ANNUAL REPORT 2012

APRIL 1.2011-MARCH 31.2012

SANYO SPECIAL STEEL-THE CONFIDENT CHOICE

SANYO SPECIAL STEEL

Profile

Sanyo Special Steel manufactures and sells special steel products such as bearing steel, engineering steel, stainless steel, heat resistant steel and tool steel, metal powders and heat/corrosion resistant alloys, plus formed and fabricated materials made from special steel bars/tubes.

We enjoy a high level of market confidence in every aspect of our undertakings - development, product quality and stable supply - based on our high cleanliness steel manufacturing technology, which controls the sizes of inclusions in steel and reduces oxygen content to a minimum.

Featuring superior quality characteristics such as fatigue life, cold workability and impact resistance, our highly reliable steel is used in a broad range of industrial applications, most notably in automobiles, industrial machinery, railways and wind-power generation equipment. Above all, Sanyo Special Steel is known as one of the leading bearings steel manufactures in the world.

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.

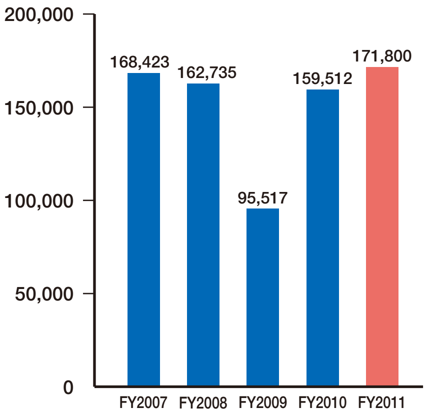
CONSOLIDATED FINANCIAL HIGHLIGHTS

Sanyo Special Steel Co., Ltd. and consolidated subsidiaries

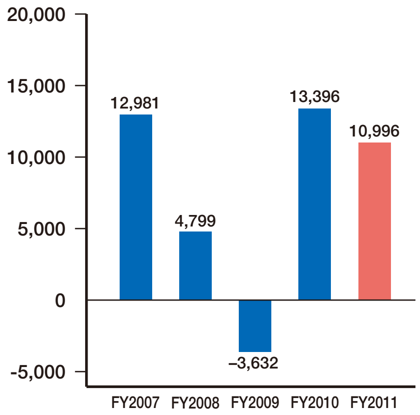
	FY2009	FY2010	FY2011	Change FY2010 / FY2011	FY2011
Operating Results (for the year)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net Sales	¥ 95,517	¥ 159,512	¥ 171,800	7.7	$ 2,091,807
Operating income (loss)	(3,946)	14,200	11,349	(20.1)	138,177
Ordinary income (loss)	(3,632)	13,396	10,996	(17.9)	133,880
Net income (loss)	(2,585)	7,822	6,408	(18.1)	78,022
Financial Position (at year-end)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net assets *2	86,415	92,591	96,993	4.8	1,180,973
Total assets	159,733	188,213	212,365	12.8	2,585,713
Financial Indicator			(%)		
ROS (Ordinary income to Net sales)	−3.8	8.4	6.4	−	−
ROE (Net income to Net assets)	−3.0	8.8	6.8	−	−
Net D/E Ratio *3	0.42 (0.21) *4	0.42 (0.14) *4	0.54 (0.26) *4	−	−
			(Yen)		(US Dollars)*1
Net income (loss) per share	(16.01)	48.47	39.71	(18.1)	0.48
Net assets per share	533	571	598	4.8	7.29
Cash dividends per share	−	10.00	9.00	(10)	0.11

*1 US dollar amounts are converted, for convenience purpose only, at the rate of ¥82.13=US$1, the approximate rate of exchange on March 31, 2012.
*2 Minority interests are included in net assets.
*3 Net debt equity ratio ・・・ (gross interest-bearing dept − cash and deposits) / equity
*4 We have not implemented liquidation of receivables since the end of fiscal 2009.
(0.21) (0.14) (0.26)・・・Net debt equity ratio if we had liquidized receivables.

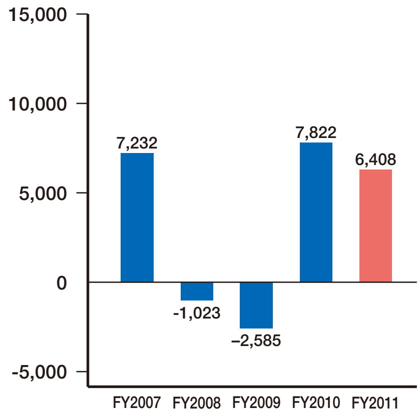
Net Sales
(Millions of Yen)



Ordinary income
(Millions of Yen)



Net income (After - Tax)
(Millions of Yen)



Fiscal 2011 Overview

Let me start with an overview of fiscal 2011.
During the year ended March 31, 2012, the Japanese economy slowed temporarily but significantly in the wake of the Great East Japan Earthquake that occurred on March 11, 2011. However, it recovered relatively steadily after supply-side constraints were removed, except for ongoing power supply problems. The economy began to clearly decelerate in early autumn, due to such factors as the deepening severity of debt problems in Europe, the slowdown of overseas economies caused by emerging countries' anti-inflationary policies, and the yen hovering at historic highs.
The special steel industry was no exception to the economic trends described above, with Japan's hot-rolled special steel production volume slightly down from a year earlier.
Against this backdrop, sales of the Sanyo Special Steel Group showed comparatively smooth progress throughout the period on the back of relatively solid demand at home and abroad, particularly in the first half of the fiscal year. However, sales performance in the second half was severely affected by the decline in demand from the construction machinery and industrial equipment industry due to a slowdown in the Chinese economy.
As a result, net sales increased by ¥12,288 million from the previous year to ¥171,800 million. In terms of profits, compared to the previous year, ordinary income decreased by ¥2,400 million to ¥10,996 million and net income also fell by ¥1,415 million to ¥6,408 million.

THE 8TH MEDIUM-TERM BUSINESS PLAN

1. Strategy

Create greater corporate value through enhancing the brand power of “Sanyo Special Steel – the Confident Choice”

- ☐ Strengthen technological innovation: “Sen-no-sen - Beyond the cutting edge- “
- ☐ Further boost international competitiveness
- ☐ Improve our overall capabilities by building closer ties among our sectors (sales, technology and production) and group companies

We regard the new environment that surrounds us, namely multi-polar world economy brought about by the rise of emerging countries and a changing demand structure resulting from the advancement of low-carbon societies, as our business opportunities as well as potential risks. We seek to establish a globally competitive company by enhancing our non-price competitiveness while also improving cost competitiveness.
Through these efforts, we will pave the way for future profit growth. We will also continue to implement various measures for further consolidating our business foundation and to promote growth strategies while maintaining a sound financial basis.

2. Key Action Programs

【1】Grasp the changes in the demand structure due to growing demand in emerging countries and the advancement of low-carbon societies, and realize development and market launches of new products.
【2】Ensure adequate profit margins
【3】Further boost non-price competitiveness
【4】Ensure upward flexibility to adequately respond to the changing demand structure
【5】Pursue environment-friendly manufacturing
【6】Develop human resources to realize sustainable growth

Fiscal 2012 Outlook

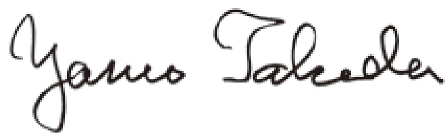
Turning to future prospects, many uncertainties lie ahead for the Japanese economy, including the continuing slump in the European economy, the yen's persistent appreciation against the euro and dollar, and power supply problems due to uncertainty over when nuclear power plants will resume operations. However, there are some positive factors such as signs of recovery in the U.S. economy, and increasing demand for automobiles owing to the resumption of a government subsidy program for eco-friendly cars. Thus, the business environment surrounding the Sanyo Special Steel Group is expected to remain one characterized by uncertainty.

Under these circumstances, the Sanyo Special Steel Group will ensure that production responds to demand trends while stepping up efforts to enhance its non-price competitiveness. At the same time, the Group will make all-out efforts to build a business structure capable of supplying high-quality special steel while meeting customer needs effectively by implementing more aggressive internal cost-cutting measures and upgrading the iron scrap surcharge system. Through these efforts, the Group will aim to increase its corporate value.

By taking all these factors fully into account, in fiscal 2012, we expect net sales to be ¥170,000 million, ordinary income to be ¥9,000 million and net income to be ¥5,300 million. Regarding dividends for fiscal 2012, we are seeking to implement dividend payments based on periodic earnings performance in line with our dividend policy; however, the specific amount of dividend payments has not been decided at this point.

To our shareholders and investors, we would like to ask for your continued support and understanding of the Sanyo Special Steel Group in the coming years.

September 2012



Yasuo Takeda
Representative Director and President

Topics

Signing of Definitive Joint Venture Agreement with Mahindra Ugine Steel Co., Ltd. in India

The Indian special steel market is expected to grow significantly in various sectors including the auto, construction machinery, industrial machinery and railroad sectors on the back of recent remarkable economic development. Against this backdrop, in November 2011, the Company and Mitsui & Co., Ltd. entered into a definitive agreement with Mahindra Ugine Steel Co., Ltd., an Indian special steel manufacturer, to jointly establish a joint venture for the manufacture and sale of special steel. The three companies will meet customer needs in the Indian market by drawing upon their collective strengths.

