SANYO SPECIAL STEEL

2017

ANNUAL REPORT

APRIL 1.2016-MARCH 31.2017

SANYO SPECIAL STEEL

Message From President

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 corporate philosophy is based on “Confidence-based Management” and Sanyo Special Steel aims to establish “Confidence of society,” “Confidence of customers” and “Confidence among people.”

Our mission is to contribute to the development of society by providing “Steel You Can Count On” which has earned a high degree of confidence from the market in all aspects including development, quality, and stable supply, based on our corporate philosophy.

Companies must perform both economically and socially if they are to succeed. We intend to enhance the brand power of “Sanyo Special Steel – the Confident Choice,” and bring our business to the next level as we fulfill our responsibilities as members of society, which include implementation of global environment measures and corporate missions.

We will continue to promote faithful, fair, and transparent corporate management, and to increase the value of our company and earn the confidence of all stakeholders by fulfilling our economic and social missions.

樋口真哉

Shinya Higuchi

Representative Director
and President

Contents

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.

Corporate Philosophy

Confidence-based Management

“Confidence of society”

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

“Confidence of customers”

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

“Confidence among people”

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

Sanyo Special Steel -the Confident Choice

“Development”

We are determined to create the future of steel by taking the lead in research and by developing superior products/technologies that add to our brand power, in response to customer needs ascertained by a thorough analysis of customer information.

“Quality”

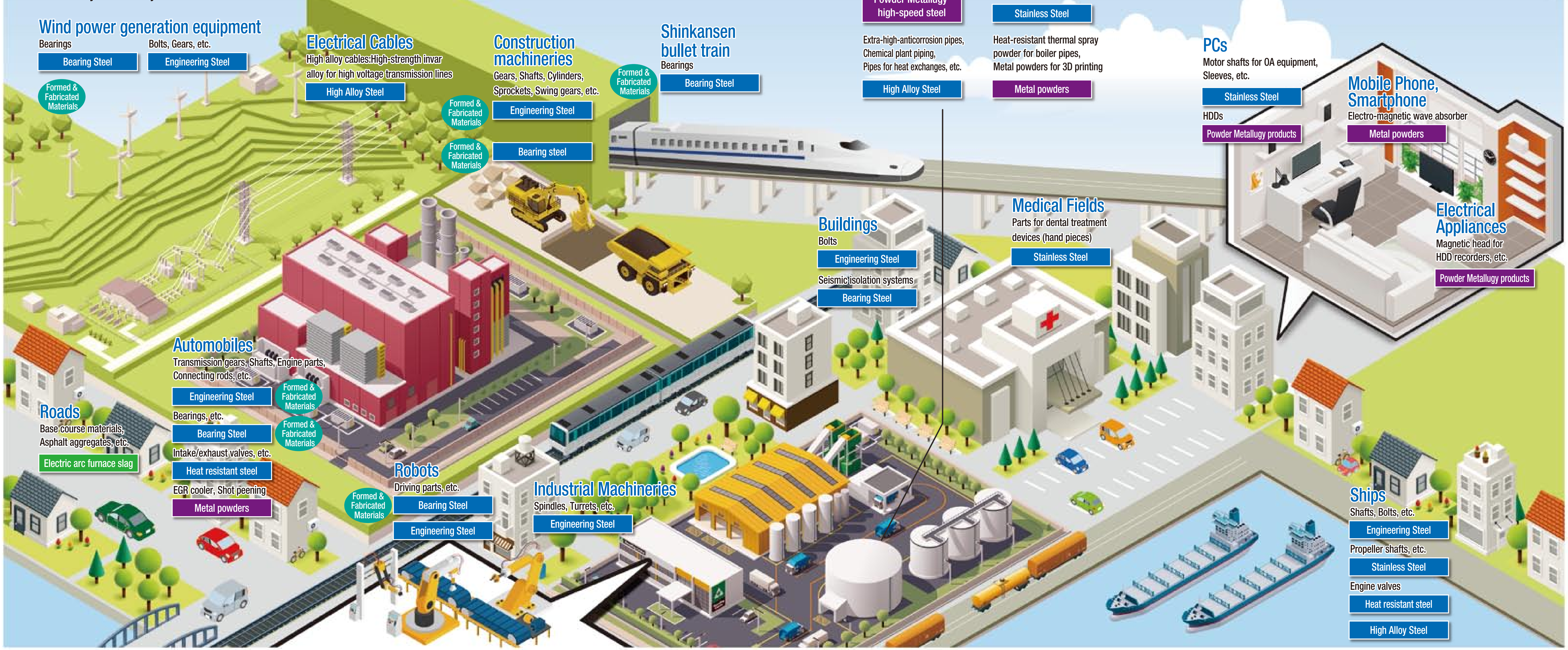
We aim to win a high level of customer confidence by further increasing the already unsurpassed cleanliness of our steel and by strengthening quality control.

“Stable Supply”

By creating efficient manufacturing processes that allow increased production capacity, we are committed to the stable supply of high-quality special steel that meets the requirements of customers.

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

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



Sanyo Special Steel uses electric arc furnace steelmaking (which uses iron scrap as a main ingredient) to manufacture special steel, contributing to the recycling and effective use of iron resources.

Analysis of Results of Operations and Financial Condition

Fiscal years ended March 31

FY 2016 Overview

The Japanese economy travelled moderately towards recovery in FY2016, showing improvements in corporate earnings, employment, and income, thanks to the effects of various measures. However, the future of the economy remains uncertain, primarily due to increasing uncertainties in the global economy and financial market volatility caused by concerns over a downturn in China and other emerging countries, the UK's withdrawal from the European Union, and the policy trends of the new U.S. administration as well as other factors.

In the special steel industry, production volume of hot-rolled special steels was higher than that in the previous term, owing primarily to the automobile industry, a major customer sector for Sanyo Special Steel, continuing its stable performance.

In such circumstances, the net sales of the Group for the fiscal year decreased by 10,467 million yen year on year to 138,680 million yen, mainly due to the drop in prices associated with the iron scrap surcharge system and changes in the product mix despite an increase in sales volumes. Despite the drop in sales prices due primarily to impacts from the strong yen, the increase in retirement benefit expenses caused by falling stock prices, and fall in profits in consolidated subsidiaries, ordinary income increased by 196 million yen year on year to 11,736 million yen, mainly by virtue of an increase in sales volumes, a drop in raw material and fuel prices, and efforts toward cost reduction. ROS (Ordinary income to Net sales) for the fiscal year improved to 8.5% (7.7% for the previous year). Net income attributable to owners of the parent increased by 367 million yen year on year to 7,784 million yen, and ROE (ordinary income to net assets) for the fiscal year improved to 6.6% (6.6% for the previous year).

FY2017 Outlook

The Japanese economy is expected to continue recovering moderately, however, the operating environment surrounding the Group is expected to remain challenging due to the effects of a slowdown in emerging economies, growing uncertainties over the global economy, and intense global competition in the special steel industry.

In such circumstances, the Group will take extraordinary efforts to establish a corporate structure capable of stably and globally supplying high-quality special steel that meets exact needs of the customer by ensuring that production responds to demand trends, implementing aggressive internal cost-cutting measures, and stepping up efforts to strengthen non-price competitiveness.

Regarding the demand trend for the next term, the Group expects a slight increase in sales volumes primarily due to the robust automobile sector and signs of recovery in the industrial and construction equipment sectors. In anticipation of a sharp rise in iron scrap and other raw material and fuel prices, the Group will further focus on reducing costs and strive to improve sales prices, aiming at ensuring adequate margins while seeking understanding from customers.

By considering all of these factors, the Group expects to earn 150 billion yen in net sales, 11.8 billion yen in ordinary income, and 7.8 billion yen for net income attributable to parent company shareholders.

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 the expectations of our shareholders expectations, primarily by distributing profits based on periodic business performance, while giving due consideration to both the payout ratio and the amount of funds required for investment and other activities to enhance our corporate value. We pay dividends at the end of the 2nd quarter and the end of the fiscal year in accordance with our profit distribution standard based on our consolidated business performance. Thus far, our standard of profit distribution has been a consolidated payout ratio of 20% to 30%. However, we have decided to increase returns to our shareholders by raising the lower limit and setting the new criterion as 25% to 30% from the dividend payment at the end of the current term.

Regarding dividends for the FY2016, we paid a dividend of 12.5 yen per share (payout ratio of 25.9%) annually according to the basic policy, since net income attributable to owners of the parent reached 7,784 million yen for the current year. As we implemented an interim dividend of 5 yen per share, the year-end dividend is to be 7.5 yen per share.

Regarding dividends for the FY2017, we are planning to pay an interim dividend of 6.5 yen, a year-end dividend of 30.0 yen based on the performance forecast announced now and the basic policy for profit distribution.

Incidentally, the Company will carry out a share consolidation at a ratio of 5 shares to one share effective October 1, 2017. Assuming the dividend is recalculated in accordance with the share consolidation, the full-year dividend will effectively be 62.5 yen per share.

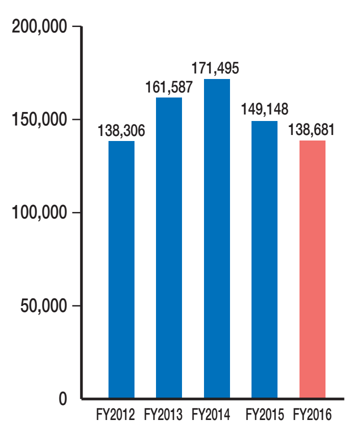
Consolidated Financial Highlights

Sanyo Special Steel Co., Ltd. and consolidated subsidiaries

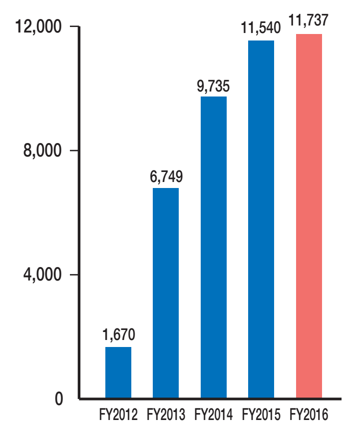
	FY2014	FY2015	FY2016	Change FY2015 / FY2016	FY2016
Operating Results (For the year)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net sales	¥ 171,495	¥ 149,148	¥ 138,681	-7.0	$ 1,236,126
Operating income	9,170	12,188	11,686	-4.1	104,159
Ordinary income	9,735	11,540	11,737	1.7	104,616
Net income attributable to owners of the parent	6,548	7,417	7,784	5.0	69,383
Financial Position (at year-end)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net assets *2	113,644	113,141	123,144	8.8	1,097,638
Total assets	202,243	179,899	183,445	2.0	1,635,125
Financial Indicator			(%)		(%)
ROS *3	5.7	7.7	8.5	0.8	8.5
ROE *4	6.1	6.6	6.6	0.0	6.6
ROA *5	4.8	6.0	6.5	0.5	6.5
Net D/E Ratio *6	0.29	0.13	0.10	-0.03	0.10
			(Yen)	(%)	(US Dollars)*1
Net income per share	40.60	46.00	48.29	5.0	0.43
Net assets per share	700	697	759	8.9	6.77
Cash dividends per share	10.00	12.00	12.50	4.2	0.11

* 1 US dollar amounts are converted, for convenience purpose only, at the rate of ¥112.19=US$1, the approximate rate of exchange on March 31, 2017.
* 2 Non - controlling interests are included in net assets.
* 3 Ordinary income to Net sales
* 4 Net income attributable to owners of the parent to Net assets
* 5 Ordinary income to Total assets
* 6 Net debt equity ratio - (gross interest-bearing debt - cash and deposits) / equity

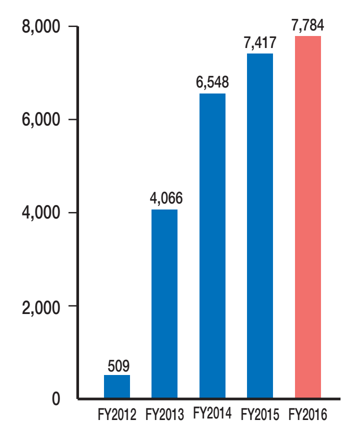
Net sales
(Millions of Yen)



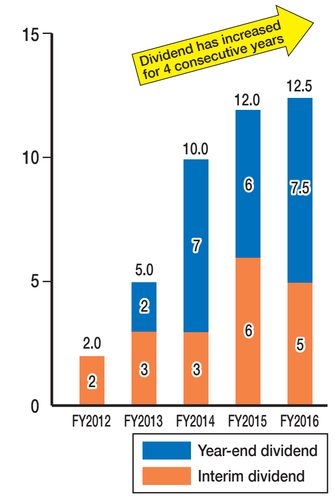
Ordinary income
(Millions of Yen)



Net income attributable to owners of the parent
(Millions of Yen)



Cash per share
(Yen)



Segment Information

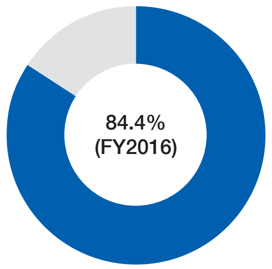
Specialty Steel

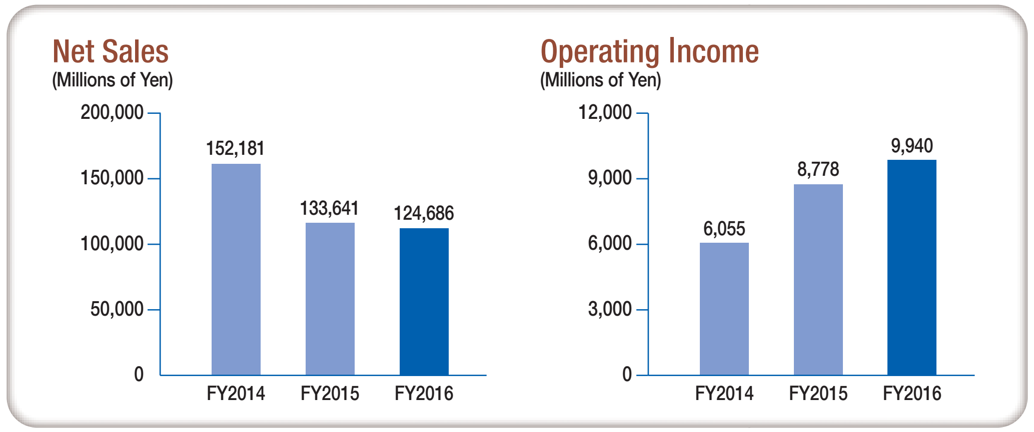
In the Specialty Steel segment, we manufacture and sell various special steel products including bearing steel, which boasts a top share in the total domestic production, as well as engineering steel, stainless steel, heat resistant steel and tool steel.

