**94**	**1,009**
Deferred	(636)	**(1,762)**	**(18,939)**
	1,048	**(1,668)**	**(17,930)**
Minority Interests in Net Income (Loss) of Consolidated Subsidiaries	34	**(10)**	**(111)**
Net income (Loss)	¥ (1,023)	¥ **(2,585)**	$ **(27,776)**

	Yen		U.S. Dollars (Note 3)
	2009	**2010**	**2010**
Per Share:			
Net income (Loss) (Note 13)	¥ (6.32)	¥ **(16.01)**	$ **(0.17)**
Cash dividends	¥ 5.00	¥ **—**	$ **—**
Net assets	¥ 536.49	¥ **532.88**	$ **5.73**

These accompanying notes are an integral part of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2009

	Number of outstanding common shares	Millions of Yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at March 31, 2008:	167,124,036	¥ 20,183	¥ 22,594	¥ 48,523	¥ (720)
Decrease in retained earnings from change in accounting treatment by consolidated overseas subsidiaries	—	—	—	(7)	—
Change for this fiscal 2008					
Net income	—	—	—	(1,023)	—
Cash dividends paid	—	—	—	(1,624)	—
Acquisition of treasury stock	—	—	—	—	(1,031)
Disposal of treasury stock	—	—	(1)	—	24
Other change for fiscal 2008, net	—	—	—	—	—
Total change for this fiscal 2008	—	—	(1)	(2,647)	(1,007)
Balance at March 31, 2009:	167,124,036	¥ 20,183	¥ 22,593	¥ 45,869	¥ (1,727)

	Millions of Yen				
	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2008:	¥ 1,357	¥ (1)	¥ 32	¥ 491	¥ 92,459
Decrease in retained earnings from change in accounting treatment by consolidated overseas subsidiaries	—	—	—	(2)	(9)
Change for this fiscal 2008					
Net income	—	—	—	—	(1,023)
Cash dividends paid	—	—	—	—	(1,624)
Acquisition of treasury stock	—	—	—	—	(1,031)
Disposal of treasury stock	—	—	—	—	23
Other change for fiscal 2008, net	(1,175)	1	(521)	(73)	(1,768)
Total change for this fiscal 2008	(1,175)	1	(521)	(73)	(5,423)
Balance at March 31, 2009:	¥ 182	¥ —	¥ (489)	¥ 416	¥ 87,027

These accompanying notes are an integral part of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2010

	Number of outstanding common shares	Millions of Yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at March 31, 2009:	**167,124,036**	**¥ 20,183**	**¥ 22,593**	**¥ 45,869**	**¥ (1,727)**
Net income	—	—	—	**(2,585)**	**—**
Cash dividends paid	—	—	—	**(161)**	**—**
Acquisition of treasury stock	—	—	—	—	**(23)**
Disposal of treasury stock	—	—	**1**	—	**9**
Other change for fiscal 2009, net	—	—	—	—	**—**
Total change for this fiscal 2009	—	—	**1**	**(2,746)**	**(14)**
Balance at March 31, 2010:	**167,124,036**	**¥ 20,183**	**¥ 22,594**	**¥ 43,123**	**¥ (1,741)**

	Millions of Yen				
	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2009:	**¥ 182**	**¥** —	**¥ (489)**	**¥ 416**	**¥ 87,028**
Net income	—	—	—	—	**(2,585)**
Cash dividends paid	—	—	—	—	**(161)**
Acquisition of treasury stock	—	—	—	—	**(24)**
Disposal of treasury stock	—	—	—	—	**11**
Other change for fiscal 2009, net	**2,170**	—	**(10)**	**(13)**	**2,146**
Total change for this fiscal 2009	**2,170**	—	**(10)**	**(13)**	**(613)**
Balance at March 31, 2010:	**¥ 2,352**	**¥** —	**¥ (499)**	**¥ 403**	**¥ 86,415**

These accompanying notes are an integral part of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2010

	Number of outstanding common shares	Thousands of U.S. Dollars (Note3)			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at March 31, 2009:	**167,124,036**	**$ 216,902**	**$ 242,804**	**$ 492,953**	**$ (18,557)**
Net income	—	—	—	**(27,776)**	—
Cash dividends paid	—	—	—	**(1,735)**	—
Acquisition of treasury stock	—	—	—	—	**(253)**
Disposal of treasury stock	—	—	**15**	—	**102**
Other change for fiscal 2009, net	—	—	—	—	—
Total change for this fiscal 2009	—	—	**15**	**(29,511)**	**(151)**
Balance at March 31, 2010:	**167,124,036**	**$ 216,902**	**$ 242,819**	**$ 463,442**	**$ (18,708)**

	Thousands of U.S. Dollars (Note3)				
	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2009:	**$ 1,952**	**$ —**	**$ (5,249)**	**$ 4,472**	**$ 935,277**
Net income	—	—	—	—	**(27,776)**
Cash dividends paid	—	—	—	—	**(1,735)**
Acquisition of treasury stock	—	—	—	—	**(253)**
Disposal of treasury stock	—	—	—	—	**116**
Other change for fiscal 2009, net	**23,324**	—	**(119)**	**(140)**	**23,065**
Total change for this fiscal 2009	**23,324**	—	**(119)**	**(140)**	**(6,583)**
Balance at March 31, 2010:	**$ 25,276**	**$ —**	**$ (5,368)**	**$ 4,332**	**$ 928,694**