■JV Company Profile

Business	: Manufacturing and sales of special steel products
Capital	: INR 100 millions
Plant area	: 65 acres (approximately 263,000m²)
Employees	: Approx. 800

Local Subsidiary Established in India

In January 2012, we established a local subsidiary, Sanyo Special Steel India Pvt. Ltd. to conduct marketing and sales activities and gather information in India and neighboring countries. The company began operations on April 1, 2012. Through this company, we are going to meet the needs of customers that have global operations.

Basic Management Policies

We adhere to “confidence-based management” as our corporate philosophy, seeking to establish the “confidence of society,” “confidence of customers” and “confidence among people.”
Guided by this corporate philosophy, we aim to balance our economic activity with social development by fulfilling our responsibilities required as a member of society, including steadily implementing measures to protect the global environment and ensuring compliance with our corporate ethical standards while further reinforcing the brand power of “Sanyo Special Steel – the Confident Choice.”
Through these efforts, we strive to improve our corporate value and pursue our objective of becoming a corporation that can earn greater confidence among all our stakeholders, including shareholders, customers, employees and society.

Dividend Policy

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

Basic Policy on Corporate Control

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

CORPORATE GOVERNANCE

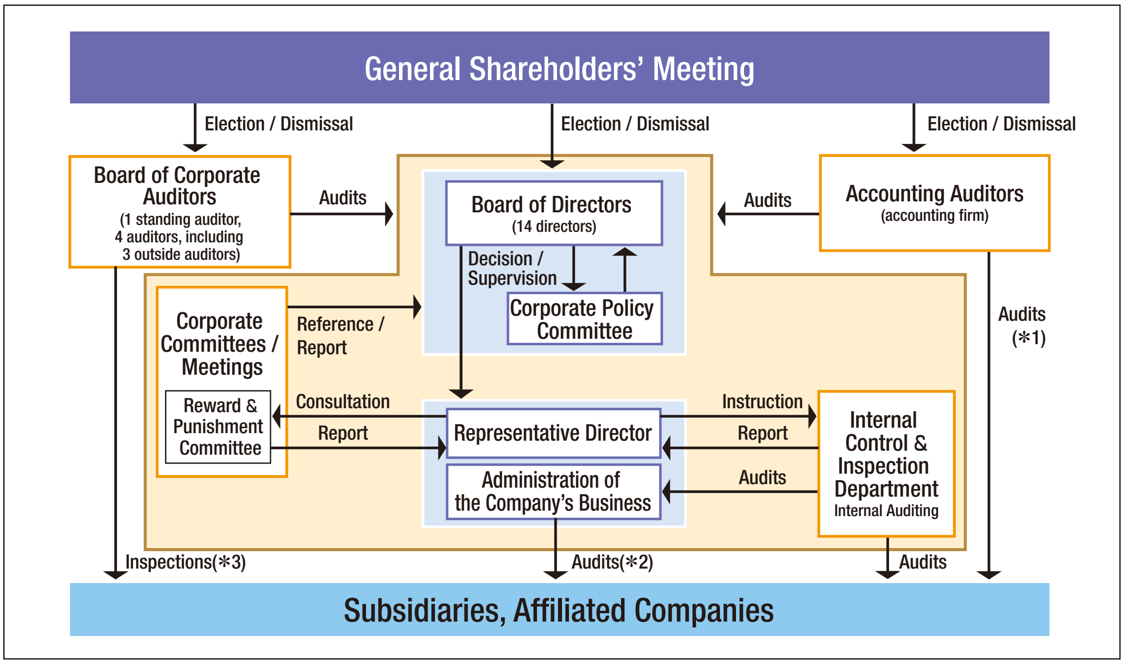
We have been enhancing the corporate governance and internal control systems that form part of our management infrastructure to ensure the integrity, fairness, and transparency of our operations.

Fundamental Measures for Corporate Governance

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

Our organizational structure for corporate governance and internal control

As of June 28, 2012



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

Development and Operation of Internal Control Systems

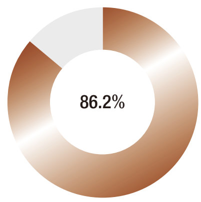
At the Board of Directors meeting held in May 2006, in order to improve our internal control systems, we settled on a basic policy for the creation of internal control systems in accordance with the Company Law of Japan and relevant laws and ordinances.
Under this policy, we have been developing our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

Specialty Steel

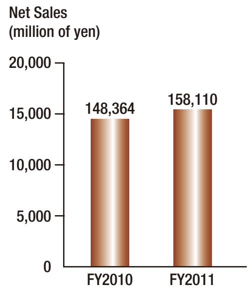
In the Special Steel segment, we manufacture and sell various special steel products, capitalizing on our high cleanliness steel manufacturing technology, including bearing steel, engineering steel, stainless steel, heat resistant steel and tool steel.

Fiscal 2011 Overview

Production temporarily declined, mainly in the automotive industry, in the aftermath of the Great East Japan Earthquake that occurred on March 11, 2011 but showed a quick recovery, which, combined with the resurgence of exports, helped sales volume remain relatively solid in fiscal 2011. As a result, net sales increased to ¥158,110 million (up ¥9,746 million year-on-year). Operating income decreased to ¥11,465 million (down ¥739 million year-on-year) due to the yen's appreciation, soaring fuel and electricity prices, and an increase in depreciation expenses, despite strenuous efforts to cut costs.



Sales Breakdown
(FY 2011)

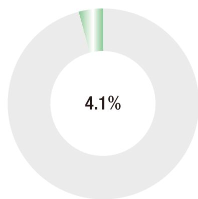


Special Materials

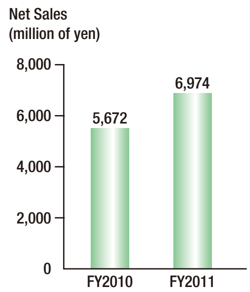
The Special Materials segment is engaged in manufacture and sale of heat/corrosion-resistant alloys and metal powder products.

Fiscal 2011 Overview

The Special Materials segment generated net sales of ¥6,974 million (up ¥1,301 million year-on-year) and operating income of ¥810 million (down ¥230 million year-on-year).



Sales Breakdown
(FY 2011)



Topics

Meeting the requirements for wind power generators
New 5,000-ton forging press installed

In October 2011, a new 5,000-ton forging press was installed. With the addition of this machine, and together with the existing 1,500-ton and 3,000-ton forging presses, we now have a total of 3 presses in operation. The installation of the new 5,000-ton forging press is intended to respond to the growing market for large bearings which are used in wind power generators and industrial machinery in particular, and capture new demand by making larger products available.


5,000-ton forging press

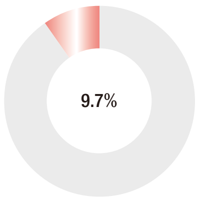

60-ton continuous caster

Improved efficiency in high-quality special steel production
New 60-ton continuous caster installed

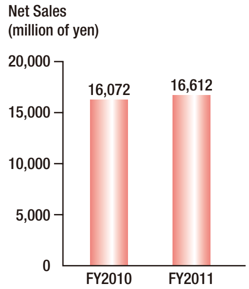
We installed a new 60-ton continuous caster in the No.1 Steelmaking Plant which had previously been dedicated to ingot casting, and started production with the new machine in July 2011.
Continuous casting makes the casting process uninterrupted, and therefore achieves higher efficiency than ingot casting. Continuous casting is also expected to bring such benefits as energy saving and yield improvement. The existing ingot casting line will be used to reinforce manufacturing capability for large ingots which are used to make such products as parts for wind power generators.

Formed & Fabricated Materials

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



Sales Breakdown
(FY 2011)

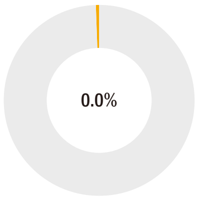


Fiscal 2011 Overview

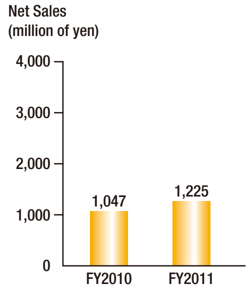
The Formed & Fabricated Materials segment posted net sales of ¥16,612 million (up ¥540 million year-on-year) due to relatively solid sales performance in terms of volume, as was also the case in the Specialty Steel segment. The segment recorded operating income of ¥1,250 million (down ¥101 million year-on-year) affected by the rising yen and fuel and electricity price hikes as was the case of the Specialty Steel segment.

Other

We provide information processing services through our subsidiaries.



Sales Breakdown
(FY 2011)



Fiscal 2011 Overview

Net sales increased to ¥1,225 million (up ¥178 million year-on-year), and operating income was ¥65 million (down ¥39 million year-on-year).

Notes:

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

An additional 2,000-ton vertical-type press installed at the formed and fabricated materials subsidiary in China

We installed an additional 2,000-ton vertical-type press at Ningbo Sanyo Special-steel Products Co., Ltd. (hereinafter referred to as "NSSP"), a Chinese subsidiary that manufactures and distributes formed and fabricated materials.

