



2015 ANNUAL REPORT

APRIL 1, 2014-MARCH 31, 2015

SANYO SPECIAL STEEL



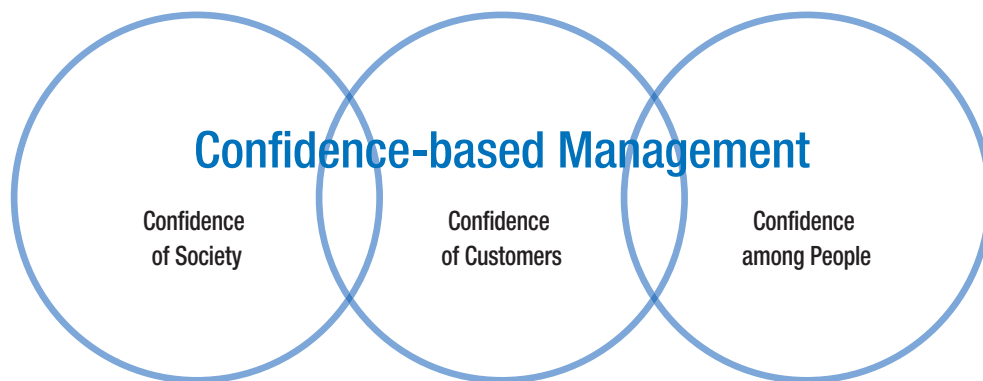
Profile

Since its founding in 1933, Sanyo Special Steel Co., Ltd. (“Sanyo Special Steel”) has been a stable supplier of high-quality special steel. Our steel products fulfill a high level of confidence and are applied to a broad range of important industrial parts in such areas as automobiles, industrial machinery, railways and wind-power generation equipment. Bearing steel, our mainstay product, enjoys a particularly high reputation in many countries for its superior quality and confidence. Our bearing steel boasts a top share in the domestic market.

We call our products “Steel You Can Count On,” as they receive a high level of market confidence in every aspect of our undertakings such as development, product quality and stable supply. We will be striving to further enhance the brand power of “Sanyo Special Steel – the Confident Choice.”

Corporate Philosophy

We adhere to “confidence-based management” as our corporate philosophy, seeking to establish the “confidence of society,” “confidence of customers” and “confidence among people.”



“Confidence of society”

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

“Confidence of customers”

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

“Confidence among people”

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

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Earnings forecasts contained in this annual report have been prepared by the Sanyo Special Steel Group based on information available at the time of their preparation. Please note that these forecasts involve various uncertainties and that actual performance may differ from the forecasted figures.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Sanyo Special Steel Co., Ltd. and consolidated subsidiaries

	FY2012	FY2013	FY2014	Change FY2013 / FY2014	FY2014
Operating Results (For the year)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net sales	¥ 138,306	¥ 161,587	¥ 171,495	6.1	\$ 1,427,341
Operating income	1,517	6,884	9,170	33.2	76,319
Ordinary income	1,670	6,749	9,735	44.2	81,024
Net income	509	4,066	6,548	61.0	54,496
Financial Position (at year-end)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net assets *2	97,152	102,905	113,644	10.4	945,852
Total assets	198,772	203,522	202,243	-0.6	1,683,255
Financial Indicator			(%)	(%)	(%)
ROS (Ordinary income to Net sales)	1.2	4.2	5.7	1.5	5.7
ROE (Net income to Net assets)	0.5	4.1	6.1	2.0	6.1
ROA (Ordinary income to Total assets)	0.8	3.4	4.8	1.4	4.8
Net D/E Ratio *3	0.53	0.46	0.29	-0.17	0.29
Net income per share			(Yen)	(%)	(US Dollars)*1
Net income per share	3.16	25.21	40.6	61.0	0.34
Net assets per share					
Net assets per share	599	633	700	10.4	5.82
Cash dividends per share					
Cash dividends per share	2.00	5.00	10.00	100	0.08

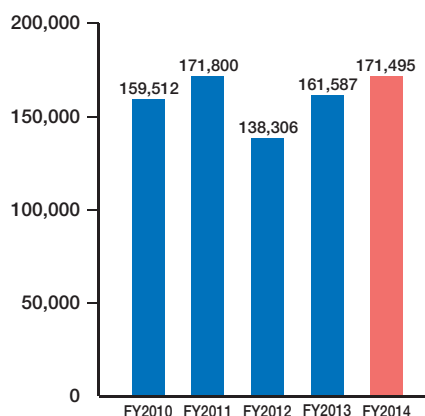
* 1 US dollar amounts are converted, for convenience purpose only, at the rate of ¥120.15=US\$1, the approximate rate of exchange on March 31, 2015.

* 2 Minority interests are included in net assets.

* 3 Net debt equity ratio - (gross interest-bearing debt - cash and deposits) / equity

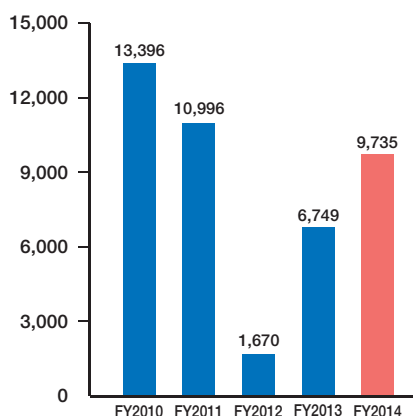
Net Sales

(Millions of Yen)



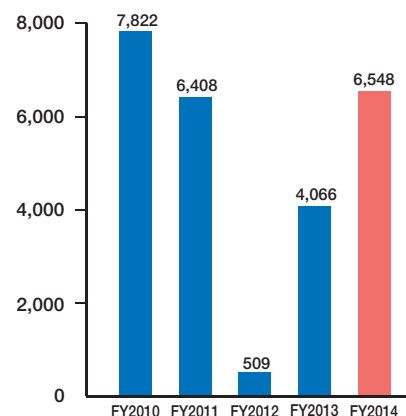
Ordinary Income

(Millions of Yen)



Net Income

(Millions of Yen)



MESSAGE FROM PRESIDENT



FY 2014 Overview

The Japanese economy in FY2014 remained challenging, due primarily to a backlash in demand front-loaded by the consumption tax hike and the slowdown of consumer spending amid rising prices by depreciated yen, although there were improvements in corporate earnings and employment thanks to the government's economic stimulus measures and the Bank of Japan's monetary easing. On the other hand, the global economy grew moderately, mainly in the US, despite weakness in some emerging countries.

Demand grew in the special steel industry, primarily in the automobile sector. In such circumstances, the net sales of the Group for the fiscal year increased by 9,907 million yen year on year to 171,495 million yen, thanks mainly to an increase in the sales volume. Ordinary income increased by 2,985 million yen year on year to 9,735 million yen, mainly by virtue of an increase in the sales volume, lower fixed costs, variable cost reduction efforts, and the currency exchange gains by depreciated yen despite a rise in raw material and fuel prices.

Net income increased by 2,481 million yen year on year to 547 million yen, due mainly to gains in the sale of available-for-sale securities. Consequently, ROE (return on equity) for the fiscal year improved to 6.1% (4.1% for the previous year).

FY 2015 Outlook

The operating environment surrounding the Group is expected to remain challenging, such as another electricity rate hike, the background of a slowdown in emerging economies and intensifying global competition in the special steel industry; the economy is expected to recover from the backlash in demand produced by the consumption tax hike, and a weak yen and low oil prices will bring positive effects.

In such circumstances, the Group will be making all-out efforts to establish a corporate structure capable of stably supplying high-quality special steel which precisely meets customers' needs by ensuring that production responds to demand trends and by implementing aggressive internal cost-cutting measures as well as stepping up its efforts to strengthen non-price competitiveness. By taking all these factors into account, the Group expects its earnings for the next term with net sales to be 170 billion yen, ordinary income to be 11.5 billion yen, and net income attributable to owners of the parent to be 7.5 billion yen.

Profit Distribution to Shareholders

Our basic policy on profit distribution is to reward our shareholders by increasing the profits available for distribution while strengthening our business foundation.

Concerning dividend payment, we intend to meet our shareholders' expectations, primarily by distributing profits based on periodic business performance while giving due consideration to both the payout ratio and the amount of funds required for investments and other activities to enhance our corporate value. Our standard of profit distribution is a consolidated payout ratio of 20% to 30%.

Regarding dividends for the current term, we paid a dividend of 10 yen per share annually according to the basic policy as net income reaches 6,547 million yen for the current year. As we implemented a dividend of 3 yen per share as the interim dividend, the year-end dividend was 7 yen per share.

As per dividends from the next term onward, although we will pay dividends in line with periodic business performance according to the basic policy, please be advised that the specific amounts have not yet been decided. We would ask our shareholders for their continued support and understanding.

September 2015



Yasuo Takeda
Representative Director and President

Establishment of Manufacturing and Sales Subsidiary of Forged and Fabricated Materials in Thailand

We founded a manufacturing and sales subsidiary of forged and fabricated materials (turned rings for bearings), the Siam Sanyo Special Steel Product Co., Ltd. in Thailand.

Japanese bearing companies are expanding production capacity in Thailand on the back of steady demand for automobiles in South-East Asia and are expected to gain momentum in the future.

We have adopted a policy of strengthening our non-steel business in the 9th Medium-Term Business Plan (from FY2014 to FY2016) and established this subsidiary as a part of this policy. We will attempt to strengthen the profitability of the entire Group and build a robust corporate structure that can generate the best possible profit under any operating environment and has both upward and downward flexibility.



Turned rings for bearings

Outline of the Local Subsidiary

- Company Name: Siam Sanyo Special Steel Product Co., Ltd.
- Location: Samutprakan, Kingdom of Thailand (*within the premise of SKJ Metal Industries Co., Ltd., our subsidiary)
- Date of Establishment: September 22, 2014 (Operation is planned to start around October 2015.)
- Capital: 418 million baht (about 1.3 billion yen; planned)
- Employees: Approximately 90 people (planned)
- Main line of business: Manufacture and sales of turned rings for bearings (It plans to turn forged rings and cut rings imported from the Group manufactures, and to sell them to bearing manufactures.)

SEGMENT INFORMATION

Specialty Steel

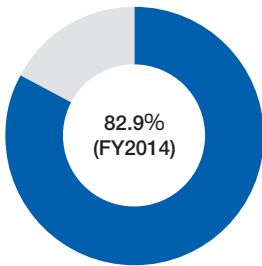
In the Specialty Steel segment, we manufacture and sell various special steel products including bearing steel, which boasts a top share in the total domestic production, as well as engineering steel, stainless steel, heat resistant steel and tool steel.



FY 2014 Overview

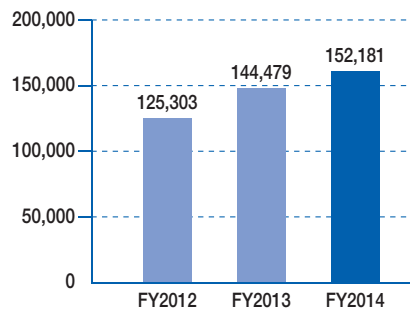
Net sales increased by 7,702 million yen year on year to 152,181 million yen mainly because the sales volume rose from the previous term. Operating income increased by 1,910 million yen year on year to 6,055 million yen due primarily to a sales volume increase and cost reduction efforts despite a rise in raw materials and fuel prices.