These accompanying notes are an integral part of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2009 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2009	**2010**	**2010**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 59	**¥ (4,263)**	**$ (45,817)**
Adjustments -			
Depreciation and amortization	8,934	**9,376**	**100,760**
Loss on impairment of fixed assets	108	—	—
(Decrease) Increase in allowance for doubtful accounts	(31)	**66**	**714**
Provision for (Reversal of) accrued employees' retirement benefits, less payments	(132)	**327**	**3,513**
Increase in prepaid pension cost	62	**208**	**2,239**
Provision for accrued directors' retirement benefits, less payments	(7)	**10**	**111**
Expenses for loss on guarantees	—	**197**	**2,113**
Interest and dividends income	(282)	**(144)**	**(1,551)**
Interest expenses	576	**554**	**5,953**
Gain on sale of investments in securities	(42)	**(36)**	**(384)**
Loss on devaluation of investments in securities	3,021	**148**	**1,592**
Loss on sale and disposition of property, plant and equipment	1,188	**250**	**2,685**
Loss on devaluation of property, plant and equipment	81	—	—
Changes in assets and liabilities:			
Notes and accounts receivable, trade	15,292	**(23,175)**	**(249,061)**
Inventories	7,275	**6,846**	**73,570**
Notes and accounts payable, trade	(12,190)	**5,879**	**63,185**
Other, net	966	**(931)**	**(10,002)**
Sub-total	24,878	**(4,688)**	**(50,380)**
Interest and dividends income received	281	**131**	**1,403**
Interest expenses paid	(535)	**(577)**	**(6,202)**
Income taxes paid	(4,816)	**(136)**	**(1,462)**
Net cash provided by (used in) operating activities	19,808	**(5,270)**	**(56,641)**
Cash Flows from Investing Activities:			
Payments for purchases of property, plant and equipment	(9,308)	**(10,105)**	**(108,595)**
Payments for purchases of intangible assets	(156)	**(71)**	**(767)**
Collections from sale of investments in securities	57	**48**	**512**
Decrease in long-term loans	103	**64**	**694**
Other, net	(135)	**(303)**	**(3,260)**
Net cash used in investing activities	(9,439)	**(10,367)**	**(111,416)**
Cash Flows from Financing Activities:			
Increase in short-term loans	17,900	**3,063**	**32,915**
Decrease in Commercial papers	(2,500)	—	—
Proceeds from long-term debt	4,000	**2,400**	**25,793**
Repayment of long-term debt	(9,317)	**(79)**	**(850)**
Payments for purchases of treasury stock	(1,030)	**(24)**	**(253)**
Proceeds from sales of treasury stock	23	**11**	**116**
Cash dividends	(1,624)	**(161)**	**(1,735)**
Cash dividends to minority shareholders	(7)	**(11)**	**(112)**
Proceeds from issuance of common stock to minority shareholders	—	—	—
Net cash provided by financing activities	7,445	**5,199**	**55,874**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(291)	**26**	**277**
Net (Decrease) Increase in Cash and Cash Equivalents	17,523	**(10,413)**	**(111,906)**
Cash and Cash Equivalents at Beginning of the Year	4,945	**22,468**	**241,464**
Cash and Cash Equivalents at End of the Year (Note 14)	¥ 22,468	**¥ 12,055**	**$ 129,558**

These accompanying notes are an integral part of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

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 (the group referred to herein as "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 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.

Effected April 1, 2008, the companies adopted the new accounting standard, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Practical Issues Task Force No.18 issued by the Accounting Standards Board of Japan) (=PITF No.18). It requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transaction and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No.18, however, as a tentative measure, allows a parent company financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following six items are required in the consolidation process so that their impact on net income are accounted for in accordance with Japanese GAAP unless the impact is not material.

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets
(e) Retrospective treatment of a change in accounting policies
(f) Accounting for net income attributable to minority interests

And, this effect is immaterial.

2. Summary of Significant Accounting Policies:

(1) Consolidation and investments in affiliates -

(a) Scope of consolidation and elimination

The Company has 9 subsidiaries as of March 31, 2010 (11 subsidiaries as of March 31, 2009). The consolidated financial statements include the accounts of the Company and 9 of its significant subsidiaries. The 9 significant subsidiaries that have been consolidated for 2010 are listed below:

Yohkoh Bussan Co., Ltd.
Santoku Seiken Co., Ltd.
Santoku Kogyo Co., Ltd.
Santoku Tech Co., Ltd.
Santoku Computer Service Co., Ltd.
SKJ Metal Industries Co., Ltd.
P.T. Sanyo Special Steel Indonesia
Sanyo Special Steel U.S.A., Inc.
Ningbo Sanyo Special Steel Products Co., Ltd.

Sanyo Special Steel U.S.A., Inc. merged Sanyo Special Steel America Corporation in December 2008.

Santoku Kogyo Co., Ltd. merged Santoku Life Co., Ltd. in January 2009.

The consolidated subsidiaries, except for the 4 foreign consolidated subsidiaries (SKJ Metal Industries Co., Ltd., P.T. Sanyo Special Steel Indonesia, Sanyo Special Steel U.S.A., Inc. and Ningbo Sanyo Special Steel Products Co., Ltd.), use a fiscal year ending March 31, which is the same as that of the Company. The 4 foreign consolidated subsidiaries use a fiscal year ending December 31. For these subsidiaries, certain adjustments are made, if appropriate, in preparing the consolidated financial statements to reflect material transactions which occurred during the period from January 1 to March 31.

(b) Investments in affiliates

Investments in affiliates in which the Companies have significant influence are accounted for under the equity method.

Investments in Advanced Green Components, LLC is accounted to prepare consolidated financial statements using foreign subsidiaries' for under the equity method.

Because there is neither the unconsolidated subsidiary nor related companies excluding Advanced Green Components, LLC, the equity method has not been applied to the investments in another affiliate in the consolidated financial statements.

(2) Foreign currency translation -

Foreign currency transactions are translated into Japanese yen at the exchange rates prevailing at the respective transaction dates. All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the each balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

All assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing at the each balance sheet date. All income and expense accounts for the year are also translated at those rates. These differences are recorded as foreign currency translation adjustments.

(3) Securities -

The accounting standard for financial instruments (“Accounting Standards for Financial Instruments”(Statement No.10 issued by the Accounting Standards Board of Japan)) requires that securities be classified into 4 categories: trading securities, held-to-maturity debt securities, the equity securities issued by subsidiaries and affiliates or available-for-sale securities. Securities that the company has are all classified into available-for-sale securities besides the equity securities issued by subsidiaries and affiliates.

Under the standard, marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, are included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost. Declines in the value of available-for-sale securities are reflected in current profit or loss unless deemed to be temporary. Cost of securities sold is determined by the moving average method.

(4) Derivative Transactions -

The Companies use foreign exchange forward contracts and interest rate swap to reduce its exposure to market risks from fluctuations in foreign currency and interest rates. The Company does not hold or issue financial derivative instruments for trading purpose.

With regards to foreign exchange forward contracts, unrealized gains/losses of derivative transactions are recognized in the consolidated statements of operations.

With regards to interest rate swap transactions, the Companies use the deferral method based on the short-cut method assuming that there is no ineffectiveness in the hedging relationship between hedged items and hedging instruments, if the criteria for short-cut method are met. If the criteria for hedge accounting are met, even though those for short-cut method are not met, the Companies use the deferral method for interest rate swap transactions.