With the growth of car production in China, the demand for HUB (*) manufactured by NSSP has been increasing.

NSSP was previously manufacturing HUB with two vertical hot forging machines (2,000-ton and 2,300-ton vertical-type presses), but we installed an additional 2,000-ton vertical press in NSSP in anticipation of booming demand.

(*) HUB is an automotive wheel bearing, and refers to bearings in a wheel fastening unit of an automobile.


An additional 2,000-ton vertical-type press which installed at the formed and fabricated materials subsidiary in China.

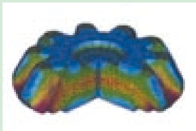
RESEARCH AND DEVELOPMENT

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

Analytical Technology

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

Ultrasonic fatigue test equipment



Strain distribution of a cold forged gear

Technological Development

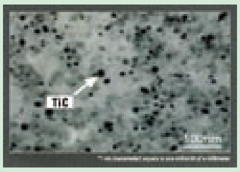
- Steelmaking process
- Manufacturing process
- Forming and fabricating process
- Powder production process

Electric furnace operation

SANYO SPECIAL STEEL – the Confident Choice

Materials Development

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



Electron microscope image of TiC in TMAX steel

Fundamental Research

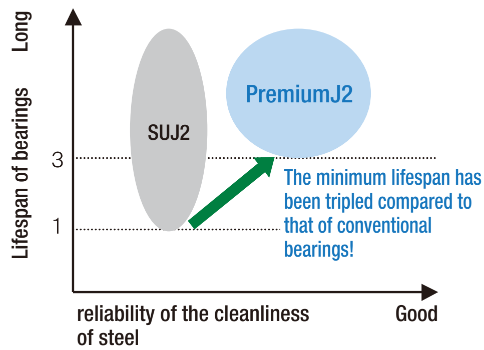
High-resolution field emission scanning electron microscope

Topics

Commercial production of new grade bearing steel "PremiumJ2" Responding to the demand for smaller bearings with greater longevity

We developed "PremiumJ2", a new grade bearing steel that makes it possible to decrease variation in the lifespan of bearings, and established a technology for mass-production of this product.
We developed a new steelmaking technology to reduce harmful non-metallic inclusions in steel (foreign particles in steel) to the lowest possible level, together with a technology to evaluate the frequency of non-metallic inclusions in large volumes of steel to prove the low incidence of such inclusions. The combination of these two technologies has extended the minimum lifespan of bearings made of PremiumJ2 threefold compared to bearings made of standard bearing steel (SUJ2 steel) (Sanyo Special Steel's experimental results).
PremiumuJ2 has been developed for bearings used in important parts of automobiles and other products, and responds to the growing need in recent years for smaller bearings with greater longevity.

Image showing how variation in rolling contact fatigue life has been improved



Our Major Original Products/Technologies

Premium Cleanliness Steel

Steel with its characteristics improved to the limit

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

Ball bearings

ECOMAX

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

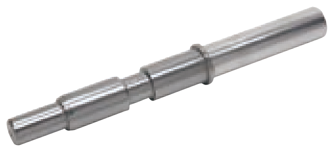
ECOMAX is a resource-saving, high-strength steel, the strength of which is achieved without the use of rare metals such as nickel and molybdenum. ECOMAX meets the need for more compact and lighter automotive drive components designed to reduce CO2 emissions, and shows promise as a material for parts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

Automotive gears and shafts

SPMR8

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

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



Mandrel

Fuel cell separator technology

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

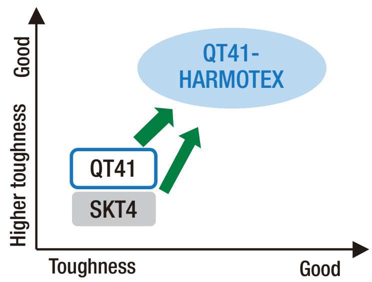
Fuel cells are environmentally friendly sources of clean energy based on a chemical reaction whereby water is produced from hydrogen and oxygen.
By adopting an innovative structure using our spherical metal powders in the separators that are major components of fuel cells, the company has achieved a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

Development of Hot-die Steel "QT41-HARMOTEX" Contributing to Increasing the Lifespan of Dies

JIS SKT 4 steel, which is a typical hot-die steel, is used for dies for hammer forging in which materials are forged at about 900-1,200℃. We developed hot-die steel QT41, an improvement on SKT4, a product that had won the high regard of customers over a long period. Now we have developed QT41-HARMOTEX, the properties of which are a marked improvement over QT41. QT41-HARMOTEX is twice as tough as conventional steel and reduces dies cracking or chipping. In addition, the softening resistance is 1.5 times greater than that of conventional steel and reduces dies wear or loss of resilience when they are used for a long period of time. QT41-HARMOTEX is expected to contribute to increasing the lifespan of dies and reducing die-related costs.

Positioning of QT41-HARMOTEX

It is ranked above JIS SKT 4 and our QT41 in terms of toughness and softening resistance.



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.

Conceptual Diagram

Corporate Philosophy:

Confidence-based Management

CSR-conscious Management

Corporate Management with Integrity, Fairness, and Transparency

Environmental Management
Compliance Management
Social Contributions

CSR in Pursuit of Economic Goals

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

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

CSR in Pursuit of Social Goals

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

Environmental protection,
Volunteer activities,
Support for cultural activities, etc.

We are working to improve our corporate structure and implement training programs that support our compliance-based management.

Clearly-defined Company Rules

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

Establishment of a Corporate Behavior and Ethics Special Committee

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

Establishment of a Whistle-blowing System

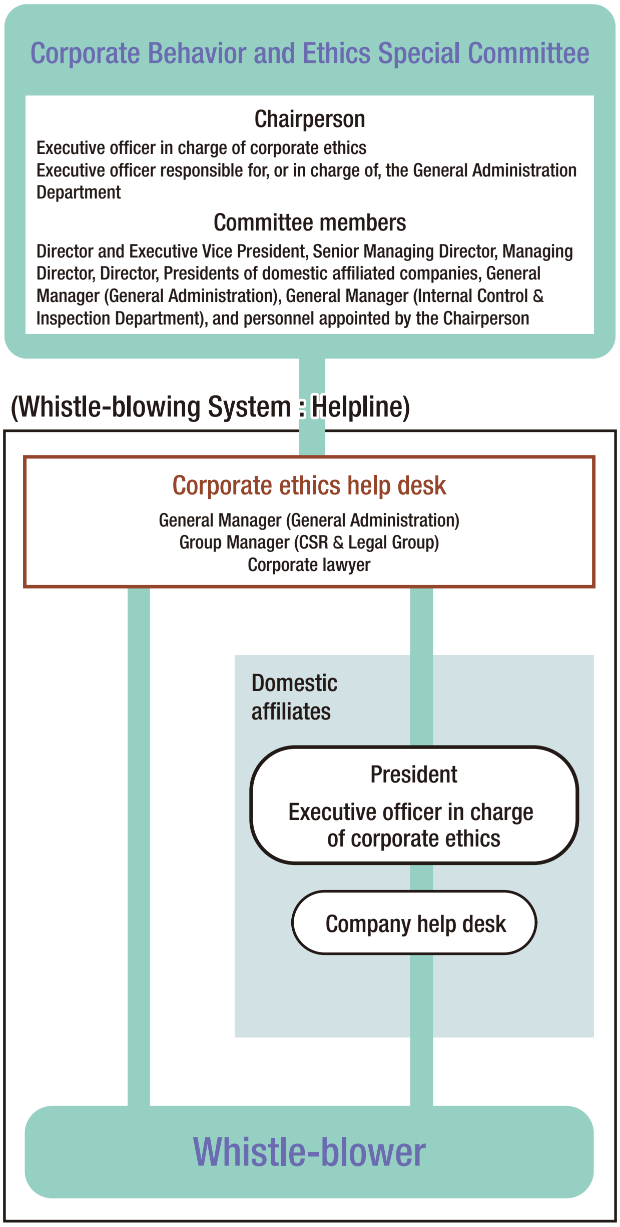
We have initiated a “Helpline,” a whistle-blowing system designed to help prevent occurrence or recurrence of misconduct.

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

Implementation of Compliance Education Programs

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

Compliance Structure



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

Environmental Policy

Enviromental philosophy

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

Environmental policy

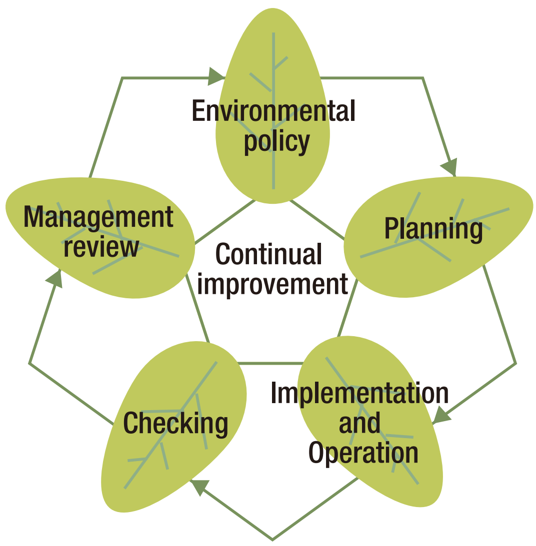
Based on our company mission statements, which are listed below, we, Sanyo Special Steel, promote environmental management as a producer and a seller of special steels and nonferrous metals.