Sales Breakdown



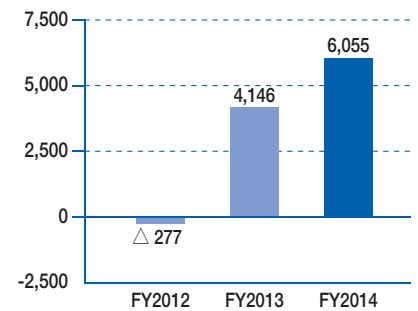
Net Sales

(Millions of Yen)



Operating Income

(Millions of Yen)



Special Materials

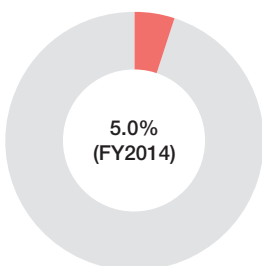
The Special Materials segment manufactures and sells heat/corrosion-resistant alloys and powder metallurgy products, among others.



FY 2014 Overview

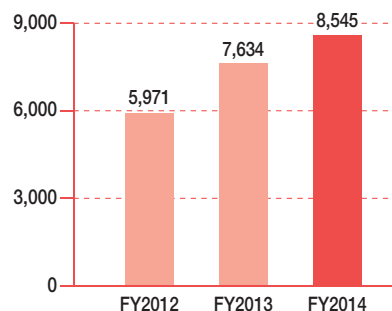
Net sales increased by 911 million yen year on year to 8,545 million yen, mainly because the sales volume of powder metallurgy products increased from the previous term. Operating income increased by 504 million yen year on year to 1,758 million yen.

Sales Breakdown



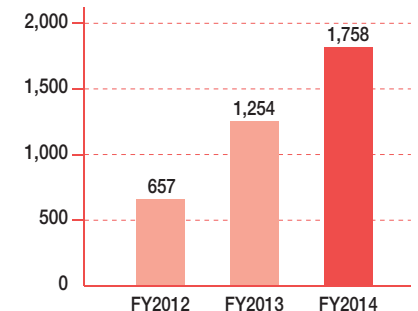
Net Sales

(Millions of Yen)



Operating Income

(Millions of Yen)



◆ Formed and Fabricated Materials

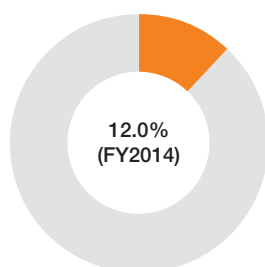
The Formed and Fabricated Materials segment uses an integrated process to manufacture high-quality formed and fabricated materials from high-cleanliness steel, which is produced using our high-cleanliness steel manufacturing technology. Our formed and fabricated materials include cut rings produced by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



FY 2014 Overview

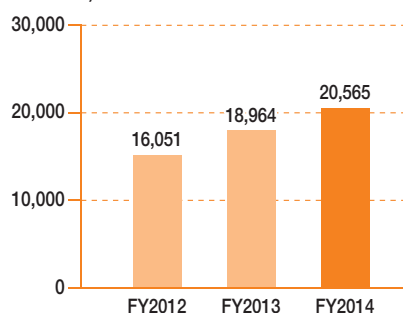
Net sales increased by 1,601 million yen year on year to 20,565 million yen, mainly because the sales volume rose from the previous term. Operating income decreased by 234 million yen year on year to 1,701 million yen, due primarily to a decline in the income of a subsidiary in China.

Sales Breakdown



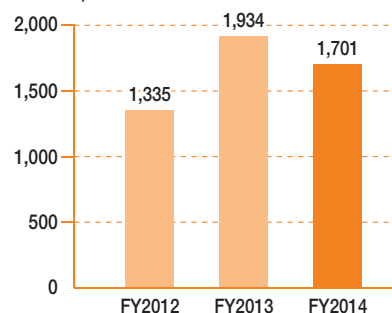
Net Sales

(Millions of Yen)



Operating Income

(Millions of Yen)



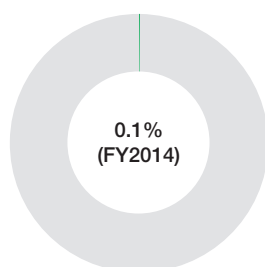
◆ Other

We provide information processing services through our subsidiaries.

FY 2014 Overview

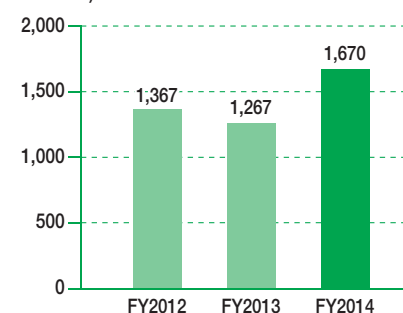
Net sales increased by 403 million yen year on year to 1,670 million yen. Operating income increased by 6 million yen year on year to 58 million yen.

Sales Breakdown



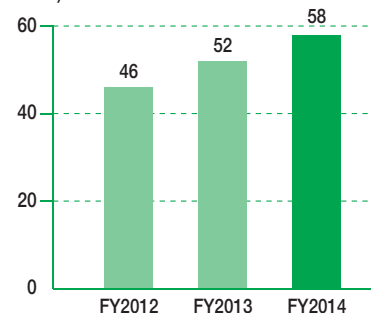
Net Sales

(Millions of Yen)



Operating Income

(Millions of Yen)



Note:

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.

THE 9th MEDIUM-TERM BUSINESS PLAN (FY2014-FY2016)

Strategy

Aiming at creating greater corporate value and growing further by enhancing the brand power of "Sanyo Special Steel-the Confident Choice"

- ◇ Reinforce corporate structure to win global competition
- ◇ Strengthen technological innovation
- ◇ Improve overall profitability through sustainable growth of the rolled-steel business and reinforcement of the non-steel business

We aim at building a corporate structure to win in global competition by strengthening our non-price competitiveness, including international cost competitiveness, research and development capability, responsiveness of quality and delivery schedule, and our system foundation. By doing this, we will be expanding our revenue in the steel business by capturing the special steel demand, which is expected to grow in the future, and by taking full advantage of our production capability strengthened in the 7th and 8th Medium-term Business Plan. In the non-steel business, we will try to expand business by aggressively investing our management resources for the ultimate purpose of improving the Group's overall profitability.

Furthermore, we will aim at building a strong and resilient corporate structure to realize good profitability under any business environment.

Financial Targets

(Billions of Yen)

	FY2013 (Performance)	FY2016 (Target)	Variance
Net sales	161.6	200.0	38.4
Operating income	6.9	15.0	8.1
Ordinary income	6.7	15.0	8.3
Net income	4.1	9.0	4.9
Total assets	203.5	200.0	- 3.5
Interest-bearing debt (net)	47.8	35.0	- 12.8
ROS	4.2%	7.5%	3.3%
ROE	4.1%	7.5%	3.4%
Depreciation	11.0	10.0	- 1.0
EBITDA	17.9	25.0	7.1
D/E ratio	0.46	0.30	- 0.16
Sales volume	87,000t/month	100,000t/month	13,000t/month

【Major assumptions】

- Steel scrap price:
At the average level for the period from April through December 2013 (¥40,000 /t)
- Unit product price:
At the average level for the period from April through December 2013
- Margin: Constant
- Exchange rate: ¥100/US\$

◆ Key Action Programs

Promote Growth Strategy

Steel Business (“Specialty Steel”)

By grasping the needs of customers who develop their business both inside and outside Japan, we will be providing them with adequate products with non-price competitiveness and contribute to improving their competitiveness with at the same time boosting our profit growth. We will be working to build an effective and concrete supply chain as quickly as possible, particularly in East Asia, since it has a higher growth potential.

Non-steel Business (“Special Materials” and “Formed and Fabricated Materials”)

We will expand the sales in the non-rolled-steel business to 1.6 times of the amount booked in fiscal 2013, through aggressive investment of our management resources.

Enhance global competitiveness

Boost non-price competitiveness

We will respond to customers' needs by (1) promoting the expansion of technological innovation taking into account the further future trend, including the development of sophisticated and differentiated products as well as manufacturing technique, and upgrading of the product lineup on a timely manner, and (2) maintaining and enhancing our capability on research and development and quality responsiveness, as well as our ability to meet delivery schedule and make effective proposals to users. We will also reform our backbone system by incorporating the latest information and IT.

Strengthen international competitiveness

We will continue to slash costs persistently in continuance with the 8th Medium-term Business Plan. We will also improve our downward flexibility through power-saving investment and cost reduction investment, among others.

Ensure adequate profit margins

In addition to the existing iron scrap surcharge system, we will try to reflect the increase in the electricity and LNG cost to the sales price.

Develop human resources to realize sustainable growth

We will nurture human resources to respond to globalized operating environment and the subsequent intensifying international competition in a systematic way. We will also continue with our policy to promote work life balance and to create the working environment where female employees can also develop their career.

Investment

We will set up the following three investment frameworks and will spend ¥10 billion per year for each category in the coming three years; (1) strategy investment framework (mainly for research and development, strengthening of non-rolled-steel segment and overseas investment to East Asia, etc.) (2) foundation investment framework (primarily for quality responsiveness, power-saving investment, cost reduction investment such for the purpose of energy saving and system foundation investment, etc.) and (3) mandatory investment framework (mainly for renewal of obsolete assets and responding to safety environment standards and other regulations).

CORPORATE GOVERNANCE

We are striving to enhance our corporate governance and internal control systems with a view to building management infrastructure that ensures integrity, fairness and transparency of our operations.

Fundamental Measures for Corporate Governance

Concerning business execution, we make decisions on important matters and supervise execution of business operations at ordinary meetings of the Board of Directors (held monthly), comprised of 16 directors (including one outside director), and extraordinary meetings of the Board of Directors (held as required). We also set up company-wide committees to discuss important matters concerning operations. These include the Corporate Policy Committee (twice a month in principle) to facilitate efficient decision-making on management such as at the Board of Directors meetings, the Corporate Behavior and Ethics Special Committee to ensure thorough compliance and solid corporate governance, the Security & Trade Control Committee, the Environment Conservation Committee, and the Corporate Budget Committee.

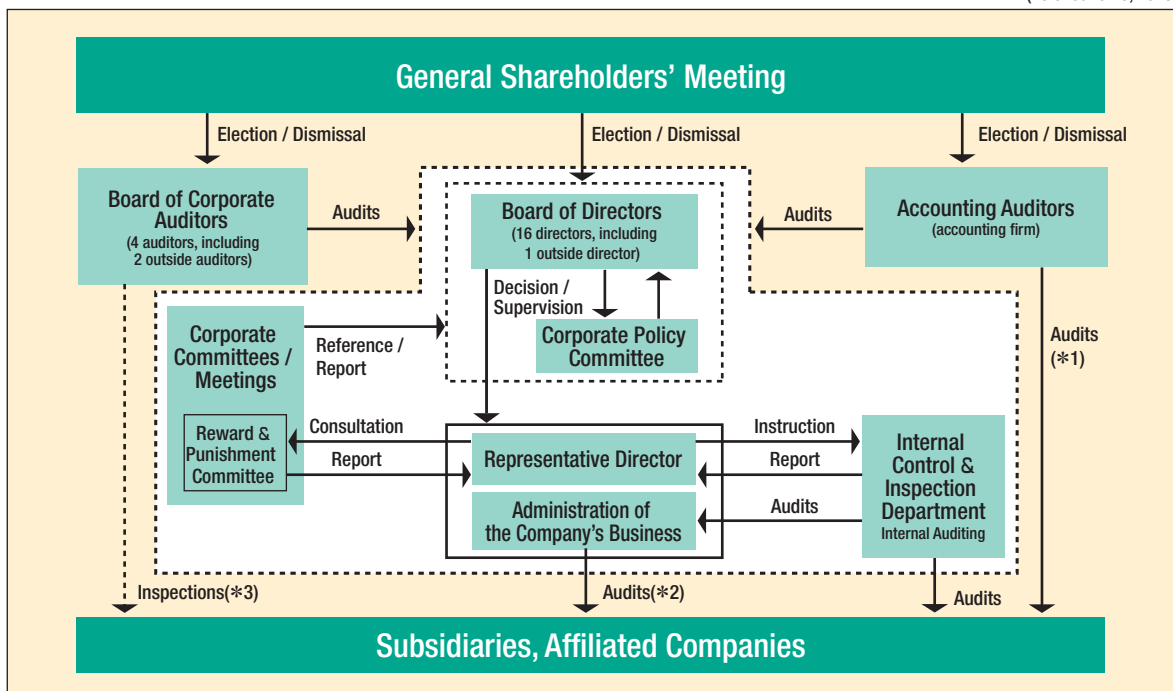
Corporate auditors' audits are conducted as necessary based on auditing policies formulated each year by the Board of Corporate Auditors. Audits are conducted by four corporate auditors (including two outside auditors) on a broad range of areas, including not only directors' execution of their duties but also risk management and compliance from an internal control perspective. Corporate auditors

express their opinions to the representative director based on the audit results and, if necessary, also to business execution functions. We have a standing corporate auditor system in order to strengthen our auditing structure.

