



 SANYO SPECIAL STEEL

REPORT 2021

APRIL 1.2020-MARCH 31.2021

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■ Editorial Policy

This report gives a summary of financial information such as earnings, as well as ESG (Environmental, Social, and Governance) initiatives and similar, which provide the foundations for sustainable growth, to allow a better understanding of Sanyo Special Steel Co., Ltd. ("Sanyo Special Steel").

■ Period Covered by the Report

This report covers the activities of Sanyo Special Steel Co., Ltd. and group companies in FY2020 (April 1, 2020 to March 31, 2021) but also includes some information pertaining to matters outside of the above reporting period.

■ Reference Guidelines and Documents

"International Integrated Reporting Framework" International Integrated Reporting Council (IIRC)
"Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation" Ministry of Economy, Trade and Industry, Japan
"Environmental Reporting Guidelines 2018" Ministry of the Environment

The corporate philosophy

Confidence-based Management

Confidence of Society

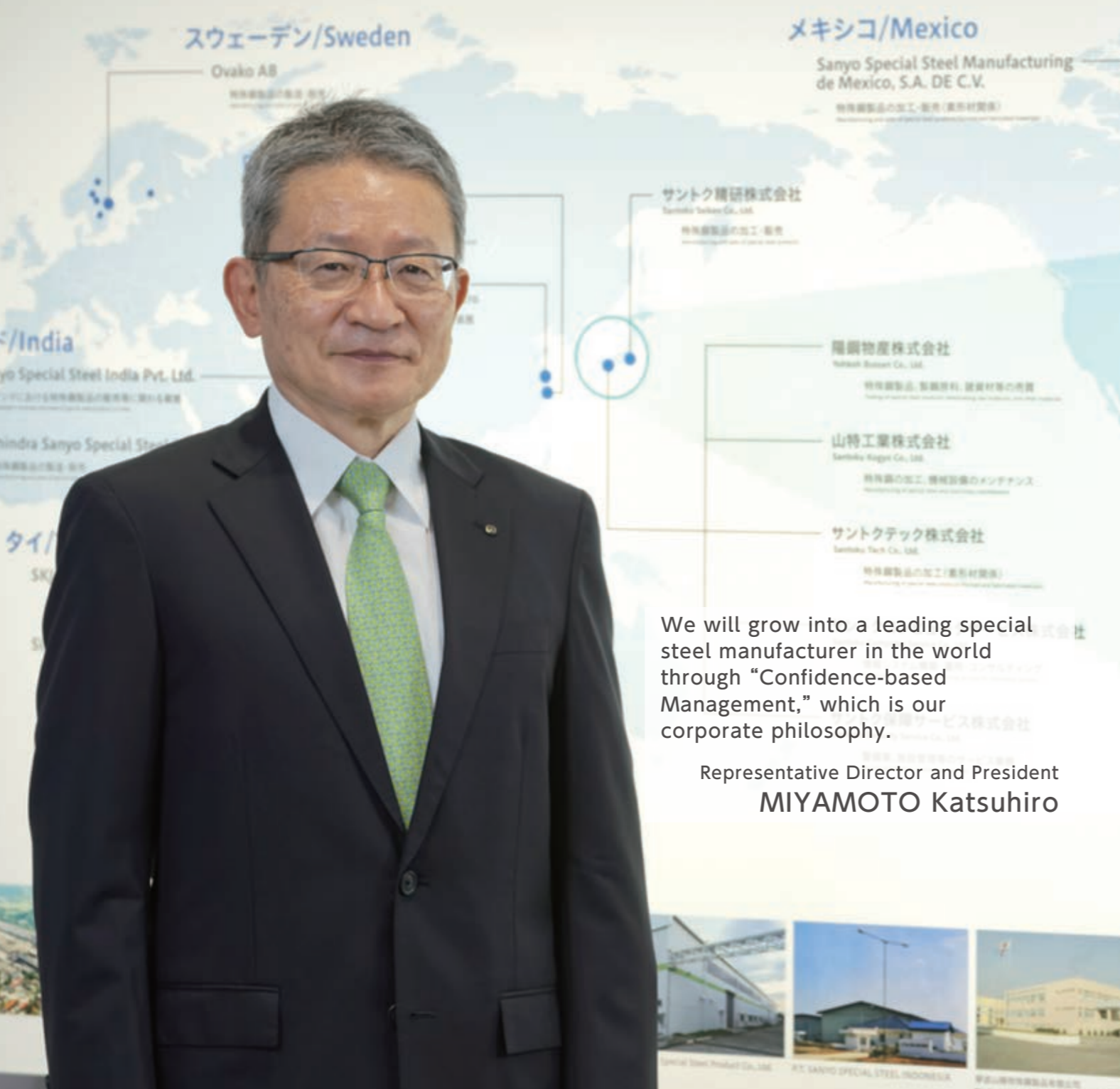
We aim to acquire the confidence of society by contributing to the realization of an affluent and culturally rich society and fulfilling our social responsibilities through our "high-quality special steel manufacturing."

Confidence of Customers

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

Confidence among People

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



In terms of business performance in the previous FY2020, the Group faced an extremely difficult situation, posting a consolidated ordinary loss as the demand environment significantly worsened due to the COVID-19 pandemic.

For FY2021, sales volume through the first half exceeded the initial estimate thanks to the recovery in the key demand industries, including automotive, industrial machinery, and construction machinery. Special steel demand is likely to be affected by the decline in automobile production caused by semiconductor shortage and changes in inventories in supply chains, but it is expected to be stable in general, reflecting continued strength in demand for industrial and construction machinery. At the same time, given the ongoing rises in the price of steel scrap, ferro-alloys, and fuel oil, the Group will carefully observe its impact on profits and take necessary measures, including improvement of selling prices such as raising the base price announced in September.

Recently, businesses are increasingly required to make contributions towards the realization of a sustainable society. In particular, climate change is an important issue that affects the survival of mankind. We have listed realizing carbon neutrality in 2050 as one of the basic policies of the management plan, and in July 2021, we announced the road map towards its achievement. We also declared our support for TCFD recommendations and decided to disclose information regarding the impact of climate changes on the Group's business activities.

Ovako, the Group's European subsidiary, decided to shift to carbon neutral by constructing a carbon-free hydrogen plant utilizing non-fossil fuel electric power generation and carbon offset programs, engaging in pioneering initiatives in the world.

We believe that the need for highly reliable special steel products, which are the Group's strength, will also further increase for the purpose of CO₂ emission reduction and energy efficiency improvement. We consider this as a great opportunity to demonstrate the Group's strength. We will promote creating innovation that contributes to the realization of a carbon-neutral society as a whole and responding to new material needs contributing to solving users' environmental issues.

It is necessary that all employees are physically and mentally healthy for the Group to grow continuously. The Group is a manufacturer, and safety and health are the major premises for its business activities, and it takes priority over everything else. Under this recognition, the Group formulated and announced Corporate Health Management Promotion in August 2021. We will develop a structure to promote health management headed by the representative director and president as the Chief Corporate Health Officer and create workplaces that are safe, healthy, and rewarding for individual employees daily.

We believe that building up confidence among all our stakeholders is a value that the Group should protect; it is something that we aim to achieve by promoting sincere, fair, and transparent corporate management through our philosophy of "Confidence-based Management."

The Group will continue practicing "Confidence-based Management" as we aim not only to achieve sustainable growth in our own operations in a rapidly changing business environment but also to continue contributing to the realization of a sustainable society. I hope that this report will provide further insight into the activities of the Group, and we look forward to your continued support and assistance.

I am Katsuhiro Miyamoto, inaugurated as Representative Director and President of Sanyo Special Steel on June 25, 2021. Under our corporate philosophy of "Confidence-based Management," we will conduct business management and increase trust by putting it into practice. Also, we will further raise the level of our cutting-edge technologies centered on advanced clean steel technology to develop the Sanyo Special Steel Group into a leading special steel manufacturer in the world.