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 difference between the two.

(5) Inventories -

Inventories are stated at the lower of weighted-average cost or net realizable value at March 31, 2010.

Change in accounting policy

Prior to April 1, 2008, inventories are stated at cost determined by moving average method.

Effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted a new accounting standard for measurement of inventories and stated the inventories at the lower of weighted-average cost or net realizable value at March 31, 2009 with “Accounting Standard for measurement of Inventories” (Statement No.9 issued by the Accounting Standards Board of Japan). As result of this change, income before income taxes and minority interest decreased by ¥4,358 million for the year ended March 31, 2009.

(6) Depreciation and amortization -

The Company has computed the depreciation using the straight-line method for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), which have been acquired on or after April 1, 1998. The Companies has computed the depreciation using the declining-balance method for property, plant and equipment other than those described above. Effective April 1, 2007, due to the amendment of the Corporation Tax Code of Japan, amounts of depreciation limit (5% of acquisition costs) of tangible fixed assets acquired by the Company and consolidated domestic subsidiaries before April 1, 2007 are recognized as depreciation equally over five years commencing from the later of the year ended March 31, 2008 or the year immediately following the year in which depreciation has been recognized up to the depreciation limit.

Change in accounting policy

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

Prior to April 1, 2008, depreciation of tools at No. 2 Melt Shop and No. 2 Bar, Wire Rod and Wire Mill Shop are computed on the straight-line method. Effective April 1, 2008 depreciation of structures, machinery, equipment, vehicles and tools at No. 2 Melt Shop and No. 2 Bar, Wire Rod and Wire Mill Shop are changed computing on the declining-balance method. At the Seventh Medium-term Consolidated Business Plan which started April 1, 2008, the companies plan large capital investment, so reconsider depreciation and fined financial condition by advancing payback of invested capital and express proper financial condition. As a result of this change, income before income taxes and minority interests decreased by ¥761 million for the year ended March 31, 2009.

Additional information

Effective April 1, 2008, the Company and consolidated domestic subsidiaries changed useful lives of property, plant and equipment. This change is taking the revised Corporation Tax Law of Japan opportunity. As a result of this change, income before income taxes and minority interests decreased by ¥252 million for the year ended March 31, 2009.

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

(7) Research and development costs -

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

(8) Allowance for doubtful accounts -

The allowance for doubtful accounts is provided at the amount, which is calculated based on the past loss experience, plus the amount estimated to be uncollectible on an individual account basis.

(9) Accrued employees' retirement benefits -

Employees whose service with the Company and its principal consolidated subsidiaries are terminated, under most circumstances, are entitled to retirement benefits determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur.

Accrued employees’ retirement benefits are based on the actuarial valuation of the projected benefit obligation and the fair value of the plan assets. Prior service costs are amortized on a straight-line basis over the period of 10 years from the year when they arise. Actuarial differences are amortized on a straight-line basis over the period of 10 years from the year next to the year when they arise.

Change in accounting policy

Effective from the fiscal year ended March 31, 2010, the Company and consolidated domestic subsidiaries adopted the “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (Accounting Standards Board of Japan (“ASBJ”) Statement No.19 issued on July 31, 2008). The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. This change had no material impact on the consolidated financial statements for the year ended March 31, 2010.

(10) Accrued directors' retirement benefits -

As is a customary practice in Japan, the Company provides for lump-sum payments to retiring directors and corporate auditors, the amount of which is determined by reference to the Company’s internal rules. The amounts of such retirement payments are subject to approval by the shareholders at the time of an individual director’s or corporate auditor’s resignation or retirement.

(11) Provision for loss on guarantees

The provision for loss on guarantees is stated as an estimated cost at the end of the fiscal year.

(12) Provision for Environmental Measures

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

(13) Income taxes -

The Companies adopt deferred tax accounting for preparation of consolidated financial statements. Deferred taxes are determined using the asset and liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements.

(14) Revenue recognition -

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

(15) Finance leases -

Change in accounting policy

Effected April 1, 2008, the companies adopted the new accounting standard "Accounting Standard for Lease Transactions" and "Guidance on Accounting Standard for Lease Transactions" (Statement No.13 and Guidance No.16 issued by the Accounting Standards Board of Japan)

There is no effect of applying it on the consolidated financial statements. Leases acquired before April 1, 2008 are accounted for as There is no effect of applying it on the consolidated financial statements.

Leases acquired before April 1, 2008 are accounted for as operating leases in succession.

(16) Net income and cash dividends per share -

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

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

(17) Cash and cash equivalents -

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

(18) Consumption tax -

In Japan, a consumption tax, with certain exemptions, is imposed on domestic consumption of goods and services at the rate of 5%. The consumption tax imposed on the Company and its domestic subsidiaries sales to customers is withheld at the time of sale and is subsequently paid to the national government. The consumption tax withheld upon sale is not included in the amount of "net sales" in the consolidated statements of operations but is recorded as liabilities. The consumption tax imposed on the purchases of products, merchandise and services from vendors borne by the Company and its domestic subsidiaries, is not included in the amounts of costs and expenses but is recorded as assets. The balance of consumption tax withheld, netted of consumption tax paid, is included in "Other current liabilities" in the consolidated balance sheets.

(19) Reclassifications and restatement -

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

3. U.S. Dollar Amounts:

The U.S. dollar amounts stated in the consolidated financial statements 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 ¥93.05 = U.S.$1, the approximate rate of exchange as at March 31, 2010, has been used for the purpose of such translations.

4. Financial Instruments:

Additional information

Effective from the fiscal year ended March 31, 2010, the Companies adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Statement No.10 issued by the Accounting Standards Board of Japan revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (Guidance No.19 issued by the Accounting Standards Board of Japan). Information on financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is as follows.

(1) Status of financial instruments -

The Companies procure funds required in light of our business plan through bank loans, and temporary surplus funds are to be utilized in short-term bank deposits etc., with low probabilities of losses of principals. The Companies utilize derivative transactions mainly for the interest rate fluctuation risk hedging purpose and limit the amount to actual demand.

