SANYO SPECIAL STEEL

2016 ANNUAL REPORT

APRIL 1.2015-MARCH 31.2016

SANYO SPECIAL STEEL

MESSAGE FROM PRESIDENT

Since its founding in 1933, Sanyo Special Steel Co., Ltd. ("Sanyo Special Steel") has been a stable supplier of high-quality special steel.

Our steel products fulfill a high level of confidence and are applied to a broad range of important industrial parts in such areas as automobiles, industrial machinery, railways and wind-power generation equipment. Bearing steel, our mainstay product, enjoys a particularly high reputation in many countries for its superior quality and confidence.

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

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

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

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

Shinya Higuchi

Representative Director
and President

Contents

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

Corporate Philosophy

Confidence-based Management

Confidence of Society | Confidence of Customers | Confidence among People

"Confidence of society"

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

"Confidence of customers"

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

"Confidence among people"

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

Sanyo Special Steel -the Confident Choice

Development | Quality | Stable Supply

"Development"

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

"Quality"

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

"Stable Supply"

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

Analysis of Results of Operations and Financial Condition

Fiscal years ended March 31

FY2015 Overview

The Japanese economy in FY2015(Financial Year ended March 31, 2016) was on a moderately recovering trend, showing improvements in corporate earnings and employment thanks to the government's economic stimulus measures and the Bank of Japan's monetary easing. However, the future of the economy remained uncertain, due mainly to a downturn in emerging countries including China and financial market volatility.

Demand in the special steel industry was lower than that in the previous term due primarily to a decline in output and inventory adjustment in our major customer sectors, automobile and industrial equipment sectors.

In such circumstances, the net sales of Group for the fiscal year decreased by 22,346 million yen year on year to 149,148 million yen, due mainly to a decrease in the sales volumes and the drop in prices associated with the iron scrap surcharge system. While the sales volumes decreased, ordinary income increased by 1,805 million yen year on year to 11,540 million yen, mainly by virtue of a drop in raw material and fuel prices, a decrease in depreciation and cost reduction efforts. ROS (return on sales) for the fiscal year improved to 7.7% (5.7% for the previous year). Net income attributable to owners of the parent increased by 869 million yen year on year to 7,416 million yen, and ROE (return on equity) for the fiscal year improved to 6.6% (6.1% for the previous year).

FY2016 Outlook

The operating environment surrounding the Group is expected to remain challenging, including effects of a slowdown in emerging economies, financial market volatility, intense global competition in the special steel industry, continued inventory adjustments in our major customer sectors and a concern for a rise in raw material and fuel prices. The Japanese economy is expected to recover moderately.

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

By considering all of these factors, the Group expects its earnings for the next term with net sales to be 142,000 million yen, ordinary income to be 12,300 million yen, and net income attributable to owners of the parent to be 8,200 million yen.

Profit Distribution to Shareholders

Our basic policy on profit distribution is to reward our shareholders by increasing the profits available for distribution while strengthening our business foundation. Concerning dividend payment, we intend to meet our shareholders' expectations, primarily by distributing profits based on periodic business performance while giving due consideration to both the payout ratio and the amount of funds required for investments and other activities to enhance our corporate value. Our standard of profit distribution is a consolidated payout ratio of 20% to 30%, and we pay dividends at the end of the 2nd quarter and the end of fiscal year.

Regarding dividends for the current term, we paid a dividend of 12 yen per share annually according to the basic policy, since net income attributable to owners of the parent reached 7,416 million yen for the current year. As we implemented a dividend of 6 yen per share as the interim dividend, a year-end dividend was 6 yen per share.

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

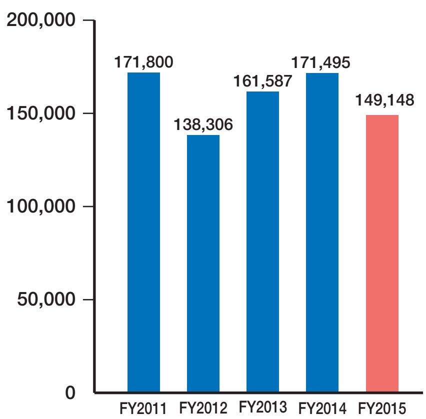
CONSOLIDATED FINANCIAL HIGHLIGHTS

Sanyo Special Steel Co., Ltd. and consolidated subsidiaries

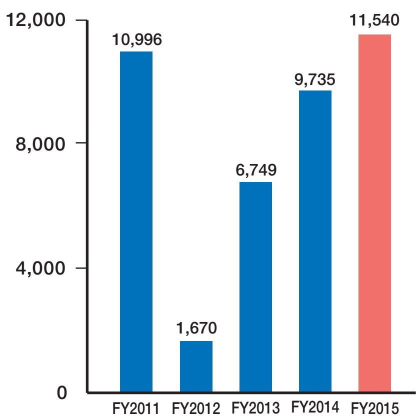
	FY2013	FY2014	FY2015	Change FY2014 / FY2015	FY2015
Operating Results (For the year)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net sales	¥ 161,587	¥ 171,495	¥ 149,148	-13.0	$ 1,324,351
Operating income	6,884	9,170	12,188	32.9	108,225
Ordinary income	6,749	9,735	11,540	18.5	102,471
Net income attributable to owners of the parent	4,066	6,548	7,417	13.3	65,856
Financial Position (at year-end)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net assets *2	102,905	113,644	113,141	-0.4	1,004,623
Total assets	203,522	202,243	179,899	-11.0	1,597,396
Financial Indicator			(%)		(%)
ROS *3	4.2	5.7	7.7	2.0	7.7
ROE *4	4.1	6.1	6.6	0.5	6.6
ROA *5	3.4	4.8	6.0	1.2	6.0
Net D/E Ratio *6	0.46	0.29	0.13	-0.16	0.13
			(Yen)	(%)	(US Dollars)*1
Net income per share	25.21	40.60	46.00	13.3	0.41
Net assets per share	633	700	697	-0.4	6.19
Cash dividends per share	5.00	10.00	12.00	20.0	0.11

* 1 US dollar amounts are converted, for convenience purpose only, at the rate of ¥112.62=US$1, the approximate rate of exchange on March 31, 2016.
* 2 Non - controlling interests are included in net assets.
* 3 Ordinary income to Net sales
* 4 Net income attributable to owners of the parent to Net assets
* 5 Ordinary income to Total assets
* 6 Net debt equity ratio - (gross interest-bearing debt - cash and deposits) / equity

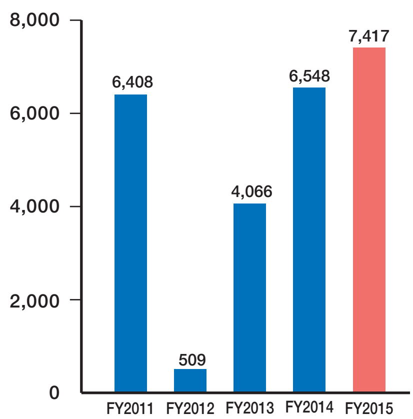
Net sales
(Millions of Yen)



Ordinary income
(Millions of Yen)



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



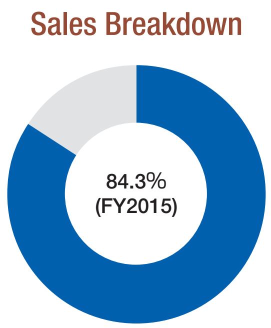
SEGMENT INFORMATION

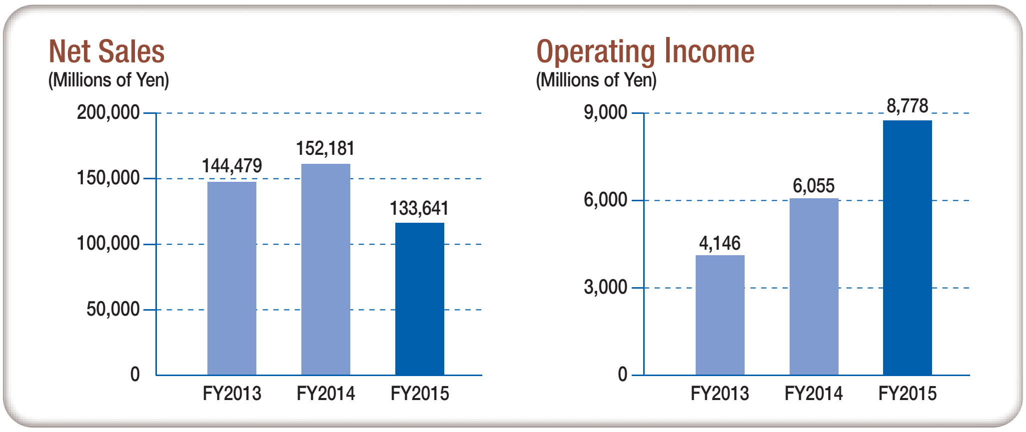
Specialty Steel

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

FY2015 Overview

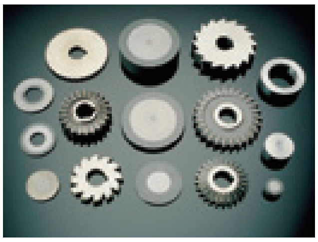
Net sales decreased by 18,540 million yen year on year to 133,641 million yen, mainly because the sales volumes decreased from the previous term and sales prices dropped due to the iron scrap surcharge system. Operating income surged by 2,722 million yen year on year to 8,778 million yen, mainly due to a drop in raw materials and fuel prices, a decrease in depreciation and cost reduction efforts despite a decrease in the sales volume.





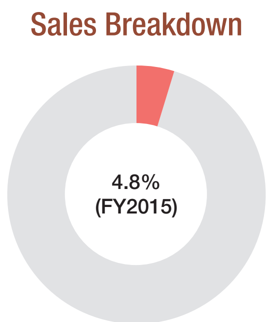
Special Materials

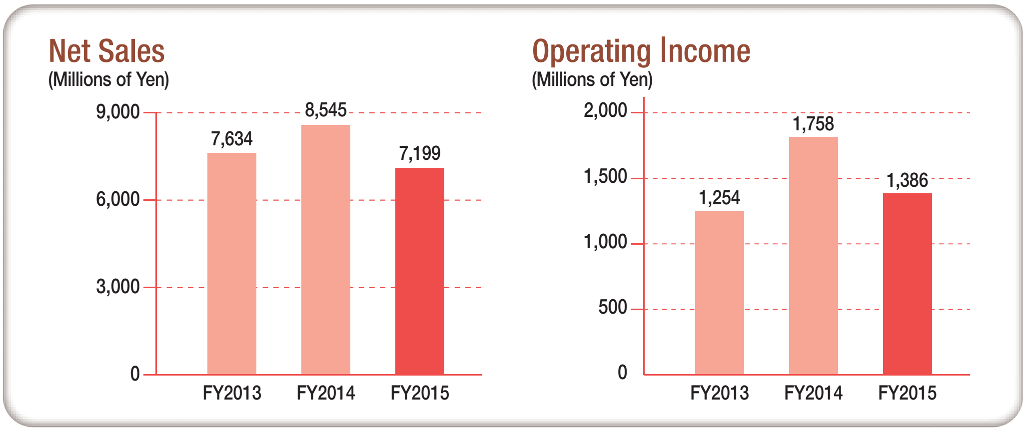
The Special Materials segment manufactures and sells heat/corrosion-resistant alloys and powder metallurgy products, among others.