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

Environmental Management System

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

Environmental management system model



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

Community Activities

Beautification of the surrounding area

As part of our community contribution programs, our employees engage in cleanup activities in the area surrounding our plant. In fiscal 2011, some 300 employees took part in the activities, and collected garbage discarded in the surrounding streets, center dividers, and green belts.

Blood Donation Campaign

We run a blood donation campaign on a regular basis. In fiscal 2011, 150,200 ml of blood was collected from a total 405 donors.

Company personnel participate as guest runners in a marathon for elementary school pupils.

Members of our athletics club took part as guest runners in a marathon held by Himeji City Elementary School as part of our community contribution activities,

Our athletes accompanied the pupils as pacemakers, encouraging them to run with all their might.

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

We hold cultural lectures under the sponsorship of the Sanyo Special Steel Cultural Promotion Foundation, for the purpose of fostering local culture and education of local citizens.

In the lecture meeting held in May 2012, we invited Professor Kunihiko Takeda from Chubu University's Institute of Science and Technology Research to give a presentation. He delivered his lecture, entitled "How Japan's Future Energy Policy Should Be Decided" in front of an audience of about 800.

FINANCIAL FIGURES

Financial Position

Total assets at the end of fiscal 2011 increased to ¥212,365 million (¥24,151 million higher than the balance at the end of fiscal 2010) due primarily to increases in trade notes and accounts receivable, tangible fixed assets, and inventories.
Total liabilities increased to ¥115,372 million (¥19,749 million higher than the balance at the end of fiscal 2010) due mainly to increases in long-term borrowings and accounts payable.
Net assets increased to ¥96,993 million (¥4,402 million higher than the balance at the end of fiscal 2010) with net income posted for the period.

Cash Flows

Cash flows for fiscal 2011 are summarized as follows. Net cash provided by operating activities was ¥4,151 million (a decrease of ¥6,336 million in cash inflow compared to fiscal 2010), which resulted from net income before income taxes (¥10,608 million), depreciation expenses (¥10,927 million), an increase in trade receivables (a decrease in cash flow of ¥9,050 million), and an increase in inventories (a decrease in cash flow of ¥7,026 million).
Net cash used in investing activities was ¥17,902 million (an increase of ¥5,445 million in cash outflow from fiscal 2010) due mainly to capital investment for replacement of out-of-date equipment, environmental/energy-saving measures, and labor-saving measures.
Net cash provided by financing activities was ¥11,296 million (an increase of ¥2,246 million in cash inflow compared to fiscal 2010) due primarily to an increase in borrowings (¥12,927 million).
The balance of cash and cash equivalents at the end of fiscal 2011 stood at ¥16,500 million (¥2,489 million lower than the balance at the end of fiscal 2010).

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2011	**2012**	**2012**
Current Assets:			
Cash and bank deposits (Note 5 and 16)	¥ 18,990	**¥ 18,557**	**$ 225,943**
Notes and accounts receivable, trade (Note 5, 9 and 19)	52,848	**61,863**	**753,231**
Less: Allowance for doubtful accounts	(13)	**(9)**	**(106)**
Inventories (Note 7)	42,139	**49,123**	**598,117**
Deferred tax assets (Note 12)	2,322	**2,017**	**24,557**
Other	877	**1,481**	**18,032**
Total current assets	117,163	**133,032**	**1,619,774**
Property, Plant and Equipment:			
Land (Note 8)	7,084	**7,119**	**86,677**
Buildings and structures (Note 8)	43,344	**44,875**	**546,394**
Machinery and equipment (Note 8)	170,740	**181,385**	**2,208,511**
Construction in progress	3,472	**7,058**	**85,930**
	224,640	**240,437**	**2,927,512**
Less: Accumulated depreciation	(165,813)	**(174,587)**	**(2,125,739)**
Total property, plant and equipment	58,827	**65,850**	**801,773**
Intangibles	740	**712**	**8,666**
Investments and Others:			
Investments in securities (Note 5 and 6)	8,511	**8,139**	**99,095**
Long-term loans receivable	30	**1,821**	**22,177**
Deferred tax assets (Note 12)	222	**210**	**2,558**
Prepaid pension cost (Note 11)	2,034	**1,876**	**22,843**
Other	969	**1,016**	**12,370**
Less: Allowance for doubtful accounts	(283)	**(291)**	**(3,543)**
Total investments and other assets	11,483	**12,771**	**155,500**
Total assets	¥ 188,213	**¥ 212,365**	**$ 2,585,713**

The accompanying notes are integral parts of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2011	Millions of yen 2012	Thousands of U.S. dollars (Note 3) 2012
Current Liabilities:			
Short-term loans (Note 5 and 10)	¥ 31,390	¥ **31,603**	$ **384,798**
Current portion of long-term loans (Notes 5, 8 and 10)	4,015	**4,546**	**55,352**
Notes and accounts payable, trade (Note 5 and 9)	17,040	**18,345**	**223,363**
Accounts payable, other	6,238	**11,245**	**136,911**
Accrued income taxes	2,664	**2,456**	**29,906**
Accrued expenses	8,431	**9,273**	**112,903**
Other	901	**697**	**8,490**
Total current liabilities	70,679	**78,165**	**951,723**
Long-term Liabilities:			
Long-term loans (Notes 5, 8 and 10)	22,517	**34,671**	**422,147**
Accrued employees' retirement benefits (Note 11)	1,310	**1,234**	**15,023**
Accrued directors' and corporate auditors' retirement benefits	57	**58**	**702**
Reserve for environmental measures	376	**294**	**3,580**
Deferred tax liabilities (Note 12)	483	**747**	**9,096**
Other	200	**203**	**2,469**
Total long-term liabilities	24,943	**37,207**	**453,017**
Total liabilities	95,622	**115,372**	**1,404,740**
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**	$ **245,741**
Capital surplus	22,595	**22,596**	**275,126**
Retained earnings	50,139	**54,933**	**668,854**
Less: Treasury stock, at cost (5,749,745 shares in 2011, 5,770,712 shares in 2012)	(1,757)	**(1,768)**	**(21,520)**
Total shareholders' equity	91,160	**95,944**	**1,168,201**
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	1,728	**1,419**	**17,280**
Foreign currency translation adjustments	(706)	**(806)**	**(9,816)**
Total accumulated other comprehensive income	1,022	**613**	**7,464**
Minority Interests	409	**436**	**5,308**
Total net assets	92,591	**96,993**	**1,180,973**
Total liabilities and net assets	¥ 188,213	¥ **212,365**	$ **2,585,713**

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, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2012	2012
Net Sales	¥ 159,512	**¥ 171,800**	**$ 2,091,807**
Cost of Sales (Note 14)	133,560	**147,554**	**1,796,594**
Gross profit	25,952	**24,246**	**295,213**
Selling, General and Administrative Expenses (Note 14)	11,752	**12,897**	**157,036**
Operating income	14,200	**11,349**	**138,177**
Other Income:			
Interest and dividend	171	**176**	**2,149**
Other	394	**426**	**5,187**
	565	**602**	**7,336**
Other Expenses:			
Interest	(504)	**(520)**	**(6,337)**
Other	(865)	**(435)**	**(5,296)**
	(1,369)	**(955)**	**(11,633)**
Ordinary income	13,396	**10,996**	**133,880**
Extraordinary:			
Gain on sale of land	266	**3**	**47**
Loss on sale and disposition of property, plant and equipment	(1,102)	**(396)**	**(4,826)**
Loss on evaluation of investments in securities and others	(238)	**—**	**—**
Gain (loss) on sale of investments in securities and others	(3)	**5**	**61**
Reversal of allowance for doubtful accounts	169	**—**	**—**
Reversal of reserve for loss on guarantees	174	**—**	**—**
	(734)	**(388)**	**(4,718)**
Income before income taxes and minority interests	12,662	**10,608**	**129,162**
Income Taxes (Note 12):			
Current	2,674	**3,538**	**43,078**
Deferred	2,129	**617**	**7,517**
	4,803	**4,155**	**50,595**
Income before minority interests	7,859	**6,453**	**78,567**
Minority Interests in Net Income of Consolidated Subsidiaries	37	**45**	**545**
Net income	¥ 7,822	**¥ 6,408**	**$ 78,022**

	Yen		U.S. dollars (Note 3)
	2011	2012	2012
Per Share:			
Net income (Note 15)	¥ 48.47	**¥ 39.71**	**$ 0.48**
Cash dividends	¥ 10.00	**¥ 9.00**	**$ 0.11**
Net assets	¥ 571.23	**¥ 598.42**	**$ 7.29**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	**2012**	**2012**
Income Before Minority Interests	¥ 7,859	**¥ 6,453**	**$ 78,567**
Other Comprehensive Income:			
Valuation difference on available-for-sale securities	(624)	**(309)**	**(3,763)**
Foreign currency translation adjustments	(164)	**(88)**	**(1,074)**
Share of other comprehensive income of an affiliate accounted for by the equity method	(63)	**(23)**	**(278)**
Total other comprehensive income (Note 4)	(851)	**(420)**	**(5,115)**
Comprehensive Income	7,008	**6,033**	**73,452**
Comprehensive income attributable to:			
Owners of the parent	6,992	**5,999**	**73,045**
Minority interests	16	**34**	**407**