Notes and accounts receivables are exposed to the credit risks in relation to customers. In order to reduce such risks, the Companies regularly monitor the maturity dates and the balances of receivables of all customers' accounts, and grasp the main customers' credit risk due to deterioration of the financial situation etc., according to the company regulation. Besides, notes and accounts receivables denominated in foreign currencies are exposed to the exchange rate risks. The Companies reduce such risks by settling both notes and accounts receivables and notes and accounts payables with the same foreign currencies.

Investments in securities which are mainly shares in business relation with us are exposed to the exchange market price risks. The Companies regularly review the fair value or financial positions of the invested companies and revise the portfolio considering the relationship with them.

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

Bank loans are primarily for funding related to operating and investing activities. Bank loans with variable interest rates are exposed to the interest rate fluctuation risks. The Companies reduce such risks about long-term debt among them by interest rate swap contracts.

The Companies establish the company regulation which stipulate the authorization of the derivative transactions, and manage the derivative transactions according to that. See the notes on "2(4) Derivative Transactions" about hedge accounting.

Notes and accounts payable and bank loans are exposed to the liquidity risks. The Companies reduce such risks by making monthly cash flow plan. Besides, the Company concludes the specific credit line contract in preparation for the contingency.

Fair values of financial instruments include the values based on market prices, and the values deemed as market prices obtained by the reasonable estimate when the financial instruments do not have market prices. Since certain assumptions and others are adopted for calculating such values, they may differ when adopting different assumptions and others.

(2) Fair values of financial instruments -

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2010 are as follows. Certain financial instruments are excluded from the following table as the fair values are not available (see Note 2 below).

	Millions of Yen			Thousands of U.S. Dollars		
	Book value	Fair values	Difference	Book value	Fair values	Difference
(1) Cash and bank deposits	¥ 12,062	¥ 12,062	¥ —	$ 129,624	$ 129,624	$ —
(2) Notes and accounts receivable, trade	¥ 37,628	¥ 37,628	¥ —	$ 404,382	$ 404,382	$ —
(3) Investments in securities						
Available-for-sale securities	¥ 8,145	¥ 8,145	¥ —	$ 87,530	$ 87,530	$ —
(4) Notes and accounts payable, trade	¥ (10,724)	¥ (10,724)	¥ —	$ (115,247)	$ (115,247)	$ —
(5) Short-term loans	¥ (32,595)	¥ (32,595)	¥ —	$ (350,301)	$ (350,301)	$ —
(6) Long-term debt	¥ (15,400)	¥ (15,515)	¥ △115	$ (165,502)	$ (166,738)	$ △1,236
(7) Derivative Transactions						
①Hedging accounting is not applied	¥ (0)	¥ (0)	¥ —	$ (0)	$ (0)	$ —
②Hedging accounting is applied	¥ —	¥ —	¥ —	$ —	$ —	$ —

(※) The debt is displayed by ( ).

1. The method of estimating fair values of financial instruments and matters about investment in securities and derivative transactions.

(1) Cash and bank deposits and (2) Notes and accounts receivable, trade

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

(3) Investments in securities

The market prices and quoted prices are used for shares.

See the notes on "5. Securities."

(4) Notes and accounts payable, trade and (5) Short-term loans

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

Short-term loans payable contains Current portion of long-term debt.

(6) Long-term debt

The discount cash flow method is used to estimate fair values of long-term debt, based on marginal borrowing rates as discount rate.

(7) Derivative transaction

See the notes on "16. Derivatives".

2. The financial instruments excluded from the table are Non-listed equity securities of ¥583 million ($6,276 thousand). These instruments are not included in Investment in securities (Available-for sale securities) as the fair values are not available.

3. The aggregate maturities subsequent to March 31, 2010 for financial assets with maturity are as follows:

	Millions of Yen			
	Within 1 year	Within 5 years of 1 year or more	Within 10 years of 5 year or more	Ten years or more
Cash and cash bank deposits	¥ 12,062	¥ —	¥ —	¥ —
Notes and account receivable, trade	¥ 37,628	¥ —	¥ —	¥ —
Total	¥ 49,690	¥ —	¥ —	¥ —

	Thousands of U.S. Dollars			
	Within 1 year	Within 5 years of 1 year or more	Within 10 years of 5 year or more	Ten years or more
Cash and cash bank deposits	$ 129,624	$ —	$ —	$ —
Notes and account receivable, trade	$ 404,382	$ —	$ —	$ —
Total	$ 534,006	$ —	$ —	$ —

4. The aggregate maturities subsequent to March 31, 2010 for long-term debt and other interest-bearing debt are as follows:

	Millions of Yen			
	Within 1 year	Within 5 years of 1 year or more	Within 10 years of 5 year or more	Ten years or more
Long-term debt	¥ —	¥ **15,400**	¥ —	¥ —
Other interest-bearing debt	¥ **15**	¥ **60**	¥ **69**	¥ **3**
Total	¥ **15**	¥ **15,460**	¥ **69**	¥ **3**

	Thousands of U.S. Dollars			
	Within 1 year	Within 5 years of 1 year or more	Within 10 years of 5 year or more	Ten years or more
Long-term debt	$ —	$ **165,502**	$ —	$ —
Other interest-bearing debt	$ **161**	$ **646**	$ **737**	$ **36**
Total	$ **161**	$ **166,148**	$ **737**	$ **36**

5. Securities:

(1) The aggregate acquisition cost and fair value (carrying value) of marketable securities classified as other securities as of March 31, 2009 and 2010 are as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2009			**2010**			**2010**		
	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Stock	¥ 1,563	¥ 1,869	¥ 306	¥ **4,534**	¥ **7,384**	¥ **2,850**	$ **48,727**	$ **79,359**	$ **30,632**
Securities whose acquisition cost exceeds their carrying value:									
Stock	¥ 3,880	¥ 3,834	¥ (46)	¥ **829**	¥ **760**	¥ **(69)**	$ **8,907**	$ **8,171**	$ **(737)**
Total	¥ 5,443	¥ 5,703	¥ 260	¥ **5,363**	¥ **8,144**	¥ **2,781**	$ **57,634**	$ **87,530**	$ **29,895**

The Companies recognize impairment losses on other 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. Impairment loss recognized for the year ended March 31, 2009 was ¥3,021 million, for the year ended March 31, 2010 is ¥148 million ($1,591 thousand)

(2) For the year ended March 31, 2009, sales of other securities amounted to ¥59 million with gross realized gains on those sales of ¥42 million. For the year ended March 31, 2010, sales of other securities amounted to ¥49 million ($525 thousand) with gross realized gains on those sales of ¥36 million ($384 thousand).