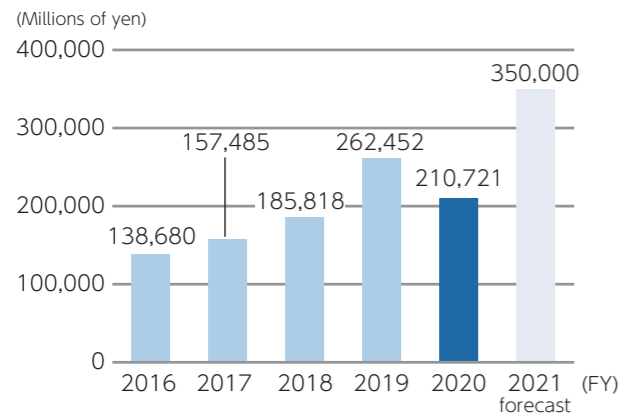
In recent years, we underwent a major transformation—we became part of Nippon Steel Group in 2019 and made Ovako, a prominent European special steel manufacturer, into a wholly-owned subsidiary. The change facilitated a stable management foundation and global network of manufacturing and sales, in addition to Sanyo of "Steel You Can Count On," a brand we have long worked to establish. In January 2021, the refurbishment work, which was part of the production structure reform investment of the Small and medium Bar Rolling Mill at the head office plant in Himeji, was completed, enabling a system for responding to changes in demand structure such as a shift towards products in smaller diameter and orders in small lots.

Under such circumstances, the Group formulated the 2025 Medium-term Management Plan taking into account the medium- to long-term changes in the demand structure surrounding the Group as well as the intensifying international competition. According to the plan, the Group will establish a solid corporate constitution that enables to ensure stable profits amid changes in the medium- to long-term demand structure by strengthening the profitability of the overseas business including Ovako and MSSS, an integrated special steel manufacturer in India, as well as enhancing the competitiveness of the Group as a whole through full realization of synergies among Sanyo Special Steel, Ovako, and Nippon Steel, and further improve our corporate value in the global special steel market.

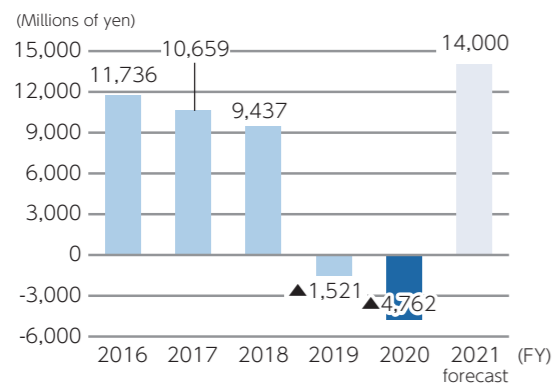


Financial Highlights

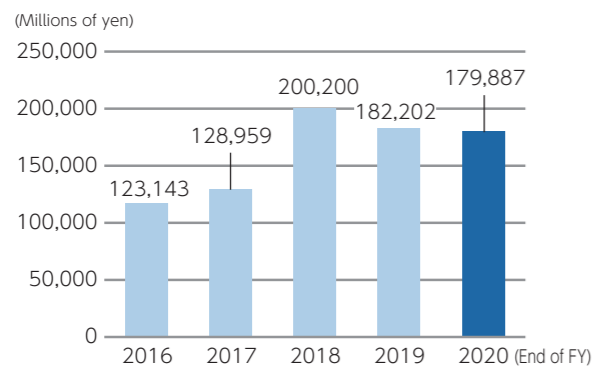
Net sales



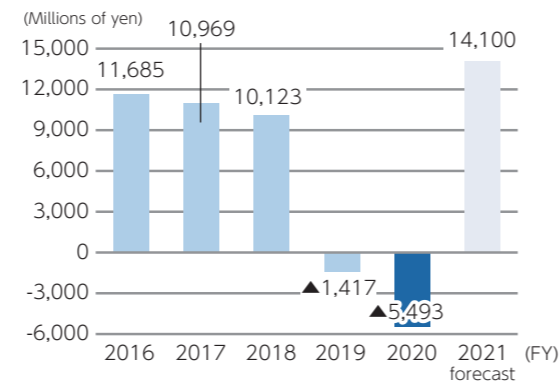
Ordinary income



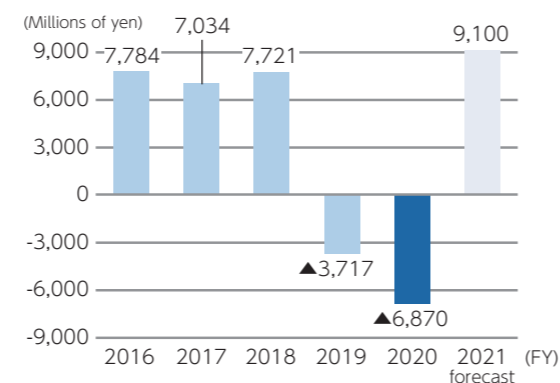
Net assets



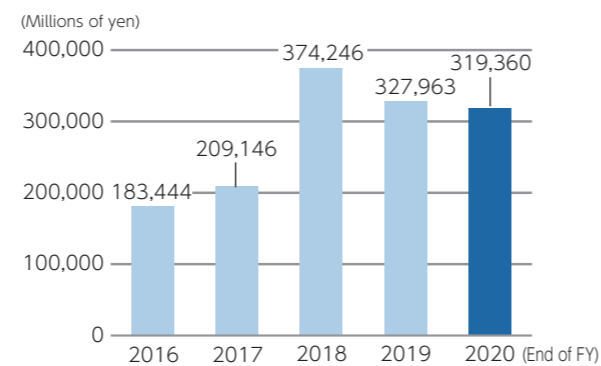
Operating income



Profit attributable to owners of parent



Assets



FY2020 Business Results

Operating results

In FY2020, the Japanese economy continued to face difficult conditions, as the impact of COVID-19 restricted social and economic activities. The outlook is also unpredictable, given the impact of the infection's resurgence on Japanese and overseas economies and the conflict between the U.S. and China on foreign economies.

In the special steel industry, the demand for special steel in the first half of the fiscal year significantly declined due to the impact of COVID-19. As the second half started, the demand recovered led by automotive-related applications, but the production volume level of special hot-rolled steels fell from FY2019.

Net sales of the Group for the fiscal year declined 51,731 million yen from FY2019 to 210,721 million yen, as sales volume fell due to the impact of COVID-19. In terms of profits, the Group posted an ordinary loss of 4,762 million yen (a loss of 1,521 million yen in FY2019). This owes to a decline in the Group-wide sales volume and a decline in selling prices of Sanyo Special Steel as a result of applying scrap surcharge, even though there were factors increasing profits such as the effect of the emergency profit improvement measures, including suspension of operations utilizing the government subsidies for employment adjustment, a decline in depreciation and amortization reflecting a switch of depreciation method of property, plant and equipment for Sanyo Special Steel and Japanese consolidated subsidiaries from the declining balance method to straight-line method, price declines of fuel and raw materials led by scrap iron, and reduction of variable costs. Net loss attributable to owners of parent came to 6,870 million yen (3,717 million yen in FY2019) owing to the recording of an impairment loss on non-current assets at MSSS in India in addition to the ordinary loss.

Financial conditions

The Group's total assets as of the end of FY2020 stood at 319,360 million yen, down 8,602 million yen year-on-year due primarily to a drop in inventory reflecting rapid demand recovery.

Total liabilities stood at 139,472 million yen, down 6,287 million yen year-on-year, owing to a decrease in accounts payable reflecting payment for facilities and a fall in loans.