FY2015 Overview

Net sales decreased by 1,346 million yen year on year to 7,199 million yen mainly because the sales volumes decreased from the previous term. Operating income decreased by 372 million yen year on year to 1,386 million yen primarily because the sales volumes decreased.





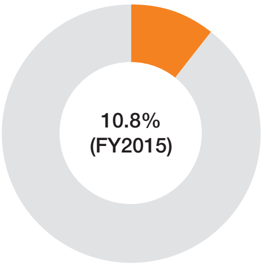
Formed and Fabricated Materials

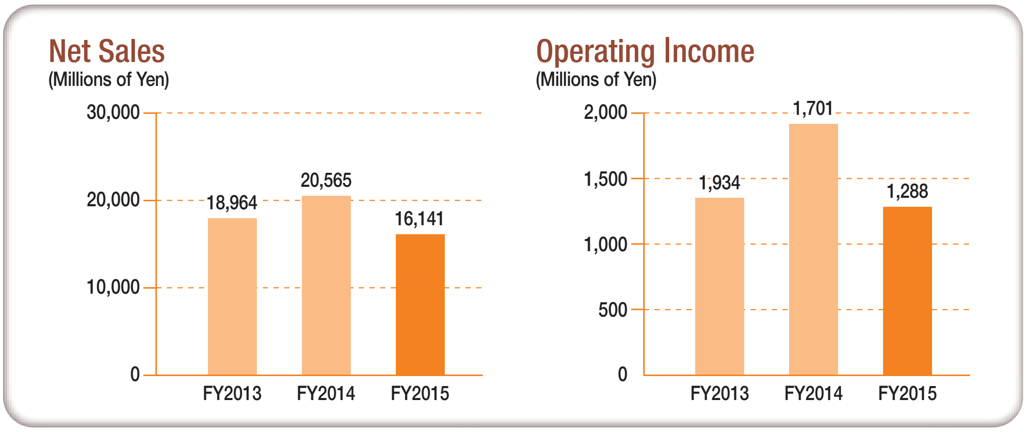
The Formed and Fabricated Materials segment uses an integrated process to manufacture high-quality formed and fabricated materials from high-cleanliness steel, which is produced using our high-cleanliness steel manufacturing technology. Our formed and fabricated materials include cut rings produced by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

FY2015 Overview

Net sales decreased by 4,423 million yen year on year to 16,141 million yen mainly because the sales volumes decreased from the previous term. Operating income decreased by 411 million yen year on year to 1,288 million yen, due primarily to a decrease in the sales volumes.

Sales Breakdown





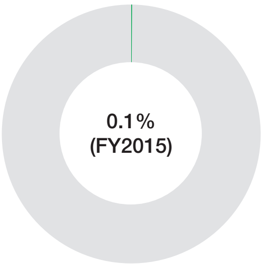
Other

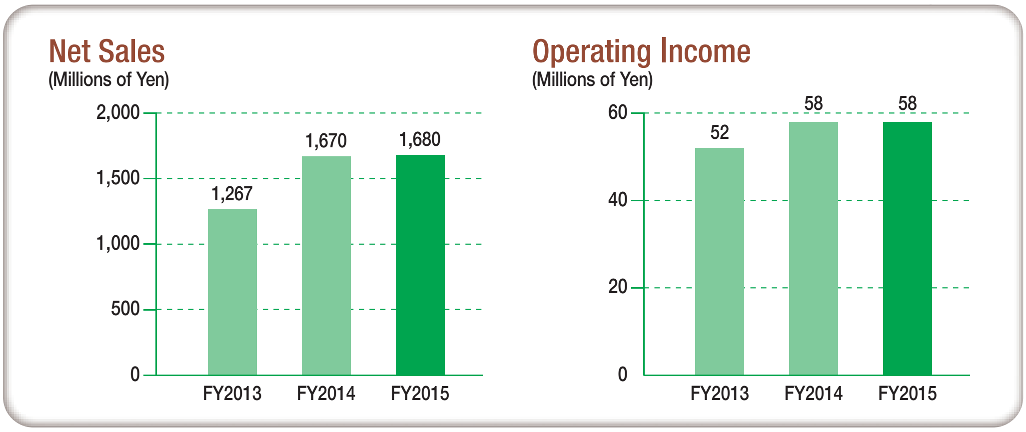
We provide information processing services through our subsidiaries.

FY2015 Overview

Net sales increased by 10 million yen year on year to 1,680 million yen. Operating income increased by 1 million yen year on year to 58 million yen. This segment includes information processing service conducted through subsidiaries.

Sales Breakdown





Note:

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

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

Strategy

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

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

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

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

Financial Targets

(Billions of Yen)

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

【Major assumptions】

•Steel scrap price:
At the average level for the period from April through December 2013 (¥40,000 /t)

•Unit product price:
At the average level for the period from April through December 2013

•Margin: Constant

•Exchange rate: ¥100/US$

Key Action Programs

Promote Growth Strategy

Steel Business ("Specialty Steel")

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

Non-steel Business ("Special Materials" and "Formed and Fabricated Materials")

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

Enhance global competitiveness

Boost non-price competitiveness

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

Strengthen international competitiveness

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

Ensure adequate profit margins

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

Develop human resources to realize sustainable growth

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

Investment

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

CORPORATE GOVERNANCE

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

Fundamental Measures for Corporate Governance

Concerning business execution, we make decisions on important matters and supervise execution of business operations at ordinary meetings of the Board of Directors (held monthly), comprised of 17 directors (including two outside directors), and extraordinary meetings of the Board of Directors (held as required). We also set up company-wide committees to discuss important matters concerning operations. These include the Corporate Policy Committee (twice a month in principle) to facilitate efficient decision-making on management such as at the Board of Directors meetings, the Internal Control Committee to ensure thorough compliance and solid corporate governance, the Security & Trade Control Committee, the Environment Conservation Committee, and the Corporate Budget Committee.

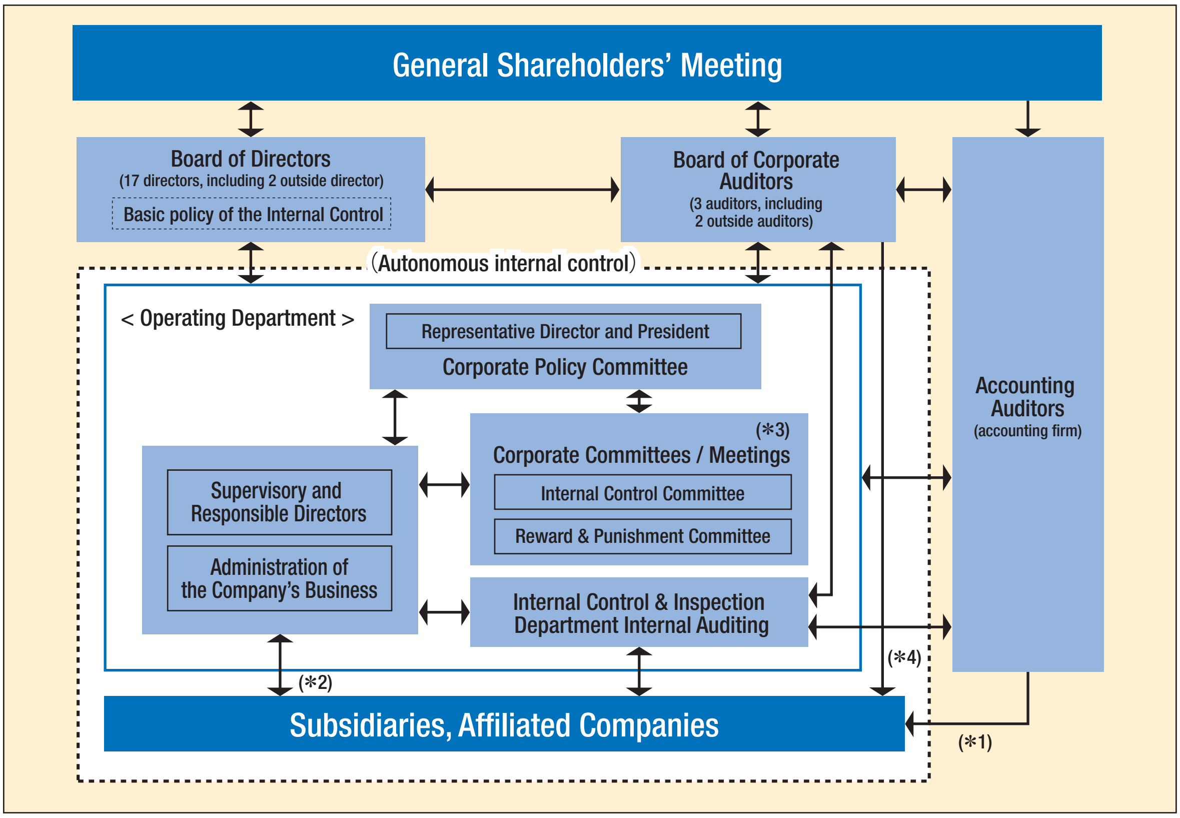
Corporate auditors' audits are conducted as necessary based on auditing policies formulated each year by the Board of Corporate Auditors. Audits are conducted by three corporate auditors (including two outside auditors) on a broad range of areas, including not only directors' execution of their duties but also risk management and compliance from an internal control perspective. Corporate auditors express their opinions to the representative director based on the audit results and, if necessary, also to business execution functions. We have a standing corporate auditor system in order to strengthen our auditing structure.

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

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

Our organizational structure for corporate governance and internal control

(As of June 28, 2016)



(*1) We audit of our subsidiaries and affiliated companies through auditing consolidated financial statements.
(*2) Each of our subsidiaries and affiliated companies has a supervisory department.
(*3) We have committees and conference bodies, including the Comprehensive Budget Committee, the Capital Investment Committee and the Investment and Loan Committee. In addition, we have an internal reporting system "Help Line" to prevent occurrences of compliance violations.
(*4) Corporate auditors perform inspections as necessary on the operations and asset status of subsidiaries.

Development and Management of Internal Control Systems

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

In addition, we established the Internal Control & Inspection Department in order to evaluate the internal control systems of the Sanyo Special Steel Group and have been working on the development and operation of the "Management's Report System on Internal Control Report over Financial Reporting" as required by the Financial Instruments and Exchange Act. In this regard, we set up a working group for internal control management, which is a cross-functional committee, in order to address risks in financial reporting, share relevant information, and discuss educational guidelines, and we are working to reinforce our internal control systems in order to ensure the adequacy of information in financial reporting (held three times during FY2015).