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, 2011

	Number of outstanding common shares	Millions of yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	167,124,036	¥ 20,183	¥ 22,594	¥ 43,123	¥ (1,741)
Net income	—	—	—	7,822	—
Cash dividends paid	—	—	—	(806)	—
Acquisition of treasury stock	—	—	—	—	(18)
Disposal of treasury stock	—	—	1	—	2
Other changes for fiscal year 2010, net	—	—	—	—	—
Total changes for fiscal year 2010	—	—	1	7,016	(16)
Balance at end of year	167,124,036	¥ 20,183	¥ 22,595	¥ 50,139	¥ (1,757)

	Millions of yen			
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total
Balance at beginning of year	¥ 2,352	¥ (499)	¥ 403	¥ 86,415
Net income	—	—	—	7,822
Cash dividends paid	—	—	—	(806)
Acquisition of treasury stock	—	—	—	(18)
Disposal of treasury stock	—	—	—	3
Other changes for fiscal year 2010, net	(624)	(207)	6	(825)
Total changes for fiscal year 2010	(624)	(207)	6	6,176
Balance at end of year	¥ 1,728	¥ (706)	¥ 409	¥ 92,591

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, 2012

	Number of outstanding common share	Millions of yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	**167,124,036**	**¥ 20,183**	**¥ 22,595**	**¥ 50,139**	**¥ (1,757)**
Net income	—	—	—	**6,408**	—
Cash dividends paid	—	—	—	**(1,614)**	—
Acquisition of treasury stock	—	—	—	—	**(13)**
Disposal of treasury stock	—	—	**1**	—	**2**
Other changes for fiscal year 2011, net	—	—	—	—	—
Total changes for fiscal year 2011	—	—	**1**	**4,794**	**(11)**
Balance at end of year	**167,124,036**	**¥ 20,183**	**¥ 22,596**	**¥ 54,933**	**¥ (1,768)**

	Millions of yen			
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total
Balance at beginning of year	**¥ 1,728**	**¥ (706)**	**¥ 409**	**¥ 92,591**
Net income	—	—	—	**6,408**
Cash dividends paid	—	—	—	**(1,614)**
Acquisition of treasury stock	—	—	—	**(13)**
Disposal of treasury stock	—	—	—	**3**
Other changes for fiscal year 2011, net	**(309)**	**(100)**	**27**	**(382)**
Total changes for fiscal year 2011	**(309)**	**(100)**	**27**	**4,402**
Balance at end of year	**¥ 1,419**	**¥ (806)**	**¥ 436**	**¥ 96,993**

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	**167,124,036**	**$ 245,741**	**$ 275,114**	**$ 610,480**	**$ (21,385)**
Net income	—	—	—	**78,022**	—
Cash dividends paid	—	—	—	**(19,648)**	—
Acquisition of treasury stock	—	—	—	—	**(155)**
Disposal of treasury stock	—	—	**12**	—	**20**
Other changes for fiscal year 2011, net	—	—	—	—	—
Total changes for fiscal year 2011	—	—	**12**	**58,374**	**(135)**
Balance at end of year	**167,124,036**	**$ 245,741**	**$ 275,126**	**$ 668,854**	**$ (21,520)**

	Thousands of U.S. dollars (Note 3)			
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total
Balance at beginning of year	**$ 21,043**	**$ (8,602)**	**$ 4,982**	**$ 1,127,373**
Net income	—	—	—	**78,022**
Cash dividends paid	—	—	—	**(19,648)**
Acquisition of treasury stock	—	—	—	**(155)**
Disposal of treasury stock	—	—	—	**32**
Other changes for fiscal year 2011, net	**(3,763)**	**(1,214)**	**326**	**(4,651)**
Total changes for fiscal year 2011	**(3,763)**	**(1,214)**	**326**	**53,600**
Balance at end of year	**$ 17,280**	**$ (9,816)**	**$ 5,308**	**$ 1,180,973**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	**2012**	**2012**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 12,662	¥ **10,608**	$ **129,162**
Adjustments -			
Depreciation and amortization	9,980	**10,927**	**133,042**
Increase (decrease) in allowance for doubtful accounts	(169)	**4**	**47**
Increase (decrease) in accrued employees' retirement benefits, less payments	117	**(76)**	**(920)**
Increase in prepaid pension cost	191	**158**	**1,925**
Increase (decrease) in accrued directors' and corporate auditors' retirement benefits, less payments	(50)	**1**	**11**
Decrease in reserve for environmental measures	—	**(82)**	**(998)**
Decrease in reserve for loss on guarantees	(174)	—	—
Interest and dividend income	(171)	**(176)**	**(2,149)**
Interest expense	504	**520**	**6,337**
Gain on sale of investments in securities	—	**(5)**	**(61)**
Loss on evaluation of investments in securities	217	—	—
Loss on sale and disposition of property, plant and equipment	836	**392**	**4,779**
Changes in assets and liabilities:			
Notes and accounts receivable, trade	(15,277)	**(9,050)**	**(110,196)**
Inventories	(9,695)	**(7,026)**	**(85,545)**
Notes and accounts payable, trade	9,889	**2,629**	**32,015**
Other, net	1,230	**(525)**	**(6,407)**
Subtotal	10,090	**8,299**	**101,042**
Interest and dividend income received	184	**175**	**2,131**
Interest expense paid	(466)	**(520)**	**(6,326)**
Income taxes (paid) refunded	679	**(3,803)**	**(46,300)**
Net cash provided by (used in) operating activities	10,487	**4,151**	**50,547**
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(12,486)	**(13,177)**	**(160,445)**
Acquisition of intangible assets	(79)	**(153)**	**(1,868)**
Acquisition of investments in securities	(83)	**13**	**163**
Decrease (increase) in long-term loans receivable	244	**(1,988)**	**(24,202)**
Decrease (increase) in over three-month deposits	4	**(2,055)**	**(25,027)**
Other, net	(58)	**(542)**	**(6,601)**
Net cash used in investing activities	(12,458)	**(17,902)**	**(217,980)**
Cash Flows from Financing Activities:			
Increase (decrease) in short-term loans	(47)	**227**	**2,759**
Proceeds from long-term loans	11,000	**16,700**	**203,336**
Repayment of long-term loans	(1,071)	**(4,000)**	**(48,703)**
Payments for purchases of treasury stock	(18)	**(13)**	**(154)**
Proceeds from sales of treasury stock	3	**3**	**31**
Cash dividends	(806)	**(1,614)**	**(19,648)**
Cash dividends to minority shareholders	(10)	**(7)**	**(81)**
Net cash provided by financing activities	9,051	**11,296**	**137,540**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(147)	**(33)**	**(408)**
Net Increase (Decrease) in Cash and Cash Equivalents	6,933	**(2,488)**	**(30,301)**
Cash and Cash Equivalents at Beginning of the Year	12,055	**18,988**	**231,196**
Cash and Cash Equivalents at End of the Year (Note 16)	¥ 18,988	¥ **16,500**	$ **200,895**

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 13 subsidiaries as of March 31, 2012 (10 subsidiaries as of March 31, 2011). The consolidated financial statements include the accounts of the Company and 13 of its subsidiaries. The 13 subsidiaries that have been consolidated for fiscal year 2012 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.

During the year ended March 31, 2012, Santoku Technos Co., Ltd., Santoku Security Service Co., Ltd. and Sanyo Special Steel India Pvt. Ltd. were established and newly consolidated.

The consolidated subsidiaries, except for the 6 foreign subsidiaries (SKJ Metal Industries Co., Ltd., P.T. Sanyo Special Steel Indonesia, Sanyo Special Steel U.S.A., Inc., Ningbo Sanyo Special Steel Products Co., Ltd., Sanyo Special Steel Trading (Shanghai) Co., Ltd., and Sanyo Special Steel India Pvt. Ltd.), use a fiscal year ending March 31, which is the same as that of the Company. With respect to Sanyo Special Steel India Pvt. Ltd., which has been newly established in the current year, its financial statements were consolidated as of the date of inception. The other 5 foreign subsidiaries use a fiscal year ending December 31. For these 5 subsidiaries, certain adjustments are made, if appropriate, in preparing the consolidated financial statements to reflect material transactions which occurred between their fiscal year-end and March 31.

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

(b) Investments in affiliates

Investment in Advanced Green Components, LLC, an affiliate of the Company on which the Company has significant influence, is accounted for by the equity method.

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

(2) Foreign currency translation -

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

All assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the exchange rate prevailing at each balance sheet date. All income and expense accounts for the year are also translated at the 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 or available-for-sale securities. Except for the equity securities issued by subsidiaries and affiliates, securities that the Company has are all classified as available-for-sale securities.

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

(4) Derivative Transactions -

The Companies use foreign exchange forward contracts and interest rate swaps to reduce their exposure to market risks from fluctuations in foreign currencies and interest rates. The Companies do not hold or issue financial derivative instruments for trading purposes. If derivative transactions are used as hedges and meet certain hedging criteria, the Companies use the deferred hedge accounting method.