As for accounting audits, we formulate audit policies through discussions between corporate auditors and accounting auditors; audits are then performed based on these policies. We also hold meetings where accounting auditors can report and explain the audit results to corporate auditors as necessary, so that corporate auditors and accounting auditors can perform their audit duties in close coordination.

Internal audits are also implemented by the Internal Control & Inspection Department based on the internal audit plan prepared each year. Audits are conducted on the business execution of our respective business functions and subsidiaries.

Our organizational structure for corporate governance and internal control (As of June 26, 2015)



(*1) We audit of our subsidiaries and affiliated companies through auditing consolidated financial statements.
 (*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 our domestic subsidiaries and fulfill their responsibilities in that capacity.

◆ Development and Management of Internal Control Systems

We resolved a basic policy to create internal control systems at the Board of Directors meeting held in April 2015 in accordance with the Company Law of Japan and other relevant laws and ordinances. Under this policy, we have developed, managed, and improved our internal control systems, which support our corporate management to emphasize integrity, fairness, and transparency.

In addition, we established the Internal Control & Inspection Department in order to evaluate the internal control systems of the Sanyo Special Steel Group and have been working on the

development and operation of the ""Management's Report System on Internal Control Report over Financial Reporting"" as required by the Financial Instruments and Exchange Act. In this regard, we set up a working group for internal control management, which is a cross-functional committee, in order to address risks in financial reporting, share relevant information, and discuss educational guidelines, and we are working to reinforce our internal control systems in order to ensure the adequacy of information in financial reporting (held three times during FY2014).

◆ Board of Directors

(As of June 26, 2015)

President, Representative Director	Yasuo Takeda				
Director and Executive Vice President	Nobuyuki Tanaka				
Managing Director, Member of the Board	Shin-ichi Tominaga Wataru Nishihama	Akihiko Yanagitani Hiroyuki Eiyama			
Director, Member of the Board	Shigehiro Oi Kozo Takahashi	Katsu Yanagimoto Takashi Kuwana	Kazuya Shin-no Shinobu Kuroishi	Kazuhiko Nagano Kozo Omae	Takayo Chiba Syunsuke Kano ^(*1)
Corporate Auditor	Hiroaki Kimura (Standing Corporate Auditor) Katsuaki Ohe ^(*2)		Toshihiko Yoshida Masaki Iwasaki ^(*2)		

(*1) Outside Director

(*2) Outside Corporate Auditor

◆ Rules on Large-scale Acquisition of Sanyo Special Steel's Shares

The Company has adopted the "Rules on Large-scale Acquisition of Sanyo Special Steel's Shares."

These rules were established for the purpose of securing sufficient time and information for the Board of Directors to examine the conditions of acquisition proposals and offer alternative plans so that our shareholders can make "informed judgment" (an appropriate judgment based on sufficient time and information) and preventing inappropriate large-scale purchases of shares that may damage the Company's corporate value and the common interests of the shareholders.

We believe that those who control the Company's decisions on financial matters and business policies should fully understand the Company's "Basic Management Policy" and consistently seek to

secure and enhance the Company's corporate value and the shareholders' common interests. We also believe that, when a large-scale acquisition of the Company's shares has been proposed, the ultimate judgment on whether or not to accept the proposal should be made by the shareholders at the time of proposal. We also believe that it is the Company's responsibility to secure sufficient time and information for the shareholders to examine the proposal and make a final judgment in order to protect and enhance the Company's corporate value and shareholders' common interests. The Company has adopted the "Rules on Large-Scale Acquisition of Sanyo Special Steel's Shares" based on such beliefs.

CSR ACTIVITIES

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 build a sustainable relationship with society.

◆ Compliance Structure

The Company has established the “Guidelines for Corporate Behavior,” which indicate how we should act as a corporation, and the “Helpline,” a whistle-blowing system, as a part of our compliance structure.

Furthermore, we provide compliance education encompassing various themes and hold compliance lectures to improve our employees' compliance awareness.

Clearly-defined Company Rules : We improve our company rules as the needs arise in order to ensure further compliance.

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 employed to ensure compliance.

Establishment of a Corporate Behavior and Ethics Special Committee/Establishment of a Whistle-blowing System “Helpline”

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.

In addition we have initiated a “Helpline,” a whistle-blowing

system designed to help prevent occurrence 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.

◆ Social Contributions

Our Company actively engages in activities to contribute to our community and society. Specifically, we hold concerts targeting elementary and junior high school students, provide factory visits

and support to a marathon event of a neighboring elementary school, and provide volunteers to conduct clean-up activities in the surrounding neighborhood.



Factory visit targeting neighboring elementary school students



Training for a marathon of elementary school children by members of the company track team



Cleaning areas around plants by voluntary employees

◆ Improvement of Work Environment

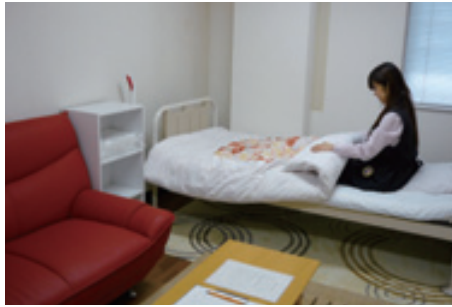
We strive to build a workplace where all employees can demonstrate their potential.

Examples include the introduction of a flexible working-hours system, leave and shorted working hours for childbirth and childcare, and rehiring at retirement age.

And we were awarded the Diversity Management Selection 100 (an award from the Ministry of Economy, Trade and Industry) on March 18, 2015. This award is the result of our efforts, and it is the first time as the steel manufacturer.



Our original maternity working wear



Lounge for women during of pregnancy and childrearing



"Diversity Management Selection 100" is intended to award the "companies that have played an enhanced corporate value by diversity management".

◆ Safety Initiatives

Under the principle of giving the top priority to safety, our Company aims to attain zero work accidents and zero traffic accidents, and we are promoting fundamental facility improvement for safety, safety education and risk assessment activities. Within the factory, safety fences and fail-safe devices are installed so that no one can get near

facilities in operation. Further, we have established a simulated experience training center for safety by which employees can have a simulated experience of perils lurking in work so that every employee can enhance their sensitivity to risks and awareness of safety.

◆ Environmental Conservation

The Company's core business is to manufacture special steel primarily out of iron scrap, thereby playing a part in the resource circulation society through recycling of iron resources. In addition, our special steel products with superior characteristics have enabled us to reduce weight of the final products, extend the products' longevity and rationalize their manufacturing process, contributing

to society-wide energy saving.

Further, while promoting the reduction of greenhouse gas emissions and the effective utilization of resources, we also focus on enhancement of employee awareness of the environment through environmental education and training sessions.



By changing the transportation method to railways and ships, we reduce carbon dioxide emission



Introducing battery-powered company cars



Environmental patrol to check the status of industrial waste control and the life

RESEARCH AND DEVELOPMENT

We detect actual customer needs via a thorough analysis of data on social and industrial developments collected through our customer satisfaction-oriented marketing approach and respond to a variety of customer needs with fast-paced research and development. By promoting R&D that contributes to the expansion of technological innovation, we will be further enhancing the brand power of "Sanyo Special Steel - the Confident Choice."

◆ Newly Developed Products

"PremiumJ2, " a new grade bearing steel

Responding to the needs for smaller bearings with greater fatigue life

PremiumJ2 is a new grade bearing steel which has enabled us to extend the life of bearing in a stable manner. PremiumJ2 was produced with a combination of new technologies, which are namely a new steelmaking technology to reduce harmful non-metallic inclusions in steel, and a new testing technology to evaluate the frequency of the inclusions in large volumes of steel to prove the low incidence of such inclusions. By using PremiumJ2, it has become possible to decrease variation in the minimum life of bearings. PremiumJ2 is expected to contribute to down-sizing and light-weighting bearings and their peripheral parts.



Ball Bearings

"ECOMAX, " Ni- and Mo-free high-strength case hardening steel

Contributing to producing small-size, light-weight auto parts at a lower overall cost

ECOMAX is an resource-saving steel that realizes high strength without using such expensive rare metals as Nickel and Molybdenum, which reduce manufacturability of parts, doing so without sacrificing processability. ECOMAX responds to the need for small-size and light-weight auto powertrain for the purpose of reducing CO2 emission and high hopes are placed upon it as raw material for parts of automotive gears and shafts that need high strength.



Automotive gears and shafts

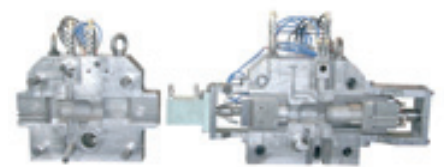
"QDX-HARMOTEX, " a Hotworking-die steel

Contributing to the greater die life with high temperature strength and enhanced toughness

QDX-HARMOTEX is a hotworking-die steel with high temperature strength and high toughness. Its high temperature strength is 1.3 times greater than conventional steel(JIS SKD61,AISI H13) and it limits the occurrence of heat checks*. Also, the toughness is 1.5 times greater than that of conventional steel and it can prevent occurrence of large cracks and minor chips.

QDX-HARMOTEX contributes to the stabilizing and enhancing the life of dies.

* Heat check : Die cracking resulting from repeated heating and cooling during use.



Casting dies

"SPM X4N, " nitrided P/M high speed steels

Fourfold wear resistance compared to the conventional product - contributing to extend dies' life

SPM X4N is manufactured by consolidating nitrided metal powder. It offers superior performance in terms of strength, toughness, wear resistance and seizing resistance. The product's wear resistance in particular is four times greater than conventional P/M high speed steel tool. SPM X4M is targeted to be applied to dies that are used in the extremely harsh environments, pierce punch and slitter, among others, and we have already received high appraisal from our customers.



Pierce punch

We Made the World Record of Sequential Casting: 100Heats.

We made the sequential casting* world record of 100 heats with a single tundish and no change of immersion nozzles on February 16, 2015. This record was achieved by a wide-ranging coordination of internal functions such as production plan, equipment maintenance, and quality assurance, in addition to our unique steel-making technology that can produce extremely purified steel. We will steadily supply high-quality special steel products by making further efforts to improve quality and technology.

* Sequential casting is a process of pouring molten steel into mold continuously.



Continuous caster

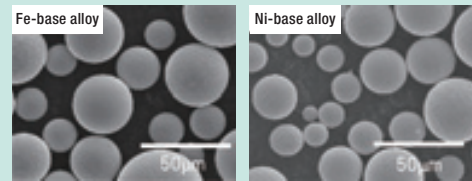


Taken in front of the caster when the sequential casting world record of 100 heats was made.

We Developed Metal Powders with Excellent Fluidity by Enhancing Sphericity.