Board of Directors

(As of June 28, 2016)

Representative Director and President	Shinya Higuchi
Senior Managing Director, Member of the Board	Shin-ichi Tominaga　Akihiko Yanagitani
Managing Director, Member of the Board	Wataru Nishihama　Hiroyuki Eiyama　Kazuhiko Nagano　Kozo Takahashi
Director and Senior Advisor, Member of the Board	Yasuo Takeda
Director, Member of the Board	Shigehiro Oi　Katsu Yanagimoto　Kazuya Shinno　Takayo Chiba　Takashi Kuwana Shinobu Kuroishi　Kozo Omae　Shunsuke Kano (*1)　Yusaku Omori (*1)
Corporate Auditor	Hiroaki Kimura(Standing Corporate Auditor)　Katsuaki Ohe (*2)　Masaki Iwasaki (*2)

(*1) Outside Director
(*2) Outside Corporate Auditor

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

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

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

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

CSR ACTIVITIES

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

Compliance Structure

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

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

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

Guidelines for Corporate Behavior

The Guidelines for Corporate Behavior indicate how we should behave as a corporation. They underpin all corporate activities.

Code of Conduct

The Code of Conduct provides guidance on conduct to be observed in the course of our business activities within the framework set by the Guidelines for Corporate Behavior.

Corporate Behavior and Ethics Regulations

The Corporate Behavior and Ethics Regulations specify the systems and structure employed to ensure compliance.

Establishment of a Internal Control Committee/Establishment of a Whistle-blowing System “Helpline”

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

In addition we have initiated a “Helpline,” a whistle-blowing system designed to help prevent occurrence of misconduct. The “Helpline” is aimed at detecting at an early stage any apparent or probable circumstances/acts which are deemed inappropriate in light of lows and regulations, social norms, and/or company rules, and allowing prompt and appropriate action to be taken to prevent misconduct.

Social Contributions

Our Company actively engages in activities to contribute to our community and society. Specifically, we hold concerts targeting elementary and junior high school students, provide factory visits and support to a marathon event of a neighboring elementary school, and provide volunteers to conduct clean-up activities in the surrounding neighborhood.

Factory visit targeting neighboring elementary school students

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

Cleaning areas around plants by voluntary employees

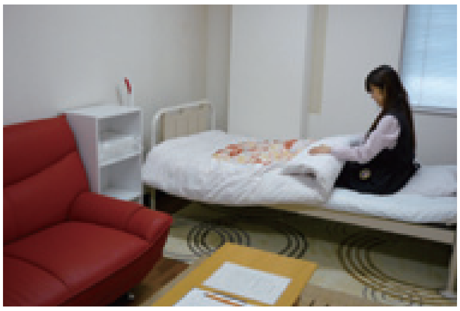
Improvement of Work Environment

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

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

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


Our original maternity working wear


Lounge for women during of pregnancy and childrearing

DIVERSITY 100 2015

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

Safety Initiatives

Under the principle of giving the top priority to safety, our Company aims to attain zero work accidents and zero traffic accidents, and we are promoting fundamental facility improvement for safety, safety education and risk assessment activities. Within the factory, safety fences and fail-safe devices are installed so that no one can get near facilities in operation. Further, we have established a simulated experience training center for safety by which employees can have a simulated experience of perils lurking in work so that every employee can enhance their sensitivity to risks and awareness of safety.

Environmental Conservation

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

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


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

Introducing battery-powered company cars


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

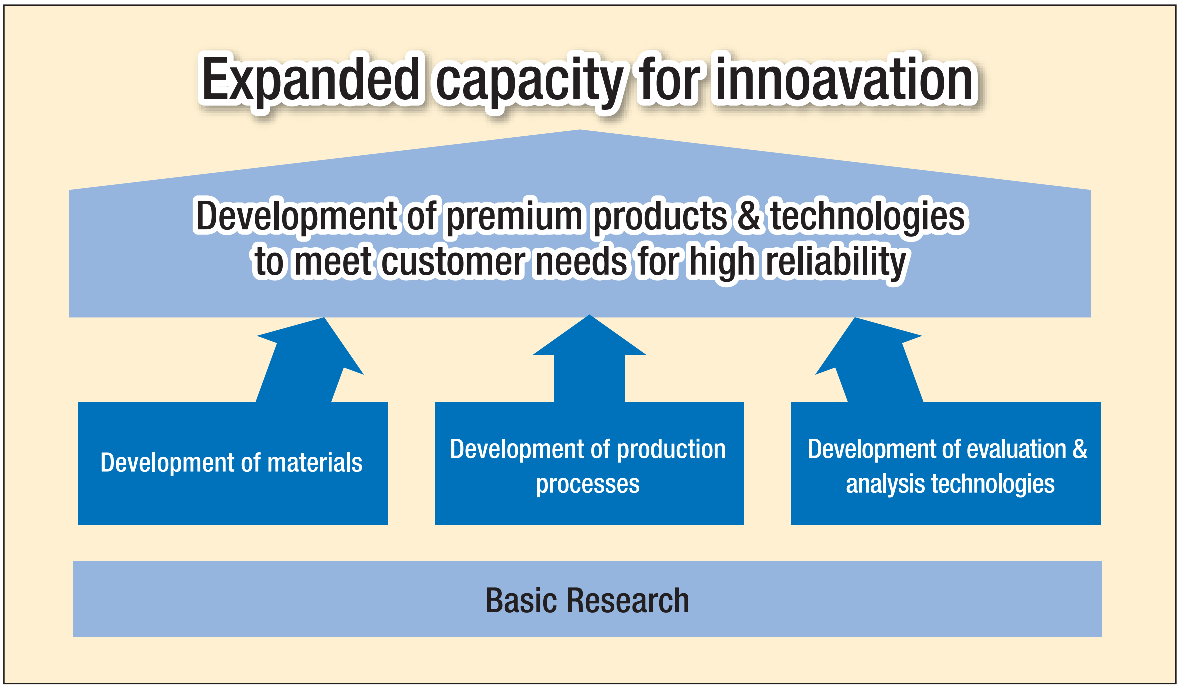
RESEARCH AND DEVELOPMENT

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

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

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

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



Newly Developed Products

"PremiumJ2, " a new grade bearing steel

Responding to the needs for smaller bearings with greater fatigue life

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


Ball Bearings

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

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

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


Automotive gears and shafts

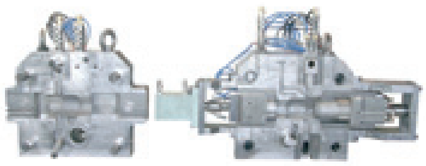
"QDX-HARMOTEX, " a Hotworking-die steel

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

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

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

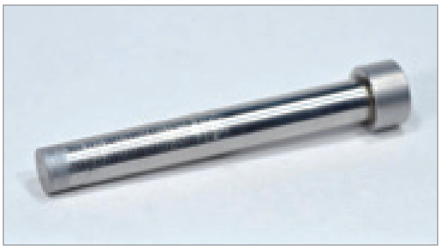
* Heat check： Die cracking resulting from repeated heating and cooling during use.


Casting dies

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

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

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


Pierce punch

Topics

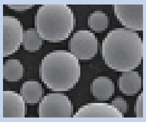
Decision to construct the state-of-the art second metal powder factory

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

The Company has decided to construct the second metal powder factory with a high level of cleanliness within the head office factory to respond to the expanding metal powder market due to the increasing demand for 3D printers, among others, that may innovate the manufacturing business and increase the need for high reliability and purity, mainly in the electronic component sectors and in the new market for metal powder.

The Company will introduce 2 high-purity vacuum induction-melting inert gas atomizers and one of the most advanced disk atomizer in the second metal power factory for research and development related to manufacturing and using highly spherical powders of high-melting point materials, and promote its efforts to grow the metal powder business and expand advanced technology further.

Image of the second metal powder factory



Highly spherical metal powder (electron microscope photo)

Examples of 3D-printer shaping

Incorporation of a local subsidiary to manufacture and sell formed and fabricated materials in Mexico

Advancement into the large market across the Pacific Ocean

Schematic view of the factory buildings

We incorporated a local subsidiary, “Sanyo Special Steel Manufacturing de México, S.A. de C.V.” which manufactures and sells formed and fabricated materials in Mexico to commence the company’s business operations.

The construction of a manufacturing facility with integrated production processes of forging, machining and heat treatment to produce formed and fabricated materials began on April 5, 2016 on the planned site in Abasolo, Guanajuato, a major base of the local automobile industry.

A number of Japanese and western bearing manufacturers have recently entered the Mexican market, raising expectations for an increase in demand for the upstream processes for producing bearings in Mexico over the medium- to long-term.

Under its 9th medium-term business plan (fiscal 2014 to fiscal 2016), Sanyo aims at strengthening the non-steel business including the formed and fabricated materials business. The Company has been implementing measures to expand the sales of the formed and fabricated materials business to 1.5 times those in fiscal 2013.

The Company’s decision to advance into Mexico will result in having the Formed and Fabricated Materials segment operate plants in six places: Japan (Santoku Tech Co., Ltd.), China (Ningbo Sanyo Special Steel Products Co., Ltd.), the United States (Advanced Green Components, LLC), India (Mahindra Sanyo Special Steel Pvt. Ltd.), Thailand (Siam Sanyo Special Steel Product Co., Ltd.), and Mexico (Sanyo Special Steel Manufacturing de México, S. A. de C. V.). The Company will promptly build a supply-chain in a growing market and meet the needs of customers to expand the global business, boosting the formed and fabricated materials business.

Die steel for die casting molds “QDX-HARMOTEX” obtained NADCA certification

Recognized material design and manufacturing technology of “QDX-HARMOTEX” lead us to expect more applications of the developed steel to die casting molds

The Company’s high-reliability die steel for die casting molds, “QDX-HARMOTEX” was accredited as a high-strength grade die steel for die casting by the NADCA (North American Die Casting Association) and added to the steel type list in January 2016.

“QDX-HARMOTEX” is die steel for die casting molds with various high-level properties required for die casting mold materials. NADCA certification is proof that the Company’s die steel for die casting molds is a high quality steel that meets NADCA’s strict quality standards. Accordingly, we see this as recognition of the Company’s material design and manufacturing technology.

Reference

Die casting

Die casting is a casting method to mold molten metal via rapid injection into a mold with high pressure, followed by rapid solidification. In recent years, it has been possible for aluminum and magnesium die cast molded products to increasingly appear in automobile parts and electronic equipment components. Further strengthening and/or thinning of parts and sped up part molding demand high-quality mold materials to endure severe conditions in use.

NADCA (North American Die Casting Association)

NADCA is an association for the U.S. die casting industry. The NACDA’s standards are known internationally quality standards for die steel for die casting molds. Registration in the NADCA’s steel type list may be one requirement for adoption as a material for die casting molds worldwide.