FY2016 Overview

Net sales decreased by 8,955 million yen year on year to 124,686 million yen, mainly because sales prices dropped due to the iron scrap surcharge system and changes in the product mix . Operating income increased by 1,162 million yen year on year to 9,940 million yen, mainly due to a drop in raw materials and fuel prices and cost reduction efforts despite the impact of the strong yen on sales prices, changes in the sales structure, and an increase in fixed costs.

Sales Breakdown





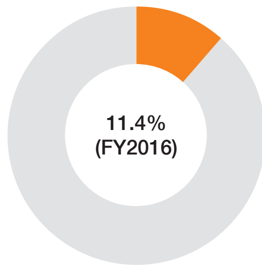
Formed and Fabricated Materials

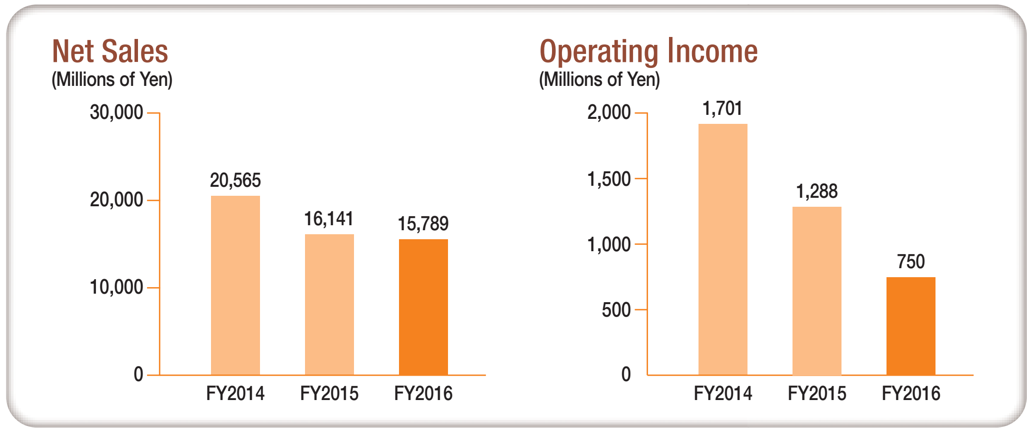
The Formed and Fabricated Materials segment uses an integrated process to manufacture high-quality formed and fabricated materials from high-cleanliness steel, which is produced using our high-cleanliness steel manufacturing technology. Our formed and fabricated materials include cut rings produced by 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.

FY2016 Overview

Net sales decreased by 352 million yen year on year to 15,789 million yen, mainly because sales prices dropped due to the iron scrap surcharge system. Operating income decreased by 539 million yen year on year to 750 million yen, primarily due to the impact of the strong yen on sales prices, an increase in personnel cost caused by wage increases in subsidiaries in China, and an increase in temporary costs such as expenses for the commencement of businesses at subsidiaries in Thailand and Mexico.

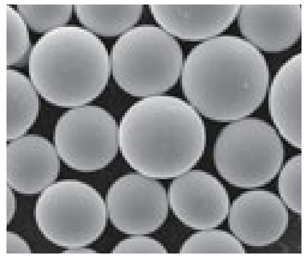
Sales Breakdown





Special Materials

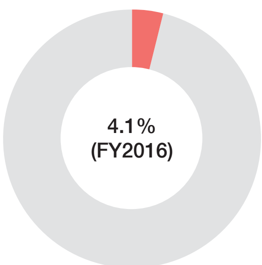
The Special Materials segment manufactures and sells heat/corrosion-resistant alloys and powder metallurgy products, among others.

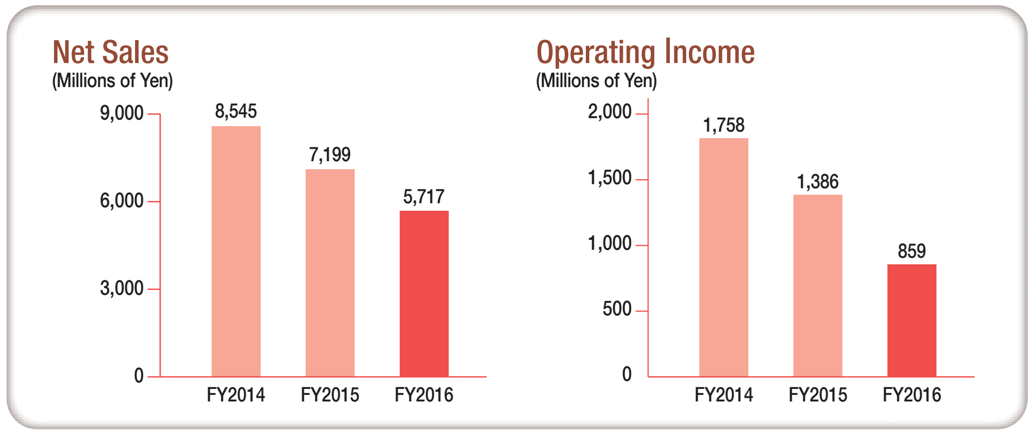


FY2016 Overview

Net sales decreased by 1,481 million yen year on year to 5,717 million yen, mainly because the sales volumes decreased from the previous term partly due to weak demand in the electronic component sector and plants and the impact of the strong yen. Operating income decreased by 526 million yen year on year to 859 million yen.

Sales Breakdown





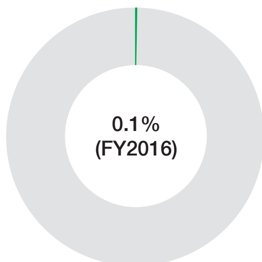
Other

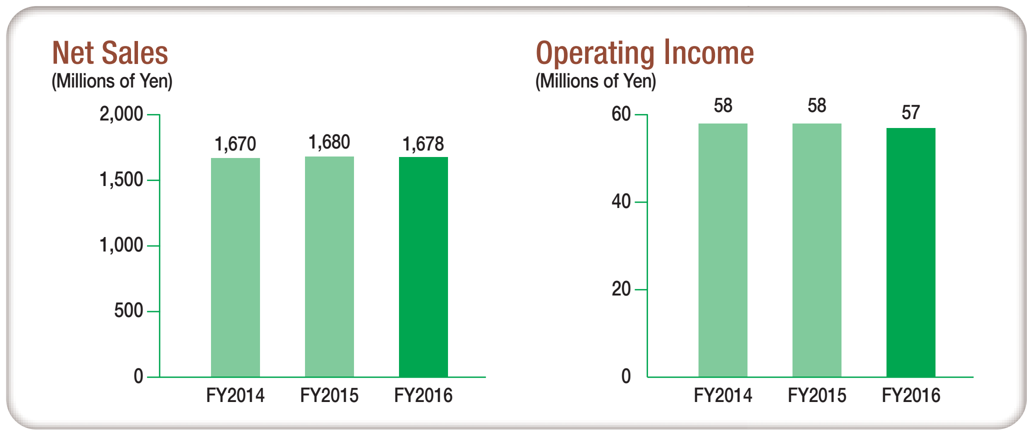
We provide information processing services through our subsidiaries.

FY2016 Overview

Net sales decreased by 1 million yen year on year to 1,678 million yen. Operating income decreased by 0 million yen year on year to 57 million yen. This segment includes information processing services conducted through subsidiaries.

Sales Breakdown





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.

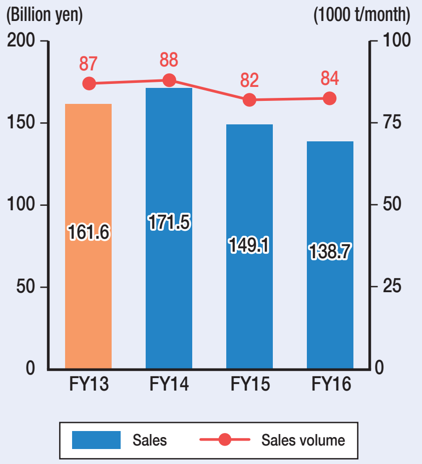
Results of the 9th Medium-Term Business Plan

(Unit: billion yen)

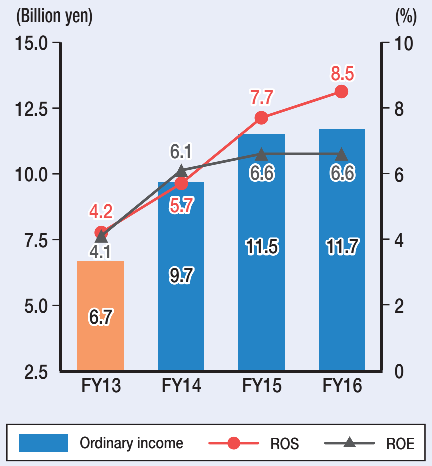
	9th Medium-Term Business Plan (FY2016 targets)	FY2016 (Performance)	Variance
Net sales	200.0	138.7	△61.3
Ordinary income	15.0	11.7	△3.3
ROS	7.5%	8.5%	1.0%
ROE	7.5%	6.6%	△0.9%
D/E ratio (net)	0.30	0.10	△0.20
Interest-bearing debt (net)	35.0	12.7	△22.3
Investment (3 years)	30.0	35.3	5.3

● Changes in KPIs

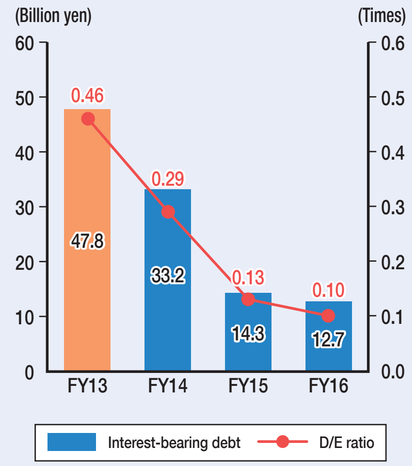
Net sales, sales volume



Ordinary income, ROS, ROE



Interesting-bearing debt, D/E ratio (net)



Major measures during the 9th Medium-Term Plan

◆Special steel

- Achieved sequential casting world record (100 heats) with a single tundish and no exchange submerged entry nozzle in a bearing steel production (February 2015)
- Award of the 63rd (Fiscal 2016) Okochi Production Prize (February 2017)
  We received the Okochi Production Prize under the title of "Development of High Productivity Process of the Ultra-High-Cleanliness Bearing Steel".
- Development of New products
  - Commercialization of "ECOMAX4" nickel/molybdenum-free high-strength case hardening steel (July 2015)
  - "QDX-HARMOTEX®" obtained certification from NADCA (North American Die Casting Association) (February 2016)
  - Successful development of High-Toughness technology of Hyper-Eutectoid steel (February 2017)

◆Formed and fabricated materials

- Established SMM a local subsidiary to manufacture and sell formed and fabricated materials in Mexico(December 2015)
- Started of commercial production at SSSP a local subsidiary to manufacture and sell formed and fabricated materials in Thailand (January 2016)

◆Special materials

- Decision to construct the No.2 metal powder Plant (October 2015)

◆Others

- Awarded the "Diversity Management Selection 100" as the company that have enhanced corporate value by diversity management (March 2015)
- Decision to introduce an executive officer system (March 2017)

10th Medium-Term Business Plan

Sanyo Global Action 2019

- Pursue sustainable growth by building a global brand of Sanyo -

Strategy of the 10th Medium-Term Business Plan

Based on our management principle of "Confidence-based Management," we will firmly establish a strong corporate structure that will enable us to secure stable earnings by executing "Sanyo Factory Renovation" and strengthening our business foundation. In addition, we aim to further pursue technological superiority and to promote "Sanyo Special Steel - the Confident Choice" to a global brand, with the aim of achieving sustainable growth (human resources, technologies, and profitability) even in a challenging environment of intensifying global competition in the special steel industry, and rising raw material and energy prices.