We succeeded in manufacturing a high melting point metal powder that is high in sphericity and fluidity through our unique technologies.

Our highly spherical metal powders that allow a wide-ranging alloy design are expected to be employed in a variety of next-generation fields, such as 3-D printers.



Enlarged photo of the developed highly spherical metal powders

We will make good use of established quality assurance system with phased-array ultrasonic inspection machines.

Phased-array ultrasonic inspection machines (P-UST) are flaw detectors capable of detecting flaws with an S/N ratio (representing the detecting ability) roughly three times higher than conventional rotating-probe type machines.

We applied P-UST to mass-production lines for the first time in the world in 2006. At the moment, we have seven of the machines.

We managed to identify detecting conditions under which flaws two-thirds of the size conventional machines can find can be detected in a stable manner.

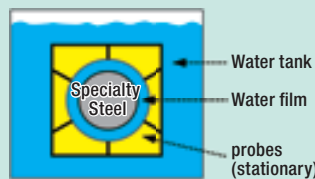
We will meet customers' needs as well as gain their highest trust. Furthermore, we will focus on improving quality in order to strengthen our customers' international competitiveness and enhance our

international competitiveness.

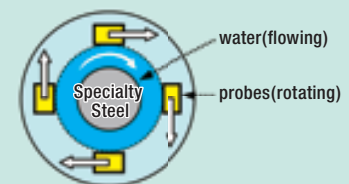
Reference

The ultrasonic inspection machine projects ultrasound to a tested material to detect the reflected wave from a fine flaw inside the material. Whereas the conventional machine has a structure in which a probe (a mechanism that projects ultrasound) rotates around the tested material, the probe of the P-UST is fixed.

○ The phased-array ultrasonic inspection machine



○ Conventional rotating-probe type

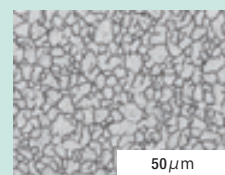


We have commercialized ECOMAX4 . — New lineup of Ni- and Mo-free high-strength case hardening steel, “ECOMAX”

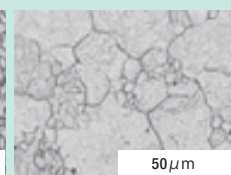
ECOMAX4 is a rare-metal-saving case hardening steel that does not need expensive nickel and molybdenum. ECOMAX4 is a high-strength case hardening steel that has high strength (fatigue life) and excellent grain coarsening resistance and low heat treatment distortion property. This product boasts a fatigue life more than five times longer than conventional steel in pitting fatigue that decides the life of gears. The main applications in target are gear and shaft for a motor vehicle, bearing parts and the like, where case-hardened steel is used.

ECOMAX4, with its unprecedented product property, will contribute to make gears, shafts, and other automobile powertrain components smaller and lighter and reduce parts' manufacturing costs.

Crystal grains of parts after cold working and case hardening.
(optical microstructure)



ECOMAX4



general-use case hardening steel
(JIS SCr420)

FINANCIAL SECTION

15 **Analysis of Balance Sheets**
Analysis of Cash Flows

16 **Financial Statements**

39 **Independent Auditor's Report**

Analysis of Balance Sheets

Total assets stood at 202,243 million yen at the end of FY2014, down 1,278 million yen from the end of the previous term, due primarily to reductions in tangible fixed assets, cash and deposits and inventories although available-for-sale securities and Net defined benefit assets rose because of rising stock prices.

Liabilities stood at 88,598 million yen, down 12,018 million yen from the end of the previous term, due primarily to the repayment of loans payable.

Net assets stood at 113,644 million yen, up 10,739 million yen from the end of the previous term, due mainly to net income for the current term, valuation difference on available-for-sale securities, caused by higher stock prices and an increase in the remeasurements of retirement benefits.

Consequently, the D/E ratio (the ratio of interest-bearing liabilities to net assets after deducting cash and deposits) reached 0.29 at the end of the FY2014 term (0.46 at the end of the previous term).

Analysis of Cash Flows

Concerning the status of cash flows in FY2014, the net cash provided by operations was 20,698 million yen (an increase of 11,545 million yen from the previous term), due primarily to a decrease in inventories (2,076 million yen) and payment of corporate taxes (negative 2,301 million yen) in addition to net income before taxes (10,248 million yen) and depreciations (9,826 million yen).

The net funds used in investing activities were 5,874 million yen (an increase of 922 million yen from the previous term), due mainly to capital investments for acquiring tangible fixed assets to save energy and labor and to update existing facilities and other tasks (negative 7,113 million yen) and proceeds from sales of available-for-sale securities (1,545 million yen).

The net funds used in financing activities were 17,426 million yen (a 12,074 million yen deficit increase from the previous term), due partly to a decrease in loans payable (negative 16,583 million yen).

FINANCIAL STATEMENTS

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of March 31, 2014 and 2015

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2015	2015
Current Assets:			
Cash and bank deposits (Notes 5 and 16)	¥ 21,967	¥ 20,010	\$ 166,539
Notes and accounts receivable, trade (Notes 5 and 19)	50,069	49,196	409,453
Electronically recorded monetary claims	1,203	3,127	26,030
Less: Allowance for doubtful accounts	(6)	(7)	(58)
Inventories (Note 7)	48,392	46,704	388,718
Deferred tax assets (Note 12)	1,539	1,640	13,653
Other	1,395	616	5,125
Total current assets	124,560	121,286	1,009,460
Property, Plant and Equipment:			
Land (Note 9)	7,080	7,739	64,411
Buildings and structures (Note 9)	46,509	46,860	390,010
Machinery and equipment (Note 9)	202,540	206,519	1,718,842
Construction in progress	705	739	6,153
	256,834	261,857	2,179,416
Less: Accumulated depreciation	(193,880)	(201,570)	(1,677,654)
Total property, plant and equipment	62,954	60,287	501,762
Intangibles	794	957	7,961
Investments and Others:			
Investments in securities (Notes 5, 6 and 8)	12,013	12,767	106,257
Long-term loans receivable	1,412	1,210	10,068
Deferred tax assets (Note 12)	115	160	1,328
Net defined benefit assets (Note 11)	1,097	4,960	41,287
Other	745	776	6,467
Less: Allowance for doubtful accounts	(168)	(160)	(1,335)
Total investments and other assets	15,214	19,713	164,072
Total assets	¥ 203,522	¥ 202,243	\$ 1,683,255

The accompanying notes are integral parts of these statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2015	2015
Current Liabilities:			
Short-term loans (Notes 5 and 10)	¥ 30,955	¥ 28,160	\$ 234,374
Current portion of long-term loans (Notes 5, 9 and 10)	13,748	6,293	52,376
Notes and accounts payable, trade (Note 5)	14,884	15,533	129,281
Accounts payable, other	4,057	4,143	34,485
Accrued income taxes	1,537	3,062	25,487
Accrued expenses	6,896	7,285	60,631
Other	1,206	1,799	14,965
Total current liabilities	73,283	66,275	551,599
Long-term Liabilities:			
Long-term loans (Notes 5, 9 and 10)	25,135	18,842	156,820
Accrued directors' and corporate auditors' retirement benefits	93	87	727
Deferred tax liabilities (Note 12)	1,245	2,683	22,332
Reserve for environmental measures	8	—	—
Net defined benefit liabilities (Note 11)	689	553	4,599
Other	164	159	1,326
Total long-term liabilities	27,334	22,324	185,804
Total liabilities	100,617	88,599	737,403
Contingent Liabilities (Note 19)			
Net Assets (Note 13)			
Shareholders' Equity:			
Common stock:			
Authorized - 474,392,000 shares			
Issued - 167,124,036 shares	¥ 20,183	¥ 20,183	\$ 167,979
Capital surplus	22,596	22,597	188,070
Retained earnings	58,056	64,171	534,092
Less: Treasury stock, at cost (5,806,428 shares in 2014 and 5,871,797 shares in 2015)	(1,782)	(1,813)	(15,088)
Total shareholders' equity	99,053	105,137	875,053
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	2,824	4,294	35,743
Foreign currency translation adjustments	866	1,808	15,052
Remeasurements of defined benefit plans	(554)	1,557	12,956
Total accumulated other comprehensive income	3,136	7,659	63,751
Minority Interests	716	847	7,048
Total net assets	102,905	113,644	945,852
Total liabilities and net assets	¥ 203,522	¥ 202,243	\$ 1,683,255

The accompanying notes are integral parts of these statements.

FINANCIAL STATEMENTS

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2015	2015
Net Sales	¥ 161,587	¥ 171,495	\$ 1,427,341
Cost of Sales (Note 14)	141,607	148,952	1,239,714
Gross profit	19,980	22,543	187,627
Selling, General and Administrative Expenses (Note 14)	13,096	13,373	117,308
Operating income	6,884	9,170	76,319
Other Income:			
Interest and dividend	188	214	1,779
Exchange gains	479	910	7,578
Other	414	441	3,674
	1,081	1,565	13,031
Other Expenses:			
Interest	(612)	(506)	(4,212)
Equity in losses of unconsolidated subsidiaries and affiliates	(320)	(289)	(2,403)
Other	(284)	(205)	(1,710)
	(1,216)	(1,000)	(8,325)
Ordinary income	6,749	9,735	81,025
Extraordinary:			
Gain on sale of land	5	273	2,274
Loss on sale and disposition of property, plant and equipment	(188)	(394)	(3,283)
Gain on sale of investments in securities and others	—	634	5,274
Loss on evaluation of investments in securities and others	(12)	—	—
	(195)	513	4,265
Income before income taxes and minority interests	6,554	10,248	85,290
Income Taxes (Note 12):			
Current	1,755	3,787	31,525
Deferred	614	(162)	(1,352)
	2,369	3,625	30,173
Income before minority interests	4,185	6,623	55,117
Minority Interests in Net Income of Consolidated Subsidiaries	119	75	621
Net income	¥ 4,066	¥ 6,548	\$ 54,496
	Yen		U.S. dollars (Note 3)
	2014	2015	2015
Per Share:			
Net income (Note 15)	¥ 25.21	40.60	\$ 0.34
Cash dividends	¥ 5.00	10.00	\$ 0.08
Net assets	¥ 633.47	699.51	\$ 5.82

The accompanying notes are integral parts of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2015	2015
Income Before Minority Interests	¥ 4,185	¥ 6,623	\$ 55,117
Other Comprehensive Income:			
Valuation difference on available-for-sale securities	1,402	1,471	12,242
Foreign currency translation adjustments	943	692	5,759
Remeasurements of defined benefit plans	—	2,110	17,563
Share of other comprehensive income of affiliates accounted for by the equity method	278	316	2,632
Total other comprehensive income (Note 4)	2,623	4,589	38,196
Comprehensive Income	6,808	11,212	93,313
Comprehensive income attributable to:			
Owners of the parent	6,598	11,072	92,146
Minority interests	210	140	1,167

FINANCIAL STATEMENTS

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2014

	Number of outstanding common shares	Millions of yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	167,124,036	¥ 20,183	¥ 22,596	¥ 54,474	¥ (1,773)
Cumulative effects of changes in accounting policies	—	—	—	—	—
Balance at beginning of year reflecting changes in accounting policies	—	—	—	—	—
Net income	—	—	—	4,066	—
Cash dividends paid	—	—	—	(484)	—
Acquisition of treasury stock	—	—	—	—	(10)
Disposal of treasury stock	—	—	0	—	1
Other changes for fiscal year 2013, net	—	—	—	—	—
Total changes for fiscal year 2013	—	—	0	3,582	(9)
Balance at end of year	167,124,036	¥ 20,183	¥ 22,596	¥ 58,056	¥ (1,782)