Start of commercial production by SSSP, a formed & fabricated materials subsidiary in Thailand

Response to increasing demand for special steel in the Southeast Asia

The Company's subsidiary in Thailand, SSSP (Siam Sanyo Special Steel Product Co., Ltd.), which manufactures and sells formed and fabricated materials (turned rings for bearings), commenced commercial production.

SSSP imports forged rings and cut rings manufactured by Our group companies and sells those materials to bearing manufactures after turning. Japanese bearing companies are expanding production capacity in Thailand for automobiles in South-East Asia and are expected to gain momentum in the future. The beginning of commercial production at a local formed and fabricated materials business base allows the Company to respond further to the needs of its customers that develop business internationally.

At the opening ceremony held on February 3, 2016, President Takeda expressed his gratitude to the parties who supported and contributed to the launch of SSSP's business and requested guests to use SSSP as a base to procure anything for customers in order to meet the needs of customers that develop business globally.

Company officials and SSSP staff attended the ceremony

A new warehouse for products

Completed construction of physical distribution facility to concentrate finished goods inventory and improve work efficiency

The Company completed construction of a new warehouse adjacent to the head office factory in April 2016.

This warehouse can store approximately 16,000 tons of special steel. The appearance of warehouse building took the Company's corporate image into account; corporate color blue with the Company's mascot "Santo-kun."

Completing the new warehouse enabled a decentralized finished goods inventory stored in the neighborhood of the factory to be concentrated in the new warehouse. In addition, the company adopted a storage space control system in the new warehouse that has further improved work efficiency.

Appearance of the new warehouse building

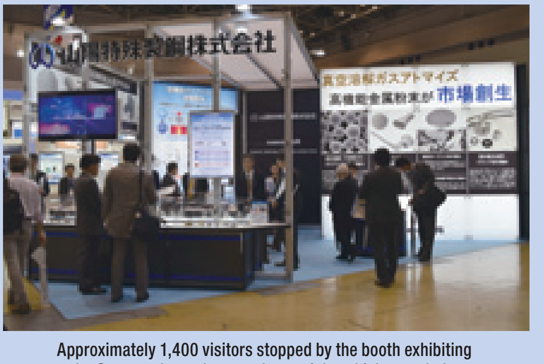

The Company's mascot "Santo-kun"

Presentation at the "Third Highly-functional Metal Exposition"

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

The Company provided a promotional presentation of its metal powder products developed in its special material business and advanced highly-functional materials such as its heat- and corrosion-resistant alloys at the "Third Highly-functional Metal Exposition" at Tokyo Big Sight in April 2016.

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


Approximately 1,400 visitors stopped by the booth exhibiting the Company's products and materials, which revealed a high level of interest in the Company's high-performance materials.

FINANCIAL SECTION

Analysis of Balance Sheets

Total assets stood at 179,898 million yen at the end of FY2015(Financial Year ended March 31, 2016), down 22,344 million yen from the end of the previous term, which is due primarily to reductions in trade receivables, inventories, available-for-sale securities and net defined benefit assets.

Liabilities stood at 66,758 million yen, down 21,840 million yen from the end of the previous term, due primarily to loan repayments and a decrease in trade payables.

Net assets stood at 13,140 million yen, down 503 million yen from the end of the previous term, due mainly to reduced valuations on available-for-sale securities and re-measurements of retirement benefits despite an increase in accumulated profit resulting from net income attributable to owners of the parent.

Consequently, the D/E ratio (the ratio of interest-bearing liabilities to net assets after deducting cash and deposits) reached 0.13 at the end of the FY2015 term (0.29 at the end of the previous term).

Analysis of Cash Flows

Concerning the status of cash flows in FY2015(Financial Year ended March 31, 2016), the net cash provided by operations was 28,770 million yen (an increase of 8,072 million yen from the previous term), due primarily to a decrease in trade receivables (8,517 million yen), inventories (8,904 million yen), trade payables (negative 4,247 million yen), and payment of corporate taxes (negative 4,828 million yen) in addition to net income before taxes (11,131 million yen) and depreciation (9,343 million yen).

The net funds used in investing activities were 8,510 million yen (an increase of 2,636 million yen from the previous term), due mainly to capital investments for acquiring tangible fixed assets to save energy and labor and to update existing facilities and other tasks (negative 7,089 million yen).

The net funds used in financing activities were 18,807 million yen (a 1,380 million yen increase in the deficit from the previous term), due partly to a decrease in loans payable (negative 16,681 million yen).

Consequently, cash and cash equivalents at the end of FY2015 were 20,628 million yen (a 1,302 million yen increase from the end of the previous term).

FINANCIAL STATEMENTS

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2015	**2016**	**2016**
Current Assets:			
Cash and bank deposits (Notes 5 and 16)	¥ 20,010	**¥ 22,179**	**$ 196,941**
Notes and accounts receivable, trade (Note 5)	49,196	**40,532**	**359,897**
Electronically recorded monetary claims	3,127	**3,196**	**28,379**
Less: Allowance for doubtful accounts	(7)	**(11)**	**(94)**
Inventories (Note 7)	46,704	**37,630**	**334,129**
Deferred tax assets (Note 12)	1,640	**1,804**	**16,021**
Other	616	**805**	**7,141**
Total current assets	121,286	**106,135**	**942,414**
Property, Plant and Equipment:			
Land (Note 9)	7,739	**7,723**	**68,577**
Buildings and structures (Note 9)	46,860	**47,676**	**423,338**
Machinery and equipment (Note 9)	206,519	**210,118**	**1,865,719**
Construction in progress	739	**2,613**	**23,202**
	261,857	**268,130**	**2,380,836**
Less: Accumulated depreciation	(201,570)	**(207,943)**	**(1,846,412)**
Total property, plant and equipment	60,287	**60,187**	**534,424**
Intangibles	957	**1,178**	**10,462**
Investments and Other Assets:			
Investments in securities (Notes 5, 6 and 8)	12,767	**9,245**	**82,094**
Long-term loans receivable	1,210	**1,007**	**8,944**
Deferred tax assets (Note 12)	160	**166**	**1,478**
Net defined benefit assets (Note 11)	4,960	**1,373**	**12,193**
Other	776	**766**	**6,789**
Less: Allowance for doubtful accounts	(160)	**(158)**	**(1,402)**
Total investments and other assets	19,713	**12,399**	**110,096**
Total assets	¥ 202,243	**¥ 179,899**	**$ 1,597,396**

The accompanying notes are integral parts of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2015	Millions of yen 2016	Thousands of U.S. dollars (Note 3) 2016
Current Liabilities:			
Short-term loans (Notes 5 and 10)	¥ 28,160	¥ **14,783**	$ **131,266**
Current portion of long-term loans (Notes 5, 9 and 10)	6,293	**13,940**	**123,779**
Notes and accounts payable, trade (Note 5)	15,533	**11,713**	**104,000**
Accounts payable, other	4,143	**6,197**	**55,025**
Accrued income taxes	3,062	**2,205**	**19,580**
Accrued expenses	7,285	**7,204**	**63,969**
Other	1,799	**1,318**	**11,701**
Total current liabilities	66,275	**57,360**	**509,320**
Long-term Liabilities:			
Long-term loans (Notes 5, 9 and 10)	18,842	**7,831**	**69,535**
Accrued directors' and corporate auditors' retirement benefits	87	**52**	**465**
Deferred tax liabilities (Note 12)	2,683	**767**	**6,812**
Net defined benefit liabilities (Note 11)	553	**592**	**5,253**
Other	159	**156**	**1,388**
Total long-term liabilities	22,324	**9,398**	**83,453**
Total liabilities	88,599	**66,758**	**592,773**
Contingent Liabilities (Note 19)			
Net Assets (Note 13)			
Shareholders' Equity:			
Common stock:			
Authorized - 474,392,000 shares			
Issued - 167,124,036 shares	¥ 20,183	¥ **20,183**	$ **179,211**
Capital surplus	22,597	**22,597**	**200,650**
Retained earnings	64,171	**69,492**	**617,046**
Less: Treasury stock, at cost (5,871,797 shares in 2015 and 5,922,766 shares in 2016)	(1,813)	**(1,841)**	**(16,350)**
Total shareholders' equity	105,138	**110,431**	**980,557**
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	4,294	**1,678**	**14,899**
Deferred gains on hedges	—	**3**	**23**
Foreign currency translation adjustments	1,808	**1,492**	**13,246**
Remeasurements of defined benefit plans	1,557	**(1,295)**	**(11,496)**
Total accumulated other comprehensive income	7,659	**1,878**	**16,672**
Non-controlling Interests	847	**832**	**7,394**
Total net assets	113,644	**113,141**	**1,004,623**
Total liabilities and net assets	¥ 202,243	¥ **179,899**	$ **1,597,396**

The accompanying notes are integral parts of these statements.

FINANCIAL STATEMENTS

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2015	**2016**	**2016**
Net Sales	¥ 171,495	¥ **149,148**	$ **1,324,351**
Cost of Sales (Note 14)	148,952	**123,911**	**1,100,259**
Gross profit	22,543	**25,237**	**224,092**
Selling, General and Administrative Expenses (Note 14)	13,373	**13,049**	**115,867**
Operating income	9,170	**12,188**	**108,225**
Other Income:			
Interest and dividend	214	**258**	**2,291**
Exchange gains	910	—	—
Other	441	**575**	**5,110**
	1,565	**833**	**7,401**
Other Expenses:			
Interest	(506)	**(360)**	**(3,199)**
Exchange losses	—	**(387)**	**(3,436)**
Equity in losses of unconsolidated subsidiaries and affiliates	(289)	**(377)**	**(3,347)**
Other	(205)	**(357)**	**(3,173)**
	(1,000)	**(1,481)**	**(13,155)**
Ordinary income	9,735	**11,540**	**102,471**
Extraordinary:			
Gain on sale of land	273	—	—
Loss on sale and disposition of property, plant and equipment	(394)	**(389)**	**(3,458)**
Gain on sale of investments in securities and others	634	—	—
Loss on evaluation of investments in securities and others	—	**(20)**	**(174)**
	513	**(409)**	**(3,632)**
Income before income taxes	10,248	**11,131**	**98,839**
Income Taxes (Note 12):			
Current	3,787	**3,837**	**34,077**
Deferred	(162)	**(155)**	**(1,377)**
	3,625	**3,682**	**32,700**
Net income	6,623	**7,449**	**66,139**
Net income Attributable to Non-controlling Interests	75	**32**	**283**
Net income Attributable to Owners of the Parent	¥ 6,548	¥ **7,417**	$ **65,856**

	Yen		U.S. dollars (Note 3)
	2015	**2016**	**2016**
Per Share:			
Net income (Note 15)	¥ 40.60	**46.00**	$ **0.41**
Cash dividends	¥ 10.00	**12.00**	$ **0.11**
Net assets	¥ 699.51	**696.69**	$ **6.19**

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, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2015	**2016**	**2016**
Net income	¥ 6,623	**¥ 7,449**	**$ 66,139**
Other Comprehensive Income:			
Valuation difference on available-for-sale securities	1,471	**(2,616)**	**(23,234)**
Deferred gains on hedges	—	**3**	**23**
Foreign currency translation adjustments	692	**(265)**	**(2,346)**
Remeasurements of defined benefit plans	2,110	**(2,852)**	**(25,317)**
Share of other comprehensive income of affiliates accounted for by the equity method	316	**(91)**	**(807)**
Total other comprehensive income (Note 4)	4,589	**(5,821)**	**(51,681)**
Comprehensive Income	11,212	**1,628**	**14,458**
Comprehensive income attributable to:			
Owners of the parent	11,072	**1,635**	**14,514**
Non-controlling interests	140	**(7)**	**(56)**

The accompanying notes are integral parts of these statements.