Establish a strong corporate structure by strengthening the business foundation

Further pursue technological superiority by enhancing R&D and quality competitiveness

Promote " Sanyo Special Steel - the Confident Choice " to a global brand

Pursue Sustainable Growth

Human resources
Technologies
Profitability

Targeted KPIs

(Unit: billion yen)

	FY2016 (Performance)	FY2019 (Target)	Variance
Net sales	138.7	150.0	11.3
Ordinary income	11.7	13.5	1.8
ROS	8.5%	9.0%	0.5%
ROE	6.6%	7.0%	0.4%
ROA	6.5%	7.0%	0.5%
D/E ratio (net)	0.1	0.2	0.1
Investment (3 years)	35.3	50.0	Approx. x1.4
R&D spending (3 years)	4.6	5.0	Approx. x1.1
Recruitment (3 years, Non-consolidated)	56 persons	150 persons	Approx. x2.7
Consolidated dividend payout ratio	25.9%	30%	4.1%

Note 1. ROE: Net Income to Net Assets
Note 2. ROA: Ordinary Income to Total Assets

Major assumptions (FY16 → FY19)

- Scrap market prices: 22 → 32 (+10) 1,000 yen/t
- Exchange rate: 109 → 100 yen/US$
- Dubai crude oil: 47 → 60 $/BL

Priority Measures

● Establish a strong corporate structure by strengthening the business foundation

(1) Strengthen competitiveness by executing "Sanyo Factory Renovation"

In addition to efforts at our regular energy saving, cost-reduction and labor saving, we aim to strengthen our cost and delivery competitiveness by streamlining factory logistics and directly linking production processes, to eliminate bottlenecks at No. 2 Bar Mill, and to promote automation and optimization through the use of AI and IoT.

- Eliminate bottlenecks at No. 2 Bar Mill, etc.
- Streamline factory logistics and directly link production processes
- Promote automation and improve efficiency through AI and IoT, etc.

→ Strengthen cost & delivery competitiveness

(2) Secure stable earnings

i) Steel Products business

We aim to capture the growing overseas demand for special steel and absorb material and energy price hikes through cost reductions and sales price increases as well as improvement in our sales mix. In this way, we will ensure a strong corporate structure that will secure stable earnings through resilience against impacts of the external environment.

ii) Non-steel Products business

We will ensure that our businesses in Thailand (SSSP) and Mexico (SMM) and No. 2 Metal Powder Plant, which we decided in 9th medium-term, steadily become established. We will also capture growth markets in efforts to expand the non-steel business (1.5-fold growth in sales compared to FY2016), thereby increasing stable earnings for the entire company.

(3) Enhance the management foundation

i) Promote agile, transparent management

We will continuously focus on management with the understanding that safety initiatives, disaster prevention, environmental conservation, and a sound compliance structure are the cornerstones of management, and we will promote agile, transparent management by establishing an executive officer system (June 2017 onwards).

ii) Secure and train human resources

To ensure that we have a long-term, stable workforce, we will strengthen our regular recruitment program (increasing our hiring by 2.7-fold compared to the 9th medium-term period) and promote measures to foster the development of personnel who can work in an international environment and who can transfer their expertise to other staff. In addition, we will improve our re-hiring scheme and continue to work on measures to promote diversity including providing support to women in the workplace and reforming work style to achieve a work-life balance.

iii) Enhance shareholder return

While there is a need for strategic funding, we intend to set the lower limit of the consolidated dividend payout ratio at 25% (currently 20%), taking into account our current financial position, and will aim for a consolidated dividend payout ratio of 30% in the final year of the 10th Medium-Term Business Plan.

● Further pursue technological superiority by enhancing R&D and quality competitiveness

(1) Enhance quality competitiveness, mainly for bearing steel

We will maintain Sanyo Special Steel's internal quality superiority based on its core "Premium Cleanliness Steel Manufacturing Technology" and we will achieve external appearance quality to match internal quality through improved processes and further advancement in quality assurance. In doing so, we aim to become "No. 1 globally in internal quality and external appearance quality."

- Maintain Sanyo Special Steel's internal quality superiority based on its core "Premium Cleanliness Steel Manufacturing Technology"
- Develop external appearance quality through process improvements and a higher level of quality assurance

↓ Aim to become "No. 1 globally in internal quality and external appearance quality"

(2) Promote R&D

With our sights set on global development, we will clarify the functions of basic research and product development and will strengthen medium- and long-term R&D planning functions with a view to continually creating products with high reliability and new technology. In terms of R&D spending, we will be investing 5.0 billion yen over three years in the 10th medium-term, for a 1.1-fold increase from the 9th medium-term.

- R&D spending 1.1-fold increase from 9th medium term (4.6 → 5.0 billion yen)
- Clarify functions of basic research and product development
- Strengthen medium- and long-term R&D planning functions

↓ Create products with high reliability and new technology rapidly and continually

● Promote "Sanyo Special Steel-the Confident Choice" to a global brand

(1) Promote global branding measures

We will further enhance QCDD (quality, cost, delivery, and development) competitiveness to promote customer satisfaction, which is the source of our brand power. Furthermore, for further development of our global brand, we will review strategies for our respective overseas areas and customers, strengthen our overseas bases, establish a six-center structure worldwide for our Formed & Fabricated Materials business, and build a global supply chain. In addition, we will consider currency fluctuation measures and global CMS in light of the increase in our overseas bases and transactions.

Enhance the source of our brand power (QCDD* power)

* Quality (Quality), Cost (cost) • , Delivery (delivery on time) Development (R&D)

↓

- Strengthen the roles of our overseas bases
- Establish a 6-center structure worldwide for the Formed and Fabricated Materials business
- Build a global supply chain

↓ Global branding

(2) Promote initiatives aimed at further improvements in recognition

We will accelerate technological exchanges with customers in Japan and overseas by strengthening our technology planning function, and we aim to earn a high level of trust and achieve brand penetration in the global market. In addition, we will further enhance recognition of Sanyo Special Steel by stepping up our efforts at communicating information in Japan and overseas, including PR and IR activities.

- Strengthen the technical planning function and accelerate technical exchanges with customers
- Enhance communication of information in Japan and overseas
  ... Actively expand PR and IR activities, etc.

↓ Worldwide brand penetration

● Investments

Planning for 50 billion yen in 3 years (x1.4 compared to 9th Medium-Term)

In specific terms, we intend to implement the following investment plan: 25 billion yen/3 years for strategic investment ("Sanyo Factory Renovation", M&A, etc.) and 25 billion yen /3 years for general investments (investment in cost reductions such as energy saving, labor savings, quality, updating of aging facilities, etc.), totaling 50 billion yen /3 years.

- Strategic investment 25 billion yen/3 years
  ... "Sanyo Factory Renovation", M&A, etc.
- General investment 25 billion yen/3 years
  … Investment in cost reductions such as energy savings, labor savings, quality, updating of aging facilities, etc.

Corporate Governance

We are striving to enhance our corporate governance and internal control systems with a view to building management infrastructure, which 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 eleven directors (including two outside directors), 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 Internal Control Committee to ensure thorough compliance and solid corporate governance, the Security & Trade Control Committee, the Environment Conservation Committee, and the Corporate Budget Committee. We have adopted the Executive officer system to clarify the division of responsibility for the "policy decision and supervision of management" and "business execution" and to ensure prompt decision-making in response to diverse changes in the business environment.

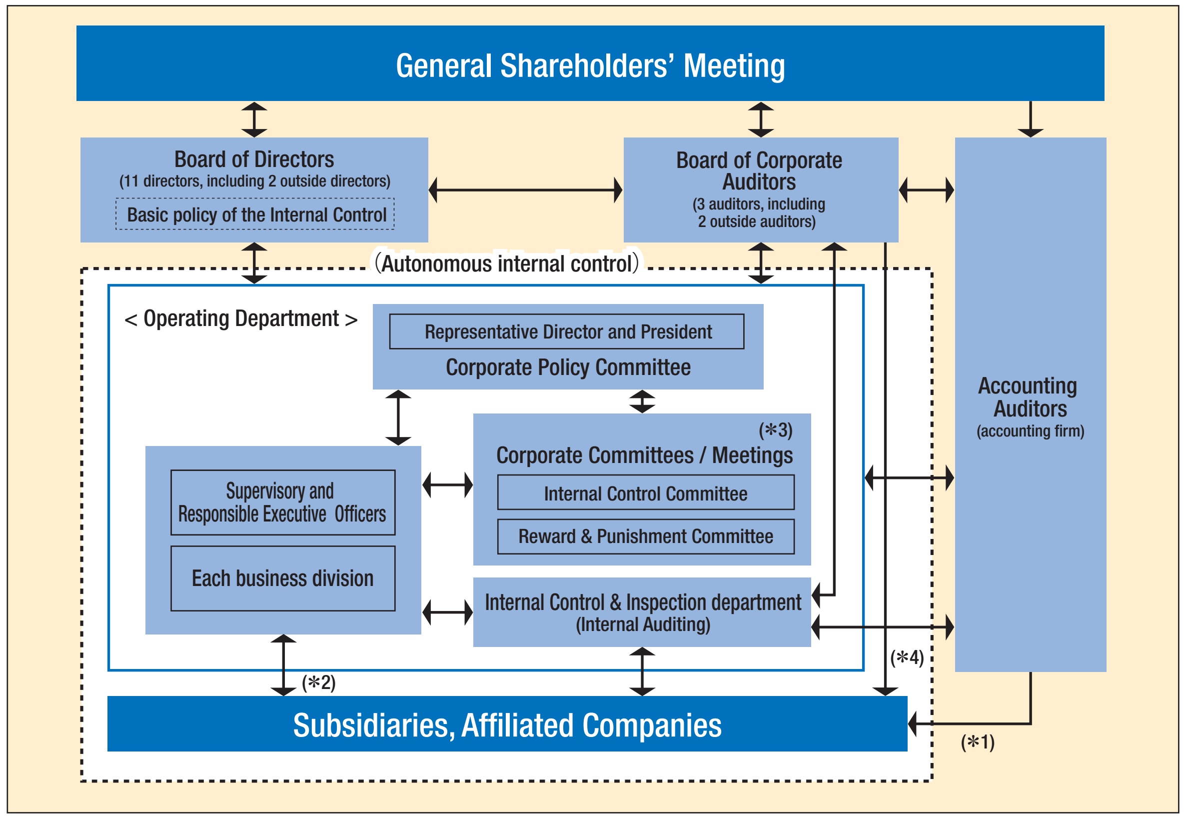
Audits by corporate audits are conducted as necessary based on auditing policies formulated each year by the Board of Corporate Auditors. Audits are conducted by three corporate auditors (including two outside auditors) on a broad range of areas, including not only directors' execution of their duties 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 28, 2017)



(*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) We have committees and conference bodies, including the Comprehensive Budget Committee, the Capital Investment Committee and the Investment and Loan Committee. In addition, we have an internal reporting system "Compliance Portal" to prevent occurrences of compliance violations.
(*4) Corporate auditors perform inspections as necessary on the operations and asset status of subsidiaries.

Development and Management of Internal Control Systems

We resolved a basic policy to create internal control systems at the Board of Directors meeting in accordance with the Company Law of Japan and other relevant laws and ordinances. Under this policy, we have developed, managed, and made constant efforts to improve our internal control systems which allow our autonomous activity to be developed throughout the Company in principle, as a management system to ensure appropriate the business execution necessary to achieve integrity, fairness, and transparency in our corporate management.

In addition, in order to enhance the effectiveness of the internal control, as well as to discuss every item relating to internal control, in April 2016, we newly established an Internal Control Committee which includes the function of a Corporate Behavior and Ethics Special Committee that has discussed compliance policy and specific measures in the past.

Executives

(As of June 28, 2017)

Representative Director and President

Shinya Higuchi

Directors, Member of the Board
Senior Managing Executive Officers

Shin-ichi Tominaga

Akihiko Yanagitani

Directors, Member of the Board
Managing Executive Officers

Wataru Nishihama

Kazuhiko Nagano

Kozo Takahashi

Shigehiro Oi

Kozo Omae

Director, Member of the Board
Executive Officer

Katsu Yanagimoto

Directors, Member of the Board

Yusaku Omori (*1)

Takashi Kobayashi (*1)

Corporate Auditors

Hiroaki Kimura (Standing Corporate Auditor)
Katsuaki Oe (*2)
Kazuhisa Fukuda (*2)

Executive Officers

Kazuya Shinno, Takayo Chiba, Takashi Kuwana, Shinobu Kuroishi
Yasukazu Unigame, Masanori Kunisada, Norihiko Morishita

(*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 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 judgments (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 decision-making for financial matters and business policies in the Company should fully understand the Company's "Basic Management Policy" and consistently seek to secure and enhance the enterprise value of the company and common interests of the shareholders. 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 enterprise 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 compliance awareness in our employees.

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 Internal Control 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 lows 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 lows 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.

Also 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 a steel manufacturer.


Our original maternity working wear


Lounge for women during of pregnancy and childrearing

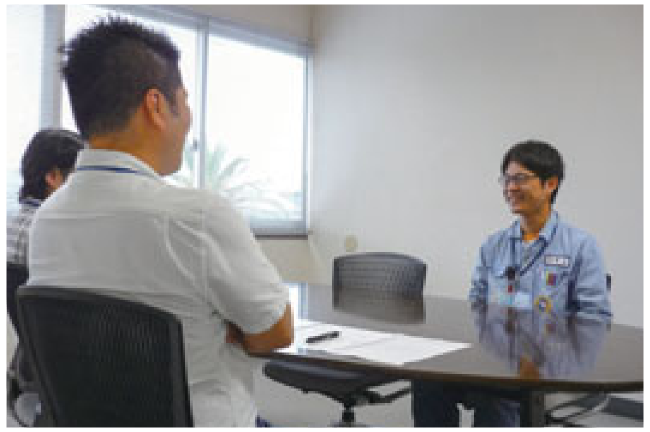
DIVERSITY 100 2015

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

Developing the abilities of employees

In line with our basic policy of "Training and utilizing people," we have set up a detailed training and education system. We hold a range of group training programs on a timely basis, based on development of ability through their day-to-day duties, with the objectives of fostering employees who have both the spirit of accepting new challenges and the individuality to set and resolve problems by themselves. In addition, we run foreign language programs (mainly training in English) and overseas study courses, with the goals of developing employees who have the ability to respond to a globalizing business environment.