	Millions of yen				
	Valuation difference on available-for- sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total
Balance at beginning of year	¥ 1,422	¥ (263)	—	¥ 513	¥ 97,152
Cumulative effects of changes in accounting policies	—	—	—	—	—
Balance at beginning of year reflecting changes in accounting policies	—	—	—	—	—
Net income	—	—	—	—	4,066
Cash dividends paid	—	—	—	—	(484)
Acquisition of treasury stock	—	—	—	—	(10)
Disposal of treasury stock	—	—	—	—	1
Other changes for fiscal year 2013, net	1,402	1,129	(554)	203	2,180
Total changes for fiscal year 2013	1,402	1,129	(554)	203	5,753
Balance at end of year	¥ 2,824	¥ 866	¥ (554)	¥ 716	¥ 102,905

The accompanying notes are integral parts of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2015

	Number of outstanding common shares	Millions of yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	167,124,036	¥ 20,183	¥ 22,596	¥ 58,056	¥ (1,782)
Cumulative effects of changes in accounting policies	—	—	—	373	—
Balance at beginning of year reflecting changes in accounting policies	—	—	—	58,429	—
Net income	—	—	—	6,548	—
Cash dividends paid	—	—	—	(806)	—
Acquisition of treasury stock	—	—	—	—	(32)
Disposal of treasury stock	—	—	1	—	1
Other changes for fiscal year 2014, net	—	—	—	—	—
Total changes for fiscal year 2014	—	—	1	5,742	(31)
Balance at end of year	167,124,036	¥ 20,183	¥ 22,597	¥ 64,171	¥ (1,813)

	Millions of yen				
	Valuation difference on available-for- sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total
Balance at beginning of year	¥ 2,824	¥ 866	¥ (554)	¥ 716	¥ 102,905
Cumulative effects of changes in accounting policies	—	—	—	—	373
Balance at beginning of year reflecting changes in accounting policies	—	—	—	—	103,278
Net income	—	—	—	—	6,548
Cash dividends paid	—	—	—	—	(806)
Acquisition of treasury stock	—	—	—	—	(32)
Disposal of treasury stock	—	—	—	—	2
Other changes for fiscal year 2014, net	1,470	942	2,111	131	4,654
Total changes for fiscal year 2014	1,470	942	2,111	131	10,366
Balance at end of year	¥ 4,294	¥ 1,808	¥ 1,557	¥ 847	¥ 113,644

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	167,124,036	\$ 167,979	\$ 188,066	\$ 483,200	\$ (14,830)
Cumulative effects of changes in accounting policies	—	—	—	3,108	—
Balance at beginning of year reflecting changes in accounting policies	—	—	—	486,308	—
Net income	—	—	—	54,496	—
Cash dividends paid	—	—	—	(6,712)	—
Acquisition of treasury stock	—	—	—	—	(268)
Disposal of treasury stock	—	—	4	—	10
Other changes for fiscal year 2014, net	—	—	—	—	—
Total changes for fiscal year 2014	—	—	4	47,784	(258)
Balance at end of year	167,124,036	\$ 167,979	\$ 188,070	\$ 534,092	\$ (15,088)

	Thousands of U.S. dollars (Note 3)				
	Valuation difference on available-for- sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total
Balance at beginning of year	\$ 23,501	\$ 7,207	\$ (4,607)	\$ 5,956	\$ 856,472
Cumulative effects of changes in accounting policies	—	—	—	—	3,108
Balance at beginning of year reflecting changes in accounting policies	—	—	—	—	859,580
Net income	—	—	—	—	54,496
Cash dividends paid	—	—	—	—	(6,712)
Acquisition of treasury stock	—	—	—	—	(268)
Disposal of treasury stock	—	—	—	—	14
Other changes for fiscal year 2014, net	12,242	7,845	17,563	1,092	38,742
Total changes for fiscal year 2014	12,242	7,845	17,563	1,092	86,272
Balance at end of year	\$ 35,743	\$ 15,052	\$ 12,956	\$ 7,048	\$ 945,852

The accompanying notes are integral parts of these statements.

FINANCIAL STATEMENTS

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2015	2015
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 6,554	¥ 10,248	\$ 85,290
Adjustments -			
Depreciation and amortization	10,966	9,827	81,789
Increase (decrease) in allowance for doubtful accounts	1	(7)	(59)
Decrease in accrued employees' retirement benefits, less payments	(938)	—	—
Increase (decrease) in net defined benefit liabilities	330	(139)	(1,159)
Decrease in prepaid pension cost	1,714	—	—
Increase in net defined benefit assets	(1,597)	(128)	(1,065)
Increase (decrease) in accrued directors' and corporate auditors' retirement benefits, less payments	20	(5)	(44)
Decrease in reserve for environmental measures	(205)	(8)	(67)
Interest and dividend income	(188)	(214)	(1,779)
Interest expense	612	506	4,212
Gain on sale of investments in securities	—	(634)	(5,274)
Loss on evaluation of investments in securities	12	—	—
Equity in losses of unconsolidated subsidiaries and affiliates	320	289	2,403
Loss on sale and disposition of property, plant and equipment	183	121	1,009
Changes in assets and liabilities:			
Notes and accounts receivable, trade	(9,645)	(863)	(7,180)
Inventories	(1,992)	2,076	17,278
Notes and accounts payable, trade	1,783	786	6,540
Other, net	378	1,448	12,060
Subtotal	8,308	23,303	193,954
Interest and dividend income received	187	215	1,791
Interest expense paid	(665)	(519)	(4,322)
Income taxes (paid) refunded	1,322	(2,301)	(19,153)
Net cash provided by operating activities	9,152	20,698	172,270
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(4,955)	(7,113)	(59,204)
Sale of property, plant and equipment	108	349	2,903
Acquisition of intangible assets	(179)	(313)	(2,606)
Acquisition of investments in securities	(2)	—	—
Sale of investments in securities	—	1,545	12,859
Decrease in long-term loans receivable	204	203	1,686
Increase in over three-month deposits	(67)	(242)	(2,015)
Other, net	(60)	(303)	(2,509)
Net cash used in investing activities	(4,951)	(5,874)	(48,886)
Cash Flows from Financing Activities:			
Decrease in short-term loans	(1,078)	(2,850)	(23,721)
Proceeds from long-term loans	4,860	—	—
Repayment of long-term loans	(8,633)	(13,733)	(114,299)
Payments for purchases of treasury stock	(10)	(32)	(268)
Proceeds from sales of treasury stock	1	2	14
Cash dividends	(484)	(804)	(6,693)
Cash dividends to minority shareholders	(8)	(9)	(75)
Net cash used in financing activities	(5,352)	(17,426)	(145,042)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	309	350	2,908
Net Decrease in Cash and Cash Equivalents	(842)	(2,252)	(18,750)
Cash and Cash Equivalents at Beginning of the Year	22,421	21,579	179,605
Cash and Cash Equivalents at End of the Year (Note 16)	¥ 21,579	¥ 19,327	\$ 160,855

The accompanying notes are integral parts of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Consolidated Financial Statements

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

application and disclosure 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.

2. Summary of Significant Accounting Policies

(1) Consolidation and investments in affiliates -

(a) Scope of consolidation and elimination

The Company has 14 subsidiaries as of March 31, 2015 (13 subsidiaries as of March 31, 2014). The consolidated financial statements include the accounts of the Company and 14 of its subsidiaries. The 14 subsidiaries that have been consolidated for fiscal year 2015 are listed below:

Yohkoh Bussan Co., Ltd.
Santoku Seiken Co., Ltd.
Santoku Kogyo Co., Ltd.
Santoku Technos Co., Ltd.
Santoku Tech Co., Ltd.
Santoku Computer Service Co., Ltd.
Santoku Security 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 Trading (Shanghai) Co., Ltd.
Sanyo Special Steel India Pvt. Ltd.
Siam Sanyo Special Steel Product Co., Ltd.

During the year ended March 31, 2015, Siam Sanyo Special Steel Product Co., Ltd. was established and newly consolidated.

The consolidated subsidiaries, except for the 6 foreign subsidiaries (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 Trading (Shanghai) Co., Ltd., and Siam Sanyo Special Steel Product Co., Ltd.), use a fiscal year ending March 31, which is the same as that of the Company. The 6 foreign subsidiaries use a fiscal year ending December 31. For these 6 subsidiaries, certain adjustments are made, if appropriate, in preparing the consolidated financial statements to reflect material transactions which occurred between their fiscal year-end and March 31.

For the purpose of preparing the consolidated financial statements, all significant intercompany transactions and balances and unrealized profits among the Companies have been eliminated.

(b) Investments in affiliates

Investments in Advanced Green Components, LLC and Mahindra Sanyo Special Steel Pvt. Ltd., two affiliates of the Company over which the Company has significant influence, are accounted for by the equity method.

The equity method has not been applied to the investment in another affiliate since adoption of the equity method for this investment in the affiliate would not have a material effect on the consolidated net income and retained earnings of the Companies.

(2) Foreign currency translation -

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

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

(3) Securities -

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

Under the standard, marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost. A decline in the value of available-for-sale securities is reflected in net profit or loss for the period 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 swaps to reduce their exposure to market risks from fluctuations in foreign currencies and interest rates. The Companies do not hold or issue financial derivative instruments for trading purposes. If derivative transactions are used as hedges and meet certain hedging criteria, the Companies use the deferred hedge accounting method.

In addition, with regard to interest rate swap transactions that meet the criteria, the exceptional method has been adopted. Using this method, the Companies do not account for gains or losses on those interest rate swap transactions on a fair value basis, but recognize the interest on an accrual basis.

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

(5) Inventories -

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

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(6) Depreciation and amortization -

The Company computes 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 compute depreciation mainly using the declining-balance method for property, plant and equipment other than those described above.

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

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

(9) Accrued directors' and corporate auditors' retirement benefits -

Certain consolidated subsidiaries provide for lump-sum payments to retiring directors and corporate auditors subject to shareholders' approval. Accrued directors' retirement benefits are based on internal rules.

(10) Reserve for environmental measures -

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

(11) Accounting methods for employees' retirement benefits -

In the calculation of retirement benefit obligations, the estimated amount of retirement benefits is attributed to the consolidated fiscal year based on the benefit formula basis.

Actuarial gains and losses are posted in expenses after the consolidated fiscal year of the accruals based on the straight-line method for 10 years within average remaining service period of the employees.

In the calculation of net defined benefit liabilities and retirement benefits expenses, certain consolidated subsidiaries adopt a simplified method that regards the benefits payable assuming the voluntary retirement of all employees at the fiscal year-end as retirement benefit obligations.

(12) Income taxes -

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

(13) Revenue recognition -

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

(14) 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.

(15) 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.

(16) Consumption tax -

In Japan, a consumption tax, with certain exemptions, is imposed on domestic consumption of goods and services at the rate of 8%. 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, net of consumption tax paid, is included in "Other current liabilities" in the consolidated balance sheets.

(17) Reclassifications and restatement -

Certain prior year amounts have been reclassified to conform to the current year presentation. "Electronically recorded monetary claims" is reported as its own category due to the increased significance in terms of the amount in the consolidated balance sheets as of March 31, 2015. As a result, "Electronically recorded monetary claims" included in "Notes and accounts receivable, trade" as of March 31, 2014 have been reclassified.

(18) Change in accounting policies -

The Company and its consolidated domestic subsidiaries adopted article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, "Guidance No. 25")) from the current fiscal year, and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing estimated benefit to periods from the straight-line basis to the benefit formula basis and determining the discount rates.

In accordance with article 37 of Statement No. 26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the current fiscal year.