FINANCIAL STATEMENTS

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2015

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

	Millions of yen			
	Treasury stock, at cost	Valuation difference on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments
Balance at beginning of year	¥ (1,782)	¥ 2,824	¥ —	¥ 866
Cumulative effects of changes in accounting policies	—	—	—	—
Balance at beginning of year reflecting changes in accounting policies	(1,782)	2,824	—	866
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(32)	—	—	—
Disposal of treasury stock	1	—	—	—
Other changes for fiscal year 2014, net	—	1,470	—	942
Total changes for fiscal year 2014	(31)	1,470	—	942
Balance at end of year	¥ (1,813)	¥ 4,294	¥ —	¥ 1,808

	Millions of yen		
	Remeasurements of defined benefit plans	Non-controlling interests	Total
Balance at beginning of year	¥ (554)	¥ 716	¥ 102,905
Cumulative effects of changes in accounting policies	—	—	373
Balance at beginning of year reflecting changes in accounting policies	(554)	716	103,278
Net income attributable to owners of the parent	—	—	6,548
Cash dividends paid	—	—	(806)
Acquisition of treasury stock	—	—	(32)
Disposal of treasury stock	—	—	2
Other changes for fiscal year 2014, net	2,111	131	4,654
Total changes for fiscal year 2014	2,111	131	10,366
Balance at end of year	¥ 1,557	¥ 847	¥ 113,644

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2016

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

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

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

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2016

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)		
		Common stock	Capital surplus	Retained earnings
Balance at beginning of year	167,124,036	$ 179,211	$ 200,645	$ 569,802
Cumulative effects of changes in accounting policies	—	—	—	—
Balance at beginning of year reflecting changes in accounting policies	167,124,036	179,211	200,645	569,802
Net income attributable to owners of the parent	—	—	—	65,856
Cash dividends paid	—	—	—	(18,612)
Acquisition of treasury stock	—	—	—	—
Disposal of treasury stock	—	—	5	—
Other changes for fiscal year 2015, net	—	—	—	—
Total changes for fiscal year 2015	—	—	5	47,244
Balance at end of year	167,124,036	$ 179,211	$ 200,650	$ 617,046

	Thousands of U.S. dollars (Note 3)			
	Treasury stock, at cost	Valuation difference on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments
Balance at beginning of year	$ (16,097)	$ 38,133	$ —	$ 16,059
Cumulative effects of changes in accounting policies	—	—	—	—
Balance at beginning of year reflecting changes in accounting policies	(16,097)	38,133	—	16,059
Net income attributable to owners of the parent	—	—	—	—
Cash dividends paid	—	—	—	—
Acquisition of treasury stock	(259)	—	—	—
Disposal of treasury stock	6	—	—	—
Other changes for fiscal year 2015, net	—	(23,234)	23	(2,813)
Total changes for fiscal year 2015	(253)	(23,234)	23	(2,813)
Balance at end of year	$ (16,350)	$ 14,899	$ 23	$ 13,246

	Thousands of U.S. dollars (Note 3)		
	Remeasurements of defined benefit plans	Non-controlling interests	Total
Balance at beginning of year	$ 13,821	$ 7,519	$ 1,009,093
Cumulative effects of changes in accounting policies	—	—	—
Balance at beginning of year reflecting changes in accounting policies	13,821	7,519	1,009,093
Net income attributable to owners of the parent	—	—	65,856
Cash dividends paid	—	—	(18,612)
Acquisition of treasury stock	—	—	(259)
Disposal of treasury stock	—	—	11
Other changes for fiscal year 2015, net	(25,317)	(125)	(51,466)
Total changes for fiscal year 2015	(25,317)	(125)	(4,470)
Balance at end of year	$ (11,496)	$ 7,394	$ 1,004,623

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, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2015	**2016**	**2016**
Cash Flows from Operating Activities:			
Income before income taxes	¥ 10,248	¥ **11,131**	$ **98,839**
Adjustments -			
Depreciation and amortization	9,827	**9,343**	**82,961**
Increase (decrease) in allowance for doubtful accounts	(7)	**1**	**11**
Increase (decrease) in net defined benefit liabilities	(139)	**41**	**367**
Increase in net defined benefit assets	(128)	**(574)**	**(5,096)**
Decrease in accrued directors' and corporate auditors' retirement benefits, less payments	(5)	**(35)**	**(310)**
Decrease in reserve for environmental measures	(8)	**—**	**—**
Interest and dividend income	(214)	**(258)**	**(2,291)**
Interest expense	506	**360**	**3,199**
Gain on sale of investments in securities	(634)	**—**	**—**
Loss on evaluation of investments in securities and others	—	**20**	**174**
Equity in losses of unconsolidated subsidiaries and affiliates	289	**377**	**3,347**
Loss on sale and disposition of property, plant and equipment	121	**389**	**3,458**
Changes in assets and liabilities:			
Notes and accounts receivable, trade	(863)	**8,518**	**75,635**
Inventories	2,076	**8,904**	**79,065**
Notes and accounts payable, trade	786	**(4,140)**	**(36,760)**
Other, net	1,448	**(352)**	**(3,141)**
Subtotal	23,303	**33,725**	**299,458**
Interest and dividend income received	215	**254**	**2,252**
Interest expense paid	(519)	**(379)**	**(3,365)**
Income taxes paid	(2,301)	**(4,829)**	**(42,878)**
Net cash provided by operating activities	20,698	**28,771**	**255,467**
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(7,113)	**(7,089)**	**(62,949)**
Sale of property, plant and equipment	349	**52**	**466**
Acquisition of intangible assets	(313)	**(413)**	**(3,671)**
Acquisition of investments in securities	—	**(194)**	**(1,726)**
Sale of investments in securities	1,545	**—**	**—**
Decrease in long-term loans receivable	203	**203**	**1,800**
Increase in over-three-month deposits	(242)	**(325)**	**(2,883)**
Other, net	(303)	**(745)**	**(6,607)**
Net cash used in investing activities	(5,874)	**(8,511)**	**(75,570)**
Cash Flows from Financing Activities:			
Decrease in short-term loans	(2,850)	**(13,332)**	**(118,385)**
Proceeds from long-term loans	—	**2,929**	**26,010**
Repayment of long-term loans	(13,733)	**(6,278)**	**(55,745)**
Payments for purchases of treasury stock	(32)	**(29)**	**(259)**
Proceeds from sales of treasury stock	2	**1**	**11**
Cash dividends	(804)	**(2,091)**	**(18,564)**
Cash dividends to non-controlling interests	(9)	**(8)**	**(70)**
Net cash used in financing activities	(17,426)	**(18,808)**	**(167,002)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	350	**(150)**	**(1,334)**
Net Increase (Decrease) in Cash and Cash Equivalents	(2,252)	**1,302**	**11,561**
Cash and Cash Equivalents at Beginning of the Year	21,579	**19,327**	**171,611**
Cash and Cash Equivalents at End of the Year (Note 16)	¥ 19,327	¥ **20,629**	$ **183,172**

The accompanying notes are integral parts of these statements.

FINANCIAL STATEMENTS

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Sanyo Special Steel Co., Ltd. (the "Company") and its consolidated subsidiaries (together, the "Companies") have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

2. Summary of Significant Accounting Policies

(1) Consolidation and investments in affiliates -

(a) Scope of consolidation and elimination

The Company has 15 subsidiaries as of March 31, 2016 (14 subsidiaries as of March 31, 2015). The consolidated financial statements include the accounts of the Company and 15 of its subsidiaries. The 15 subsidiaries that have been consolidated for fiscal year 2015 are listed below:

Yohkoh Bussan Co., Ltd.
Santoku Seiken Co., Ltd.
Santoku Kogyo Co., Ltd.
Santoku Technos Co., Ltd.
Santoku Tech Co., Ltd.
Santoku Computer Service Co., Ltd.
Santoku Security Service Co., Ltd.
SKJ Metal Industries Co., Ltd.
P.T. Sanyo Special Steel Indonesia
Sanyo Special Steel U.S.A., Inc.
Ningbo Sanyo Special Steel Products Co., Ltd.
Sanyo Special Steel Trading (Shanghai) Co., Ltd.
Sanyo Special Steel India Pvt. Ltd.
Siam Sanyo Special Steel Product Co., Ltd.
Sanyo Special Steel Manufacturing de México, S.A. de C.V.

During the year ended March 31, 2016, Sanyo Special Steel Manufacturing de México, S.A. de C.V. was established and newly consolidated.

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

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

(b) Investments in affiliates

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

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

(2) Foreign currency translation -

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

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

(3) Securities -

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

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

(4) Derivative Transactions -

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

In addition, with regard to interest rate swap transactions that meet the criteria, the exceptional method has been adopted. And, with regard to interest rate and currency swap transactions that meet the criteria, the unified method (the exceptional method, the allocation method) has been adopted. Using these methods, the Companies do not account for gains or losses on those interest rate swap transactions on a fair value basis, but recognize the interest on an accrual basis.

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

(5) Inventories -

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

(6) Depreciation and amortization -

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

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

(7) Research and development costs -

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

(8) Allowance for doubtful accounts -

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

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

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

(10) Accounting methods for employees' retirement benefits -

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

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

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

(11) Income taxes -

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

(12) Revenue recognition -

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

(13) 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.

(14) 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.

(15) Consumption tax -

In Japan, a consumption tax, with certain exemptions, is imposed on domestic consumption of goods and services at the rate of 8%. The consumption tax imposed on the Company and its domestic subsidiaries sales to customers is withheld at the time of sale and is subsequently paid to the national government. The consumption tax withheld upon sale is not included in the amount of “net sales” in the consolidated statements of operations but is recorded as liabilities. The consumption tax imposed on the purchases of products, merchandise and services from vendors borne by the Company and its domestic subsidiaries is not included in the amounts of costs and expenses but is recorded as assets. The balance of consumption tax withheld, net of consumption tax paid, is included in “Other current liabilities” in the consolidated balance sheets.