The performance of our employees is reviewed, focusing on the following questions so that each and every one of our staff can have a strong desire for personal growth, achievement of personal goals, and always challenge issues at a high level, and at the same time, their individuality and the spirit of accepting new challenges can be fostered. These questions are:"Have you set high goals and strived to achieve them?" and "Did you steadily carry out a process to achieve these goals?"


Interviews with young employees

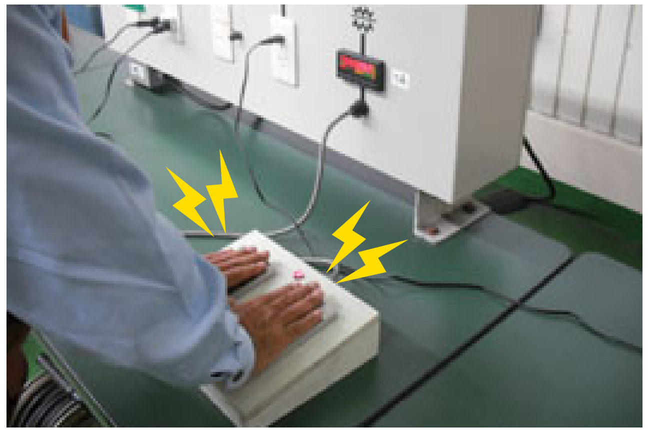

Overseas language training seminar report meetings

CSR Activities

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.

Experiential learning about being caught into a roller of a belt conveyor



Experiential learning about electrocution by constant AC voltage

Disaster prevention initiatives

In preparation for fires, earthquakes and other emergencies, we have set up a management system and have conducted activities to further raise levels of disaster awareness.

We have a fire management system that is ready at all times. We have prepared manuals in readiness for factory fires or explosions, or natural disasters such as earthquakes. Periodically we hold disaster-prevention drills, and we strive to prevent accidents and to contain damage should a disaster strike. In addition, our disaster prevention drills focus on more specific disaster as we specify emergency situations. In the event of an emergency, we will set up a temporary Disaster Control Headquarters to monitor the situation and help manage the recovery.

Large-scale-earthquake drills

Temporary Disaster Control Headquarters

Disaster prevention drills held in conjunction with the local fire station

Working together with our clients and business partners

In line with our basic procurement policies, we are working to strengthen relationships of trust with our business partners and clients while working with them to procure in an environmentally friendly manner. In addition, all employees in our Procurement Department attend a course outside our Company regarding "The Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors." These employees also create and use voluntary checklists in their procurement transactions as part of our internal control process. Through these activities, we have raised corporate social responsibility (CSR) awareness among our Procurement staff to strengthen relationships of trust with our clients and business partners in our procurement transactions.

Promoting communication with shareholders and investors

To promote greater understanding of our business strategy and our business conditions, we are striving to publicly disclose investor relations data, hold one-on-one meetings with institutional investors, conduct financial results briefings and take other initiatives to facilitate communications.

Disclosure of IR information

We are actively working to publicize information on our performance and activities in a timely manner. We have established Investor Relations pages (English and Japanese) on the Company website, providing a range of IR materials including financial highlights, summaries of financial results and earnings forecasts. For overseas viewers we offer Annual Reports (in English) and a variety of other data. We also offer (in Japanese) videos of our financial results briefings via our website. In FY2016 we held our first overseas IR meeting in London. As our Company expands globally, this was a valuable opportunity for us to enhance our communications with overseas investors.

Our discussions with shareholders and investors

We continue to hold financial result briefings for institutional investors, financial institutions and clients, and have one-on-one meetings with institutional investors. At a financial results briefing for analysts that we held in Tokyo in May 2017, Managing Executive Officer Kozo Takahashi explained the financial results and President Shinya Higuchi explained our 10th Medium-Term Business Plan. At the Q&A session that followed, there were many questions about the Medium-Term Business Plan and our Company's business.

In March 2017, we held a factory tour and a financial results briefing for individual shareholders. Since 2007 we have held these events annually to help deepen understanding of our Company's business. Some 90% of people taking part in tours of our impressive manufacturing sites tell us afterwards that the tour helped them to get a greater understanding of our Company's business.

IR pages on the Company website
http://www.sanyo-steel.co.jp/english/shareholder/index.html

Financial results briefing for analysts

Factory tour and financial results briefing for individual shareholders

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 product 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

Greening of our factory, expected to serve as a “green filter” to absorb CO_2

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

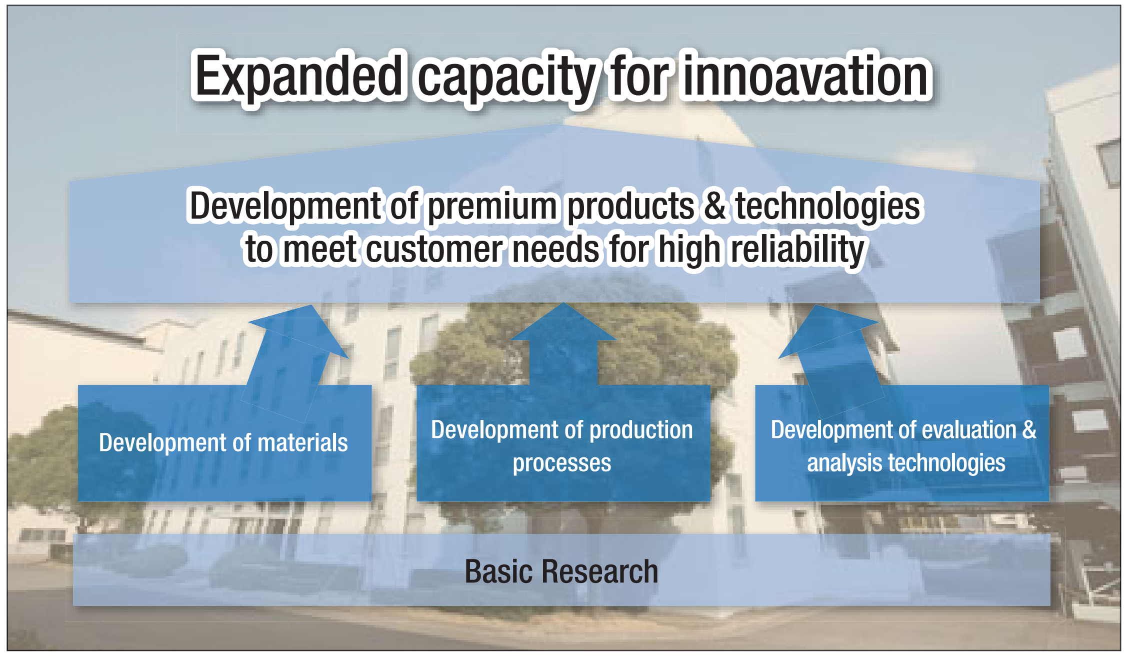
Research and Development

We use findings accumulated through basic research to develop materials, production processes, evaluation and analysis technologies, and premium products and technologies that meet customer needs for reliability, and to expand the capacity for innovation.

Utilizing our wealth of expertise in the production of advanced clean steel, we develop products of superior quality and dependability that are differentiated by their high functions, as well as materials and technologies that reduce the environmental impact of our customers' manufacturing processes and product use.

Computer Aided Engineering is employed to develop production processes that ensure steel with the properties and availability that inspire confidence.

We will continue our research in order to promptly and accurately respond to the changing needs of our customers and society, promote advanced technological innovation, and open up new frontiers for special steels.



Topics

Development of High-Toughness Hyper-Eutectoid Steel

–Equivalent hardness to cold-work tool steel and bearing steel, along with more than five times higher toughness –

We successfully developed the technology to produce high-toughness hyper-eutectoid steel* in collaborative research with Komatsu Ltd. and Osaka University.

Applying appropriate alloy composition and innovative heat treatment, we have found it possible to significantly improve the toughness of hyper-eutectoid steel. With the practical application of the technology, which realizes both high hardness and high toughness, we can expect the following drastic improvement in the performance; that is, improved strength, impact toughness, abrasion resistance, etc. when used for general parts, energy saving and reduction of emission gas with smaller and lighter parts for transmission and bearing components to bear heavy load, and cost reduction owing to the reduced consumption of rare metals for tool and die materials to stand up impact loads.

＊Hyper-eutectoid steel

Steel that contains 0.7% or more carbon is called hyper-eutectoid steel. By quenching and tempering, this steel easily shows high hardness and high abrasion resistance; therefore, it is often used for tools, bearings, structural parts of machines, etc.

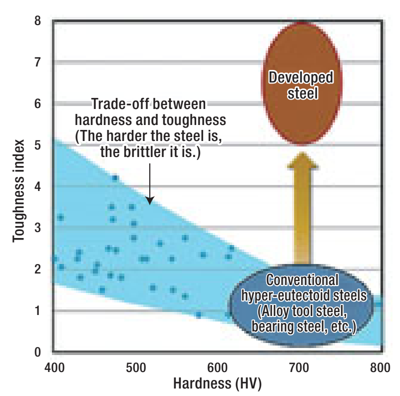


Figure :Relationship between Hardness and Toughness of Steels.

There is a "trade-off" between hardness and toughness: if the hardness increases, the toughness decreases. With developed technology regarding heat treatment and alloy composition, hyper-eutectoid steel that balances both high toughness and high hardness is realized.

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 bearrings 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

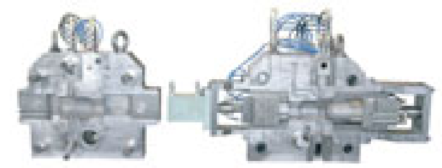
"QDX-HARMOTEX, " a Hotworking-die steel

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

Satisfying severe quality requirements of the North American Die Casting Association, QDX-HARMOTEX is approved for the NADCA Grade C steel.

"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

Formed and Fabricated Materials Subsidiary in Mexico Will Start Commercial Production

Advancement into the large market across the Pacific Ocean


The new plant in Mexico


Examples of formed and fabricated materials for bearings

We have incorporated a local subsidiary, “Sanyo Special Steel Manufacturing de México, S.A. de C.V. (SMM),” which manufactures and sells formed and fabricated materials in Mexico.

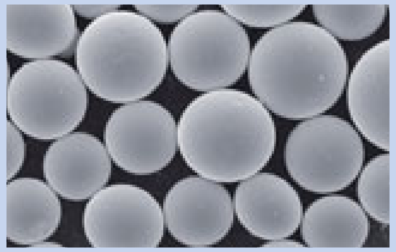
The construction of a manufacturing facility with integrated production processes (forging, machining and heat treatment to produce formed and fabricated materials) has been completed in Abasolo, Guanajuato, a major base of the local automobile industry. The plant started manufacturing of a small amount of samples in May 2017. A number of Japanese and western bearing manufacturers have recently entered the Mexican market, raising expectations for an increase in demand for the upstream processes for producing bearings in Mexico over the medium- to long-term.

Under its 10th medium-term business plan (fiscal 2017 to fiscal 2019), Sanyo aims at improving stability of earnings through expansion of non-steel business including the formed and fabricated materials business. In the formed and fabricated materials business, we aim at establish investment (local subsidiaries in Thailand and Mexico) decided in 9th medium-term (FY2014 to FY2016), and capture growth market. The Company’s decision to advance into Mexico will result in having the Formed and Fabricated Materials segment operate plants in six places: Japan (Santoku Tech Co., Ltd.), China (Ningbo Sanyo Special Products Co., Ltd.), the United States (Advanced Green Components, LLC), India (Mahindra Sanyo Special Steel Pvt. Ltd.), Thailand (Siam Sanyo Special Steel Product Co., Ltd.), and Mexico (SMM). The Company will promptly build a supply-chain in a growing market, to meet the needs of customers to expand the global business globally, as well as to boost the formed and fabricated materials business.

The State-of-the Art No.2 Highly Functional Metal Powder Plant Has Completed

Response to the expansion of the metal powder market, high purification needs, and the creation of a new market


The No.2 metal powder plant


Highly spherical metal powder (electron microscope photo)

The Company has completed construction of the No.2 metal powder plant with a high level of cleanliness within the head office factory to respond to the expanding metal powder market largely due to the increasing demand for 3D printers that may innovate the manufacturing business and increase the need for high reliability and purity, mainly in the electronic component sectors and in the new market. The plant will start operation in summer 2017, as planned.

The Company will introduce two high-purity vacuum induction-melting inert gas atomizers and a cutting-edge disk atomizer in the No.2 Metal Powder Plant for research and development related to manufacturing and applications of highly spherical powders of high-melting point materials, and promote its efforts to grow the metal powder business and expand advanced technology further.

No.2 Steelmaking Plant Achieves Crude Steel Production Cumulative of 30 Million Tons

We have focused on improving quality and technology since its start up in 1982

Crude steel production at the No.2 Steelmaking Plant reached 30 million tons of cumulative volume in February 2017.