Total net assets totaled 179,887 million yen, falling by 2,314 million yen year-on-year. This was mainly due to the recording of loss attributable to owners of parent and a decline in non-controlling interests despite an increase in other comprehensive income owing to fluctuations of stock prices and foreign exchange market.

As a result, net D/E ratio (ratio of interest-bearing debt to total net assets) as of the end of FY2020 was 0.26 (0.27 as at the end of FY2019).

Cash flows

Regarding the Group's cash flows in FY2020, our operating activities generated 22,313 million yen, while investing activities used up 19,412 million yen and financing activities used up 5,473 million yen.

As a result, the balance of cash and cash equivalents as at the end of FY2020 stood at 24,881 million yen (down 2,338 million yen year on year).

Cash flows for each section in FY2020 are summarized below.

(Cash flows from operating activities)

Net cash provided by operating activities was 22,313 million yen (down 17,111 million yen from FY2019), with a loss before income taxes (negative 9,519 million yen), depreciation and amortization (14,187 million yen), amortization of goodwill (2,620 million yen), and impairment loss (3,929 million yen) against an increase in trade notes and accounts receivable (negative 1,333 million yen), decrease in inventories (6,364 million yen), increase in trade notes and accounts payable (4,628 million yen), and income taxes refund (1,277 million yen).

(Cash flows from investing activities)

Net cash used in investing activities was 19,412 million yen (up 6,949 million yen from FY2019), partly due to expenditure on the acquisition of property, plant and equipment (negative 19,175 million yen).

(Cash flows from financing activities)

Net cash used in financing activities was 5,473 million yen (down 15,619 million yen from FY2019), reflecting the repayments of long-term loans (negative 5,576 million yen) among other factors.

Outlook

The sales volume through the first half of FY2021 has exceeded the initial forecast thanks to the recovery in the key demand industries such as automotive, industrial machinery, and construction machinery. Special steel demand is expected to remain generally stable as demand from industrial and construction machinery continues to be strong, while changes are expected in the level of inventory in supply chains due to the impact of automobile production reduction caused by semiconductor shortage. At the same time, prices of scrap iron, ferro-alloy, and fuel oil continue to rise, so the Group will continue to monitor their impact on future profit and take necessary measures such as improvement of selling price, including raising the base price announced in September.

As a result, for the fiscal year FY2021 the Group expects net sales of 350.0 billion yen, operating income of 14.1 billion yen, ordinary income of 14.0 billion yen, and net income of 9.1 billion yen.

Profit Distribution Policy and Dividends

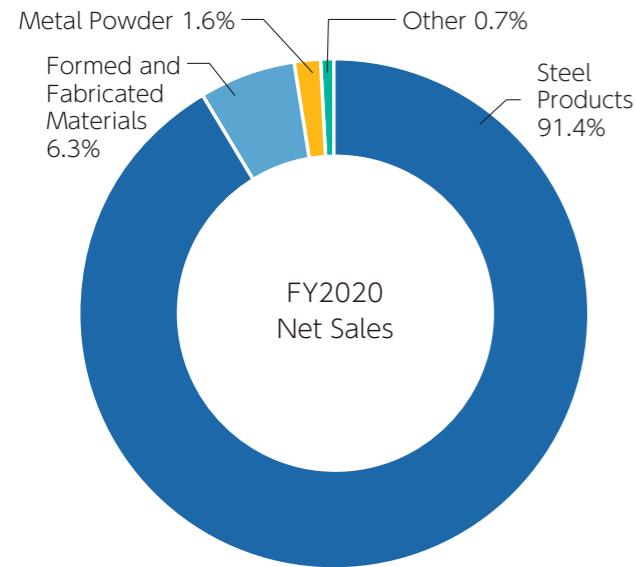
Our basic policy on profit distribution is to reward our shareholders by increasing the profits available for distribution while strengthening our business foundation. Our profit distribution standard based on the consolidated business performance is a consolidated payout ratio of about 30%, and dividend from surplus is calculated by multiplying profit attributable to owners of parent excluding amortization of goodwill by the payout ratio at the end of the second quarter and the end of fiscal year.

In FY2020, the Group, with deep regret, suspended the payment of dividends owing to the recording of 6,870 million yen loss attributable to owners of parent.

For FY2021, we expect to pay annual dividend of 60.0 yen per share (45.0 yen per share in interim dividend and 15.0 yen per share in year-end dividend) based on the earnings forecast and dividend policy.

Segment Information

* Net sales include internal sales and transfers conducted between segments

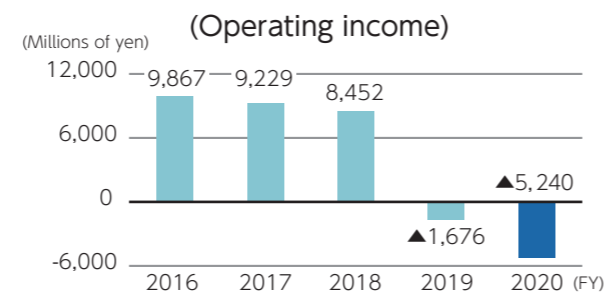
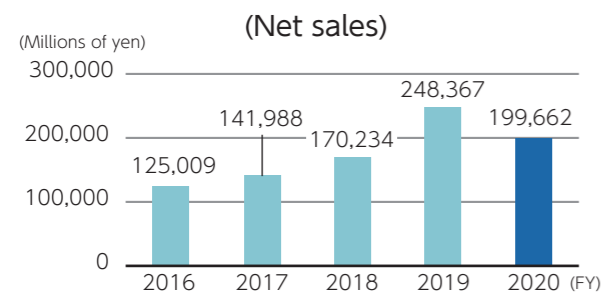


	(Millions of Yen)	
	Net Sales	Operating income
Steel Products	199,662	▲5,240
Metal Powders	3,455	263
Formed and Fabricated Materials	13,735	▲614
Other	1,573	45
Adjustments	▲7,705	53
Total	210,721	▲5,493

◆Steel Products

In the Steel Products business, we manufacture and sell a range of special steel products from bearing steel to engineering steel, stainless steel, heat resistant steel, and tool steel.

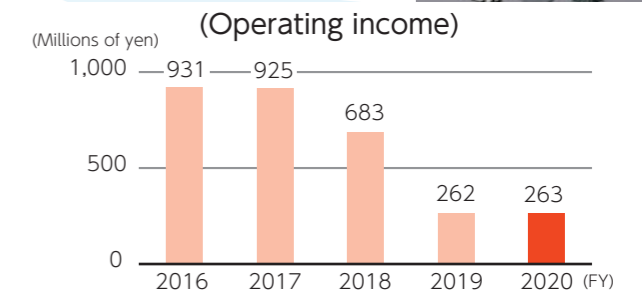
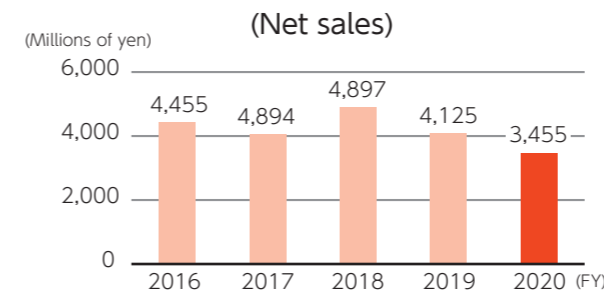
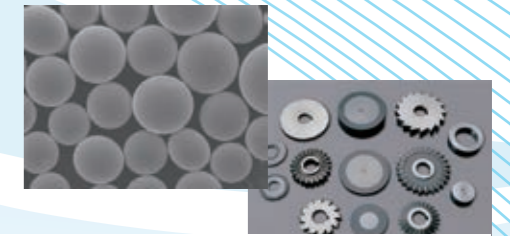
In FY2020, net sales of the segment declined 48,706 million yen from FY2019 to 199,662 million yen due to a decline in sales volume affected by COVID-19. The segment had operating loss of 5,240 million yen, with loss expanding by 3,564 million yen from FY2019, owing to the decline in sales volume.