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

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

(5) Inventories -

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

(6) Depreciation and amortization -

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

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

(7) Research and development costs -

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

(8) Allowance for doubtful accounts -

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

(9) Accrued employees' retirement benefits -

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

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

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

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

(11) Reserve for environmental measures

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

(12) Income taxes -

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

(13) Revenue recognition -

Sales are generally recognized at the time the goods are delivered or shipped to the 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 5%. The consumption tax imposed on the Company and its domestic subsidiaries sales to customers is withheld at the time of sale and is subsequently paid to the national government. The consumption tax withheld upon sale is not included in the amount of “net sales” in the consolidated statements of operations but is recorded as liabilities. The consumption tax imposed on the purchases of products, merchandise and services from vendors borne by the Company and its domestic subsidiaries, is not included in the amounts of costs and expenses but is recorded as assets. The balance of consumption tax withheld, 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.

Additional information-

The Companies adopted “Accounting Standard for Accounting Changes and Error Corrections” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 24, issued on December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

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 ¥82.13 = U.S.$1.00, the approximate rate of exchange as at March 31, 2012, has been used for the purpose of 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
	2012	**2012**
Valuation difference on available-for-sale securities		
Increase (decrease) during the year	**¥ (341)**	**$ (4,156)**
Subtotal, before tax	**(341)**	**(4,156)**
Tax (expense) or benefit	**32**	**393**
Subtotal, net of tax	**¥ (309)**	**$ (3,763)**
Foreign currency translation adjustments		
Increase (decrease) during the year	**¥ (88)**	**$ (1,074)**
Share of other comprehensive income of an affiliate accounted for by the equity method		
Increase (decrease) during the year	**¥ (23)**	**$ (278)**
Total other comprehensive income	**¥ (420)**	**$ (5,115)**

5. Financial Instruments

(1) Status of financial instruments -

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

Notes and accounts receivable are exposed to the credit risks of customers. In order to reduce such risks, the Companies regularly monitor the maturity dates and the balances of receivables of all customers' accounts and evaluate the main customers' credit risk due to deterioration of the financial situation, etc., according to the company regulation. 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 us, are exposed to market price risks. The Companies regularly review the fair values and financial positions of the companies and revise the portfolio considering the relationships with them.

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

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

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

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

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

(2) Fair values of financial instruments -

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2011 were as follows. Certain financial instruments were excluded from the following table as the fair values were not available (see Note 2 below).

	Millions of yen					
	Book value		Fair value		Difference	
(1) Cash and bank deposits	¥	18,990	¥	18,990	¥	—
(2) Notes and accounts receivable, trade	¥	52,848	¥	52,848	¥	—
(3) Investments in securities						
Available-for-sale securities	¥	7,509	¥	7,509	¥	—
(4) Notes and accounts payable, trade	¥	(17,040)	¥	(17,040)	¥	—
(5) Short-term loans	¥	(35,390)	¥	(35,390)	¥	—
(6) Long-term loans	¥	(22,400)	¥	(22,499)	¥	△99
(7) Derivative transactions						
①Hedge accounting is not applied	¥	(0)	¥	(0)	¥	—
②Hedge 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, 2012 are as follows. Certain financial instruments are excluded from the following table as the fair values are not available (see Note 2 below).

	Millions of yen						Thousands of U.S. dollars					
	Book value		Fair value		Difference		Book value		Fair value		Difference	
(1) Cash and bank deposits	¥	**18,557**	¥	**18,557**	¥	—	$	**225,943**	$	**225,943**	$	—
(2) Notes and accounts receivable, trade	¥	**61,863**	¥	**61,863**	¥	—	$	**753,231**	$	**753,231**	$	—
(3) Investments in securities												
Available-for-sale securities	¥	**7,169**	¥	**7,169**	¥	—	$	**87,287**	$	**87,287**	$	—
(4) Notes and accounts payable, trade	¥	**(18,345)**	¥	**(18,345)**	¥	—	$	**(223,363)**	$	**(223,363)**	$	—
(5) Short-term loans	¥	**(36,134)**	¥	**(36,134)**	¥	—	$	**(439,967)**	$	**(439,967)**	$	—
(6) Long-term loans	¥	**(34,569)**	¥	**(34,629)**	¥	**60**	$	**(420,906)**	$	**(421,635)**	$	**△729**
(7) Derivative transactions												
①Hedge accounting is not applied	¥	**(1)**	¥	**(1)**	¥	—	$	**(17)**	$	**(17)**	$	—
②Hedge 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 17, "Derivatives."

2. Non-listed equity securities whose fair values are not available are excluded from investments in securities above. These instruments as of March 31, 2011 and 2012 are as follows.

	Millions of yen				Thousands of U.S. dollars	
	2011		**2012**		**2012**	
Non-listed equity securities	¥	488	¥	**478**	$	**5,819**

3. The aggregate maturities subsequent to March 31, 2011 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	¥ 18,990	¥ —	¥ —	¥ —
Notes and accounts receivable, trade	52,848	—	—	—
Total	¥ 71,838	¥ —	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2012 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	**¥ 18,557**	**¥** —	**¥** —	**¥** —
Notes and accounts receivable, trade	**61,863**	—	—	—
Total	**¥ 80,420**	**¥** —	**¥** —	**¥** —

	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	**$ 225,943**	**$** —	**$** —	**$** —
Notes and accounts receivable, trade	**753,231**	—	—	—
Total	**$ 979,174**	**$** —	**$** —	**$** —

4. The aggregate maturities subsequent to March 31, 2011 for long-term loans and other interest-bearing debt 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
Long-term loans	¥ —	¥ 22,150	¥ 250	¥ —
Other interest-bearing debt	15	60	57	—
Total	¥ 15	¥ 22,210	¥ 307	¥ —

The aggregate maturities subsequent to March 31, 2012 for long-term loans and other interest-bearing debt 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
Long-term loans	**¥** —	**¥ 34,569**	**¥** —	**¥** —
Other interest-bearing debt	**15**	**60**	**42**	—
Total	**¥ 15**	**¥ 34,629**	**¥ 42**	**¥** —

	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
Long-term loans	**$** —	**$ 420,906**	**$** —	**$** —
Other interest-bearing debt	**183**	**732**	**510**	—
Total	**$ 183**	**$ 421,638**	**$ 510**	**$** —

6. Securities:

The aggregate acquisition costs and fair values (book values) of marketable securities classified as available-for-sale securities as of March 31, 2011 and 2012 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2011			**2012**			**2012**		
	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 their acquisition cost:									
Stock	¥ 4,632	¥ 6,887	¥ 2,255	**¥ 3,666**	**¥ 5,744**	**¥ 2,078**	**$ 44,638**	**$ 69,935**	**$ 25,297**
Securities whose acquisition cost exceeds their book value:									
Stock	¥ 681	¥ 622	¥ (59)	**¥ 1,648**	**¥ 1,425**	**¥ (223)**	**$ 20,069**	**$ 17,352**	**$ (2,717)**
Total	¥ 5,313	¥ 7,509	¥ 2,196	**¥ 5,314**	**¥ 7,169**	**¥ 1,855**	**$ 64,707**	**$ 87,287**	**$ 22,580**

7. Inventories:

Inventories held by the Companies at March 31, 2011 and 2012 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Merchandise	¥ 1,469	¥ **1,845**	$ **22,469**
Finished products	5,559	**9,523**	**115,950**
Work-in-process	21,031	**22,457**	**273,433**
Raw materials and supplies	14,080	**15,298**	**186,265**
Total	¥ 42,139	¥ **49,123**	$ **598,117**

8. Assets Pledged as Collateral

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Assets pledged as collateral:			
Land	¥ 4,591	¥ **4,590**	$ **55,891**
Buildings and structures	5,918	**5,834**	**65,551**
Machinery and equipment	12,773	**9,533**	**116,073**
	¥ 23,282	¥ **19,957**	$ **237,515**
Secured liabilities:			
Long-term debt (including those due within one year)	14,000	**12,700**	**154,633**
	¥ 14,000	¥ **12,700**	$ **154,633**

9. Accounting for Notes Receivable/Payable Which Reached the Maturity at Year-end

Notes receivable/payable which reached the maturity at year-end are treated as if they were settled at the clearing date for notes. Consequently, as the year-end date as of March 31, 2012 was a holiday for banking institutions, the following notes receivable/payable which reached the maturity at year-end are included in the ending balance of notes receivable/payable and other current liabilities:

	Millions of yen	Thousands of U.S. dollars
Notes receivable	¥ **1,862**	$ **22,670**
Notes payable	¥ **131**	$ **1,598**

10. Short-term Loans and Long-term Loans

Short-term loans at March 31, 2011 and 2012 represent bank overdrafts with weighted-average interest rates of 0.55% and 0.60%, 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 aggregated maximum amount of ¥16,700 million ($203,336 thousand). At March 31 2012, the total ¥16,700 million ($203,336 thousand) is unused.