The No.2 Steelmaking Plant is our main steelmaking plant. It consistently mass produces high quality special steel using an integrated manufacturing process, from electric arc furnace melting to billet inspection. We have continued to improve quality and technology since its start up in October 1982. Currently, we have established Development of High Productivity Process of Ultra-High-Cleanliness Bearing Steel of world-class cleanliness. We also made the sequential casting world record of 100 heats with a single tundish and no change of immersion nozzles on February, 2015. And we received the Okochi Production Prize award at the Okochi Memorial Prize under the title of “Development of High Productivity Process of Ultra-High-Cleanliness Bearing Steel” on March, 2017.

We will continue to improve Sanyo Special Steel’s quality and technology in the future, and to stably supply of high-quality special steel products to our customers.


No.2 Steelmaking Plant


The memorial photography by the president and staffs that when crude steel production cumulative 30 million tons has amounted.

We Received the Okochi Production Prize

Under the title of “Development of High Productivity Process of Ultra-High-Cleanliness Bearing Steel”


At the award ceremony, held at Japan Industry Club in Tokyo Marunouchi on March 24, 2017

Sanyo Special Steel received the Okochi Production Prize ceremony at the 63rd (FY2016) Annual Okochi Memorial Prize under the title of “Development of High Productivity Process of Ultra-High-Cleanliness Bearing Steel.”

The Okochi Memorial Prizes, which are awarded by the Okochi Memorial Foundation in commemoration of the late Dr. Masatoshi Okochi’s achievements, are large traditional and prestigious prizes to honor outstanding accomplishments which contributed to the advancement of academia and the development of industry in the field of research and implementation of manufacturing engineering, industrial technology, and production systems in Japan.

Bearing steel is the material to make bearings for all moving objects, such as automobiles, and Shinkansen bullet trains. Since bearings are used under harsh conditions over a long time, bearing steel requires high reliability. We have established technologies to produce molten steel with extremely high cleanliness based on a secure heritage of technologies and skills handed down over our long history. In 2015, we have established 100 heats for sequence casting without replacing the tundish and the submerged nozzle. Our development of these technologies, which makes high quality compatible with high productivity, was highly acclaimed and led to this award.

We will continue to improve Sanyo Special Steel’s quality and technology in the future, and to contribute to the development of society by stably providing high-quality special steel products.

Presentation at the “4th Highly-functional Metal Exposition”

The Company provided a promotional presentation of advanced highly functional materials at an exhibition that gathers the most advanced metal technologies


Approximately 1,600 visitors came to by the booth exhibiting the Company’s products and materials. They revealed a high level of interest in the Company’s high-performance materials.

The Company provided a promotional presentation of its metal powder products developed in its special material business and advanced highly-functional materials such as heat- and corrosion-resistant alloys at the “4th Highly-functional Metal Exposition” at Tokyo Big Sight in April 2017.

Metal powder is an advanced highly functional material used in a wide range of sectors: automobile, industrial machinery and electronic components, etc. The Company provides low-impurity, highly-spherical, functional and reliable metal powder products. The heat- and corrosion-resistant alloys are high-performance materials that can stand extremely severe conditions, and used for boilers for thermal power plants and pipes in chemical plants.

Products we exhibited

- Metal powder for 3D printing & Examples of moldings by 3D printing
- High-performance gas atomized metal powders
- Flaky powders for electromagnetic wave absorbers
- Sputtering Targets
- High-performance P/M high speed steels
- High sphericity disk atomized metal powders
- Bars & tubes of heat- and corrosion-resistant alloys


Examples of moldings by 3D printing: Himeji Castle

Financial Section

Analysis of Balance Sheets

Total assets stood at 183,444 million yen at the end of FY2016, an increase of 3,545 million yen from the end of the previous term. This increase is primarily attributable to increases in net defined benefit assets caused by higher stock prices and available-for-sale securities despite a decrease in cash and deposits mainly through loan repayments.

Liabilities stood at 60,300 million yen, decrease 6,457 million yen from the end of the previous term, due primarily to decrease loans.

Net assets stood at 123,143 million yen, an increase of 10,003 million yen from the end of the previous term. This increase is primarily due to the recording of net income attributable to owners of the parent, re-measurements of retirement benefits caused by higher stock prices, and increased valuations on available-for-sale securities.

Consequently, the D/E ratio (the ratio of interest-bearing liabilities to net assets after deducting cash and deposits) reached 0.10 at the end of the FY2016 term (0.13 at the end of the previous term).

Analysis of Cash Flows

Concerning the status of cash flows in FY2016, the net cash provided by operations was 15,090 million yen (a decrease of 13,680 million yen from the previous term), primarily due to increases in trade receivables (- 2,377 million yen), inventories (- 2,291 million yen), and trade payables (3,013 million yen) as well as payment of corporate taxes (- 3,978 million yen) compared to net income before taxes (11,458 million yen) and depreciation (9,098 million yen).

The net cash used in investing activities were 11,141 million yen (an increase of 2,630 million yen from the previous term), mainly due to capital investments for acquiring tangible fixed assets to reduce cost and update existing facilities and other tasks (-10,700 million yen).

The net cash used in financing activities were 10,775 million yen (an 8,032 million yen decrease in the deficit from the previous term), due mainly to a decrease in loans payable (- 9,984 million yen).

Consequently, cash and cash equivalents at the end of FY2016 were 13,542 million yen (a 7,086 million yen decrease from the end of the previous term).

Financial Statements

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2016	**2017**	**2017**
Current Assets:			
Cash and bank deposits (Notes 5 and 16)	¥ 22,179	¥ **14,835**	$ **132,227**
Notes and accounts receivable, trade (Note 5)	40,532	**41,830**	**372,848**
Electronically recorded monetary claims	3,196	**4,206**	**37,490**
Less: Allowance for doubtful accounts	(11)	**(10)**	**(86)**
Inventories (Note 7)	37,630	**39,740**	**354,219**
Deferred tax assets (Note 12)	1,804	**1,671**	**14,899**
Income taxes receivable	39	**103**	**922**
Other	766	**686**	**6,109**
Total current assets	106,135	**103,061**	**918,628**
Property, Plant and Equipment:			
Land (Note 9)	7,723	**8,109**	**72,276**
Buildings and structures (Note 9)	47,676	**49,090**	**437,560**
Machinery and equipment (Note 9)	210,118	**214,413**	**1,911,164**
Construction in progress	2,613	**3,578**	**31,895**
	268,130	**275,190**	**2,452,895**
Less: Accumulated depreciation	(207,943)	**(214,893)**	**(1,915,440)**
Total property, plant and equipment	60,187	**60,297**	**537,455**
Intangibles	1,178	**1,431**	**12,751**
Investments and Other Assets:			
Investments in securities (Notes 5, 6 and 8)	9,245	**11,454**	**102,099**
Long-term loans receivable	1,007	**807**	**7,189**
Deferred tax assets (Note 12)	166	**175**	**1,564**
Net defined benefit assets (Note 11)	1,373	**5,629**	**50,176**
Other	766	**749**	**6,671**
Less: Allowance for doubtful accounts	(158)	**(158)**	**(1,408)**
Total investments and other assets	12,399	**18,656**	**166,291**
Total assets	¥ 179,899	¥ **183,445**	$ **1,635,125**

Financial Statements

LIABILITIES AND NET ASSETS	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 3) 2017
Current Liabilities:			
Short-term loans (Notes 5 and 10)	¥ 14,783	¥ **18,720**	$ **166,856**
Current portion of long-term loans (Notes 5, 9 and 10)	13,940	**15**	**134**
Commercial papers	—	**1,000**	**8,913**
Notes and accounts payable, trade (Note 5)	11,713	**14,507**	**129,308**
Accounts payable, other	6,197	**5,005**	**44,613**
Accrued income taxes	2,205	**2,167**	**19,316**
Accrued expenses	7,204	**7,107**	**63,344**
Other	1,318	**772**	**6,883**
Total current liabilities	57,360	**49,293**	**439,367**
Long-term Liabilities:			
Long-term loans (Notes 5 and 10)	7,831	**7,816**	**69,668**
Accrued directors' and corporate auditors' retirement benefits	52	**62**	**553**
Deferred tax liabilities (Note 12)	767	**2,302**	**20,516**
Provision for loss on guarantees	—	**5**	**46**
Net defined benefit liabilities (Note 11)	592	**623**	**5,554**
Other	156	**200**	**1,783**
Total long-term liabilities	9,398	**11,008**	**98,120**
Total liabilities	66,758	**60,301**	**537,487**
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**	$ **179,897**
Capital surplus	22,597	**22,597**	**201,420**
Retained earnings	69,492	**75,503**	**672,989**
Less: Treasury stock, at cost (5,922,766 shares in 2016 and 6,028,257 shares in 2017)	(1,841)	**(1,904)**	**(16,971)**
Total shareholders' equity	110,431	**116,379**	**1,037,335**
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	1,678	**3,577**	**31,885**
Deferred gains on hedges	3	**(9)**	**(85)**
Foreign currency translation adjustments	1,492	**759**	**6,767**
Remeasurements of defined benefit plans	(1,295)	**1,624**	**14,474**
Total accumulated other comprehensive income	1,878	**5,951**	**53,041**
Non-controlling Interests	832	**814**	**7,262**
Total net assets	113,141	**123,144**	**1,097,638**
Total liabilities and net assets	¥ 179,899	¥ **183,445**	$ **1,635,125**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2016 and 2017

	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 3) 2017
Net Sales	¥ 149,148	¥ **138,681**	$ **1,236,126**
Cost of Sales (Note 14)	123,911	**112,913**	**1,006,444**
Gross profit	25,237	**25,768**	**229,682**
Selling, General and Administrative Expenses (Note 14)	13,049	**14,082**	**125,523**
Operating income	12,188	**11,686**	**104,159**
Other Income:			
Interest and dividends	258	**235**	**2,092**
Other	575	**390**	**3,478**
	833	**625**	**5,570**
Other Expenses:			
Interest	(360)	**(211)**	**(1,879)**
Equity in losses of unconsolidated subsidiaries and affiliates	(377)	**(238)**	**(2,126)**
Other	(744)	**(125)**	**(1,108)**
	(1,481)	**(574)**	**(5,113)**
Ordinary income	11,540	**11,737**	**104,616**
Extraordinary Gains and Losses:			
Gain on sale of land	—	**3**	**35**
Loss on sale and disposition of property, plant and equipment	(389)	**(282)**	**(2,518)**
Loss on evaluation of investments in securities and others	(20)	**—**	**—**
	(409)	**(279)**	**(2,483)**
Income before income taxes	11,131	**11,458**	**102,133**
Income Taxes (Note 12):			
Current	3,837	**3,707**	**33,043**
Deferred	(155)	**(68)**	**(602)**
	3,682	**3,639**	**32,441**
Net income	7,449	**7,819**	**69,692**
Net income Attributable to Non-controlling Interests	32	**35**	**309**
Net income Attributable to Owners of the Parent	¥ 7,417	¥ **7,784**	$ **69,383**

	Yen 2016	Yen 2017	U.S. dollars (Note 3) 2017
Per Share:			
Net income (Note 15)	¥ 46.00	**48.29**	$ **0.43**
Cash dividends	¥ 12.00	**12.50**	$ **0.11**
Net assets	¥ 696.69	**759.36**	$ **6.77**

The accompanying notes are integral parts of these statements.

Financial Statements

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	**2017**	**2017**
Net Income	¥ 7,449	**¥ 7,819**	**$ 69,692**
Other Comprehensive Income:			
Valuation difference on available-for-sale securities	(2,616)	**1,899**	**16,929**
Deferred gains (losses) on hedges	3	**(12)**	**(109)**
Foreign currency translation adjustments	(265)	**(654)**	**(5,825)**
Remeasurements of defined benefit plans	(2,852)	**2,919**	**26,015**
Share of other comprehensive income of affiliates accounted for by the equity method	(91)	**(128)**	**(1,139)**
Total other comprehensive income (Note 4)	(5,821)	**4,024**	**35,871**
Comprehensive Income	1,628	**11,843**	**105,563**
Comprehensive income attributable to:			
Owners of the parent	1,635	**11,857**	**105,688**
Non-controlling interests	(7)	**(14)**	**(125)**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2016

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	167,124,036	¥ 20,183	¥ 22,597	¥ 64,171
Net income attributable to owners of the parent	—	—	—	7,417
Cash dividends paid	—	—	—	(2,096)
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	0	—
Other changes for fiscal year 2015, net	—	—	—	—
Total changes for fiscal year 2015	—	—	0	5,321
Balance at end of year	167,124,036	¥ 20,183	¥ 22,597	¥ 69,492

	Millions of yen			
	Treasury stock, at cost	Valuation difference on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments
Balance at beginning of year	¥ (1,813)	¥ 4,294	¥ —	¥ 1,808
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(29)	—	—	—
Disposal of treasury stock	1	—	—	—
Other changes for fiscal year 2015, net	—	(2,616)	3	(316)
Total changes for fiscal year 2015	(28)	(2,616)	3	(316)
Balance at end of year	¥ (1,841)	¥ 1,678	¥ 3	¥ 1,492

	Millions of yen		
	Remeasurements of defined benefit plans	Non-controlling interests	Total
Balance at beginning of year	¥ 1,557	¥ 847	¥ 113,644
Net income attributable to owners of the parent	—	—	7,417
Cash dividends paid	—	—	(2,096)
Acquisition of treasury stock	—	—	(29)
Disposal of treasury stock	—	—	1
Other changes for fiscal year 2015, net	(2,852)	(15)	(5,796)
Total changes for fiscal year 2015	(2,852)	(15)	(503)
Balance at end of year	¥ (1,295)	¥ 832	¥ 113,141