◆Metal Powders

In Metal Powders business, we manufacture and sell metal powder products.

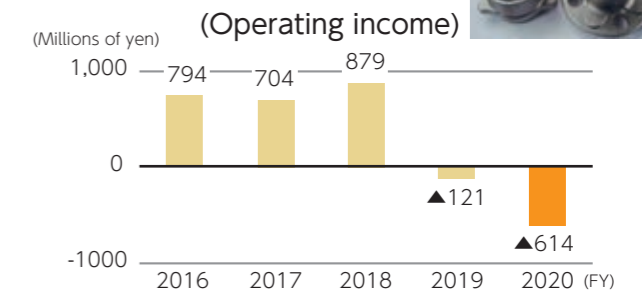
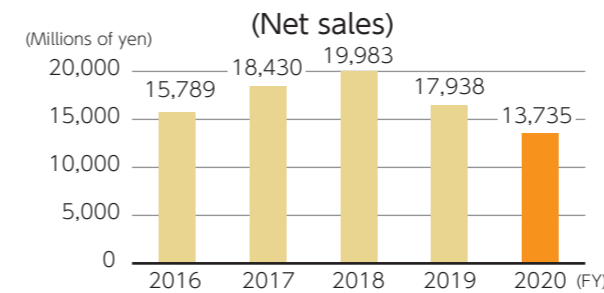
In FY2020, net sales declined 669 million yen from FY2019 to 3,455 million yen, as sales volume declined due to the impact of COVID-19. Operating income totaled 263 million yen, up 0 million yen from FY2019, as sales mix improved despite the decline in sales volume.



◆Formed & Fabricated Materials

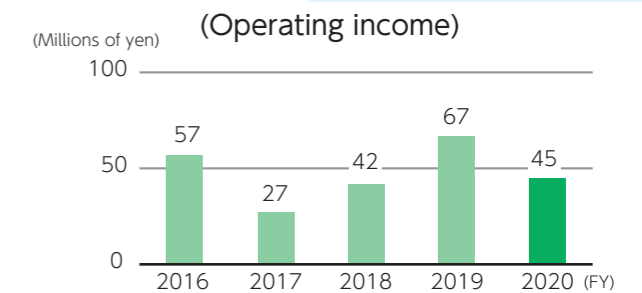
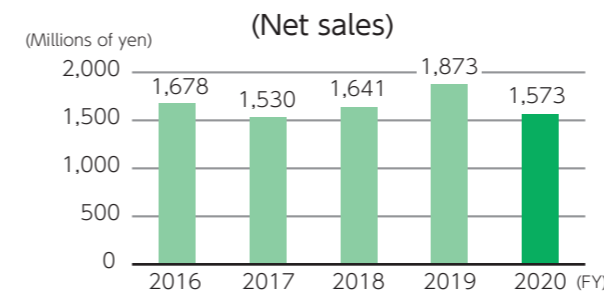
In Formed and Fabricated Materials business, we manufacture and sell formed and fabricated materials made from special steel bars and tubes.

In FY2020, net sales declined 4,203 million yen from FY2019 to 13,735 million yen due to sales volume decline caused by the impact of COVID-19. Operating loss expanded to 493 million yen from FY2019 to 614 million yen.



◆Others

This segment includes information processing services conducted through subsidiaries. In FY2020, net sales declined 300 million yen from FY2019 to 1,573 million yen and operating income fell 22 million yen from FY2019 to 45 million yen.



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

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

Wind power generation equipment

Bearings
Bolts, Gears, etc.

Formed & Fabricated Materials

Electrical Cables

High alloy cables: High-strength low thermal expansion alloy for high voltage transmission lines
High Alloy Steel Wires

Formed & Fabricated Materials

Formed & Fabricated Materials

Construction machineries

Gears, Shafts, Cylinders, Sprockets, Swing gears, etc.

Formed & Fabricated Materials

Shinkansen bullet train

Bearings

Bearing Steel

Factories, Plants, Power Stations

Dies for forging press, Dies for high-quality plastics, Casting dies, Rolls, Tolls, etc.

Tool Steel

Cutting tools, Dies, Injection molding machine(ex. screw), etc.

Powder Metallurgy high-speed steel

Extra-high-anticorrosion pipes, Chemical plant piping, Pipes for heat exchanges, etc.

High Alloy Steel

Bearings, Linear Motion Bearings, Ball Screws, etc.

Bearing Steel

Engineering Steel

Tubes for refuse incineration and power generation and power generation boilers, Tubes for waste heat recovery, Chemical plant piping

Stainless Steel

Heat-resistant thermal spray powder for boiler pipes, Metal powders for 3D printing

Metal powders

Aerospace

Driving parts, etc.

Bearing Steel

Engineering Steel

Stainless Steel

Metal powders for 3D printing

Metal powders

PCs

Motor shafts for OA equipment, Sleeves, etc.

Stainless Steel

HDDs

Powder Metallurgy products

Mobile Phone, Smartphone

Electro-magnetic wave absorber

Metal powders

Electrical Appliances

Magnetic head for HDD recorders, etc.

Powder Metallurgy products

Automobiles

Transmission gears, Shafts, Engine parts, Connecting rods, etc.

Engineering Steel

Bearings, etc.

Bearing Steel

Intake/exhaust valves, etc.

Heat resistant steel

EGR cooler, Shot peening

Metal powders

Roads

Base course materials, Asphalt aggregates, etc.

Electric arc furnace slag

Robots

Driving parts, etc.

Bearing Steel

Engineering Steel

Industrial Machineries

Spindles, Turrets, etc.

Engineering Steel

Buildings

Bolts

Engineering Steel

Seismic isolation systems

Bearing Steel

Medical Fields

Parts for dental treatment devices (hand pieces)

Stainless Steel

Ships

Shafts, Bolts, etc.

Engineering Steel

Propeller shafts, etc.

Stainless Steel

Engine valves

Heat resistant steel

High Alloy Steel

Iron scrap



Recycle



The Group of Sanyo Special Steel's Products

Bearing Steel

Engineering Steel

Tool Steel

Stainless Steel

Heat resistant steel

High Alloy Steel



Rolled bars

Tubes

Forged bars



Metal powders



Powder Metallurgy products



Formed & Fabricated Materials



Electric arc furnace slag

At Sanyo Special Steel, we use electric arc furnace steel-making (which uses iron scrap as a main raw material) to manufacture special steel, contributing to the recycling and effective use of iron resources. Compared to blast furnace steel-making, which makes steel from iron ore, the electric arc furnace method has the advantage of lower CO₂ emissions and lower energy consumption. Approximately 95% of the raw materials used by Sanyo Special Steel are recycled materials such as scrap iron (including materials recycled in-house)

2025 Medium-term Management Plan

With the aim to further enhance and reinforce our corporate value in the global specialty steel market, Sanyo Special Steel launches the 2025 Medium-term management plan for the period from FY2021 to FY2025.

Specialty steel demand in Japan is expected to decrease in the future due to changes in the social structure such as aging demographics. In addition, exports of specialty steel, whether direct or indirect through products using specialty steel, are also expected to decline in the medium-to long-term due to the growing needs of overseas consumers for local production for local consumption and reassessment of the global supply chain.

On global basis, although demand for specialty steel itself is expected to increase mainly in China and India, we consider that competition will intensify with domestic and overseas specialty steel manufacturers due to changes in the social and industrial structure, such as in crease of electrical vehicles(EV), together with intensifying quest for raw materials, particularly in the area of steel scrap due to the surge of electric furnaces operations to lessen carbon emission.