Long-term loans at March 31, 2011 and 2012, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Loans from banks and other financial institutions due 2011 to 2013 with interest rates ranging from 0.37% to 1.75% at March 31, 2011 and due 2012 to 2013 with interest rates ranging from 0.24% to 1.75% at March 31, 2012	¥ 26,400	**¥ 39,100**	**$ 476,075**
Other payables due 2010 to 2021 with interest of 4.05% at March 31, 2011 and due 2010 to 2021 with interest of 4.05% at March 31, 2012	132	**117**	**1,424**
	26,532	**39,217**	**477,499**
Less: Current portion of long-term loans	(4,015)	**(4,546)**	**(55,352)**
	¥ 22,517	**¥ 34,671**	**$ 422,147**

The annual maturities of long-term loans outstanding at March 31, 2012 are as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars
2013	**¥ 6,648**	**$ 80,945**
2014	**11,748**	**143,042**
2015	**4,293**	**52,271**
2016	**11,940**	**145,380**
2017 and thereafter	**42**	**509**
	¥ 34,671	**$ 422,147**

11. Retirement Benefits

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

(1) Funded status of retirement benefit obligation at March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Projected benefit obligation	¥ (8,350)	**¥ (8,311)**	**$ (101,192)**
Plan assets at fair value	7,959	**7,359**	**89,606**
Unfunded projected benefit obligation	(391)	**(952)**	**(11,586)**
Unrecognized actuarial loss	1,213	**1,643**	**20,002**
Unrecognized prior service costs	(98)	**(49)**	**(596)**
Net of Accrued employees' retirement benefits recognized in the consolidated balance sheets	724	**642**	**7,820**
Prepaid pension cost	2,034	**1,876**	**22,843**
Accrued employees' retirement benefits recognized in the consolidated balance sheets	¥ (1,310)	**¥ (1,234)**	**$ (15,023)**

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

(2) Components of net retirement benefit expenses for the years ended March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Service cost	¥ 394	**¥ 385**	**$ 4,682**
Interest cost	223	**221**	**2,697**
Expected return on plan assets	(91)	**(98)**	**(1,190)**
Amortization of prior service costs	(49)	**(49)**	**(597)**
Amortization of actuarial loss	287	**154**	**1,879**
Payments for the defined contribution pension plan	184	**188**	**2,285**
Total	¥ 948	**¥ 801**	**$ 9,756**

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

(3) Assumptions used in the calculation of retirement benefit obligations for the years ended March 31, 2011 and 2012 are as follows:

	2011	**2012**
Discount rate	2.8%	**2.8%**
Expected rate of return on plan assets	1.2%	**1.2%**
Method of attributing the projected benefits to periods of service	Straight-line basis	**Straight-line basis**
Amortization period for unrecognized prior service costs	10 years	**10 years**
Amortization period for unrecognized actuarial differences	10 years	**10 years**

12. Income Taxes

The Companies are subject to a number of different income taxes which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 40.6% for the year ended March 31, 2011. On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 38.0% for years beginning on or after April 1, 2012 and 35.6% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 38.0% and 35.6%, respectively, for the years ended March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax assets decreased by ¥ 23 million as of March 31, 2012 and deferred income tax expense and unrealized holding gains on securities recognized for the year ended March 31, 2012 increased by ¥ 84 million and ¥61 million, respectively.

At March 31, 2011 and 2012, significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Deferred tax assets:			
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trust	¥ 2,961	**¥ 2,597**	**$ 31,617**
Devaluation loss on inventories	169	**246**	**2,993**
Accrued bonuses	971	**879**	**10,697**
Devaluation loss on marketable securities	1,308	**1,147**	**13,966**
Accrued employees' retirement benefits	906	**809**	**9,853**
Unrealized intercompany profit eliminated in consolidation	277	**215**	**2,623**
Other	1,938	**1,469**	**17,883**
Gross deferred tax assets	8,531	**7,362**	**89,632**
Less: Valuation allowance	(1,937)	**(1,485)**	**(18,077)**
Total deferred tax assets	¥ 6,594	**¥ 5,877**	**$ 71,555**
Deferred tax liabilities:			
Unrealized holding gains on securities	¥ (468)	**¥ (435)**	**$ (5,301)**
Gain on contribution of certain marketable securities to employee retirement benefit trust	(1,597)	**(1,401)**	**(17,054)**
Reserve for deferred capital gains from property, plant and equipment	(1,382)	**(1,168)**	**(14,222)**
Prepaid pension cost	(826)	**(668)**	**(8,132)**
Reserve for special depreciation	(81)	**(471)**	**(5,732)**
Other	(179)	**(254)**	**(3,095)**
Total deferred tax liabilities	(4,533)	**(4,397)**	**(53,536)**
Net deferred tax assets	¥ 2,061	**¥ 1,480**	**$ 18,019**

The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2011 was as follows:

Statutory income tax rate	40.6%
Add (deduct)	
Nondeductible expenses, including entertainment expenses	0.8
Nontaxable income, including dividend income	(0.7)
Equalization tax	0.1
Other	(2.9)
Effective income tax rate	37.9%

The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2012, is not required to be disclosed due to the insignificance of the difference.

13. Net Assets

At the Company's Board of Directors meeting held on May 16, 2011, the directors approved cash dividends amounting to ¥807 million. At the Company's Board of Directors meeting held on May 15, 2012, the directors approved cash dividends amounting to ¥645 million ($7,858 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, 2011 and 2012 totaled ¥1,937 million and ¥1,840 million ($22,402 thousand), respectively.

15. Net Income Per Share

Basis for calculations of net income per share for the years ended March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Net income	¥ 7,822	¥ **6,408**	$ **78,022**
Net income for common stockholders	¥ 7,822	¥ **6,408**	$ **78,022**

	Thousands of shares	
	2011	**2012**
The weighted-average number of shares of common stock	161,391	**161,362**

	Yen		U.S. dollars
	2011	**2012**	**2012**
Net income per share	¥ 48.47	¥ **39.71**	$ **0.48**

The Companies have no dilutive securities for the years ended March 31, 2011 and 2012.

16. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2011 and 2012 consist of:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Cash and bank deposits	¥ 18,990	¥ **18,557**	$ **225,943**
Time deposits with deposit terms of over 3 months and other	(2)	**(2,057)**	**(25,048)**
Cash and cash equivalents	¥ 18,988	¥ **16,500**	$ **200,895**

17. Accounting for Leases

(1) Finance leases –

Non-capitalized finance leases at March 31, 2011 and 2012 are as follows:

As a lessee

Periodic lease charges to the Companies, as a lessee, which are charged to profit or loss for the years ended March 31, 2011 and 2012 are ¥200 million and ¥168 million ($2,046 thousand), respectively.

Lease assets under finance leases, if capitalized, at March 31, 2011 and 2012 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2011		**2012**		**2012**	
	Machinery and vehicles	Other	Machinery and vehicles	Other	Machinery and vehicles	Other
Acquisition cost	¥ 1,508	¥ 133	¥ **1,486**	¥ **38**	$ **18,089**	$ **466**
Accumulated depreciation	982	111	**1,110**	**35**	**13,514**	**435**
Net book value	¥ 526	¥ 22	¥ **376**	¥ **3**	$ **4,575**	$ **31**

Depreciation expense for lease assets computed by the straight-line method over the period of the finance leases with no residual value for the years ended March 31, 2011 and 2012 are ¥200 million and ¥168 million ($2,046 thousand), respectively.

Outstanding future lease payments due at March 31, 2011 and 2012, including interest, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Due within one year	¥ 170	**¥ 148**	**$ 1,808**
Due after one year	378	**230**	**2,797**
Total	¥ 548	**¥ 378**	**$ 4,605**

(2) Non-cancelable operating leases -

As a lessee

Outstanding future lease payments under non-cancelable operating leases at March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Due within one year	¥ 10	**¥ 14**	**$ 176**
Due after one year	8	**11**	**133**
Total	¥ 18	**¥ 25**	**$ 309**

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, 2011 were as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
Buying			
U.S. dollars	¥ 39	¥ 0	¥ 0
Japanese yen	20	(0)	(0)
Total	¥ 59	¥ (0)	¥ (0)

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2012 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	**¥ 121**	**¥ (1)**	**¥ (1)**	**$ 1,472**	**$ (10)**	**$ (10)**
Japanese yen	**77**	**(0)**	**(0)**	**943**	**(7)**	**(7)**
Total	**¥ 198**	**¥ (1)**	**¥ (1)**	**$ 2,415**	**$ (17)**	**$ (17)**

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

Derivative transactions to which hedge accounting is applied for the years ended March 31, 2011 and 2012 are as follows:

	2011	**2012**
Method of hedge accounting	Exceptional method for interest rate swap transactions	**Exceptional method for interest rate swap transactions**
Type of derivative transactions	Interest rate swap transactions Payment fixation, Receipt change	**Interest rate swap transactions Payment fixation, Receipt change**
The main hedged items	Long-term loans	**Long-term loans**
Contract amount	¥10,770 million	**¥18,550 million ($225,861 thousand)**
1 year or more of amount of contract	¥7,850 million	**¥15,630 million ($190,308 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.

19. Contingent Liabilities

Guarantees against bank loans of employees and affiliates at March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Employees	¥ 63	**¥ 47**	**$ 577**
Advanced Green Components, LLC	387	**282**	**3,426**
Total	¥ 450	**¥ 329**	**$ 4,003**

Notes discounted with banks and notes endorsed, as of March 31, 2011 and 2012 are ¥205 million and ¥218 million ($2,659 thousand), respectively. Notes discounted with banks and notes endorsed are netted against "Notes and accounts receivable, trade" in the consolidated balance sheets.