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2017

	Number of outstanding common shares	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	**167,124,036**	**¥ 20,183**	**¥ 22,597**	**¥ 69,492**
Net income attributable to owners of the parent	—	—	—	**7,784**
Cash dividends paid	—	—	—	**(1,773)**
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	—	—
Other changes for fiscal year 2016, net	—	—	—	—
Total changes for fiscal year 2016	—	—	—	**6,011**
Balance at end of year	**167,124,036**	**¥ 20,183**	**¥ 22,597**	**¥ 75,503**

	Millions of yen			
	Treasury stock, at cost	Valuation difference on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments
Balance at beginning of year	**¥ (1,841)**	**¥ 1,678**	**¥ 3**	**¥ 1,492**
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	**(63)**	—	—	—
Disposal of treasury stock	—	—	—	—
Other changes for fiscal year 2016, net	—	**1,899**	**(12)**	**(733)**
Total changes for fiscal year 2016	**(63)**	**1,899**	**(12)**	**(733)**
Balance at end of year	**¥ (1,904)**	**¥ 3,577**	**¥ (9)**	**¥ 759**

	Millions of yen		
	Remeasurements of defined benefit plans	Non-controlling interests	Total
Balance at beginning of year	**¥ (1,295)**	**¥ 832**	**¥ 113,141**
Net income attributable to owners of the parent	—	—	**7,784**
Cash dividends paid	—	—	**(1,773)**
Acquisition of treasury stock	—	—	**(63)**
Disposal of treasury stock	—	—	—
Other changes for fiscal year 2016, net	**2,919**	**(18)**	**4,055**
Total changes for fiscal year 2016	**2,919**	**(18)**	**10,003**
Balance at end of year	**¥ 1,624**	**¥ 814**	**¥ 123,144**

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	**167,124,036**	**$ 179,897**	**$ 201,420**	**$ 619,411**
Net income attributable to owners of the parent	—	—	—	**69,383**
Cash dividends paid	—	—	—	**(15,805)**
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	—	—
Other changes for fiscal year 2016, net	—	—	—	—
Total changes for fiscal year 2016	—	—	—	**53,578**
Balance at end of year	**167,124,036**	**$ 179,897**	**$ 201,420**	**$ 672,989**

	Thousands of U.S. dollars (Note 3)			
	Treasury stock, at cost	Valuation difference on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments
Balance at beginning of year	**$ (16,412)**	**$ 14,956**	**$ 24**	**$ 13,296**
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	**(559)**	—	—	—
Disposal of treasury stock	—	—	—	—
Other changes for fiscal year 2016, net	—	**16,929**	**(109)**	**(6,529)**
Total changes for fiscal year 2016	**(559)**	**16,929**	**(109)**	**(6,529)**
Balance at end of year	**$ (16,971)**	**$ 31,885**	**$ (85)**	**$ 6,767**

	Thousands of U.S. dollars (Note 3)		
	Remeasurements of defined benefit plans	Non-controlling interests	Total
Balance at beginning of year	**$ (11,540)**	**$ 7,422**	**$ 1,008,474**
Net income attributable to owners of the parent	—	—	**69,383**
Cash dividends paid	—	—	**(15,805)**
Acquisition of treasury stock	—	—	**(559)**
Disposal of treasury stock	—	—	—
Other changes for fiscal year 2016, net	**26,014**	**(160)**	**36,145**
Total changes for fiscal year 2016	**26,014**	**(160)**	**89,164**
Balance at end of year	**$ 14,474**	**$ 7,262**	**$ 1,097,638**

Financial Statements

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	**2017**	**2017**
Cash Flows from Operating Activities:			
Income before income taxes	¥ 11,131	¥ **11,458**	$ **102,133**
Adjustments -			
Depreciation and amortization	9,343	**9,099**	**81,102**
Increase (decrease) in allowance for doubtful accounts	1	**(1)**	**(8)**
Increase in net defined benefit liabilities	41	**32**	**287**
Increase in net defined benefit assets	(574)	**(51)**	**(452)**
Increase (decrease) in accrued directors' and corporate auditors' retirement benefits, less payments	(35)	**10**	**86**
Increase in provision for loss on guarantees	—	**5**	**46**
Interest and dividend income	(258)	**(235)**	**(2,092)**
Interest expense	360	**211**	**1,879**
Loss on evaluation of investments in securities and others	20	**—**	**—**
Equity in losses of unconsolidated subsidiaries and affiliates	377	**238**	**2,126**
Loss (gain) on sale and disposition of property, plant and equipment	389	**279**	**2,483**
Changes in assets and liabilities:			
Notes and accounts receivable, trade	8,518	**(2,378)**	**(21,195)**
Inventories	8,904	**(2,291)**	**(20,425)**
Notes and accounts payable, trade	(4,140)	**3,000**	**26,739**
Other, net	(352)	**(287)**	**(2,562)**
Subtotal	33,725	**19,089**	**170,147**
Interest and dividend income received	254	**232**	**2,068**
Interest expense paid	(379)	**(252)**	**(2,245)**
Income taxes paid	(4,829)	**(3,979)**	**(35,465)**
Net cash provided by operating activities	28,771	**15,090**	**134,505**
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(7,089)	**(10,701)**	**(95,382)**
Sale of property, plant and equipment	52	**43**	**383**
Acquisition of intangible assets	(413)	**(477)**	**(4,255)**
Acquisition of investments in securities	(194)	**(227)**	**(2,026)**
Decrease in long-term loans receivable	203	**200**	**1,785**
Increase in over-three-month deposits	(325)	**(159)**	**(1,414)**
Other, net	(745)	**179**	**1,599**
Net cash used in investing activities	(8,511)	**(11,142)**	**(99,310)**
Cash Flows from Financing Activities:			
Increase (decrease) in short-term loans	(13,332)	**3,940**	**35,120**
Increase in commercial paper	—	**1,000**	**8,913**
Proceeds from long-term loans	2,929	**—**	**—**
Repayment of long-term loans	(6,278)	**(13,925)**	**(124,120)**
Payments for purchases of treasury stock	(29)	**(18)**	**(159)**
Proceeds from sales of treasury stock	1	**—**	**—**
Cash dividends	(2,091)	**(1,769)**	**(15,768)**
Cash dividends to non-controlling interests	(8)	**(4)**	**(35)**
Net cash used in financing activities	(18,808)	**(10,776)**	**(96,049)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(150)	**(258)**	**(2,308)**
Net Increase (Decrease) in Cash and Cash Equivalents	1,302	**(7,086)**	**(63,162)**
Cash and Cash Equivalents at Beginning of the Year	19,327	**20,629**	**183,874**
Cash and Cash Equivalents at End of the Year (Note 16)	¥ 20,629	¥ **13,543**	$ **120,712**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Sanyo Special Steel Co., Ltd. (the "Company") and its consolidated subsidiaries (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 15 subsidiaries as of March 31, 2017 (15 subsidiaries as of March 31, 2016). The consolidated financial statements include the accounts of the Company and 15 of its subsidiaries. The 15 subsidiaries that have been consolidated for fiscal year 2016 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.
Sanyo Special Steel Manufacturing de México, S.A. de C.V.

The consolidated subsidiaries, except for the 7 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., Siam Sanyo Special Steel Product Co., Ltd. and Sanyo Special Steel Manufacturing de México S.A. de C.V.) use a fiscal year ending March 31, which is the same as that of the Company. The 7 foreign subsidiaries use a fiscal year ending December 31. For these 7 subsidiaries, certain adjustments are made, if appropriate, in preparing the consolidated financial statements to reflect material transactions which occurred between their fiscal year-end and March 31.

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

(b) Investments in affiliates

Investments in Advanced Green Components, LLC and 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 or 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 income or loss for the period.

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

(3) Securities -

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

Under the standard, marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gains 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 income or loss for the period unless deemed to be temporary. Cost of securities sold is determined by the moving average method.

(4) Derivative transactions and hedge accounting -

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.

Foreign currency deposits are held to hedge foreign exchange risks derived from forecasted purchases of fixed assets denominated in foreign currency.

In addition, with regard to interest rate swap transactions that meet the criteria, the exceptional method has been adopted. And, with regard to interest rate and currency swap transactions that meet the criteria, the unified method (the exceptional method, the allocation method) has been adopted. Using these methods, the Companies do not account for gains 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.

(6) Depreciation and amortization -

The Companies compute depreciation using the straight-line method for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) which have been acquired on or after April 1, 1998 and facilities attached to buildings and structures which have been acquired on or after April 1, 2016. The Companies compute depreciation mainly using the declining-balance method for property, plant and equipment other than those described above.

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, based on internal rules.

(10) Provision for loss on guarantees -

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

(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, which is 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-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.

(18) Change in accounting policies -

In accordance with the revision of the Corporation Tax Law of Japan, the Company and its consolidated domestic subsidiaries adopted “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Practice Issue Task Force No.32, June 17, 2016), from the current fiscal year and changed depreciation for buildings, facilities attached to buildings and structures, which have been acquired on or after April 1, 2016, from the declining balance method to the straight-line method. In addition, the effect on statements of operations is immaterial.

(19) Additional information

The Company and its consolidated domestic subsidiaries adopted “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016), effective April 1, 2016.

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 ¥112.19 = U.S. $1.00, the approximate rate of exchange as at March 31, 2017, 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
	2016	**2017**	**2017**
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ (3,248)	¥ **2,344**	$ **20,894**
Reclassification adjustments	8	**–**	**–**
Subtotal, before tax	(3,240)	**2,344**	**20,894**
Tax (expense)	624	**(445)**	**(3,965)**
Subtotal, net of tax	(2,616)	**1,899**	**16,929**
Deferred gains on hedges			
Increase (decrease) during the year	(0)	**(44)**	**(391)**
Adjustments for acquisition cost of assets	3	**32**	**282**
Subtotal	3	**(12)**	**(109)**
Foreign currency translation adjustments			
Increase (decrease) during the year	(265)	**(654)**	**(5,825)**
Remeasurements of defined benefit plans			
Increase (decrease) during the year	(3,946)	**3,612**	**32,195**
Reclassification adjustments	(216)	**594**	**5,290**
Subtotal, before tax	(4,162)	**4,206**	**37,485**
Tax (expense)	1,310	**(1,287)**	**(11,470)**
Subtotal, net of tax	(2,852)	**2,919**	**26,015**
Share of other comprehensive income of affiliates accounted for by the equity method			
Increase (decrease) during the year	(91)	**(128)**	**(1,139)**
Total other comprehensive income	¥ (5,821)	¥ **4,024**	$ **35,871**

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 foreign currency and 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 foreign currency and interest rate fluctuation risks. The Companies reduce such risks with long-term loans by foreign currency and interest rate swap contracts.

The Companies establish regulations which stipulate the authorization and management of derivative transactions. See Note 2(4), "Derivative transactions and hedge accounting," 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 a 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, 2016 are set forth in the table below. Certain financial instruments were excluded from the table as the fair values were not available (see Note 2 below).

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and bank deposits	¥ 22,179	¥ 22,179	¥ —
(2) Notes and accounts receivable, trade	40,532	40,532	—
(3) Investments in securities			
Available-for-sale securities	6,426	6,426	—
(4) Notes and accounts payable, trade	(11,713)	(11,713)	—
(5) Short-term loans	(28,723)	(28,723)	—
(6) Long-term loans	(7,831)	(7,889)	△58
(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, 2017 are set forth in the table below. Certain financial instruments are excluded from the 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	¥ **14,835**	¥ **14,835**	¥ **—**	$ **132,227**	$ **132,227**	$ **—**
(2) Notes and accounts receivable, trade	**41,830**	**41,830**	**—**	**372,848**	**372,848**	**—**
(3) Investments in securities						
Available-for-sale securities	**8,918**	**8,918**	**—**	**79,491**	**79,491**	**—**
(4) Notes and accounts payable, trade	**(14,507)**	**(14,507)**	**—**	**(129,308)**	**(129,308)**	**—**
(5) Short-term loans	**(18,735)**	**(18,735)**	**—**	**(166,990)**	**(166,990)**	**—**
(6) Long-term loans	**(7,816)**	**(7,838)**	**△22**	**(69,668)**	**(69,866)**	**△198**
(7) Derivative transactions						
① Hedge accounting is not applied	**(11)**	**(11)**	**—**	**(101)**	**(101)**	**—**
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-marketable securities whose fair values are not available are excluded from investments in securities above. These instruments as of March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Shares of subsidiaries and associates	¥ 2,341	¥ **2,204**	$ **19,644**
Other securities	478	**332**	**2,964**

Impairment losses on shares of subsidiaries and associates recognized for the year ended March 31, 2016 was ¥11 million.