In consideration of these medium-to long-term changes in the demand structure for specialty steel and the intensification of international competition, the fundamental concept of the 2025 Medium-term management plan is to establish a lean and robust corporate structure securing stable earnings by strengthening the business foundation, and to further enhance corporate value in the global specialty steel market.



2025 Further enhance corporate value in the global specialty steel market.

Improves reliability by increasing the cleanliness of steel

- High-Cleanliness Steel** (1980s): Reduction of oxygen content in steel
- Ultra-High-Cleanliness Steel** (1990s): Smaller diameter of the largest inclusions in steel
- Super-Ultra-High-Cleanliness Steel** (2018): Reduce the frequency of large non-metallic inclusions

Deepening technology
Expanding technological superiority

- With the strength of our high-cleanliness steel, we will aim to respond to new requirements and environmental challenges arising from changes in the social and industrial structure.
- In particular, we focus on intensifying technologies that can respond to further reliability and consistency requirements in fields such as EV, wind power, railways, and hydrogen society, expected to expand globally.

Strengthening the competitiveness of the entire group

Fortifying corporate value in the global specialty steel market

- Based on a compelling sense of crisis and urgency that we face an evident turning point of the business environment, we will strengthen the cost competitiveness of the group as a whole by reducing both fixed and variable costs.
- We will also improve sales margins, upgrade sales mix, and secure and heighten our global market position.

Reinforcing profitability of overseas businesses

- Ovako will reinforce its lean and robust corporate structure, primarily by refining its cost-competitiveness.
- MSSS will further enhance its position in the Indian market by reinforcing its sales strategy and cost-competitiveness.

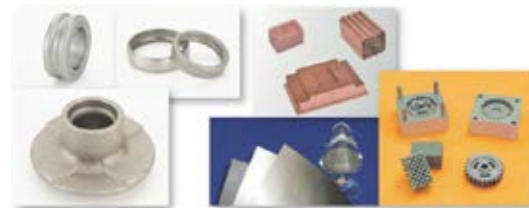
Utilizing synergies with Nippon Steel and Ovako

- We will realize full synergies by FY2024 as planned by swift implementation of collaborative measures in all areas including sales, production, procurement, etc.



Boosting profitability of Formed & Fabricated Products and Metal Powder Businesses

- We will leverage the advantage of the integrated forging-turning manufacturing process to enhance the profitability of the Formed & Fabricated Products Business.
- We will develop and expand sales of strategic items in the area of advanced information technologies such as 5G and carbon neutrality etc. to boost the return in the Metal Powder Business.



Rearranging global corporate structure

- We will rearrange the global corporate structure through further reorganization, consolidation and divestment.

[FY2025 earnings plan]	[FY2025 financial indicators]
Net sales : Approx. 280 billion yen	Equity ratio : Approx. 60%
Ordinary income : Approx. 14 billion yen	D/E ratio :
ROS : Approx. 5%	Approx. 0.2 times
ROE : Approx. 5%	D/EBITDA : Approx. 1 time

Robust corporate structure securing stable earnings by strengthening the business foundation

5 years to strongly solidify the management base

[Major Resource Allocation (Consolidated)]
 Capital expenditures 60 billion yen/5 years
 Research and development expenses 12.5 billion yen/5 years
 Personnel plan Group-wide rationalization of about 5%.

2021



Environment·Social·Governance

Achieving carbon neutrality by 2050

- We will aim to achieve carbon neutrality by 2050, through the promotion of "eco-processes (energy conservation and higher efficiency in production)", "green energy utilization", "eco-products (further reliable and consistent products for long-life bearings used in automobiles, wind power, railroads, and metal powders for 3D printers etc.)", and "eco-solutions" (sharing energy-saving technologies and productivity improvements among Ovako and MSSS).
- We inaugurated the "Zero Carbon Promotion Committee" headed by our president and CEO, for promoting and accomplishing carbon neutrality of the whole group.

Promoting digital transformation (DX)

- Utilizing latest digital technologies, we will further promote optimum operations (ex. operational efficiency improvement and preventive maintenance by AI and IoT), quality improvement (ex. detection accuracy improvement by AI), labor productivity improvement (ex. automation by RPA), safety education (by VR), etc.

Strengthening governance system and promoting diversity and health management

- Strengthen corporate governance system
- Promoting diversity and health management

CSR-conscious Management

CSR-conscious management is the aim of the Sanyo Special Steel Group, and its purpose is to realize sustainable growth and contribute to a sustainable society by building relationships of trust with all stakeholders through the practice of "Confidence-based Management," our corporate philosophy. The practice of "Confidence-based Management" can be rephrased as "being a completely honest company." Companies are members of society and they cannot develop without confidence from their stakeholders. The Sanyo Special Steel Group contributes to the realization of a sustainable society by honestly and frankly practicing "Confidence-based Management."



Sustainable growth of Sanyo Special Steel

Realization of a sustainable society

Important ESG-related issues of the Group

	Important issues	Goals, initiatives	Reference
E Environment	Prevention of climate change	Aim to realize carbon neutrality by 2050	pp.9-12
	Contribution to resource-recycling society	Reduce by-products, promote 3Rs	p.13
	Environmental load reduction	Comply with regulation standards (Water Pollution Prevention Act, Air Pollution Control Act, etc.)	p.14
S Social	Quality improvement	Continuously improve quality management system	p.15
	Expanding technological superiority	Constantly and quickly create highly reliable products and new technologies with focus on globalization	p.16
	Realization of sustainable procurement	Build fair and equitable transactions and partnership Build a stable procurement structure Promote procurement that is environmentally friendly and respects human rights	p.17
	Promotion of Corporate health management	Develop workplace environment where each and every employee finds it fulfilling to work every day	p.18
	Promotion of diversity management	Promote participation of women and senior citizens, support participation of people with disability	p.19
	Human resource development	Nurture global human resources	p.20
G Governance	Safety, disaster prevention	Achieve total zero accidents (zero labor accidents, zero accidents while commuting) Enhance disaster prevention measures and business continuity management (BCM)	pp.20,21
	Corporate governance	Enhance corporate governance	pp.22,23
	Internal control system	Promote risk management and compliance activities	P.24

Sanyo Special Steel and SDGs

The relationship between our Group's key business activities and the SDGs

In the global economy, people, goods, and capital shift on a global scale and one country's economic crisis is instantly linked to another; similarly, in this age, global issues such as climate change and natural disasters also have global repercussions and severe impact. Given this situation, the 2030 Agenda for Sustainable Development was adopted by the UN in September 2015 with universal objectives for the entire international community to work towards—both developed and developing countries alike. In the 2030 Agenda, 17 goals and 169 targets were listed as Sustainable Development Goals (SDGs). The relationship between our Group's key business activities and the SDGs is as follows.

SDGs Goals	9	8	5	12	13	14	15
Group Activities	<ul style="list-style-type: none"> Development and stable supply of highly-functional special steel products 	<ul style="list-style-type: none"> Health and safety activities Development of employees' skills Welfare scheme 	<ul style="list-style-type: none"> Support for the active participation of women 	<ul style="list-style-type: none"> Utilization of scrap raw material Recycling of by-products 	<ul style="list-style-type: none"> Promotion of energy saving Reductions in CO₂ emissions Modal shift Increase the ratio of transportation made by ship 	<ul style="list-style-type: none"> Prevention of water pollution Re-use of waste water 	<ul style="list-style-type: none"> Reductions in the emission of air pollutants Development of green spaces within factory sites Chemical substance controls

Environmental Management

Sanyo Special Steel formulates an environmental policy that forms the basis of the company's environmental conservation activities. Based on this policy, we create plans to improve environmental conservation and use environmental management systems in initiatives to tackle global warming, recycle by-products, and help prevent environmental pollution in a bid to mitigate environmental risks.