(16) Reclassifications and restatement -

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

(17) Change in accounting policies -

The Company adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013 (hereinafter, “Statement No. 21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013 (hereinafter, “Statement No. 22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013 (hereinafter, “Statement No. 7”)) (together, the “Business Combination Accounting Standards”) from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests.” Certain amounts in the prior year comparative information have been reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No. 21, article 44-5 (4) of Statement No. 22 and article 57-4 (4) of Statement No. 7 with application from the beginning of the current fiscal year prospectively.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities” and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation and costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities.”

These changes have had no effect on the consolidated financial statements or earnings per share of the current fiscal year.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(18) Accounting standards issued but not yet adopted -

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26")

(a) Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets," which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

①Treatment for an entity that does not meet any of the criteria in types 1 to 5

②Criteria for types 2 and 3

③Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule

④Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year

⑤Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3

(b) Effective date

Effective from the beginning of the fiscal year ending March 31, 2017

(c) Effects of application of the Guidance

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

3. U.S. Dollar Amounts

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan. These translations should not be construed as representations that the Japanese yen amounts actually represent or have been or could be converted into U.S. dollars. The rate of ¥112.62 = U.S. $1.00, the approximate rate of exchange as at March 31, 2016, has been used for such translations.

4. Consolidated Statement of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ 2,283	**¥ (3,248)**	**$ (28,845)**
Reclassification adjustments	(634)	**8**	**73**
Subtotal, before tax	1,649	**(3,240)**	**(28,772)**
Tax (expense)	(178)	**624**	**5,538**
Subtotal, net of tax	1,471	**(2,616)**	**(23,234)**
Deferred gains on hedges			
Increase (decrease) during the year	—	**(0)**	**(1)**
Adjustments for acquisition cost of assets	—	**3**	**24**
Subtotal	—	**3**	**23**
Foreign currency translation adjustments			
Increase (decrease) during the year	692	**(265)**	**(2,346)**
Remeasurements of defined benefit plans			
Increase (decrease) during the year	3,082	**(3,946)**	**(35,033)**
Reclassification adjustments	73	**(216)**	**(1,917)**
Subtotal, before tax	3,155	**(4,162)**	**(36,950)**
Tax (expense)	(1,045)	**1,310**	**11,633**
Subtotal, net of tax	2,110	**(2,852)**	**(25,317)**
Share of other comprehensive income of affiliates accounted for by the equity method			
Increase (decrease) during the year	316	**(91)**	**(807)**
Total other comprehensive income	¥ 4,589	**¥ (5,821)**	**$ (51,681)**

5. Financial Instruments

(1) Status of financial instruments -

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

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

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

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

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

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

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

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

(2) Fair values of financial instruments -

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2015 are set forth in the table below. Certain financial instruments were excluded from the table as the fair values were not available (see Note 2 below).

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and bank deposits	¥ 20,010	¥ 20,010	¥ —
(2) Notes and accounts receivable, trade	49,196	49,196	—
(3) Investments in securities			
Available-for-sale securities	9,674	9,674	—
(4) Notes and accounts payable, trade	(15,533)	(15,533)	—
(5) Short-term loans	(34,453)	(34,453)	—
(6) Long-term loans	(18,842)	(18,971)	△129
(7) Derivative transactions			
① Hedge accounting is not applied	(0)	(0)	—
② Hedge accounting is applied	—	—	—

(※) The debt is displayed by ( ).

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2016 are set forth in the table below. Certain financial instruments are excluded from the table as the fair values are not available (see Note 2 below).

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and bank deposits	**¥ 22,179**	**¥ 22,179**	**¥ —**	**$ 196,941**	**$ 196,941**	**$ —**
(2) Notes and accounts receivable, trade	**40,532**	**40,532**	**—**	**359,897**	**359,897**	**—**
(3) Investments in securities						
Available-for-sale securities	**6,426**	**6,426**	**—**	**57,066**	**57,066**	**—**
(4) Notes and accounts payable, trade	**(11,713)**	**(11,713)**	**—**	**(104,000)**	**(104,000)**	**—**
(5) Short-term loans	**(28,723)**	**(28,723)**	**—**	**(255,045)**	**(255,045)**	**—**
(6) Long-term loans	**(7,831)**	**(7,889)**	**△58**	**(69,535)**	**(70,053)**	**△ 518**
(7) Derivative transactions						
① Hedge accounting is not applied	**0**	**0**	**—**	**0**	**0**	**—**
② Hedge accounting is applied	**—**	**—**	**—**	**—**	**—**	**—**

(※) The debt is displayed by ( ).

1. The method of estimating fair values of financial instruments and matters about investments in securities and derivative transactions.
   (1) Cash and bank deposits and (2) Notes and accounts receivable, trade
   The book value approximates the fair value because of the short-term maturities of these instruments.
   (3) Investments in securities
   Market prices and quoted prices are used for equity securities.
   See Note 6, "Securities."
   (4) Notes and accounts payable, trade and (5) Short-term loans
   The book value approximates the fair value because of the short-term maturities of these instruments.
   Short-term loans payable includes the current portion of long-term loans.
   (6) Long-term loans
   The discounted cash flow method is used to estimate the fair value of long-term loans by using marginal borrowing rates as the discount rate.
   (7) Derivative transaction
   See Note 18, "Derivatives."

2. Non-marketable securities whose fair values are not available are excluded from investments in securities above. These instruments as of March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Shares of subsidiaries and associates	¥ 2,615	**¥ 2,341**	**$ 20,785**
Other securities	478	**478**	**4,243**

3. The aggregate maturities subsequent to March 31, 2015 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	¥ 20,010	¥ —	¥ —	¥ —
Notes and accounts receivable, trade	49,196	—	—	—
Total	¥ 69,206	¥ —	¥ —	¥ —

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

	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	**$ 196,941**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable, trade	**359,897**	**—**	**—**	**—**
Total	**$ 556,838**	**$ —**	**$ —**	**$ —**

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

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short-term loans	¥ 34,453	¥ —	¥ —	¥ —
Long-term loans	—	18,842	—	—
Total	¥ 34,453	¥ 18,842	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2016 for short-term loans and long-term loans are as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short-term loans	**¥ 28,723**	**¥ —**	**¥ —**	**¥ —**
Long-term loans	**—**	**7,831**	**—**	**—**
Total	**¥ 28,723**	**¥ 7,831**	**¥ —**	**¥ —**
	Thousands of U.S. dollars			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short-term loans	**$ 255,045**	**$ —**	**$ —**	**$ —**
Long-term loans	**—**	**69,535**	**—**	**—**
Total	**$ 255,045**	**$ 69,535**	**$ —**	**$ —**

6. Securities

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

Impairment losses recognized for the years ended March 31, 2016 is ¥20 million ($174thousand).

1. The aggregate acquisition costs and fair values (book values) of marketable securities classified as available-for-sale securities as of March 31, 2015 and 2016 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2015			**2016**			**2016**		
	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)
Securities whose book value exceeds acquisition cost:									
Stock	¥ 4,344	¥ 9,652	¥ 5,308	**¥ 2,630**	**¥ 4,984**	**¥ 2,354**	**$ 23,357**	**$ 44,255**	**$ 20,898**
Securities whose acquisition cost exceeds book value:									
Stock	26	22	(4)	**1,733**	**1,442**	**(291)**	**15,386**	**12,811**	**(2,575)**
Total	¥ 4,370	¥ 9,674	¥ 5,304	**¥ 4,363**	**¥ 6,426**	**¥ 2,063**	**$ 38,743**	**$ 57,066**	**$ 18,323**

2. Available-for-sale securities sold in the year ended March 31, 2015 and 2016 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2015			**2016**			**2016**		
	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses	Amounts of sales	Realized gains	Realized losses
Stock	¥ 1,547	¥ 634	¥ —	**¥ —**	**¥ —**	**¥ —**	**$ —**	**$ —**	**$ —**

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

Impairment loss recognized for the year ended March 31, 2016 is ¥20 million ($174 thousand).

7. Inventories

Inventories held by the Companies at March 31, 2015 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Merchandise	¥ 2,036	¥ **1,616**	$ **14,346**
Finished products	7,774	**6,975**	**61,934**
Work-in-process	23,347	**17,533**	**155,678**
Raw materials and supplies	13,547	**11,506**	**102,171**
Total	¥ 46,704	¥ **37,630**	$ **334,129**

8. Unconsolidated Subsidiaries and Affiliates

Items relevant to unconsolidated subsidiaries and affiliates at March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Investments in securities (stocks)	¥ 2,615	¥ **2,341**	$ **20,785**

9. Assets Pledged as Collateral

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Assets pledged as collateral:			
Land	¥ 4,590	¥ **4,590**	$ **40,760**
Buildings and structures	3,969	**3,506**	**31,135**
Machinery and equipment	5,057	**4,064**	**36,083**
	¥ 13,616	¥ **12,160**	$ **107,978**
Secured liabilities:			
Long-term loans (including those due within one year)	5,850	**2,925**	**25,972**
	¥ 5,850	¥ **2,925**	$ **25,972**

10.Short-term Loans and Long-term Loans

Short-term loans at March 31, 2015 and 2016 represent bank overdrafts with weighted-average interest rates of 0.44% and 0.33%, respectively. It is normal business custom in Japan for short-term borrowings to be rolled over every year. The Company has commitment line contracts for short-term financing arrangements with 3 financial institutions for an aggregate maximum amount of ¥20,000 million ($177,588 thousand). At March 31 2016, the total ¥20,000 million ($177,588 thousand) is unused.