3. The aggregate maturities subsequent to March 31, 2016 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	¥ 22,179	¥ —	¥ —	¥ —
Notes and accounts receivable, trade	40,532	—	—	—
Total	¥ 62,711	¥ —	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2017 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	¥ **14,835**	¥ **—**	¥ **—**	¥ **—**
Notes and accounts receivable, trade	**41,830**	**—**	**—**	**—**
Total	¥ **56,665**	¥ **—**	¥ **—**	¥ **—**

	Thousands of U.S. dollars			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Cash and bank deposits	$ **132,227**	$ **—**	$ **—**	$ **—**
Notes and accounts receivable, trade	**372,848**	**—**	**—**	**—**
Total	$ **505,075**	$ **—**	$ **—**	$ **—**

4. The aggregate maturities subsequent to March 31, 2016 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	¥ 28,723	¥ —	¥ —	¥ —
Long-term loans	—	7,831	—	—
Total	¥ 28,723	¥ 7,831	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2017 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	¥ **18,735**	¥ **—**	¥ **—**	¥ **—**
Long-term loans	**—**	**7,816**	**—**	**—**
Total	¥ **18,735**	¥ **7,816**	¥ **—**	¥ **—**

	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	$ **166,990**	$ **—**	$ **—**	$ **—**
Long-term loans	**—**	**69,668**	**—**	**—**
Total	$ **166,990**	$ **69,668**	$ **—**	$ **—**

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, 2016 and 2017 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2016			**2017**			**2017**		
	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)
Securities whose book value exceeds acquisition cost:									
Stock	¥ 2,630	¥ 4,984	¥ 2,354	¥ **2,992**	¥ **7,438**	¥ **4,445**	$ **26,674**	$ **66,295**	$ **39,621**
Securities whose acquisition cost exceeds book value:									
Stock	1,733	1,442	(291)	**1,518**	**1,480**	**(37)**	**13,530**	**13,196**	**(334)**
Total	¥ 4,363	¥ 6,426	¥ 2,063	¥ **4,510**	¥ **8,918**	¥ **4,408**	$ **40,204**	$ **79,491**	$ **39,287**

2. The Companies recognize impairment loss on available-for-sale securities when the market value declines by more than 50 percent, or the market value declines by more than 30 percent but less than 50 percent and the Companies' management determines the decline to be other than temporary. For available-for-sale securities for which fair values are deemed extremely difficult to assess, when the value of those securities substantially declines, the Companies recognize impairment loss, except for cases in which the recoverability of the value of those securities in the future is supported by reasonable grounds.

Impairment loss recognized for the year ended March 31, 2016 was ¥20 million.

7. Inventories

Inventories held by the Companies at March 31, 2016 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Merchandise	¥ 1,616	¥ **1,538**	$ **13,707**
Finished products	6,975	**6,284**	**56,014**
Work-in-process	17,533	**18,725**	**166,900**
Raw materials and supplies	11,506	**13,193**	**117,598**
Total	¥ 37,630	¥ **39,740**	$ **354,219**

8. Unconsolidated Subsidiaries and Affiliates

Items relevant to unconsolidated subsidiaries and affiliates at March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Investments in securities (stocks)	¥ 2,341	¥ **2,204**	$ **19,644**

9. Assets Pledged as Collateral

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Assets pledged as collateral:			
Land	¥ 4,590	¥ —	$ —
Buildings and structures	3,506	—	—
Machinery and equipment	4,064	—	—
	¥ 12,160	¥ —	$ —
Secured liabilities:			
Long-term loans (including those due within one year)	2,925	—	—
	¥ 2,925	¥ —	$ —

10. Short-term Loans and Long-term Loans

Short-term loans at March 31, 2016 and 2017 represent bank overdrafts with weighted-average interest rates of 0.33% and 0.28%, 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 ($178,269 thousand). At March 31 2017, the total ¥20,000 million ($178,269 thousand) is unused.

Long-term loans at March 31, 2016 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Loans from banks and other financial institutions due 2017 to 2020 with interest rates ranging from 0.22% to 1.94% at March 31, 2016 and due 2018 to 2022 with interest rates ranging from 0.22% to 0.79% at March 31, 2017	¥ 21,714	¥ **7,789**	$ **69,429**
Other payables due 2017 to 2022 with interest of 4.05% at March 31, 2016 and due 2018 to 2022 with interest of 4.05% at March 31, 2017	57	**42**	**373**
	21,771	**7,831**	**69,802**
Less: Current portion of long-term loans	(13,940)	**(15)**	**(134)**
	¥ 7,831	¥ **7,816**	$ **69,668**

The annual maturities of long-term loans outstanding at March 31, 2017 are as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ **4,875**	$ **43,453**
2020	**8**	**75**
2021	**2,933**	**26,140**
2022	—	—
	¥ **7,816**	$ **69,668**

11. Retirement Benefits

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

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

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

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

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

Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Balance at beginning of year	¥ 7,613	¥ **7,717**	$ **68,788**
Service cost	446	**467**	**4,161**
Interest cost	30	**1**	**7**
Actuarial loss	346	**(83)**	**(741)**
Benefits paid	(724)	**(1,030)**	**(9,175)**
Other	6	**(0)**	**(1)**
Balance at end of year	¥ 7,717	¥ **7,072**	$ **63,039**

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

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Balance at beginning of year	¥ 12,575	¥ **9,085**	$ **80,981**
Expected return on plan assets	183	**135**	**1,203**
Actuarial gain (loss)	(3,599)	**3,527**	**31,441**
Contributions paid by the employer	1	**3**	**25**
Benefits paid	(75)	**(51)**	**(462)**
Balance at end of year	¥ 9,085	¥ **12,699**	$ **113,188**

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

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Balance at beginning of year	¥ 555	¥ **587**	$ **5,226**
Retirement benefit costs	95	**90**	**803**
Benefits paid	(56)	**(57)**	**(511)**
Others	(7)	**1**	**9**
Balance at end of year	¥ 587	¥ **621**	$ **5,527**

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

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Funded retirement benefit obligations	¥ 7,707	¥ **7,080**	$ **63,104**
Plan assets	(9,085)	**(12,699)**	**(113,188)**
	(1,378)	**(5,619)**	**(50,084)**
Unfunded retirement benefit obligations	597	**613**	**5,462**
Total net liability (asset) for retirement benefits at end of year	(781)	**(5,006)**	**(44,622)**
Net defined benefit liabilities	592	**623**	**5,554**
Net defined benefit assets	(1,373)	**(5,629)**	**(50,176)**
Total net liability (asset) for retirement benefits at end of year	¥ (781)	¥ **(5,006)**	$ **(44,622)**

(5) Retirement benefit costs:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Service cost	¥ 446	¥ **467**	$ **4,161**
Interest cost	30	**1**	**7**
Expected return on plan assets	(183)	**(135)**	**(1,203)**
Net actuarial loss (gain) amortization	(216)	**595**	**5,304**
Retirement benefit costs based on the simplified method	95	**90**	**803**
Total retirement benefit costs	¥ 172	¥ **1,018**	$ **9,072**

(6) Remeasurements of defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Actuarial gains (losses)	¥ (4,162)	¥ **4,205**	$ **37,485**

(7) Accumulated remeasurements of defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Actuarial gains (losses) that are yet to be unrecognized	¥ 1,866	¥ **(2,340)**	$ **(20,856)**

(8) Plan assets:

① Plan assets comprise:

	2016	**2017**
Equity securities	83%	**87%**
Cash and bank deposits	15%	**12%**
Other	2%	**1%**
Total	100%	**100%**

Retirement benefit trusts account for 10% and 8% of total plan assets at March 31, 2016 and 2017, respectively.

② Long-term expected rate of return

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

(9) Actuarial assumptions

The principal actuarial assumptions at March 31, 2016 and 2017 (expressed as weighted averages) are as follows:

	2016	**2017**
Discount rate	0.0%	**0.1%**
Long-term expected rate of return	1.5%	**1.5%**

The Companies do not describe the expected rate of pay increase because they mainly adopt a point basis and the effect on the calculation of retirement benefit obligations is immaterial.

Defined contribution plans

The Company and certain consolidated subsidiaries have contributed a total of ¥173 million and ¥170 million ($1,512 thousand) to the defined contribution plans for the years ended March 31, 2016 and 2017, respectively.

12. Income Taxes

At March 31, 2016 and 2017, significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trusts	¥ 2,232	¥ **2,232**	$ **19,895**
Devaluation loss on marketable securities	874	**874**	**7,791**
Accrued bonuses	667	**660**	**5,884**
Gain on investment of certain marketable securities to employee retirement benefit trusts	416	**475**	**4,233**
Net defined benefit liabilities	262	**255**	**2,277**
Tax losses carried forward	129	**246**	**2,189**
Unrealized gains	228	**241**	**2,144**
Business tax payable	173	**168**	**1,502**
Excess depreciation of depreciable assets	99	**123**	**1,099**
Other	997	**890**	**7,933**
Gross deferred tax assets	6,077	**6,164**	**54,947**
Less: Valuation allowance	(1,295)	**(1,389)**	**(12,386)**
Total deferred tax assets	¥ 4,782	¥ **4,775**	$ **42,561**
Deferred tax liabilities:			
Net defined benefit assets	¥ (420)	¥ **(1,723)**	$ **(15,354)**
Securities to employee retirement benefit trusts	(1,204)	**(1,204)**	**(10,731)**
Reserve for deferred capital gains from property, plant and equipment	(982)	**(952)**	**(8,487)**
Unrealized holding gains on securities	(386)	**(830)**	**(7,402)**
Reserve for special depreciation	(221)	**(109)**	**(972)**
Other	(366)	**(413)**	**(3,668)**
Total deferred tax liabilities	(3,579)	**(5,231)**	**(46,614)**
Net deferred tax assets (liabilities)	¥ 1,203	¥ **(456)**	$ **(4,053)**

The reconciliation between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2016 and 2017 are not required to be disclosed due to the insignificance of the difference.

13. Net Assets

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

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

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

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

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

At the Company's Board of Directors meeting held on May 18, 2016, the directors approved cash dividends amounting to ¥967 million. At the Company's Board of Directors meeting held on May 17, 2017, the directors approved cash dividends amounting to ¥1,208 million ($10,769 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, 2016 and 2017 totaled ¥1,597 million and ¥1,608 million ($14,334 thousand), respectively. For the year ended March 31, 2017, research and development cost in the Specialty Steel, Special Materials and Formed & Fabricated Materials segments amounted to ¥1,086 million, ¥506 million and ¥16 million, respectively.

15. Net Income Per Share

The basis for calculations of net income per share for the years ended March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Profit attributable to owners of the parent	¥ 7,417	¥ **7,784**	$ **69,383**
Net income of common stock attributable to owners of the parent	¥ 7,417	¥ **7,784**	$ **69,383**

	Thousands of shares	
	2016	2017
Weighted-average number of shares of common stock	161,227	**161,183**

	Yen		U.S. dollars
	2016	2017	2017
Net income per share	¥ 46.00	¥ **48.29**	$ **0.43**

The Companies have no dilutive securities for the years ended March 31, 2016 and 2017.

16. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2016 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash and bank deposits	¥ 22,179	¥ **14,835**	$ **132,227**
Time deposits with deposit terms of over 3 months and other	(1,004)	**(1,128)**	**(10,057)**
Restricted bank deposits	(546)	**(164)**	**(1,458)**
Cash and cash equivalents	¥ 20,629	¥ **13,543**	$ **120,712**

17. Accounting for Leases

Non-cancelable operating leases

As a lessee

Outstanding future lease payments under non-cancelable operating leases at March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Due within one year	¥ 82	¥ **82**	$ **731**
Due after one year	67	**59**	**523**
Total	¥ 149	¥ **141**	$ **1,254**

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, 2016 were as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
Selling			
U.S. dollars	¥ 0	¥ (0)	¥ (0)
Buying			
U.S. dollars	¥ 203	¥ (0)	¥ (0)
Japanese Yen	110	0	0
Total	¥ 313	¥ 0	¥ 0

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2017 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	**¥ 43**	**¥ 0**	**¥ 0**	**$ 383**	**$ 3**	**$ 3**
Japanese Yen	**160**	**(11)**	**(11)**	**1,423**	**(104)**	**(104)**
Total	**¥ 203**	**¥ (11)**	**¥ (11)**	**$ 1,806**	**$ (101)**	**$ (101)**

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

Derivative transactions to which hedge accounting is applied for the years ended March 31, 2016 and 2017 are as follows:

① Interest rate swap transactions

	2016	**2017**
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 fixed, receipt floating	**Interest rate swap transactions Payment fixed, receipt floating**
The main hedged items	Long-term loans	**Long-term loans**
Contract amount	¥13,585 million	**¥2,660 million ($23,710 thousand)**
1 year or more amount of contract	¥2,660 million	**¥2,660 million ($23,710 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.

② Interest rate and currency swap transactions

	2016	**2017**
Method of hedge accounting	Unified method of interest rate and currency swap transactions	**Unified method of interest rate and currency swap transactions**
Type of derivative transactions	Interest rate and currency swap transactions Payment fixed, receipt floating Receive floating US$ and pay fixed yen	**Interest rate and currency swap transactions Payment fixed, receipt floating Receive floating US$ and pay fixed yen**
The main hedged items	Long-term loans	**Long-term loans**
Contract amount	¥2,929 million	**¥2,929 million ($26,107 thousand)**
1 year or more amount of contract	¥2,929 million	**¥2,929 million ($26,107 thousand)**
Fair value	※	※

※ Because interest rate and currency swap transactions accounted for by the unified method (the exceptional method, the allocation 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.