In addition, we not only help recycle metal resources by manufacturing products using scrap iron as the main raw material, but we also promote goods that are manufactured to help reduce the burden on the environment, using components and mold dies that have a longer life and are smaller in size and lighter in weight.

Environmental policy

(Philosophy)

We recognize that environmental issues such as global warming; air, water, and soil contamination; and waste problems are serious issues shared by all of humanity. As a company located in a richly endowed environment that faces Himeji Castle, a UNESCO World Heritage Site and a national treasure of Japan in the north, and the Setonaikai National Park in the south, we are committed to caring for the preservation of the environment and contributing to building a sustainable society in every stage of our business activities.

(Policy)

Bearing in mind that we are a company with plants that manufacture and sell special steel and non-ferrous metals, we undertake environmental management based on the following policy.

- 1) We will contribute to the recycling of metal resources by manufacturing steel products using iron scrap as the main raw material.
- 2) In addition to complying with laws, regulations, and agreements related to the environment, we will make ongoing efforts to enhance our environmental management framework to improve our environmental performance, and we will responsibly control any business activities that may have an adverse impact on the environment.
- 3) We will make efforts to reduce our impact on the environment in all stages of our business activities, and we will actively promote resource and energy savings, the recycling of byproducts and reduction of waste material, and the control of pollutant and greenhouse gas emissions to contribute to conservation of the environment and mitigation of climate change. Moreover, we will strive to prevent environmental pollution by developing products that will contribute to reducing our impact on the environment.
- 4) In our environmental conservation activities, we will pay particular attention to the education of each and every employee in environmental awareness.
- 5) To achieve this environmental policy, we will set environmental targets and review them at least once a year, and we will revise these targets as necessary.
- 6) We will ensure that all employees are thoroughly familiar with this environmental policy through education and training, and we will appoint the General Manager of Environmental Management as the Environmental System Management Officer.

Environmental management structure

Zero Carbon Promotion Committee

Towards realization of carbon neutrality by 2050, we established the Zero Carbon Promotion Committee headed by Representative Director and President in April 2021.

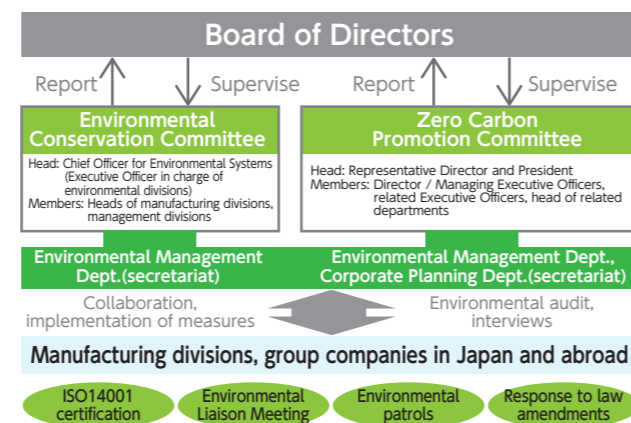
All Managing Executive Officers in charge of various divisions and related Executive Officers and heads of related departments are its members and the committee is scheduled to meet about four times a year to deliberate on basic strategies for zero carbon promotion taking into consideration climate-related risks and opportunities as well as short- and long-term themes related to their promotion.

The Environmental Conservation Committee

Each year we hold a meeting of our Environmental Conservation Committee to enhance environmental management and mitigate environmental risk. The Committee is chaired by the Executive Officer in charge of the Environment Division, and its members also include the General Manager of the Production Division and the General Manager of the Administration Division, and it discusses the formulation of basic guidelines on environmental conservation and matters on basic initiatives. The contents of the Committee's discussions are reported to the Board.

Acquisition of ISO14001 Certification

We have acquired ISO14001 Certification (the international standard for environmental management systems) at principal



mill in Himeji, our manufacturing base. We make continued efforts to establish this standard through our annual internal audit and external audit. During the internal audit, junior staff members are also in attendance at audit sites, which helps them understand the environmental management system. We are also making efforts to improve the system. We also focus on on-going training to facilitate the smooth change from one generation to another of internal auditors. In 2017, an external audit reviewed our transition to ISO14001:2015 and assessed that our Environmental Management System was being properly maintained and effectively utilized, allowing us to complete migration to the standard.

Environmental Liaison Meetings

Once a month, an Environmental Liaison Meeting is held to share information on the environment; those attending include the Chief Officer for Environmental Systems, executive officers, and department heads. The meetings collate information on the matters listed below and attempt to mitigate environmental risks.

- (i) **Status of responses to points identified in environmental checks**
- (ii) **Results of assessments on compliance with statutory laws and regulations**
We share results on air and effluent measurements, etc. prescribed by law or under agreed protocols.
- (iii) **Status of industrial waste treatment and results of inspections on industrial waste disposal facilities**
We share information on the status of industrial waste treatment and the results of inspections on industrial waste disposal facilities run by sub-contractors.
- (iv) **Communications regarding environment with administration and industry associations**
- (v) **Amendments to the latest environmental laws**

Environmental patrols

Once a month, a team made up of the Chief Officer for Environmental Systems, executive officers, department managers, pollution prevention managers, and others conducts patrols, primarily around our manufacturing sites. We aim to reduce environmental risks by responding to the issues raised by the patrols at individual manufacturing sites.

(i) Checks for significant environmental aspects

Patrols are conducted on processes and equipment with significant environmental aspects and inspections are carried out on equipment, management of measuring devices, and written work standards as we work to improve management levels and mitigate risk.

(ii) Checks on emergency drills

Emergency drills are carried out to check if there are any issues with emergency procedures, and in addition, we verify that there are no defects in equipment and instruments.

(iii) Patrols attended by the President

Once a year, an environmental patrol is conducted with the President in attendance. In FY2020, this patrol included checks on the management of significant environmental aspects of No.2 Bar & Wire Rod Mill and energy-saving initiatives.

Responding to amendments in environmental laws

As stated in our environmental policy, compliance with statutory laws and regulations is a key assumption of our business activities. If there are any legal amendments related to our business, we revise our in-house environmental standards and ensure that all stakeholders receive appropriate training, among other initiatives.

June is the "Environment Month" when we hold a "Study Workshop on Environmental Laws and Regulations" inviting employees in managerial posts—section managers in FY2018 and managers in FY2019—to ensure that they have a better understanding of statutory compliance obligations.

<Example of response to legal amendments>

- Cabinet Order for partial amendment to Cabinet Order for the Designation of the Poisonous and Deleterious Substances (amendment in June 2020)
Revision details: some poisonous and deleterious substances were added and some deleterious substances were removed from the designated substances.
Response status: Notified the law amendment details throughout the company through the Environmental Liaison Meeting, etc. and ensured storage and management of poisonous and deleterious substances.

Environmental accounting

We collated the costs for environmental conservation initiatives undertaken in FY2020 in accordance with the guidelines from the Ministry of the Environment.

Maintenance and administration costs for environmentally-friendly equipment such as dust collection units and water treatment facilities and the cost of recycling / disposing of byproducts amounted to approximately 2,000 million yen.

We also invested approximately 360 million yen in the improvement of dust collection units, abolition and upgrading of transformers containing PCB and in energy-saving initiatives such as changing lighting to LED.

Categories	(Million of yen)	
	Expenses	Investment
1. Costs within business areas	2,000	365
2. Upstream/downstream costs	0	0
3. Cost of administrative activities	134	0
4. R&D costs	32	0
5. Cost of social activities	4	0
6. Cost of addressing environmental damage	11	0
Total	2,182	365

Activities for developing environmental awareness

We believe that raising every employee's awareness of the environment is important in tackling our environmental conservation activities, and we conduct regular training for new employees and grade-based environmental workshops. We have also established a reward program to encourage employees to obtain qualifications related to environmental conservation such as those for pollution prevention managers, and we have also been working to have employees calculate carbon footprints for their own households.