(3) Carrying values of other securities without quoted market prices as of March 31, 2009 and 2010 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Other securities			
Unlisted securities	¥ 664	¥ **584**	$ **6,276**

Impairment loss recognized for the year ended March 31, 2010 was ¥80 million ($862 thousand).

6. Inventories:

Inventories held by the Companies at March 31, 2009 and 2010 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Merchandise	¥ 1,360	¥ **1,237**	$ **13,298**
Finished products	5,949	**5,199**	**55,876**
Work-in-process	18,130	**15,650**	**168,189**
Raw materials and Supplies	13,926	**10,489**	**112,721**
Total	¥ 39,365	¥ **32,575**	$ **350,084**

7. Assets Pledged as Collateral:

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2009 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Assets pledged as collateral:			
Land	¥ 4,595	**¥ 4,595**	**$ 49,378**
Buildings and structures	5,435	**4,957**	**53,274**
Machinery and equipment	5,865	**4,413**	**47,431**
	¥ 15,895	**¥ 13,965**	**$ 150,083**
Secured liabilities:			
Long-term debt (including those due within one year)	14,000	**16,400**	**176,249**
	¥ 14,000	**¥ 16,400**	**$ 176,249**

8. Short-term Loans and Long-term Debt:

Short-term loans at March 31, 2009 and 2010 represent bank overdrafts bearing with a weighted-average interest rate of 1.17% and 0.63%, respectively. It is normal business custom in Japan for short-term borrowings to be rolled over each year. The Company has entered into line of credit agreements for short-term financing arrangements with 8 financial institutions for an aggregated maximum amount of ¥25,000 million ($268,673 thousand). At March 31 2010, there is unused credit line of ¥25,000 million ($268,673 thousand).

Long-term debt at March 31, 2009 and 2010, consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Loans from banks and other financial institutions due 2009 to 2013 with interest rates ranging from 1.10% to 4.59% at March 31, 2009 and due 2010 to 2013 with interest rates ranging from 0.70% to 4.59% at March 31, 2010	¥ 14,157	**¥ 16,480**	**$ 177,112**
Other payables due 2009 to 2021 with interest of 4.05% at March 31, 2009 and due 2010 to 2021 with interest of 4.05% at March 31, 2010	162	**147**	**1,580**
	14,319	**16,627**	**178,692**
Less: Current portion of long-term debt	(93)	**(1,095)**	**(11,771)**
	¥ 14,226	**¥ 15,532**	**$ 166,921**

The annual maturities of long-term debt outstanding at March 31, 2010 are as follows:

Year ending at March 31,	Millions of Yen	Thousands of U.S. Dollars
2011	**¥ 1,095**	**$ 11,771**
2012	**4,015**	**43,149**
2013	**4,015**	**43,149**
2014	**5,015**	**53,896**
2015 and thereafter	**2,487**	**26,727**
	¥ 16,627	**$ 178,692**

9. Retirement benefits:

The Company and certain consolidated subsidiaries have severance indemnity plans and defined contribution pension plans. Certain consolidated subsidiaries have severance indemnity plans.

(1) Funded status of retirement benefit obligation at March 31, 2009 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Projected benefit obligation	¥ (8,476)	**¥ (8,372)**	**$ (89,972)**
Plan assets at fair value	5,651	**7,905**	**84,957**
Unfunded projected benefit obligation	(2,825)	**(467)**	**(5,015)**
Unrecognized actuarial loss	4,588	**1,645**	**17,679**
Unrecognized prior service costs	(196)	**(147)**	**(1,579)**
Net of Accrued employees' retirement benefits recognized in the consolidated balance sheets	1,567	**1,031**	**11,085**
Prepaid pension cost	2,433	**2,224**	**23,910**
Accrued employees' retirement benefits recognized in the consolidated balance sheets	¥ (866)	**¥ (1,193)**	**$ (12,825)**

Consolidated subsidiaries have adopted a simplified method to calculate their projected benefit obligation, which is permitted under the accounting standard for retirement benefits in Japan.

(2) Components of net retirement benefit expenses for the years ended March 31, 2009 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Service cost	¥ 425	**¥ 378**	**$ 4,059**
Interest cost	229	**226**	**2,432**
Expected return on plan assets	(138)	**(50)**	**(533)**
Amortization of prior service costs	(49)	**(49)**	**(526)**
Amortization of actuarial loss	98	**529**	**5,681**
Payments for the defined contribution pension plans	184	**184**	**1,980**
Total	¥ 749	**¥ 1,218**	**$ 13,093**

Expenses for employees' retirement benefits of consolidated subsidiaries is included in the service cost.

(3) Assumptions used in the calculation of retirement benefit obligations, for the years ended March 31, 2009 and 2010 are as follows:

	2009	**2010**
Discount rate	2.8%	**2.8%**
Expected rate of return on plan assets	1.4%	**0.9%**
Method of attributing the projected benefits to periods of service	Straight-line basis	**Straight-line basis**
Amortization period for unrecognized prior service costs	10 years	**10 years**
Amortization period for unrecognized actuarial differences	10 years	**10 years**

10. Income Taxes:

The Company is subject to a number of different income taxes which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 40.6% for the years ended March 31, 2009 and 2010, respectively. At March 31, 2009 and 2010, significant components of deferred tax assets and liabilities are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Deferred tax assets:			
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trust	¥ 2,961	**¥ 2,961**	**$ 31,826**
Devaluation loss on Inventories	1,769	**382**	**4,108**
Accrued bonuses	703	**550**	**5,911**
Devaluation loss on marketable securities	1,243	**1,252**	**13,458**
Accrued employees' retirement benefits	650	**810**	**8,707**
Tax losses carried forward	553	**3,948**	**42,429**
Unrealized intercompany profit eliminated in consolidation	189	—	—
Allowance for doubtful accounts	143	**165**	**1,766**
Provision for environmental measures	153	**153**	**1,640**
Other	940	**1,083**	**11,641**
Gross deferred tax assets	9,304	**11,304**	**121,486**
Less: Valuation allowance	(2,263)	**(2,357)**	**(25,330)**
Total deferred tax assets	¥ 7,041	**¥ 8,947**	**$ 96,156**
Deferred tax liabilities:			
Unrealized holding gains on securities	¥ (79)	**¥ (430)**	**$ (4,619)**
Gain on contribution of certain marketable securities to employee retirement benefit trust	(1,597)	**(1,597)**	**(17,167)**
Reserve for postponement of taxation on capital gains from property, plant and equipment	(1,240)	**(1,383)**	**(14,864)**
Prepaid pension cost	(988)	**(903)**	**(9,707)**
Reserve for special depreciation	(23)	**(64)**	**(691)**
Other	(318)	**(365)**	**(3,918)**
Gross deferred tax liabilities	(4,245)	**(4,742)**	**(50,966)**
Net deferred tax assets	¥ 2,796	**¥ 4,205**	**$ 45,190**