As a result of the application, net defined benefits assets increased by ¥413 million (\$3,440 thousand), net defined benefits liabilities decreased by ¥166 million (\$1,385 thousand), retained earnings increased by ¥373 million (\$3,108 thousand) and net assets per share increased by ¥2.31 (\$0.20). In addition, the effect on statements of operations is immaterial.

(19) Accounting standards issued but not yet adopted -

Accounting Standard for Business Combinations

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, September 13, 2013), "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ

Guidance No. 10, September 13, 2013) and “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, September 13, 2013).

1. Outline

These accounting standards and guidance contain amendments to the accounting treatment for: (1) changes in a parent’s ownership interest in a subsidiary when the parent retains control over the subsidiary in the additional acquisition of shares therein, (2) acquisition related costs, (3) presentation method of net income and amendment of “minority interests” to “non-controlling interests,” and (4) transitional provisions for accounting treatments.

2. Effective dates

The standards are effective from the fiscal year beginning April 1, 2015. However, the transitional provisions for accounting treatments will be applied from business combinations performed on or after the fiscal year beginning April 1, 2015.

3. Effect of application of the standard

At present, the Company and its consolidated domestic subsidiaries have not determined the effects of the new standard on the consolidated financial statements.

3. U.S. Dollar Amounts

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan. These translations should not be construed as representations that the Japanese yen amounts actually represent or have been or could be converted into U.S. dollars. The rate of ¥120.15 = U.S. \$1.00, the approximate rate of exchange as at March 31, 2015, has been used for such translations.

4. Consolidated Statement of Comprehensive Income

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Valuation difference on available-for-sale securities			
Increase during the year	¥ 1,707	¥ 2,283	\$ 18,999
Reclassification adjustments	—	(634)	(5,274)
Subtotal, before tax	1,707	1,649	13,725
Tax (expense)	(305)	(178)	(1,483)
Subtotal, net of tax	1,402	1,471	12,242
Foreign currency translation adjustments			
Increase during the year	943	692	5,759
Remeasurements of defined benefit plans			
Increase during the year	—	3,082	25,654
Reclassification adjustments	—	73	609
Subtotal, before tax	—	3,155	26,263
Tax (expense)	—	(1,045)	(8,700)
Subtotal, net of tax	—	2,110	17,563
Share of other comprehensive income of affiliates accounted for by the equity method			
Increase during the year	278	316	2,632
Total other comprehensive income	¥ 2,623	¥ 4,589	\$ 38,196

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5. Financial Instruments

(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 probability of loss of principal. The Companies utilize derivative transactions mainly to hedge interest rate fluctuation risk and limit the amount to actual demand.

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

Investments in securities, which are mainly shares in companies that have business relationships with the Companies, are exposed to market price risks. The Companies regularly review the fair value of the securities and the financial position of the companies and revise their portfolios considering the relationships with them.

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

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

The Companies establish regulations which stipulate the authorization and management of derivative transactions. See Note 2(4), "Derivative Transactions," about hedge accounting.

Notes and accounts payable and bank loans are exposed to liquidity risks. The Companies reduce such risks by making monthly cash flow plans. The Company has commitment line contracts in preparation for contingencies.

Fair values of financial instruments include values based on market price and values obtained by reasonable estimates when the financial instruments do not have market price. Since certain assumptions are adopted for calculating such values, the values may differ when different assumptions are adopted.

(2) Fair values of financial instruments -

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2014 were as follows. Certain financial instruments were excluded from the following table as the fair values were not available (see Note 2 below).

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and bank deposits	¥ 21,967	¥ 21,967	¥ —
(2) Notes and accounts receivable, trade	50,069	50,069	—
(3) Investments in securities			
Available-for-sale securities	8,936	8,936	—
(4) Notes and accounts payable, trade	(14,884)	(14,884)	—
(5) Short-term loans	(44,703)	(44,703)	—
(6) Long-term loans	(25,135)	(25,320)	△185
(7) Derivative transactions			
① Hedge accounting is not applied	(0)	(0)	—
② Hedge accounting is applied	—	—	—

(※) The debt is displayed by ().

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2015 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 value	Difference	Book value	Fair value	Difference
(1) Cash and bank deposits	¥ 20,010	¥ 20,010	¥ —	\$ 166,539	\$ 166,539	\$ —
(2) Notes and accounts receivable, trade	49,196	49,196	—	409,453	409,453	—
(3) Investments in securities						
Available-for-sale securities	9,674	9,674	—	80,512	80,512	—
(4) Notes and accounts payable, trade	(15,533)	(15,533)	—	(129,281)	(129,281)	—
(5) Short-term loans	(34,453)	(34,453)	—	(286,750)	(286,750)	—
(6) Long-term loans	(18,842)	(18,971)	△129	(156,820)	(157,893)	△1,073
(7) Derivative transactions						
① Hedge accounting is not applied	(0)	(0)	—	(1)	(1)	—
② Hedge accounting is applied	—	—	—	—	—	—

(※) The debt is displayed by ().

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

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

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

(3) Investments in securities

Market prices and quoted prices are used for equity securities.

See Note 6, "Securities."

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

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

Short-term loans payable includes the current portion of long-term loans.

(6) Long-term loans

The discounted cash flow method is used to estimate the fair value of long-term loans by using marginal borrowing rates as the discount rate.

(7) Derivative transaction

See Note 18, "Derivatives."

2. Non-listed equity securities whose fair values are not available are excluded from investments in securities above. These instruments as of March 31, 2014 and 2015 are as follows.

	Millions of yen		Thousands of U.S. dollars	
	2014	2015	2015	
Non-listed equity securities	¥ 478	¥ 478	\$	3,977

3. The aggregate maturities subsequent to March 31, 2014 for financial assets with maturities were as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Cash and bank deposits	¥ 21,967	¥ —	¥ —	¥ —
Notes and accounts receivable, trade	50,069	—	—	—
Total	¥ 72,036	¥ —	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2015 for financial assets with maturities are as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Cash and bank deposits	¥ 20,010	¥ —	¥ —	¥ —
Notes and accounts receivable, trade	49,196	—	—	—
Total	¥ 69,206	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Cash and bank deposits	\$ 166,539	\$ —	\$ —	\$ —
Notes and accounts receivable, trade	409,453	—	—	—
Total	\$ 575,992	\$ —	\$ —	\$ —

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4. The aggregate maturities subsequent to March 31, 2014 for short-term loans and long-term loans were as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short-term loans	¥ 44,688	¥ —	¥ —	¥ —
Long-term loans	—	25,063	—	—
Total	¥ 44,688	¥ 25,063	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2015 for short-term loans and long-term loans are as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short-term loans	¥ 34,438	¥ —	¥ —	¥ —
Long-term loans	—	18,785	—	—
Total	¥ 34,438	¥ 18,785	¥ —	¥ —

	Thousands of U.S. dollars			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short-term loans	\$ 286,625	\$ —	\$ —	\$ —
Long-term loans	—	156,346	—	—
Total	\$ 286,625	\$ 156,346	\$ —	\$ —

6. Securities

1. The aggregate acquisition costs and fair values (book values) of marketable securities classified as available-for-sale securities as of March 31, 2014 and 2015 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2014			2015			2015		
	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)
Securities whose book value exceeds acquisition cost:									
Stock	¥ 5,124	¥ 8,785	¥ 3,661	¥ 4,344	¥ 9,652	¥ 5,308	\$ 36,156	\$ 80,329	\$ 44,173
Securities whose acquisition cost exceeds book value:									
Stock	157	151	(6)	26	22	(4)	213	183	(30)
Total	¥ 5,281	¥ 8,936	¥ 3,655	¥ 4,370	¥ 9,674	¥ 5,304	¥ 36,369	¥ 80,512	¥ 44,143

2. There were no sales of available-for-sale securities in the year ended March 31, 2014. Available-for-sale securities sold in the year ended March 31, 2015 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses
Stock	¥ 1,547	¥ 634	¥ —	\$ 12,873	\$ 5,274	\$ —

7. Inventories

Inventories held by the Companies at March 31, 2014 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Merchandise	¥ 1,872	¥ 2,036	\$ 16,951
Finished products	8,956	7,774	64,700
Work-in-process	21,830	23,347	194,317
Raw materials and supplies	15,734	13,547	112,750
Total	¥ 48,392	¥ 46,704	\$ 388,718

8. Unconsolidated Subsidiaries and Affiliates

Items relevant to unconsolidated subsidiaries and affiliates at March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Investments in securities (stocks)	¥ 2,599	¥ 2,615	\$ 21,767

9. Assets Pledged as Collateral

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Assets pledged as collateral:			
Land	¥ 4,590	¥ 4,590	\$ 38,205
Buildings and structures	4,432	3,969	33,032
Machinery and equipment	6,245	5,057	42,092
	¥ 15,267	¥ 13,616	\$ 113,329
Secured liabilities:			
Long-term loans (including those due within one year)	8,775	5,850	48,689
	¥ 8,775	¥ 5,850	\$ 48,689

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10. Short-term Loans and Long-term Loans

Short-term loans at March 31, 2014 and 2015 represent bank overdrafts with weighted-average interest rates of 0.43% and 0.44%, respectively. It is normal business custom in Japan for short-term borrowings to be rolled over every year. The Company has commitment line contracts for short-term financing arrangements with 3 financial institutions for an aggregate maximum amount of ¥20,000 million (\$166,459 thousand). At March 31 2015, the total ¥20,000 million (\$166,459 thousand) is unused.

Long-term loans at March 31, 2014 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Loans from banks and other financial institutions due 2015 to 2019 with interest rates ranging from 0.45% to 1.94% at March 31, 2014 and due 2016 to 2019 with interest rates ranging from 0.45% to 1.94% at March 31, 2015	¥ 38,796	¥ 25,063	\$ 208,598
Other payables due 2015 to 2021 with interest of 4.05% at March 31, 2014 and due 2016 to 2021 with interest of 4.05% at March 31, 2015	87	72	598
	38,883	25,135	209,196
Less: Current portion of long-term loans	(13,748)	(6,293)	(52,376)
	¥ 25,135	¥ 18,842	\$ 156,820

The annual maturities of long-term loans outstanding at March 31, 2015 are as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 13,940	\$ 116,022
2017	15	125
2018	4,875	40,575
2019	9	70
2020 and thereafter	3	28
	¥ 18,842	\$ 156,820

11. Retirement Benefits

The Company and certain consolidated subsidiaries have funded or unfunded defined benefit pension plans and defined contribution pension plans for employee retirement benefits.

The defined benefit corporate pension plans all comprised of funded plans that provide lump sum payments or pension benefits based on salary and length of service. These plans set up retirement benefit trusts. Severance indemnity plans, though as a result of setting up retirement benefit trusts, some plans are funded, pay lump sums based on salary and length of service as retirement benefits.