Long-term loans at March 31, 2015 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Loans from banks and other financial institutions due 2016 to 2019 with interest rates ranging from 0.45% to 1.94% at March 31, 2015 and due 2017 to 2021 with interest rates ranging from 0.22% to 1.94% at March 31, 2016	¥ 25,063	¥ **21,714**	$ **192,809**
Other payables due 2016 to 2021 with interest of 4.05% at March 31, 2015 and due 2017 to 2021 with interest of 4.05% at March 31, 2016	72	**57**	**505**
	25,135	**21,771**	**193,314**
Less: Current portion of long-term loans	(6,293)	**(13,940)**	**(123,779)**
	¥ 18,842	¥ **7,831**	$ **69,535**

The annual maturities of long-term loans outstanding at March 31, 2016 are as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ **15**	$ **134**
2019	**4,875**	**43,287**
2020	**8**	**75**
2021	**2,933**	**26,039**
	¥ **7,831**	$ **69,535**

11. Retirement Benefits

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

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

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

Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Balance at beginning of year	¥ 8,340	**¥ 7,613**	**$ 67,598**
Cumulative effects of changes in accounting policies	(580)	**—**	**—**
Balance at beginning of year reflecting changes in accounting policies	7,760	**7,613**	**67,598**
Service cost	435	**446**	**3,963**
Interest cost	46	**30**	**267**
Actuarial loss	181	**346**	**3,075**
Benefit paid	(809)	**(724)**	**(6,432)**
Other	—	**6**	**55**
Balance at end of year	¥ 7,613	**¥ 7,717**	**$ 68,526**

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Balance at beginning of year	¥ 9,271	**¥ 12,575**	**$ 111,665**
Expected return on plan assets	139	**183**	**1,629**
Actuarial gain (loss)	3,263	**(3,599)**	**(31,958)**
Contributions paid by the employer	3	**1**	**10**
Benefits paid	(101)	**(75)**	**(675)**
Balance at end of year	¥ 12,575	**¥ 9,085**	**$ 80,671**

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Balance at beginning of year	¥ 523	**¥ 555**	**$ 4,927**
Retirement benefit costs	82	**95**	**841**
Benefits paid	(54)	**(56)**	**(493)**
Others	4	**(7)**	**(70)**
Balance at end of year	¥ 555	**¥ 587**	**$ 5,205**

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Funded retirement benefit obligations	¥ 7,613	**¥ 7,707**	**$ 68,436**
Plan assets	(12,575)	**(9,085)**	**(80,671)**
	(4,962)	**(1,378)**	**(12,235)**
Unfunded retirement benefit obligations	555	**597**	**5,295**
Total net liability (asset) for retirement benefits at end of year	(4,407)	**(781)**	**(6,940)**
Net defined benefit liabilities	553	**592**	**5,253**
Net defined benefit assets	(4,960)	**(1,373)**	**(12,193)**
Total net liability (asset) for retirement benefits at end of year	¥ (4,407)	**¥ (781)**	**$ (6,940)**

(5) Retirement benefit costs:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Service cost	¥ 435	**¥ 446**	**$ 3,963**
Interest cost	46	**30**	**267**
Expected return on plan assets	(140)	**(183)**	**(1,629)**
Net actuarial loss (gain) amortization	73	**(216)**	**(1,918)**
Retirement benefit costs based on the simplified method	82	**95**	**841**
Total retirement benefit costs	¥ 496	**¥ 172**	**$ 1,524**

(6) Remeasurements of defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Actuarial gains (losses)	¥ 3,155	**¥ (4,162)**	**$ (36,950)**

(7) Accumulated remeasurements of defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Actuarial gains (losses) that are yet to be unrecognized	¥ (2,296)	**¥ 1,866**	**$ 16,565**

(8) Plan assets:
① Plan assets comprise:

	2015	**2016**
Equity securities	90%	**83%**
Cash and bank deposits	0%	**15%**
Bonds	1%	**—%**
Other	9%	**2%**
Total	100%	**100%**

Retirement benefit trusts account for 9% and 10% of total plan assets at March 31, 2015 and 2016, respectively.

② Long-term expected rate of return
Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions
The principal actuarial assumptions at March 31, 2015 and 2016 (expressed as weighted averages) are as follows:

	2015	**2016**
Discount rate	0.4%	**0.4%**
Long-term expected rate of return	1.5%	**1.5%**

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

Defined contribution plans
The Company and certain consolidated subsidiaries have contributed a total of ¥174 million and ¥173 million ($1,535 thousand) to the defined contribution plans for the years ended March 31, 2015 and 2016, respectively.

12. Income Taxes

The Companies are subject to a number of different income taxes which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 33.0% and 32.2% for the year ended March 31, 2015 and 2016, respectively. On March 29, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 are changed from 32.2% for the fiscal year ended March 31, 2015 to 30.8% and 30.6%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥45 million ($397 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥35 million ($310 thousand), unrealized holding gains on securities increased by ¥20 million ($178 thousand) and accumulated remeasurements of defined benefit plans decreased by ¥30 million ($265 thousand).

At March 31, 2015 and 2016, significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Deferred tax assets:			
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trusts	¥ 2,349	**¥ 2,232**	**$ 19,819**
Devaluation loss on marketable securities	1,041	**874**	**7,761**
Accrued bonuses	678	**667**	**5,925**
Gain on investment of certain marketable securities to employee retirement benefit trusts	383	**416**	**3,693**
Net defined benefit liabilities	251	**262**	**2,323**
Unrealized gains	216	**228**	**2,028**
Business tax payable	235	**173**	**1,537**
Tax losses carried forward	65	**129**	**1,143**
Devaluation loss on inventories	117	**120**	**1,063**
Other	756	**976**	**8,672**
Gross deferred tax assets	6,091	**6,077**	**53,964**
Less: Valuation allowance	(1,383)	**(1,295)**	**(11,496)**
Total deferred tax assets	¥ 4,708	**¥ 4,782**	**$ 42,468**
Deferred tax liabilities:			
Securities to employee retirement benefit trusts	¥ (1,267)	**¥ (1,204)**	**$ (10,690)**
Reserve for deferred capital gains from property, plant and equipment	(1,016)	**(982)**	**(8,723)**
Net defined benefit assets	(1,597)	**(420)**	**(3,731)**
Unrealized holding gains on securities	(1,009)	**(386)**	**(3,423)**
Reserve for special depreciation	(350)	**(221)**	**(1,963)**
Other	(352)	**(366)**	**(3,251)**
Total deferred tax liabilities	(5,591)	**(3,579)**	**(31,781)**
Net deferred tax assets (liabilities)	¥ (883)	**¥ 1,203**	**$ 10,687**

The reconciliation between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2015 and 2016 are not required to be disclosed due to the insignificance of the difference.

13. Net Assets

At the Company's Board of Directors meeting held on May 18, 2015, the directors approved cash dividends amounting to ¥1,129 million. At the Company's Board of Directors meeting held on May 18, 2016, the directors approved cash dividends amounting to ¥967 million ($8,588 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, 2015 and 2016 totaled ¥1,383 million and ¥1,597 million ($14,179 thousand), respectively. In addition, Research and Development costs expenses in the "Specialty Steel" segment amounted to ¥1,065 million, "Special Materials" segment amounted to ¥520 million and "Formed & Fabricated Materials" segment amounted to ¥12 million.

15. Net Income Per Share

The basis for calculations of net income per share for the years ended March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Net income attributable to owners of the parent	¥ 6,548	**¥ 7,417**	**$ 65,856**
Net income related common shareholders	¥ 6,548	**¥ 7,417**	**$ 65,856**

	Thousands of shares	
	2015	**2016**
Weighted-average number of shares of common stock	161,280	**161,227**

	Yen		U.S. dollars
	2015	**2016**	**2016**
Net income per share	¥ 40.60	**¥ 46.00**	**$ 0.41**

The Companies have no dilutive securities for the years ended March 31, 2015 and 2016.

16. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2015 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Cash and bank deposits	¥ 20,010	**¥ 22,179**	**$ 196,941**
Time deposits with deposit terms of over 3 months and other	(683)	**(1,004)**	**(8,914)**
Restricted bank deposits	—	**(546)**	**(4,855)**
Cash and cash equivalents	¥ 19,327	**¥ 20,629**	**$ 183,172**

17. Accounting for Leases

Non-cancelable operating leases

As a lessee

Outstanding future lease payments under non-cancelable operating leases at March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Due within one year	¥ 11	**¥ 82**	**$ 726**
Due after one year	48	**67**	**596**
Total	¥ 59	**¥ 149**	**$ 1,322**

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, 2015 were as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
Buying			
U.S. dollars	¥ 159	¥ (0)	¥ (0)
Total	¥ 159	¥ (0)	¥ (0)

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2016 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:						
Selling						
U.S. dollars	**¥ 0**	**¥ (0)**	**¥ (0)**	**$ 3**	**$ (0)**	**$ (0)**
Buying						
U.S. dollars	**¥ 203**	**¥ (0)**	**¥ (0)**	**$ 1,801**	**$ (2)**	**$ (2)**
Japanese yen	**110**	**0**	**0**	**972**	**2**	**2**
Total	**¥ 313**	**¥ 0**	**¥ 0**	**$ 2,776**	**$ 0**	**$ 0**

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

Derivative transactions to which hedge accounting is applied for the years ended March 31, 2015 and 2016 are as follows:

① Interest rate swap transactions

	2015	**2016**
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	¥16,510 million ($137,412 thousand)	**¥13,585 million ($120,627 thousand)**
1 year or more amount of contract	¥13,585 million ($113,067 thousand)	**¥2,660 million ($23,619 thousand)**
Fair value	※	**※**

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

② Interest rate and currency swap transactions

	2015	**2016**
Method of hedge accounting	—	**Unified method of interest rate and currency swap transactions**
Type of derivative transactions	—	**Interest rate and currency swap transactions Payment fixation, receipt change Receive floating US$ and pay fixed yen**
The main hedged items	—	**Long-term loans**
Contract amount	—	**¥2,929 million ($26,008 thousand)**
1 year or more amount of contract	—	**¥2,929 million ($26,008 thousand)**
Fair value	—	**※**

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

19. Contingent Liabilities

Guarantees against loans of employees and affiliates at March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
UCHIDA-SATO TECH (THAILAND) CO., LTD.	¥ 22	**¥ 17**	**$ 148**
Employees	15	**6**	**58**
Total	¥ 37	**¥ 23**	**$ 206**

20. Segment Information

(1) General information about reportable segments

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

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

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

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

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

Segment information for the years ended March 31, 2015 and 2016 is as follows:

	For the year ended March 31, 2015						
	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	¥ 142,205	¥ 8,545	¥ 20,565	¥ 180	¥ 171,495	¥ —	¥ 171,495
Intersegment transactions	¥ 9,976	¥ —	¥ —	¥ 1,490	¥ 11,466	¥ (11,466)	¥ —
Total	152,181	8,545	20,565	1,670	182,961	(11,466)	171,495
Segment income	¥ 6,055	¥ 1,758	¥ 1,701	¥ 58	¥ 9,572	¥ (402)	¥ 9,170
(b) Other:							
Depreciation	¥ 9,044	¥ 185	¥ 543	¥ 6	¥ 9,778	¥ (15)	¥ 9,763

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments of ¥402 million are adjustments for inventories of ¥439 million and intersegment elimination of ¥37million.
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, 2016													
	Millions of yen													
	Reportable segment													
	Specialty Steel		Special Materials		Formed & Fabricated Materials		Other		Total		Adjustments		Consolidated total	
(a) Sales and operating income:														
Net sales														
Outside customers	¥	125,687	¥	7,199	¥	16,141	¥	121	¥	149,148	¥	—	¥	149,148
Intersegment transactions	¥	7,954	¥	—	¥	—	¥	1,559	¥	9,513	¥	(9,513)	¥	—
Total		133,641		7,199		16,141		1,680		158,662		(9,513)		149,148
Segment income	¥	8,778	¥	1,386	¥	1,288	¥	58	¥	11,510	¥	678	¥	12,188
(b) Other:														
Depreciation	¥	8,568	¥	199	¥	535	¥	7	¥	9,309	¥	(18)	¥	9,291

	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	$	1,116,027	$	63,921	$	143,326	$	1,077	$	1,324,351	$	—	$	1,324,351
Intersegment transactions	$	70,628	$	—	$	—	$	13,843	$	84,471	$	(84,471)	$	—
Total		1,186,655		63,921		143,326		14,920		1,408,822		(84,471)		1,324,351
Segment income	$	77,939	$	12,304	$	11,443	$	519	$	102,205	$	6,020	$	108,225
(b) Other:														
Depreciation	$	76,077	$	1,766	$	4,752	$	62	$	82,657	$	(162)	$	82,495

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments of ¥678 million ($6,020 thousand) are adjustments for inventories of ¥653 million ($5,799 thousand) and intersegment elimination of ¥25 million ($222 thousand).
3. Segment income is adjusted with operating income in the consolidated statements of operations.
4. As information about segment assets and liabilities is not used to determine the distribution of management resources and evaluate business results, the Companies are not required to disclose information about segment assets and liabilities.