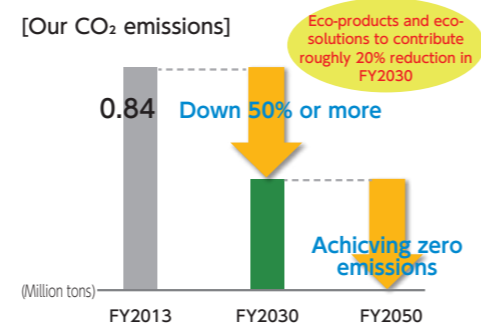
Prevention of Climate Change

Road map to carbon neutrality by 2050

With the recognition that climate change is an important issue that affects the survival of mankind, the Company's Board of Directors, at its meeting in April 2021, adopted the policy to aim to realize carbon neutrality by 2050 and announced it internally and externally. In July 2021, it prepared and announced the road map towards achieving the goal. We aim to reduce CO₂ emissions at all social stages as well as its own manufacturing processes by saving energy in the manufacturing processes, utilizing green energy, and contributing with eco-products and eco-solutions.

FY2030	
Eco-processes promotion Green energy utilization	Reduce CO ₂ emissions 50% or more vs. FY2013 level
Contribute to reduction with eco-products, eco-solutions	Contribute to CO ₂ reduction equivalent to roughly 20% of emission in FY2013

FY2050	
Eco-processes promotion Spread of carbon-free electric power, energy Utilization of CCUS	Aim to realize carbon neutrality



*Scope 1+Scope 2 emissions of the Company on a non-consolidated basis
*Emissions for each fiscal year were calculated based on electricity emission factor (for calculation of GHG emissions) of electric power companies that supply power to the Company

Eco-process

Company-wide energy-saving measures mainly in production
Development of manufacturing technology to improve energy efficiency

- Energy-saving heating furnace that uses regenerative burners

Eco-products

Promoting R&D and supply of special steel products that contribute to reducing CO₂ emissions in the supply chain and final usage

- Developing long-life bearing steel for wind power generation

Green energy utilization

Utilization of carbon free electricity/fuels and natural energy
*Refer to Engagement by Ovako

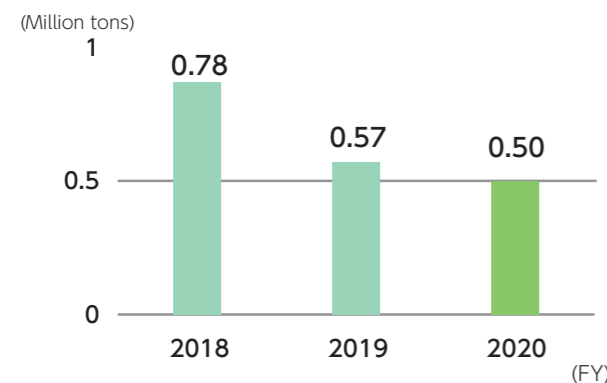
Eco-solutions

Sharing our energy-saving technologies and productivity improvements among all Sanyo Group members including Ovako and MSSS

- Sharing technologies among group members

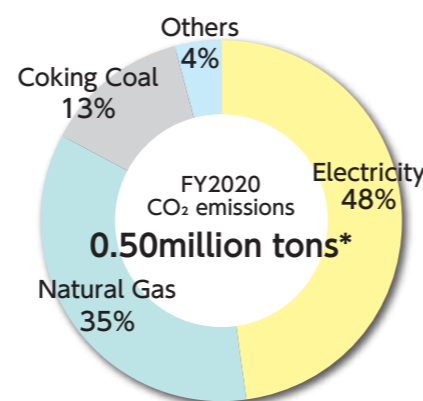
CO₂ emissions

Amount of CO₂ emissions*



*Scope 1+Scope 2 emissions of the Company on a non-consolidated basis
*Emissions for each fiscal year were calculated based on electricity emission factor (for calculation of GHG emissions) of electric power companies that supply power to the Company

Breakdown of CO₂ emissions



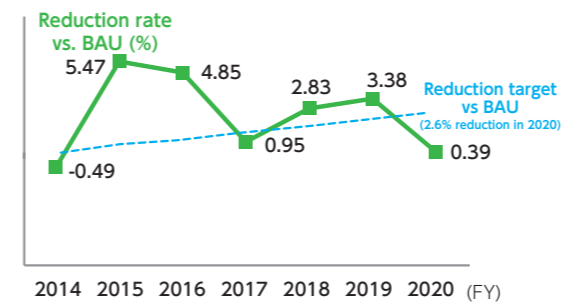
CO₂ emission reduction initiatives

Promotion of eco-processes (CO₂ reduction in manufacturing process)

Sanyo Special Steel is involved in efforts to reduce CO₂ emissions, which is one of the greenhouse gases (GHG), as part of its initiatives to tackle climate change.

In accordance with the Action Plan for Achieving a Low-carbon Society by the Japan Iron and Steel Federation, we have been working since FY2014 to achieve a 2.6% reduction compared to BAU (business as usual) in FY2020. The reduction vs. BAU remained at 0.39% in FY2020 due to the impact of a decline in production volume amid the COVID-19 pandemic, and the target was unachieved. But we had been achieving reductions exceeding the target through FY2019. During this period, Sanyo Special Steel promoted using regenerative burners for heating furnaces, use of inverters in large-scale motors, and changing lighting of plants to LED. We will continue to work based on the Action Plan for Achieving a Low-carbon Society by the Japan Iron and Steel Federation to achieve the 4.6% reduction vs. BAU in FY2030 in eco-processes.

CO₂ emission reduction vs. BAU



Contribution to CO₂ emission reduction with eco-solutions

Sanyo Special Steel deploys its technologies contributing to energy saving and reduction in specific energy consumption such as rapid molting technology for electric furnaces, technology to improve yield and productivity in the rolling process to Ovako, MSSS, and other group companies manufacturing special steel overseas, thus promoting the reduction of CO₂ emissions at manufacturing bases globally.

Environmental load reduction in product transportation

Reducing CO₂ emissions involves not only manufacturing processes but also essential initiatives in logistics. Sanyo Special Steel believes that transportation method for shipping products is particularly important for reducing environmental loads of logistics.

Sanyo Special Steel has been striving to promote the use of rail transport and freight ships, as long as product quality can be ensured; rail transport allows CO₂ reductions to be reduced by around 90% compared to transportation by truck, and freight ships provide a reduction of around 80% compared to the same. Of all the shipments that Sanyo Special Steel makes, transport by freight ship accounts for a significantly higher percentage than the average for the manufacturing sector.

(Specific initiatives)

- Use of rail transport for far-off customers
- Use of freight ships for transport to interim warehouses
- Switch from trucks to barges for transport to Port where export vessels depart.

Contribution to CO₂ emission reduction with eco-products

In addition to CO₂ emission reduction of in-house manufacturing processes, Sanyo Special Steel is focusing on development of eco-products, which contribute to CO₂ emission reduction when the users manufacture parts and use them as an end product. The needs for products and technologies that contribute to environmental load reduction, including the expanded introduction of renewable energy such as wind power generation and smaller and lighter parts for advancing electrification of automobiles, are expected to grow. With advanced clean steel technology, we will realize and spread eco-products with further enhanced material properties such as long life and elimination and simplification of parts manufacturing processes and contribute to CO₂ emission reduction at all social stages and realization of carbon-neutral society.

Stable and long life bearing steel

Reducing nonmetallic inclusions, which is the source of fatigue fracture, to extreme minimum, improves durability and reliability. This contributes to CO₂ emission reduction by making automobile parts smaller and lighter and reducing failures of wind power generation facilities by making them long life and maintenance free.