19. Contingent Liabilities

Guarantees against loans of employees and affiliates at March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
UCHIDA-SATO TECH (THAILAND) CO., LTD.	¥ 17	**¥ 12**	**$ 105**
Employees	6	**3**	**31**
Total	¥ 23	**¥ 15**	**$ 136**

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 (metal powder business), heat/corrosion-resistant alloys (special materials business), 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, 2016 and 2017 is as follows:

	For the year ended March 31, 2016						
	Millions of yen						
	Reportable segment						
	Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income:							
Net sales							
Outside customers	¥ 125,687	¥ 7,199	¥ 16,141	¥ 121	¥ 149,148	¥ —	¥ 149,148
Intersegment transactions	¥ 7,954	¥ —	¥ —	¥ 1,559	¥ 9,513	¥ (9,513)	¥ —
Total	133,641	7,199	16,141	1,680	158,662	(9,513)	149,148
Segment income	¥ 8,778	¥ 1,386	¥ 1,288	¥ 58	¥ 11,510	¥ 678	¥ 12,188
(b) Other:							
Depreciation	¥ 8,568	¥ 199	¥ 535	¥ 7	¥ 9,309	¥ (18)	¥ 9,291

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments of ¥678 million are adjustments for inventories of ¥653 million and intersegment elimination of ¥24 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, 2017						
	Millions of yen						
	Reportable segment						
	Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income:							
Net sales							
Outside customers	**¥ 117,099**	**¥ 5,717**	**¥ 15,789**	**¥ 76**	**¥ 138,681**	**¥ —**	**¥ 138,681**
Intersegment transactions	**¥ 7,587**	**¥ —**	**¥ 0**	**¥ 1,602**	**¥ 9,189**	**¥ (9,189)**	**¥ —**
Total	**124,686**	**5,717**	**15,789**	**1,678**	**147,870**	**(9,189)**	**138,681**
Segment income	**¥ 9,940**	**¥ 859**	**¥ 750**	**¥ 57**	**¥ 11,606**	**¥ 80**	**¥ 11,686**
(b) Other:							
Depreciation	**¥ 8,352**	**¥ 176**	**¥ 525**	**¥ 9**	**¥ 9,062**	**¥ (18)**	**¥ 9,044**

	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	$ 1,043,752	$ 50,958	$ 140,736	$ 680	$ 1,236,126	$ —	$ 1,236,126
Intersegment transactions	$ 67,622	$ —	$ 1	$ 14,282	$ 81,905	$ (81,905)	$ —
Total	1,111,374	50,958	140,737	14,962	1,318,031	(81,905)	1,236,126
Segment income	$ 88,597	$ 7,660	$ 6,681	$ 512	$ 103,450	$ 709	$ 104,159
(b) Other:							
Depreciation	$ 74,447	$ 1,570	$ 4,677	$ 78	$ 80,772	$ (162)	$ 80,610

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments of ¥80 million ($709 thousand) are adjustments for inventories of ¥84 million ($746 thousand) and intersegment elimination of ¥4 million ($37 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.

Related Information

Segment related information for the year ended March 31, 2016 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, 2016					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	¥ 113,499	¥ 30,332	¥ 3,191	¥ 1,968	¥ 158	¥ 149,148

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, 2016, the Companies are not required to disclose information about property, plant and equipment.

(3) Information about major customers –

	For the year ended March 31, 2016	
	Net sales	Related segment
	Millions of yen	
Marubeni-Itochu Steel Inc.	¥ 30,792	Specialty Steel
Mitsui & Co., Ltd.	¥ 16,300	Specialty Steel

Segment related information for the year ended March 31, 2017 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, 2017					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	¥ **102,340**	¥ **30,513**	¥ **3,483**	¥ **2,070**	¥ **275**	¥ **138,681**

	Thousands of U.S. dollars					
	Japan	Asia	North America	Europe	Others	Total
Net sales	$ **912,198**	$ **271,980**	$ **31,049**	$ **18,449**	$ **2,450**	$ **1,236,126**

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, 2017, the Companies are not required to disclose information about property, plant and equipment.

(3) Information about major customers –

	For the year ended March 31, 2017		
	Net sales		Related segment
	Millions of yen	Thousands of U.S. dollars	
Marubeni-Itochu Steel Inc.	¥ **26,748**	$ **238,418**	Specialty Steel
Mitsui & Co., Ltd.	¥ **16,627**	$ **148,205**	Specialty Steel

21. Subsequent Events

(Consolidation of Shares and Change in the Number of Shares per Share Unit)

The Company received approval at the Ordinary General Meeting of Shareholders held on June 28, 2017 for consolidation of shares and resolved at the Company’s Board of Directors Meeting held on May 17, 2017 to approve amendments to the Articles of Incorporation associated with a change in the number of shares per share unit. These shall be effective as from October 1, 2017.

(1) Purpose of consolidation of shares and change in the number of shares per share unit

All Japanese securities exchanges announced and are promoting the“Action Plan for Consolidating Trading Units” under which the trading units of common shares for domestically listed companies are uniformly set at 100 shares. In accordance with this action plan, the Company, whose shares are listed on the Tokyo Stock Exchange, will change the number of shares per share unit from the current 1,000 shares to 100 shares. The Company will also carry out a consolidation of the Company’s shares under which every 5 shares will be consolidated into 1 share in order to maintain the price level per trading unit considered preferable for its shares by the Stock Exchange (from 50,000 yen less than 500,000 yen per unit).

(2) Details of consolidation of shares

① Class of shares to be consolidated

Common stock

② Consolidation method and ratio

The Company will consolidate every 5 shares into 1 share on October 1, 2017 based on the number of shares held by shareholders listed in the final shareholders’ register as of September 30, 2017.

③ Number of authorized shares after consolidation: 94,878,400 shares

According to the "Law," the Articles of Incorporation stipulating the total number of authorized shares shall be deemed to have changed on the effective date of the share consolidation, October 1, 2017.

④ Decrease in number of shares due to consolidation

Number of outstanding shares before consolidation (as of March 31, 2017)	167,124,036 shares
Decrease in number of shares due to consolidation	133,699,229 shares
Number of outstanding shares after consolidation	33,424,807 shares

Note: The “Decrease in number of shares due to consolidation” and the “Number of outstanding shares after consolidation” are theoretical numbers calculated by multiplying the “Number of outstanding shares before consolidation” by the consolidation ratio.

⑤ Handling of fractional shares of less than one share

If any fractional shares arise as a result of the consolidation of shares, pursuant to the provisions of Article 235 of the "Law," the Company will dispose all such fractional shares and distribute the proceeds to shareholders having fractional shares in proportion to their respective fractions.

(3) Details of changes in number of shares per share unit

Concurrently with the effectiveness of the consolidation of shares, the Company will change the number of shares per share unit for common stock from 1,000 shares to 100 shares.

(4) Dates for consolidation of shares and change in number of shares per share unit

Resolution at the Company’s Board of Directors Meeting	May 17, 2017
Resolution at the Ordinary General Meeting of Shareholders	June 28, 2017
Effective date of consolidation of shares and change in number of shares per share unit	October 1, 2017

(5) Effect on per share information

Per share information for the years ended March 31, 2016 and 2017 on the assumption that the consolidation of shares had been implemented as of April 1, 2015 is as follows:

	Yen		U.S. dollars
	2016	**2017**	**2017**
Net assets per share	¥ 3,483,47	**¥ 3,796.79**	**$ 33.84**
Net income per share	¥ 230.01	**¥ 241.47**	**$ 2.15**

Note: Diluted net income per share was not disclosed because there were no dilutive shares.

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, 2017 and 2016, 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 misstatement, 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, 2017 and 2016, 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, 2017 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

July 21, 2017
Osaka, Japan

Corporate Data (As of March 31,2017)

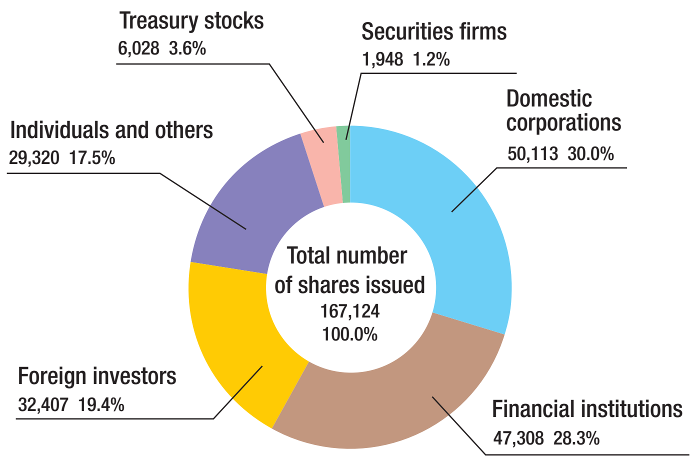
Corporate Data

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	2,598 (consolidated basis) 1,266 (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	11,418

Shareholder Composition (thousands of shares)



Principal Shareholders

Name of Shareholder	Number of shares held (thousands of shares)	Percentage of voting rights (%)
NIPPON STEEL & SUMITOMO METAL CORPORATION	24,256	(15.1%)
Company's Kyoeikai Association	10,620	(6.6%)
NSK Ltd.	7,470	(4.7%)
Japan Trustee Services Bank, Ltd. (trust account)	7,128	(4.4%)
The Master Trust Bank of Japan, Ltd. (trust account)	6,829	(4.3%)
Sumitomo Mitsui Banking Corporation	5,696	(3.6%)
Mizuho Bank, Ltd.	3,642	(2.3%)
GOVERNMENT OF NORWAY	3,445	(2.1%)
Marubeni-Itochu Steel Inc.	3,108	(1.9%)
DFA INTL SMALL CAP VALUE PORTFOLIO	2,864	(1.8%)

Notes: The number of shares omits fractions of less than 1,000 shares.
Treasury stocks are not included in the above list.

Consolidated Subsidiaries and Equity-Method Affiliates

Specialty Steel

Consolidated Subsidiaries

① Yohkoh 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 and 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 sales 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

⑭ Sanyo Special Steel Manufacturing de México, S.A. de C.V.
Manufacturing and marketing of special steel products

Equity-method Affiliates

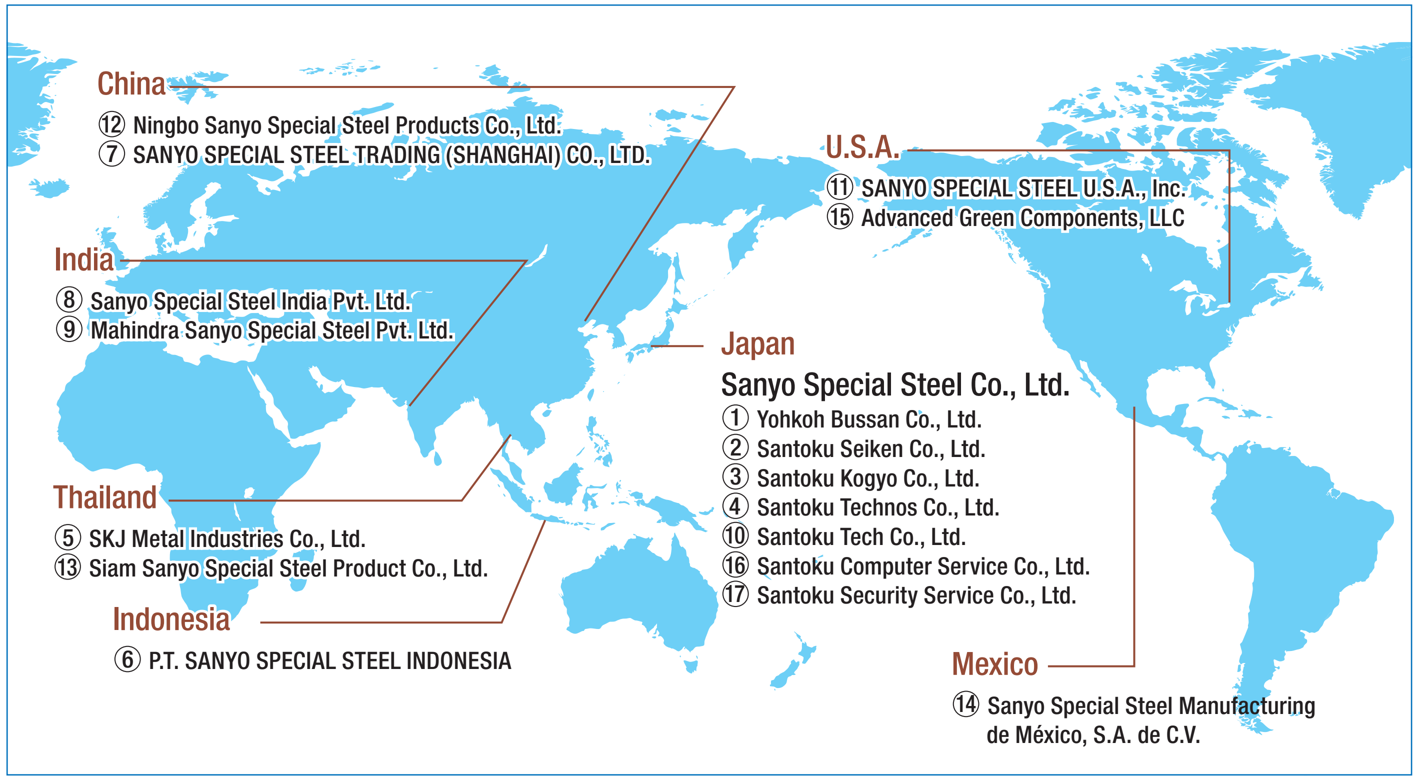
⑮ Advanced Green Components, LLC
Manufacturing of special steel products

Other

Consolidated Subsidiaries

⑯ Santoku Computer Service Co., Ltd.
Construction, operation and consulting services for information systems

⑰ 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/