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 products based on operating divisions and have determined the reportable segments, "Specialty Steel," "Special Materials" and "Formed and Fabricated Materials."

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

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

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

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

Segment information for the years ended March 31, 2011 and 2012 is as follows:

	For the year ended March 31, 2011						
	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	¥ 137,709	¥ 5,672	¥ 16,072	¥ 59	¥ 159,512	¥ —	¥ 159,512
Intersegment transactions	¥ 10,655	¥ —	¥ —	¥ 988	¥ 11,643	¥ (11,643)	¥ —
Total	148,364	5,672	16,072	1,047	171,155	(11,643)	159,512
Segment income	¥ 12,204	¥ 1,039	¥ 1,351	¥ 105	¥ 14,699	¥ (499)	¥ 14,200
(b) Other:							
Depreciation	¥ 9,080	¥ 347	¥ 501	¥ 5	¥ 9,933	¥ (17)	¥ 9,916

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments of ¥499 million ($6,000 thousand) are adjustments for inventories of ¥488 million ($5,878 thousand), corporate expenses not allocated to each reportable segment of ¥38 million ($454 thousand) and intersegment elimination of ¥28 million ($332 thousand). Corporate expenses are general and administrative expenses not attributed to reportable segments.
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, 2012						
	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	¥ **148,130**	¥ **6,974**	¥ **16,612**	¥ **84**	¥ **171,800**	¥ —	¥ **171,800**
Intersegment transactions	¥ **9,980**	¥ —	¥ —	¥ **1,140**	¥ **11,120**	¥ **(11,120)**	¥ —
Total	**158,110**	**6,974**	**16,612**	**1,224**	**182,920**	**(11,120)**	**171,800**
Segment income	¥ **11,465**	¥ **810**	¥ **1,250**	¥ **65**	¥ **13,590**	¥ **(2,241)**	¥ **11,349**
(b) Other:							
Depreciation	¥ **10,070**	¥ **339**	¥ **470**	¥ **7**	¥ **10,886**	¥ **(25)**	¥ **10,861**

	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	$ **1,803,602**	$ **84,911**	$ **202,261**	$ **1,033**	$ **2,091,807**	$ —	$ **2,091,807**
Intersegment transactions	$ **121,515**	$ —	$ —	$ **13,885**	$ **135,400**	$ **(135,400)**	$ —
Total	**1,925,117**	**84,911**	**202,261**	**14,918**	**2,227,207**	**(135,400)**	**2,091,807**
Segment income	$ **139,593**	$ **9,857**	$ **15,220**	$ **798**	$ **165,468**	$ **(27,291)**	$ **138,177**
(b) Other:							
Depreciation	$ **122,610**	$ **4,132**	$ **5,725**	$ **86**	$ **132,553**	$ **(307)**	$ **132,246**

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments of ¥2,241 million ($27,291 thousand) are adjustments for inventories of ¥2,232 million ($27,172 thousand), intersegment elimination of ¥38 million ($463 thousand) and corporate expenses not allocated to each reportable segment of ¥47 million ($582 thousand). Corporate expenses are general and administrative expenses not attributed to reportable segments.
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, 2011 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, 2011					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	¥ 130,250	¥ 24,114	¥ 3,302	¥ 1,520	¥ 326	¥ 159,512

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, 2011, the Companies are not required to disclose information about property, plant and equipment.

(3) Information about major customers –

	For the year ended March 31, 2011		
	Net sales		Related segment
	Millions of yen	Thousands of U.S. dollars	
Marubeni-Itochu Steel Inc.	¥ 33,964	$ 408,471	Specialty Steel
Mitsui & Co., Ltd.	¥ 19,888	$ 239,184	Specialty Steel

Segment related information for the year ended March 31, 2012 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, 2012					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	**¥ 138,068**	**¥ 28,146**	**¥ 3,311**	**¥ 1,904**	**¥ 371**	**¥ 171,800**

	Thousands of U.S. dollars					
	Japan	Asia	North America	Europe	Others	Total
Net sales	**$ 1,681,087**	**$ 342,699**	**$ 40,317**	**$ 23,186**	**$ 4,518**	**$ 2,091,807**

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, 2012, the Companies are not required to disclose information about property, plant and equipment.

(3) Information about major customers –

	For the year ended March 31, 2012		
	Net sales		Related segment
	Millions of yen	Thousands of U.S. dollars	
Marubeni-Itochu Steel Inc.	**¥ 38,652**	**$ 471,614**	Specialty Steel
Mitsui & Co., Ltd.	**¥ 21,095**	**$ 256,843**	Specialty Steel

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Sanyo Special Steel Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, 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, 2012 and 2011, 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, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

August 31, 2012
Osaka, Japan

Complete View of our Head Office / Plant

Corporate Data

(As of March 31,2012)

Corporate Name	Sanyo Special Steel Co., Ltd.
Head Office	3007, Nakashima, Shikama-ku, Himeji, Hyogo 672-8677 Japan / phone (+81) 79-235-6003
URL	http://www.sanyo-steel.co.jp/english/index.html
Established	January 11, 1935
Paid-in Capital	20,183 millions of yen
Number of Employees	2,865(consolidated basis) 1,404(non-consolidated basis)
Register of Shareholders	The Chuo Mitsui Trust & Banking Co., Ltd.
Total Number of Shares Authorized to be Issued	474,392,000
Total Number of Shares Issued	167,124,036
Stock Listings	Tokyo Stock Exchange (1st Section)
Book Closing	March 31
Number of Shareholders	16,851
Branches and Offices	Tokyo Regional Office, Osaka Branch, Nagoya Branch, Hiroshima Branch, Kyusyu Sales Office

Consolidated Subsidiaries and Equity-Method Affiliates

(As of March 31, 2012)

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

Board of Directors

(As of June 28, 2012)

President, Representative Director	Yasuo Takeda			
Director and Executive Vice President	Nobuyuki Tanaka			
Senior Managing Director, Member of the Board	Tetsuo Kiriyama	Yutaka Tsukamoto		
Managing Director, Member of the Board	Tatsuro Isomoto	Shin-ichi Tominaga	Akihiko Yanagitani	Wataru Nishihama
Director and Senior Advisor, Member of the Board	Nobuyoshi Fujiwara			
Director, Member of the Board	Hiroyuki Eiyama Kazuya Shin-no	Masaharu Kobayashi	Shigehiro Oi	Katsu Yanagimoto
Corporate Auditor	Hiroaki Kimura (Standing Corporate Auditor) Masatoshi Murakami*	 Shinji Shibao*	Toshihiko Yoshida	Hideyuki Sasaki*

* Outside Corporate Auditor

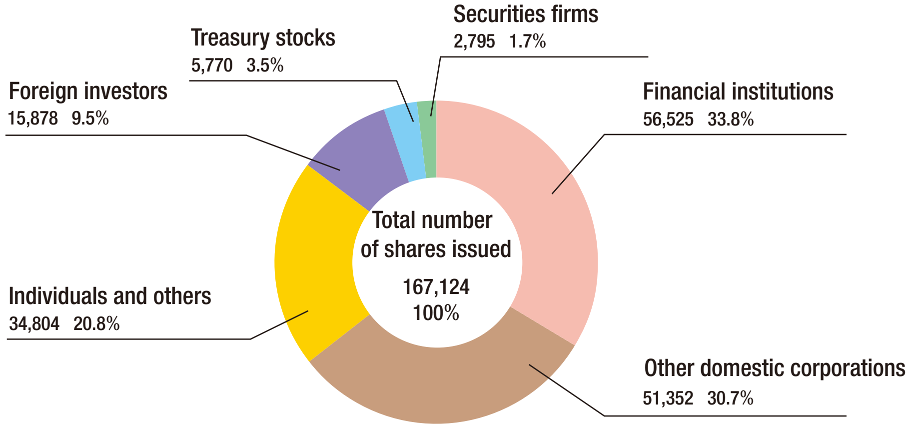
Principal Shareholders

(As of March 31, 2012)

Name of Shareholder	Number of Shares Held (thousands of shares)	Percentage of Voting Rights (%)
Nippon Steel Corporation	24,256	15.14
The Master Trust Bank of Japan, Ltd. (trust account)	9,959	6.22
Japan Trustee Services Bank, Ltd. (trust account)	9,193	5.74
Company's Kyoeikai Association	9,096	5.68
NSK Ltd.	7,470	4.66
Sumitomo Mitsui Banking Corporation	5,696	3.55
Mizuho Corporate Bank, Ltd.	3,642	2.27
Marubeni-Itochu Steel Inc.	3,108	1.94
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,849	1.78
The Chuo Mitsui Trust & Banking Co., Ltd.	2,830	1.77

Notes: (1) The number of shares omits fractions of less than 1,000 shares.
(2) The Company holds 5,770 thousand shares of its own stock in treasury, but is excluded from the above list of major shareholders.

Shareholder Composition (thousands of shares)



SANYO SPECIAL STEEL CO., LTD.

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

This annual report can also be found at our website.

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