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

Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at beginning of year	¥ 8,688	¥ 8,340	\$ 69,415
Cumulative effects of changes in accounting policies	—	(580)	(4,826)
Balance at beginning of year reflecting changes in accounting policies	8,688	7,760	64,589
Service cost	384	435	3,623
Interest cost	119	46	382
Actuarial loss	238	181	1,505
Benefit paid	(1,089)	(809)	(6,738)
Balance at end of year	¥ 8,340	¥ 7,613	\$ 63,361

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at beginning of year	¥ 7,664	¥ 9,271	\$ 77,162
Expected return on plan assets	110	140	1,162
Actuarial gain	1,626	3,263	27,159
Contributions paid by the employer	5	3	23
Benefits paid	(134)	(101)	(839)
Balance at end of year	¥ 9,271	¥ 12,575	\$ 104,667

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at beginning of year	¥ 476	¥ 523	\$ 4,350
Retirement benefit costs	78	82	679
Benefits paid	(32)	(54)	(452)
Others	1	4	41
Balance at end of year	¥ 523	¥ 555	\$ 4,618

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Funded retirement benefit obligations	¥ 8,340	¥ 7,613	\$ 63,361
Plan assets	(9,271)	(12,575)	(104,667)
	(931)	(4,962)	(41,306)
Unfunded retirement benefit obligations	523	555	4,618
Total Net liability (asset) for retirement benefits at end of year	(408)	(4,407)	(36,688)
Net defined benefit liabilities	689	553	4,599
Net defined benefit assets	(1,097)	(4,960)	(41,287)
Total Net liability for retirement benefits at end of year	¥ (408)	¥ (4,407)	\$ (36,688)

(5) Retirement benefit costs:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Service cost	¥ 383	¥ 435	\$ 3,623
Interest cost	119	46	382
Expected return on plan assets	(110)	(140)	(1,162)
Net actuarial loss amortization	31	73	609
Retirement benefit costs based on the simplified method	78	82	679
Total retirement benefit costs	¥ 501	¥ 496	\$ 4,131

(6) Remeasurements of defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Actuarial gains and losses	¥ —	¥ 3,155	\$ 26,263

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(7) Accumulated remeasurements of defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Actuarial gains and losses that are yet to be unrecognized	¥ 860	¥ (2,296)	\$ (19,108)

(8) Plan assets:

① Plan assets comprise:

	2014	2015
Equity securities	87%	90%
Bonds	1%	1%
Other	12%	9%
Total	100%	100%

The total of plan assets includes retirement benefit trusts set to the corporate pension plan accounted for 11% and 9% of total at March 31, 2014 and 2015, respectively.

② Long-term expected rate of return

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

(9) Actuarial assumptions

The principal actuarial assumptions at March 31, 2014 and 2015 (expressed as weighted averages) are as follows:

	2014	2015
Discount rate	1.4%	0.4%
Long-term expected rate of return	1.4%	1.5%

Defined contribution plans

The Company and certain consolidated subsidiaries have contributed a total of ¥180 million and ¥174 million (\$1,449 thousand) to the defined contribution plans for the year ended March 31, 2014 and 2015, respectively.

12. Income Taxes

The Companies are subject to a number of different income taxes which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 38.0% and 35.6% for the year ended March 31, 2014 and 2015, respectively. On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 are changed from 35.6% for the fiscal year ended March 31, 2015 to 33.0% and 32.2%, respectively, as of March 31, 2015.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥142 million (\$1,184 thousand) as of March 31, 2015, deferred income tax expense recognized for the fiscal year ended March 31, 2015 increased by ¥42 million (\$348 thousand), unrealized holding gains on securities increased by ¥106 million (\$882 thousand) and accumulated remeasurements of defined benefit plans increased by ¥78 (\$650 thousand).

At March 31, 2014 and 2015, significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Deferred tax assets:			
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trusts	¥ 2,597	¥ 2,349	\$ 19,548
Devaluation loss on marketable securities	1,150	1,041	8,660
Accrued bonuses	645	678	5,640
Gain on investment of certain marketable securities to employee retirement benefit trusts	378	383	3,186
Net defined benefit liabilities	310	251	2,087
Business tax payable	135	235	1,957
Unrealized gains	181	216	1,799
Devaluation loss on inventories	233	117	972
Other	836	821	6,843
Gross deferred tax assets	6,465	6,091	50,692
Less: Valuation allowance	(1,530)	(1,383)	(11,507)
Total deferred tax assets	¥ 4,935	¥ 4,708	\$ 39,185
Deferred tax liabilities:			
Net defined benefit assets	¥ (391)	¥ (1,597)	\$ (13,294)
Gain on contribution of certain marketable securities to employee retirement benefit trusts	(1,401)	(1,267)	(10,544)
Reserve for deferred capital gains from property, plant and equipment	(1,090)	(1,016)	(8,459)
Unrealized holding gains on securities	(831)	(1,009)	(8,400)
Reserve for special depreciation	(521)	(350)	(2,916)
Other	(292)	(352)	(2,923)
Total deferred tax liabilities	(4,526)	(5,591)	(46,536)
Net deferred tax assets (liabilities)	¥ 409	¥ (883)	\$ (7,351)

The reconciliation between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2014 and 2015 are not required to be disclosed due to the insignificance of the difference.

13. Net Assets

At the Company's Board of Directors meeting held on May 15, 2014, the directors approved cash dividends amounting to ¥323 million. At the Company's Board of Directors meeting held on May 18, 2015, the directors approved cash dividends amounting to ¥1,129 million (\$9,395 thousand).

14. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2014 and 2015 totaled ¥1,389 million and ¥1,383 million (\$11,511 thousand), respectively.

FINANCIAL STATEMENTS

15. Net Income Per Share

Basis for calculations of net income per share for the years ended March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Net income	¥ 4,066	¥ 6,548	\$ 54,496
Net income for common stockholders	¥ 4,066	¥ 6,548	\$ 54,496
	Thousands of shares		
	2014	2015	
The weighted-average number of shares of common stock	161,328	161,280	
	Yen		U.S. dollars
	2014	2015	2015
Net income per share	¥ 25.21	¥ 40.60	\$ 0.34

The Companies have no dilutive securities for the years ended March 31, 2014 and 2015.

16. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2014 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Cash and bank deposits	¥ 21,967	¥ 20,010	\$ 166,539
Time deposits with deposit terms of over 3 months and other	(388)	(683)	(5,684)
Cash and cash equivalents	¥ 21,579	¥ 19,327	\$ 160,855

17. Accounting for Leases

(1) Finance leases –

Non-capitalized finance leases at March 31, 2014 and 2015 are as follows:

As a lessee

Periodic lease charges to the Companies, as a lessee, which were charged to profit or loss for the years ended March 31, 2014 were ¥145 million.

Lease assets under finance leases, if capitalized, at March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
	Machinery and vehicles	Machinery and vehicles	Machinery and vehicles
Acquisition cost	¥ 1,454	¥ —	\$ —
Accumulated depreciation	1,370	—	—
Net book value	¥ 84	¥ —	\$ —

Depreciation expense for lease assets computed by the straight-line method over the period of the finance leases with no residual value for the years ended March 31, 2014 and 2015 are ¥145 million and ¥84 million (\$702 thousand), respectively.

Outstanding future lease payments due at March 31, 2014 and 2015, including interest, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Due within one year	¥ 84	¥ —	\$ —
Due after one year	—	—	—
Total	¥ 84	¥ —	\$ —

(2) Non-cancelable operating leases -

As a lessee

Outstanding future lease payments under non-cancelable operating leases at March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Due within one year	¥ 15	¥ 11	\$ 94
Due after one year	0	48	395
Total	¥ 15	¥ 59	\$ 489

18. Derivatives

(1) Derivative transactions to which hedge accounting is not applied.

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2014 were as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
Buying			
U.S. dollars	¥ 124	¥ (0)	¥ (0)
Japanese yen	31	(0)	(0)
Total	¥ 155	¥ (0)	¥ (0)

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2015 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract Amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:						
Buying						
U.S. dollars	¥ 159	¥ (0)	¥ (0)	\$ 1,324	\$ (1)	\$ (1)
Total	¥ 159	¥ (0)	¥ (0)	\$ 1,324	\$ (1)	\$ (1)

(2) Derivative transactions to which hedge accounting is applied.

Derivative transactions to which hedge accounting is applied for the years ended March 31, 2014 and 2015 are as follows:

	2014	2015
Method of hedge accounting	Exceptional method for interest rate swap transactions	Exceptional method for interest rate swap transactions
Type of derivative transactions	Interest rate swap transactions Payment fixation, Receipt change	Interest rate swap transactions Payment fixation, Receipt change
The main hedged items	Long-term loans	Long-term loans
Contract amount	¥19,435 million	¥16,510 million (\$137,412 thousand)
1 year or more amount of contract	¥16,510 million	¥13,585 million (\$113,067 thousand)
Fair value	※	※

※ Because interest rate swap transactions accounted for by the exceptional method are managed together with long-term loans that are hedged items, the fair value is included in the fair value of long-term loans.

FINANCIAL STATEMENTS

19. Contingent Liabilities

Guarantees against bank loans of employees and affiliates at March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of
	2014	2015	U.S. dollars
UCHIDA-SATO TECH (THAILAND) CO., LTD.	¥ 22	¥ —	\$ 179
Employees	27	15	126
Total	¥ 49	¥ 37	\$ 305

20. Segment Information

(1) General information about reportable segments

The Companies' reportable segments are the business units for which the Company is able to obtain separated financial information in order for the Board of Directors to regularly conduct investigations to determine the distribution of management resources and evaluate business results. Each operating division develops business activities and establishes comprehensive strategies for domestic and overseas markets according to the products it handles. Therefore, the Companies consist of business segments according to their products based on operating divisions and have determined the reportable segments, as "Specialty Steel," "Special Materials" and "Formed and Fabricated Materials."

The "Specialty Steel" segment includes the manufacture and sale of various special steel products such as bearing steel, engineering steel, stainless steel, heat resistant steel and tool steel. The "Special Materials" segment includes the manufacture and sale of metal powder products, heat/corrosion-resistant alloys, etc. The "Formed and Fabricated Materials" segment includes the manufacture and sale of formed and fabricated materials made from special steel bars/tubes.

(2) Basis of measurement about reportable segment profit or loss and other material items

The accounting methods applied to the reportable segments are generally the same as those described in Note 2, "Summary of Significant Accounting Policies," except that inventories are stated at cost to evaluate business results. Segment income is based on operating income. Intersegment transactions are based on market prices.

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

Segment information for the years ended March 31, 2014 and 2015 is as follows:

	For the year ended March 31, 2014						
	Millions of yen						
	Reportable segment					Adjustments	Consolidated total
Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total			
(a) Sales and operating income:							
Net sales							
Outside customers	¥ 134,799	¥ 7,634	¥ 18,964	¥ 190	¥ 161,587	¥ —	¥ 161,587
Intersegment transactions	¥ 9,680	¥ —	¥ —	¥ 1,077	¥ 10,757	¥ (10,757)	¥ —
Total	144,479	7,634	18,964	1,267	172,344	(10,757)	161,587
Segment income	¥ 4,146	¥ 1,254	¥ 1,934	¥ 52	¥ 7,386	¥ (502)	¥ 6,884
(b) Other:							
Depreciation	¥ 10,073	¥ 259	¥ 571	¥ 8	¥ 10,911	¥ (18)	¥ 10,893

1. The "Other" category is the information service segment not included in reportable segments.

2. Segment income adjustments of ¥502 million are adjustments for inventories of ¥551 million and intersegment elimination of ¥49 million.

3. Segment income is adjusted with operating income in the consolidated statements of operations.

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

	For the year ended March 31, 2015						
	Millions of yen						
	Reportable segment					Adjustments	Consolidated total
Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total			
(a) Sales and operating income:							
Net sales							
Outside customers	¥ 142,205	¥ 8,545	¥ 20,565	¥ 180	¥ 171,495	¥ —	¥ 171,495
Intersegment transactions	¥ 9,976	¥ —	¥ —	¥ 1,490	¥ 11,466	¥ (11,466)	¥ —
Total	152,181	8,545	20,565	1,670	182,961	(11,466)	171,495
Segment income	¥ 6,055	¥ 1,758	¥ 1,701	¥ 58	¥ 9,572	¥ (402)	¥ 9,170
(b) Other:							
Depreciation	¥ 9,044	¥ 185	¥ 543	¥ 6	¥ 9,778	¥ (15)	¥ 9,763

	Thousands of U.S. dollars						
	Reportable segment						
	Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income:							
Net sales							
Outside customers	\$ 1,183,561	\$ 71,123	\$ 171,157	\$ 1,500	\$ 1,427,341	\$ —	\$ 1,427,341
Intersegment transactions	\$ 83,032	\$ —	\$ —	\$ 12,400	\$ 95,432	\$ (95,432)	\$ —
Total	1,266,593	71,123	171,157	13,900	1,522,773	(95,432)	1,427,341
Segment income	\$ 50,398	\$ 14,633	\$ 14,151	\$ 481	\$ 79,663	\$ (3,344)	\$ 76,319
(b) Other:							
Depreciation	\$ 75,269	\$ 1,542	\$ 4,516	\$ 54	\$ 81,381	\$ (123)	\$ 81,258

1. The "Other" category is the information service segment not included in reportable segments.

2. Segment income adjustments of ¥402 million (\$3,344 thousand) are adjustments for inventories of ¥439 million (\$3,649 thousand) and intersegment elimination of ¥37 million (\$305 thousand).