FINANCIAL STATEMENTS

Related Information

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

2. Property, plant and equipment

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

(3) Information about major customers –

	For the year ended March 31, 2015	
	Net sales	Related segment
	Millions of yen	
Marubeni-Itochu Steel Inc.	¥ 32,302	Specialty Steel
Mitsui & Co., Ltd.	¥ 20,056	Specialty Steel

Segment related information for the year ended March 31, 2016 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, 2016					
	Millions of yen					
	Japan	Asia	North America	Europe	Others	Total
Net sales	**¥ 113,499**	**¥ 30,332**	**¥ 3,191**	**¥ 1,968**	**¥ 158**	**¥ 149,148**
	Thousands of U.S. dollars					
	Japan	Asia	North America	Europe	Others	Total
Net sales	**$ 1,007,811**	**$ 269,330**	**$ 28,336**	**$ 17,473**	**$ 1,401**	**$ 1,324,351**

2. Property, plant and equipment

As Japan, which consists of Sanyo Special Steel Co., Ltd. and its domestic consolidated subsidiaries, represents more than 90% of the amount of property, plant and equipment on the consolidated balance sheet as of March 31, 2016, the Companies are not required to disclose information about property, plant and equipment.

(3) Information about major customers –

	For the year ended March 31, 2016		
	Net sales		Related segment
	Millions of yen	Thousands of U.S. dollars	
Marubeni-Itochu Steel Inc.	**¥ 30,792**	**$ 273,415**	**Specialty Steel**
Mitsui & Co., Ltd.	**¥ 16,300**	**$ 144,734**	**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, 2016 and 2015, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sanyo Special Steel Co., Ltd. and its consolidated subsidiaries as at March 31, 2016 and 2015, 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, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

July 22, 2016
Osaka, Japan

CORPORATE DATA (As of March 31,2016)

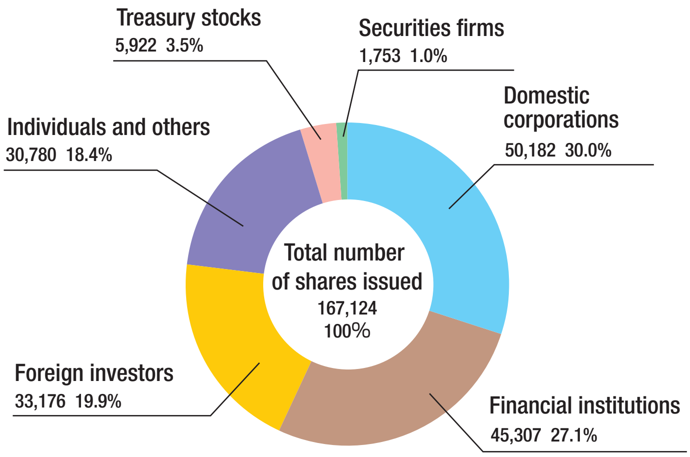
Corporate Data

Corporate Name	Sanyo Special Steel Co., Ltd.
Head Office/Works	3007, Nakashima, Shikama-ku, Himeji, Hyogo 672-8677 Japan phone (+81) 79-235-6003
Established	January 11, 1935
Paid-in Capital	¥20,182 million
Number of Employees	2,625 (consolidated basis)　1,309 (non-consolidated basis)
Register of Shareholders	The Chuo Mitsui Trust & Banking Co., Ltd.
Stock Listings	Tokyo Stock Exchange (1st Section)
Book Closing	March 31
Branches and Offices	Tokyo Regional Office, Osaka Branch, Nagoya Branch, Hiroshima Branch, Kyusyu Sales Office
Homepage Address	http://www.sanyo-steel.co.jp/english/index.php

Stock Information

Total Number of Shares Authorized to be Issued	474,392,000
Total Number of Shares Issued	167,124,036
Number of Shareholders	13,048

Shareholder Composition (thousands of shares)



Principal Shareholders

Name of Shareholder	Number of shares held (thousands of shares)	Percentage of voting rights (%)
NIPPON STEEL & SUMITOMO METAL CORPORATION	24,256	(15.13%)
Company's Kyoeikai Association	10,461	(6.52%)
NSK Ltd.	7,470	(4.66%)
Sumitomo Mitsui Banking Corporation	5,696	(3.55%)
The Master Trust Bank of Japan, Ltd. (trust account)	5,435	(3.39%)
Japan Trustee Services Bank, Ltd. (trust account)	4,504	(2.81%)
CBNY-GOVERNMENT OF NORWAY	3,693	(2.30%)
Mizuho Bank, Ltd.	3,642	(2.27%)
Marubeni-Itochu Steel Inc.	3,108	(1.94%)
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	2,860	(1.78%)

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

Consolidated Subsidiaries and Equity-Method Affiliates

Specialty Steel

Consolidated Subsidiaries

① Yohkoh Bussan Co., Ltd.
Trading of special steel products, steelmaking raw materials, and other materials

② Santoku Seiken Co., Ltd.
Manufacturing and marketing of special steel products

③ Santoku Kogyo Co., Ltd.
Processing of special steel and machinery maintenance

④ Santoku Technos Co., Ltd.
Processing of special steel

⑤ SKJ Metal Industries Co., Ltd.
Manufacturing and marketing of special steel products

⑥ P.T. SANYO SPECIAL STEEL INDONESIA
Manufacturing and marketing of special steel products

⑦ SANYO SPECIAL STEEL TRADING (SHANGHAI) CO., LTD.
Involved in business and sales of special steel products in China

⑧ Sanyo Special Steel India Pvt. Ltd.
Involved in business and sales of special steel products in India

Equity-method Affiliates

⑨ Mahindra Sanyo Special Steel Pvt. Ltd.
Manufacturing and sales of special steel products

Formed and Fabricated Materials

Consolidated Subsidiaries

⑩ Santoku Tech Co., Ltd.
Manufacturing of special steel products

⑪ SANYO SPECIAL STEEL U.S.A., Inc.
Trading of special steel products

⑫ Ningbo Sanyo Special Steel Products Co., Ltd.
Manufacturing and marketing of special steel products

⑬ Siam Sanyo Special Steel Product Co., Ltd.
Manufacturing and marketing of special steel products

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

Equity-method Affiliates

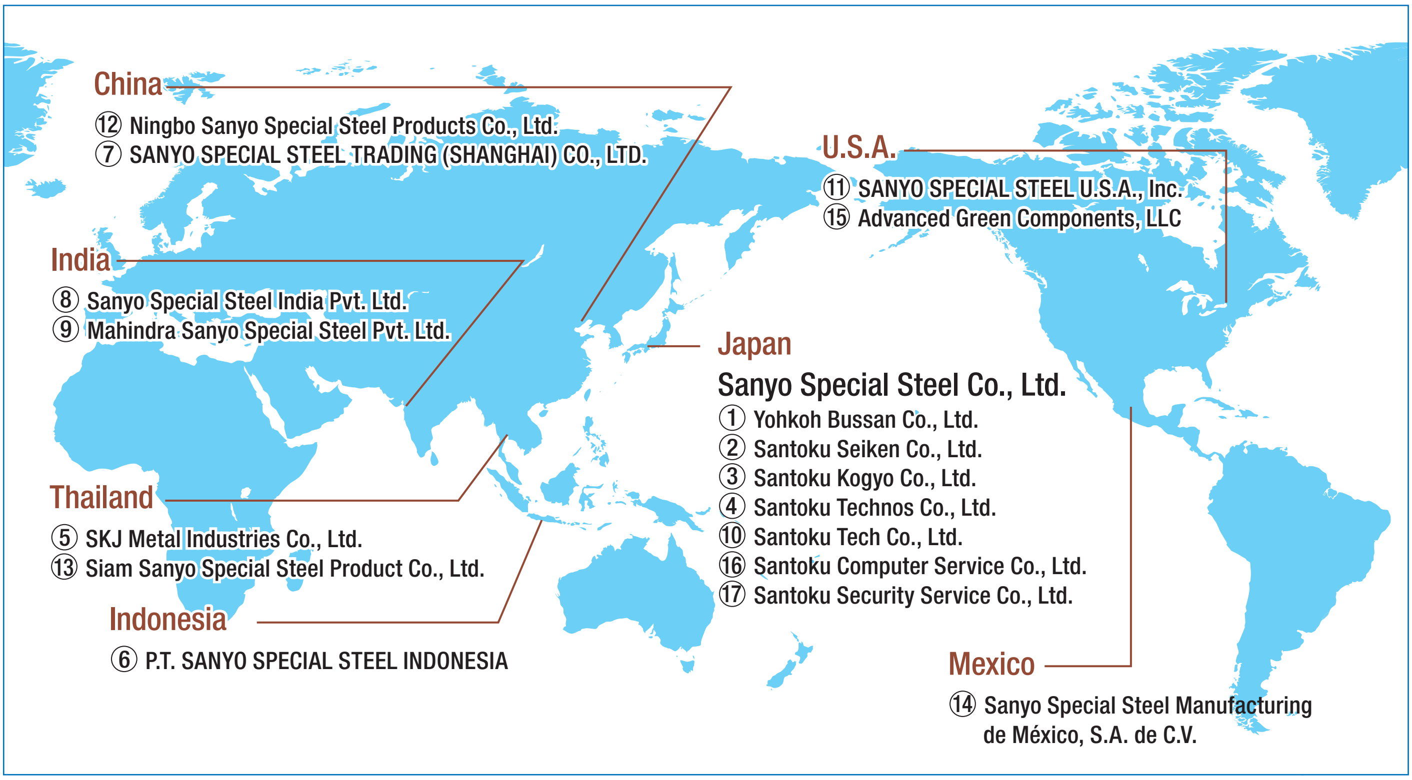
⑮ Advanced Green Components, LLC
Manufacturing of special steel products

Other

Consolidated Subsidiaries

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

⑰ Santoku Security Service Co., Ltd.
Security and facilities maintenance services



SANYO SPECIAL STEEL Co., Ltd.

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