The reconciliation between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2009 is as follows:

Statutory income tax rate	40.6%
Add (Deduct)	
Non deductible expenses, including entertainment expenses	86.0
Non taxable income, including dividend income	(127.0)
Equalization tax	31.0
Increase in valuation allowance	2,035.0
Other	(296.2)
Effective income tax rate	1,769.4%

The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2010, is not required to be disclosed due to the insignificance of the differences.

11. Net Assets:

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, 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. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, 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 the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 26, 2009, the shareholders approved cash dividends amounting to ¥161 million.

There is no cash dividend in the consolidated financial statements as of March 31, 2010.

12. Research and Development Costs:

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2009 and 2010 totaled ¥1,443 million and ¥1,610 million ($17,300 thousand), respectively.

13. Net income per share:

Basis for calculations of net income (loss) per share for the years ended March 31, 2009 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Net income (loss)	¥ (1,023)	**¥ (2,585)**	**$ (27,776)**
Net income (loss) for common stockholders	¥ (1,023)	**¥ (2,585)**	**$ (27,776)**

	Thousands of shares	
	2009	**2010**
The weighted-average number of shares of common stock	161,764	**161,434**

	Yen		U.S. Dollars
	2009	**2010**	**2010**
Net income (loss) per share	¥ (6.32)	**¥ (16.01)**	**$ (0.17)**

The Companies have no dilutive securities for the years ended March 31, 2009 and 2010.

14. Cash and Cash Equivalents:

Cash and cash equivalents at March 31, 2009 and 2010 consist of:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Cash and bank deposits	¥ 22,474	**¥ 12,062**	**$ 129,624**
Time deposits with deposit term of over 3 months	(6)	**(6)**	**(66)**
Cash and cash equivalents	¥ 22,468	**¥ 12,056**	**$ 129,558**

15. Accounting for Leases:

(1) Finance lease -

We describe what leased before April 1, 2008. As for them, the accounting treatment is done based on usual letting and hiring dealings.

As a lessee

As described in note 2(15), finance leases of the Companies, other than those where ownership of the leased assets are transferred to the lessee, are accounted as buying and selling trade. Leases acquired before April 1, 2008 are accounted for as operating leases. Periodic lease charges to the Companies, which were charged to profit or loss for the years ended March 31, 2009 and 2010 are ¥266 million and ¥217 million ($2,333 thousand).

The leased assets under financial leases, if capitalized, at March 31, 2009 and 2010 comprise the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2009		**2010**		**2010**	
	Machinery and vehicles	Other	Machinery and vehicles	Other	Machinery and vehicles	Other
Acquisition cost	¥ 1,536	¥ 330	**¥ 1,517**	**¥ 268**	**$ 16,303**	**$ 2,872**
Accumulated depreciation	697	204	**837**	**201**	**8,991**	**2,155**
Net book value	¥ 839	¥ 126	**¥ 680**	**¥ 67**	**$ 7,312**	**$ 717**

Depreciation expenses of those leased assets for the years ended March 31, 2009 and 2010, which are computed by the straight line method over the periods of those finance leases with no residual value, are ¥266 million and ¥217 million ($2,333 thousand), respectively.

The amounts of outstanding future lease payments due at March 31, 2009 and 2010, which include the portion of interest thereon, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Due within one year	¥ 217	**¥ 199**	**$ 2,142**
Due after one year	747	**548**	**5,886**
Total	¥ 964	**¥ 747**	**$ 8,028**

(2) Non-cancelable operating leases -

As a lessee

The amounts of outstanding future lease payments under non-cancelable operating leases at March 31, 2009 and 2010, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Due within one year	¥ 17	**¥ 22**	**$ 236**
Due after one year	27	**12**	**128**
Total	¥ 44	**¥ 34**	**$ 364**

16. Derivatives:

(1) Derivatives transaction to which hedging accounting is not applied.

The contracted amount, fair value and unrealized gains/losses of the forward exchange contract recognized for the year ended March 31, 2009 was as follows:

	Millions of Yen		
	Contract Amount	Fair value	Unrealized Gains/losses
Forward exchange contract:			
Selling			
U.S. Dollars	¥ 4	¥ 4	¥ (0)
Japanese Yen	9	9	(0)
Total	¥ 13	¥ 13	¥ (0)
Buying			
U.S. Dollars	¥ 127	¥ 127	¥ (0)
Japanese Yen	81	81	(0)
Total	¥ 208	¥ 208	¥ (0)

The contracted amount, fair value and unrealized gains/losses of the forward exchange contract recognized for the year ended March 31, 2010 is as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Contract Amount	Fair value	Unrealized loss	Contract Amount	Fair value	Unrealized loss
Forward exchange contract:						
Buying						
U.S. Dollars	**¥ 137**	**¥ 137**	**¥ (0)**	**$ 1,467**	**$ 1,466**	**$ (1)**
Japanese Yen	**67**	**67**	**(0)**	**724**	**722**	**(1)**
Total	**¥ 204**	**¥ 204**	**¥ (0)**	**$ 2,191**	**$ 2,188**	**$ (2)**

(2) Derivatives transaction to which hedging accounting is applied.

Derivatives transaction to which hedging accounting is applied is as follows:

Method of hedging accounting	**Processing of exception of interest rate swap**
Kind of derivatives transaction	**Interest swap transaction** **Payment fixation, Receipt change**
The main hedged items	**Long-term debt**
Amount of contract	**¥10,500 ($112,843)**
1 year or more of amount of contract	**¥9,770 ($104,997)**
Fair value	※

※ Because the interest rate swap by the exception processing is processed the money borrowed for long term made a hedge object and on earth, the value at that time is included and described to the quotation of a long-term loan concerned.