3. Segment income is adjusted with operating income in the consolidated statements of operations.

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

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Related Information

Segment related information for the year ended March 31, 2014 was as follows:

(1) Information about products and services –

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

(2) Information about geographic areas –

1. Net sales

	For the year ended March 31, 2014					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	¥ 123,689	¥ 31,560	¥ 4,047	¥ 1,986	¥ 305	¥ 161,587

2. Property, plant and equipment

As Japan, which consists of Sanyo Special Steel Co., Ltd. and its domestic consolidated subsidiaries, represents more than 90% of the amount of property, plant and equipment on the consolidated balance sheet as of March 31, 2014, the Companies are not required to disclose information about property, plant and equipment.

(3) Information about major customers –

	For the year ended March 31, 2014		Related segment
	Net sales		
	Millions of yen		
Marubeni-Itochu Steel Inc.	¥ 31,957		Specialty Steel
Mitsui & Co., Ltd.	¥ 20,354		Specialty Steel

Segment related information for the year ended March 31, 2015 is as follows:

(1) Information about products and services –

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

(2) Information about geographic areas –

1. Net sales

	For the year ended March 31, 2015					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	¥ 127,569	¥ 35,961	¥ 5,344	¥ 2,402	¥ 219	¥ 171,495

	Thousands of U.S. dollars					
	Japan	Asia	North America	Europe	Others	Total
	Net sales	\$ 1,061,750	\$ 299,304	\$ 44,474	\$ 19,994	\$ 1,819

2. Property, plant and equipment

As Japan, which consists of Sanyo Special Steel Co., Ltd. and its domestic consolidated subsidiaries, represents more than 90% of the amount of property, plant and equipment on the consolidated balance sheet as of March 31, 2015, the Companies are not required to disclose information about property, plant and equipment.

(3) Information about major customers –

	For the year ended March 31, 2015			Related segment
	Net sales			
	Millions of yen		Thousands of U.S. dollars	
Marubeni-Itochu Steel Inc.	¥ 32,302		\$ 268,846	Specialty Steel
Mitsui & Co., Ltd.	¥ 20,056		\$ 166,922	Specialty Steel

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Sanyo Special Steel Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2015 and 2014, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sanyo Special Steel Co., Ltd. and its consolidated subsidiaries as at March 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 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 LLC

August 13, 2015
Osaka, Japan

CORPORATE DATA (As of March 31, 2015)

Corporate Data

Corporate Name	Sanyo Special Steel Co., Ltd.
Head Office/Works	3007, Nakashima, Shikama-ku, Himeji, Hyogo 672-8677 Japan phone (+81) 79-235-6003
Established	January 11, 1935
Paid-in Capital	¥20,182 million
Number of Employees	2,706 (consolidated basis) 1,341 (non-consolidated basis)
Register of Shareholders	The Chuo Mitsui Trust & Banking Co., Ltd.
Stock Listings	Tokyo Stock Exchange (1st Section)
Book Closing	March 31
Branches and Offices	Tokyo Regional Office, Osaka Branch, Nagoya Branch, Hiroshima Branch, Kyusyu Sales Office
Homepage Address	http://www.sanyo-steel.co.jp/english/index.php

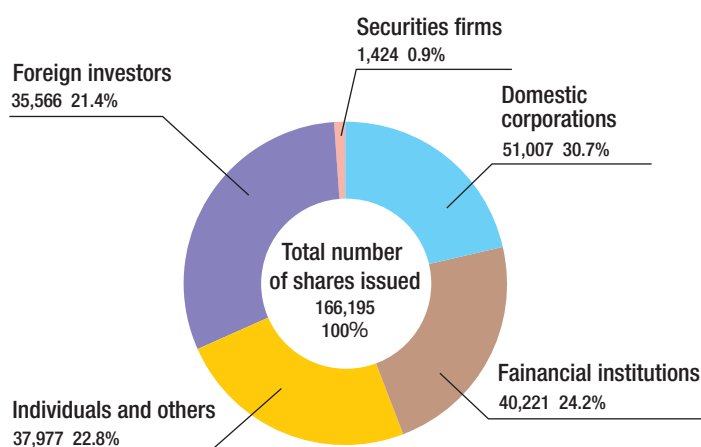
Stock Information

Total Number of Shares Authorized to be Issued	474,392,000
Total Number of Shares Issued	167,124,036
Number of Shareholders	14,338

Principal Shareholders

Name of Shareholder	Percentage of Voting Rights (%)
NIPPON STEEL & SUMITOMO METAL CORPORATION	15.13
NORTHERN TRUST CO.(AVFC) RE 15PCT TREATY ACCOUNT	6.56
Company's Kyoekai Association	6.33
NSK Ltd.	4.66
Sumitomo Mitsui Banking Corporation	3.55
The Master Trust Bank of Japan, Ltd. (trust account)	3.43
NORTHERN TRUST CO.(AVFC) RE-HCR00	2.35
Mizuho Bank, Ltd.	2.27
Marubeni-Itochu Steel Inc.	1.94
Japan Trustee Services Bank, Ltd. (trust account)	1.79

Shareholder Composition (thousands of shares)



Note : Treasury stock of 5,871 shares is included in "Individuals and others".

Note: The Company holds 5,871 thousand shares of its own stock in treasury, but is excluded from the above list of major shareholders.

Consolidated Subsidiaries and Equity-Method Affiliates

Specialty Steel

Consolidated Subsidiaries

- ① **Yokoh Bussan Co., Ltd.**
Trading of special steel products, steelmaking raw materials and other materials
- ② **Santoku Seiken Co., Ltd.**
Manufacturing and marketing of special steel products
- ③ **Santoku Kogyo Co., Ltd.**
Processing of special steel, machinery maintenance
- ④ **Santoku Technos Co., Ltd.**
Processing of special steel
- ⑤ **SKJ Metal Industries Co., Ltd.**
Manufacturing and marketing of special steel products
- ⑥ **P.T. SANYO SPECIAL STEEL INDONESIA**
Manufacturing and marketing of special steel products
- ⑦ **SANYO SPECIAL STEEL TRADING (SHANGHAI) CO., LTD.**
Involved in business and sales of special steel products in China
- ⑧ **Sanyo Special Steel India Pvt. Ltd.**
Involved in business and sales of special steel products in India

Equity-method Affiliates

- ⑨ **Mahindra Sanyo Special Steel Pvt. Ltd.**
Manufacturing and marketing of special steel products

Formed and Fabricated Materials

Consolidated Subsidiaries

- ⑩ **Santoku Tech Co., Ltd.**
Manufacturing of special steel products
- ⑪ **SANYO SPECIAL STEEL U.S.A., Inc.**
Trading of special steel products
- ⑫ **Ningbo Sanyo Special Steel Products Co., Ltd.**
Manufacturing and marketing of special steel products
- ⑬ **Siam Sanyo Special Steel Product Co., Ltd.**
Manufacturing and marketing of special steel products

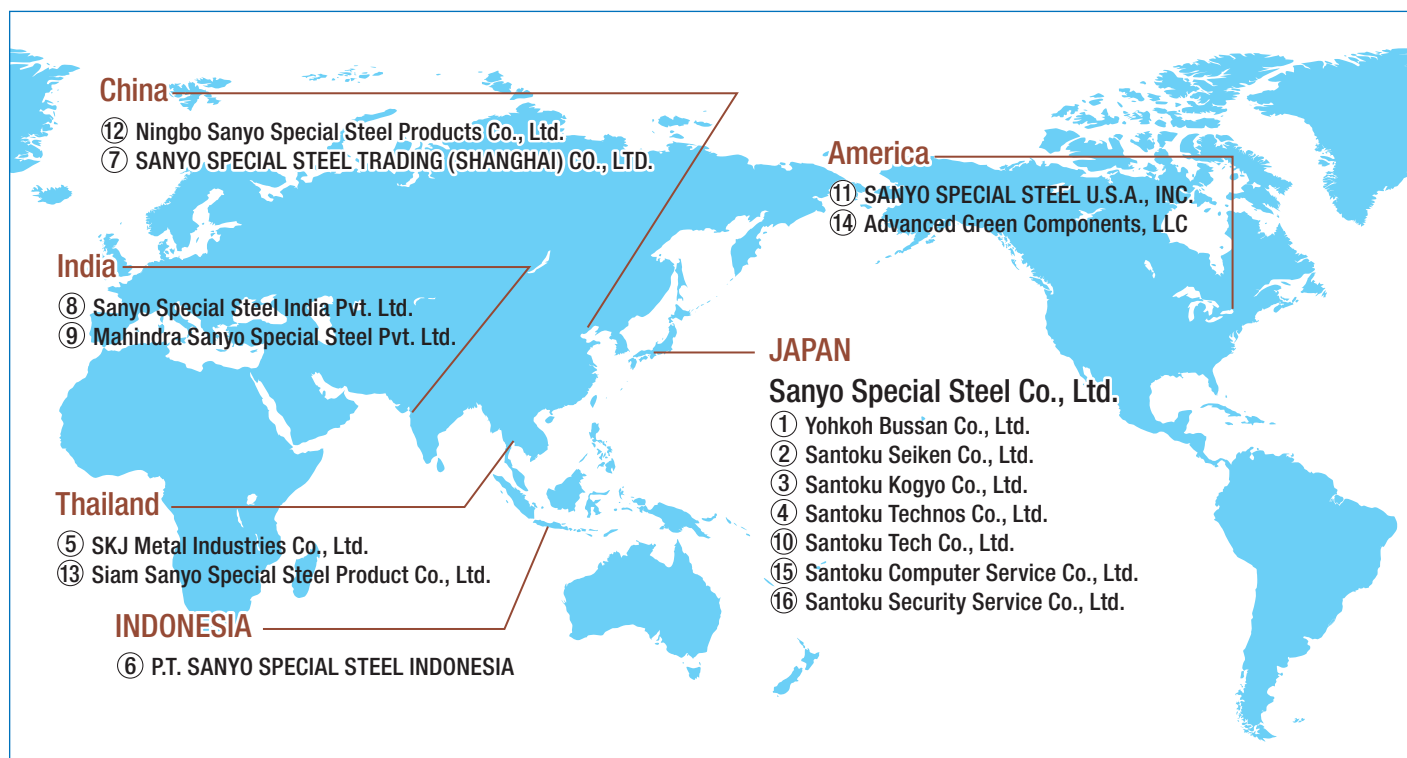
Equity-method Affiliates

- ⑭ **Advanced Green Components, LLC**
Manufacturing of special steel products

Other

Consolidated Subsidiaries

- ⑮ **Santoku Computer Service Co., Ltd.**
Construction and operation of, and consulting services for, information systems
- ⑯ **Santoku Security Service Co., Ltd.**
Security and facilities maintenance services





SANYO SPECIAL STEEL Co., Ltd.

This annual report can also be found at our website.
<http://www.sanyo-steel.co.jp/english/>