17. Contingent Liabilities:

Guarantees against bank loans of employee and an affiliate at March 31, 2009 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	**2010**	**2010**
Employee	¥ 90	**¥ 79**	**$ 845**
Advanced Green Components, LLC	557	**367**	**3,944**
Total	¥ 647	**¥ 446**	**$ 4,789**

Notes-discounted with banks and notes-endorsed, as of March 31, 2009 and 2010, stand at ¥250 million and ¥124 million ($1,335 thousand), respectively. Notes-discounted with banks and notes-endorsed are netted against "Notes and accounts receivable, trade" in the consolidated balance sheets.

18. Segment Information:

(1) Industry segment information -

The industry segment information for the years ended March 31, 2009 and 2010 are as follows:

	For the year ended March 31, 2009					
	Millions of Yen					
	Specialty Steel	Formed & Fabricated Materials	Other	Total	Elimination and corporate assets	Consolidated total
(a) Sales and operating income:						
Net sales						
Outside customers	¥ 146,679	¥ 15,642	¥ 414	¥ 162,735	¥ —	¥ 162,735
Intersegment transactions	8,551	—	1,827	10,378	(10,378)	—
Total	155,230	15,642	2,241	173,113	(10,378)	162,735
Costs and expenses	150,267	15,589	2,175	168,031	(10,444)	157,587
Operating income	¥ 4,963	¥ 53	¥ 66	¥ 5,082	¥ 66	¥ 5,148
(b) Assets, depreciation, loss on impairment of fixed assets and capital expenditures:						
Assets	¥ 110,610	¥ 10,271	¥ 452	¥ 121,333	¥ 26,446	¥ 147,779
Depreciation	¥ 8,116	¥ 692	¥ 35	¥ 8,843	¥ (11)	¥ 8,832
Loss on impairment of fixed assets	¥ 77	¥ —	¥ 31	¥ 108	¥ —	¥ 108
Capital expenditures	¥ 9,039	¥ 840	¥ 3	¥ 9,882	¥ (19)	¥ 9,863

	For the year ended March 31, 2010					
	Millions of Yen					
	Specialty Steel	Formed & Fabricated Materials	Other	Total	Elimination and corporate assets	Consolidated total
(a) Sales and operating income:						
Net sales						
Outside customers	**¥ 84,489**	**¥ 10,969**	**¥ 59**	**¥ 95,517**	**¥ —**	**¥ 95,517**
Intersegment transactions	**7,410**	—	**866**	**8,276**	**(8,276)**	—
Total	**91,899**	**10,969**	**925**	**103,793**	**(8,276)**	**95,517**
Costs and expenses	**95,096**	**11,714**	**896**	**107,706**	**(8,243)**	**99,463**
Operating income	**¥ (3,197)**	**¥ (745)**	**¥ 29**	**¥ (3,913)**	**¥ (33)**	**¥ (3,946)**
(b) Assets, depreciation, loss on impairment of fixed assets and capital expenditures:						
Assets	**¥ 127,751**	**¥ 12,444**	**¥ 456**	**¥ 140,651**	**¥ 19,082**	**¥ 159,733**
Depreciation	**¥ 8,642**	**¥ 582**	**¥ 5**	**¥ 9,229**	**¥ (13)**	**¥ 9,216**
Loss on impairment of fixed assets	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Capital expenditures	**¥ 12,565**	**¥ 163**	**¥ 2**	**¥ 12,730**	**¥ (8)**	**¥ 12,722**

	Thousands of U.S. Dollars					
	Specialty Steel	Formed & Fabricated Materials	Other	Total	Elimination and corporate assets	Consolidated total
(a) Sales and operating income:						
Net sales						
Outside customers	**$ 907,996**	**$ 117,886**	**$ 625**	**$ 1,026,507**	**$ —**	**$ 1,026,507**
Intersegment transactions	**79,632**	—	**9,311**	**88,943**	**(88,943)**	—
Total	**987,628**	**117,886**	**9,936**	**1,115,450**	**(88,943)**	**1,026,507**
Costs and expenses	**1,021,990**	**125,898**	**9,621**	**1,157,509**	**(88,594)**	**1,068,915**
Operating income	**$ (34,362)**	**$ (8,012)**	**$ 315**	**$ (42,059)**	**$ (349)**	**$ (42,408)**
(b) Assets, depreciation, loss on impairment of fixed assets and capital expenditures:						
Assets	**$ 1,372,926**	**$ 133,734**	**$ 4,901**	**$ 1,511,561**	**$ 205,075**	**$ 1,716,636**
Depreciation	**$ 92,879**	**$ 6,250**	**$ 55**	**$99,184**	**$ (139)**	**$99,045**
Loss on impairment of fixed assets	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Capital expenditures	**$ 135,029**	**$ 1,750**	**$ 24**	**$ 136,803**	**$ (83)**	**$ 136,720**

(2) Geographical segment information -

As Japan, which consisted of Sanyo Special Steel Co., Ltd. and its domestic consolidated subsidiaries, represented more than 90% of the Companies' combined assets as of March 31, 2009 and 2010, and combined sales for the years then ended, the Companies are not required to disclose the geographical segment information.

(3) Overseas sales -

Overseas sales information for the years ended March 31, 2009 and 2010 are as follows:

	For the year ended March 31, 2009				
	Millions of Yen				
	Asia	North America	Europe	Others	Total
Overseas sales (A)	¥ 19,862	¥ 3,920	¥ 2,973	¥ 273	¥ 27,028
Consolidated sales (B)	—	—	—	—	¥ 162,375
(A) / (B)	12.2%	2.4%	1.8%	0.2%	16.6%

Note to overseas sales:

Principal countries in each area where customers are located are as follows:

Asia : Taiwan, Korea, China, Thailand, India
North America : U.S.A.
Europe : Germany, Norway, Turkey

	For the year ended March 31, 2010				
	Millions of Yen				
	Asia	North America	Europe	Others	Total
Overseas sales (A)	**¥ 12,508**	**¥ 1,339**	**¥ 894**	**¥ 175**	**¥ 14,916**
Consolidated sales (B)	—	—	—	—	**¥ 95,517**
(A) / (B)	**13.1%**	**1.4%**	**0.9%**	**0.2%**	**15.6%**

	Thousands of U.S. Dollars				
	Asia	North America	Europe	Others	Total
Overseas sales (A)	**$ 134,424**	**$ 14,393**	**$ 9,603**	**$ 1,878**	**$ 160,298**
Consolidated sales (B)	—	—	—	—	**$1,026,507**
(A) / (B)	**13.1%**	**1.4%**	**0.9%**	**0.2%**	**15.6%**

Note to overseas sales:

Principal countries in each area where customers are located are as follows:

Asia : Taiwan, Korea, China, Thailand
North America : U.S.A.
Europe : Germany, Norway

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Sanyo Special Steel Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sanyo Special Steel Co., Ltd. and subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

(1) As described in Note 2(5) to the consolidated financial statements, effective April 1, 2008, Sanyo Special Steel Co., Ltd. and consolidated domestic subsidiaries adopted the new accounting standards for measurement of inventories.

(2) As described in Note 2(6) to the consolidated financial statements, effective April 1, 2008, Sanyo Special Steel Co., Ltd. changed the depriciation method for structures, machinery, equipment, vehicles and tools at No.2 Melt Shop and No.2 Bar, Wire Rod and Wire Mill Shop.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2010


Complete View of our Head Office / Plant

Corporate Data

(As of March 31, 2010)

Corporate Name	Sanyo Special Steel Co., Ltd.
Head Office	3007, Nakashima, Shikama-ku, Himeji, Hyogo 672-8677 Japan / Phone: (+81) 79-235-6003
URL	http://www.sanyo-steel.co.jp/english/index.html
Established	January 11, 1935
Paid-in Capital	20,183 millions of yen
Number of employees	2,728 (consolidated basis)
Register of Shareholders	The Chuo Mitsui Trust & Banking Co., Ltd.
Total Number of Shares Authorized to be Issued	474,392,000
Total Number of Shares Issued	167,124,036
Stock Listings	Tokyo Stock Exchange (1st Section, loanable stock)
Book Closing	March 31
Number of Shareholders	18,836
Branches and Offices	Tokyo Regional Office, Osaka Branch, Nagoya Branch, Hiroshima Branch, Kyusyu Sales Office, Shanghai Office

Consolidated Subsidiaries and Equity-Method Affiliates

(As of March 31, 2010)

Corporate Name	Business Activities
Consolidated Subsidiaries	
Yohkoh Bussan Co., Ltd.	Trading of special steel products, steelmaking raw materials and other materials
Santoku Seiken Co., Ltd.	Manufacturing and marketing of special steel products
Santoku Kogyo Co., Ltd.	Processing of special steel, machinery maintenance
Santoku Tech Co., Ltd.	Manufacturing of special steel products (formed & fabricated materials)
Santoku Computer Service Co., Ltd.	Construction and operation of, and consulting services for, information systems
SKJ Metal Industries Co., Ltd. (Thailand)	Manufacturing and marketing of special steel products
P.T.SANYO SPECIAL STEEL INDONESIA (Indonesia)	Manufacturing and marketing of special steel products
SANYO SPECIAL STEEL U.S.A., Inc. (U.S.A.)	Trading of special steel products
Ningbo Sanyo Special Steel Products Co., Ltd. (China)	Manufacturing and marketing of special steel products (formed & fabricated materials)
Equity-method Affiliates	
Advanced Green Components, LLC (U.S.A.)	Manufacturing of special steel products (formed & fabricated materials)

Directors and Auditors

(As of June 29, 2010)

Representative Director and President	Nobuyoshi Fujiwara
Senior Managing Director	Tetsuo Kiriyama, Nobuyuki Tanaka
Managing Director	Yutaka Tsukamoto, Hiroaki Kimura, Hideki Nakamura, Tatsuro Isomoto
Director	Katsumi Mizuta, Shinichi Tominaga, Wataru Nishihama, Akihiko Yanagitani, Hiroyuki Eiyama, Masaharu Kobayashi
Corporate Auditor	Tetsuji Shigemori (Standing Corporate Auditor), Seiji Tsutsumi, Hideyuki Sasaki*, Masatoshi Murakami*, Takeshi Yoshii*, Shinji Shibao*

* Outside Corporate Auditor

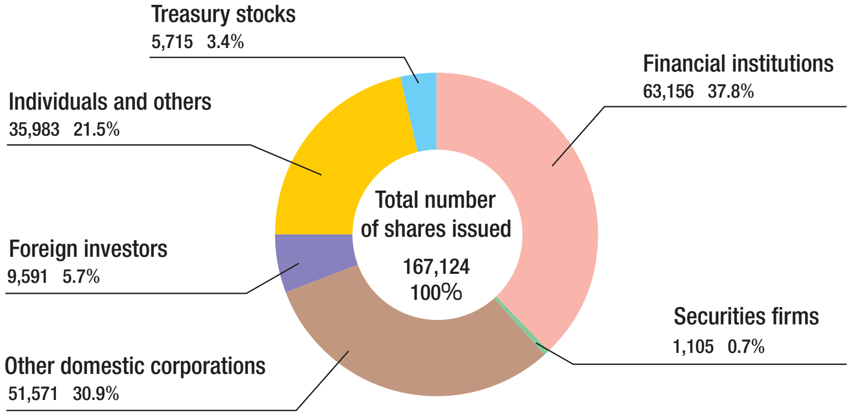
Principal Shareholders

(As of March 31, 2010)

Name of Shareholder	Number of Shares Held (thousands of shares)	Percentage of Voting Rights (%)
Nippon Steel Corporation	24,256	15.15
The Master Trust Bank of Japan, Ltd. (trust account)	12,380	7.73
Japan Trustee Services Bank, Ltd. (trust account)	11,786	7.36
Company's Kyoeikai Association	8,154	5.09
NSK, Ltd.	7,470	4.66
Sumitomo Mitsui Banking Corporation	5,696	3.56
Japan Trustee Services Bank, Ltd. (trust account 9)	3,889	2.43
Mizuho Corporate Bank, Ltd.	3,642	2.27
Marubeni-Itochu Steel Inc.	3,108	1.94
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,849	1.78

Notes: (1) The number of shares omits fractions of less than 1,000 shares.
(2) The Company holds 5,715 thousand shares of its own stock in treasury, but is excluded from the above list of major shareholders.

Shareholder Composition (thousands of shares)



SANYO SPECIAL STEEL CO., LTD.
3007, NAKASHIMA, SHIKAMA-KU HIMEJI, JAPAN
http://www.sanyo-steel.co.jp/english/index.html

This annual report can also be found at our website.

Printed in japan.