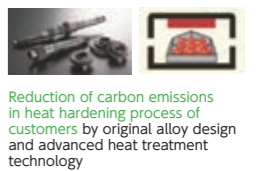
Heat-resistant stainless steel tubes

Improving corrosion resistance and high temperature strength using our proprietary material technology enables waste heat recovery at higher temperatures and improves energy efficiency by raising temperature and pressure of boilers, thus contributing to CO₂ emission reduction.



High hardness and High toughness steel

Our original alloy design and steel heat treatment technology enable both superior hardness and toughness in steel, which contributes to CO₂ emission reduction by enabling to omit or simplify heat treatment for hardening such as carburization in automobile parts manufacturing.



Reducing CFCs (Chlorofluorocarbons)

CFCs are used in air conditioner of offices. As one of the GHGs, CFCs are deemed to contribute to global warming when released into the atmosphere. In accordance with Act on the Control of CFC Emissions, Sanyo Special Steel conducts inspections for air conditioners and other equipment as we work to ensure proper control of CFC gases.

Prevention of Climate Change

CO₂ emissions in the value chain

The CO₂ emissions generated in the production (Scope 1 and Scope 2) at Sanyo Special Steel and the CO₂ emissions in the supply chain (Scope 3) calculated utilizing the Green Value Chain Platform by the Ministry of the Environment and other information are as follows:

	CO ₂ emissions (1,000t-CO ₂)			Calculation method
	FY2018	FY2019	FY2020	
Scope1 Direct emissions from fuel usage at the company	320	269	244	See previous page
Scope2 Indirect emissions from usage of energy produced at other companies	457	305	254	
Scope1+2 emissions	777	574	498	
Scope3 Other indirect emissions equivalent to the company's supply chain				
(i) Product or service purchased	344	265	243	Calculated by multiplying quantity of raw and other materials purchased with CO ₂ emissions unit value*
(ii) Capital goods	28	67	31	Calculated by multiplying amount of capital investment with CO ₂ emissions unit value*
(iii) Fuels and energy-related activities not included in Scope 1 or 2	139	115	101	Calculated by multiplying quantity of electricity purchased and fuel used with CO ₂ emissions unit value*
(iv) Upstream transportation and delivery	26	24	19	Calculated by multiplying the quantity of fuel used reported in accordance with Act on Rationalizing Energy Use with CO ₂ emissions unit value*
(v) Waste generated from business	4	4	3	Calculated by multiplying volume of waste with CO ₂ emissions unit value*
(vi) Business trips	0	0	0	Calculated by multiplying number of employees with CO ₂ emissions unit value*
(vii) Commuting by employees	3	3	3	Calculated by multiplying number of employees with CO ₂ emissions unit value*
(xv) Investment	111	304	260	Calculated by multiplying the emissions of major subsidiaries** with capital ratio

* Unit value database for accounting of GHG emissions throughout the supply chain by the Ministry of the Environment used for Scope3 calculation.
 ** Ovako (from FY2019), MSSS, Santoku Tech

Participating in the "Challenge Zero" Initiative for the realization of a Decarbonized Society



In October 2020, we became a participating member of the "Challenge Zero" initiative led by the Japan Business Federation (hereinafter, Keidanren).

"Challenge Zero" is an initiative jointly led by Keidanren and the Government of Japan that aims to proactively publicize and support innovative actions taken by companies and organizations towards a "decarbonized society" which the Paris Agreement (the international framework on climate change) sets as a long-term goal.

In line with the thrust of "Challenge Zero" to solve social issues through business-led innovations, we are working to generate innovation that aim to contribute to reducing GHG emissions and realizing decarbonized society.

(Innovation Challenge 1) Contribution to zero CO₂ emissions by developing bearing steel for long-life wind power generation

Recently, the demand for zero CO₂ emissions against the power generation business is rapidly increasing all over the world. Wind power generation recognized as one of the effective measures, and is spreading mainly in Europe.

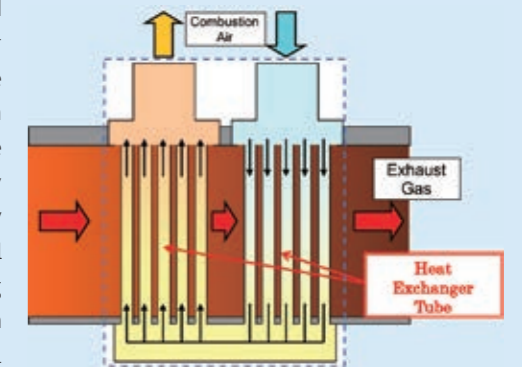
One of the major issues for expanding wind power generation equipment is to make it highly reliable equipment that can continuously and stably generate power. This is synonymous with reducing equipment maintenance frequencies, and in order to achieve this, it is required to suppress troubles during operation. That is, bearings, which are the core components of wind power generation equipment, are required to have high reliability.

Therefore, based on the high-cleanliness technology for steel that we have cultivated so far, we aim to develop bearing steel for wind power generation that can obtain stable long-life property. Furthermore, we will contribute to zero CO₂ emissions by its implementation and spread.



(Innovation Challenge 2) Reduction of CO₂ emissions in various industrial furnace operations by developing high-strength heat-resistant steel tubes for heat exchangers

Industrial furnaces for heating and heat-treatment used in the steel and ceramics industries utilize so-called fossil fuels such as LNG, heavy oil or coke, and are one of the major CO₂ emission sources. In order to reduce fuel consumption and CO₂ emissions, the furnaces are equipped with waste heat recovery devices to improve their energy efficiency. While the heat conversion type recuperator is widely used as a waste heat recovery device for industrial furnaces, it is required to improve the heat recovery efficiency of the device, which leads to further reduction. We will contribute to the realization of a decarbonized society by developing high-strength heat-resistant steel tubes for heat exchangers that can improve energy efficiency and expanding their application to industrial furnaces.



Structure of Recuperators

Engagement to Carbon Neutrality by Ovako

Fossil-free hydrogen initiative by Ovako

Currently under construction in Sweden is a fossil-free hydrogen production plant within the Hofors steel mill of Ovako.

This plant will generate 3,500m³ of fossil-free hydrogen per hour through electrolysis of water using fossil-free electricity.

By using the hydrogen produced at this plant as fuel, Ovako will be able to reduce the Hofors mill's CO₂ emissions from the process of heating steel before rolling by approximately 50 percent from an already low level.

In addition, this technical solution will be the first step in development of hydrogen infrastructure that can be utilized in the transport sector; for example, development of fossil-free freight transportation using fuel cell-powered trucks. The solution is also expected to contribute to improving stability of the power grid. Moreover, the residual heat can be utilized in local area heating networks.



Ovako Marcus CEO giving a lecture at an event with Volvo Group

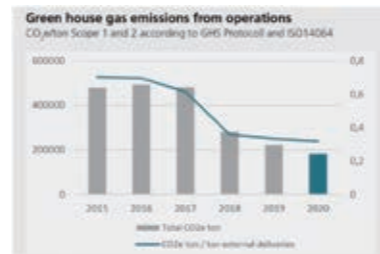
Ovako's steel production to be carbon-neutral from January 2022

Ovako, has decided to be carbon neutral in production from January 2022.

Ovako has been promoting world-leading efforts to achieve sustainable steel production, and as of 2020, has reduced its own steel production-generated CO₂ emissions by 54% from 2015.

In April 2020, at its Hofors mill in Sweden, Ovako became the first steelmaker in the world to succeed in heating steel before rolling with hydrogen, and in June 2021, Ovako began construction of the largest non-fossil hydrogen production facility in Sweden at the same Hofors mill to promote efforts toward further reduction of CO₂ emissions.

In this context, Ovako has decided to utilize carbon credits able to be applied to Clean Development Mechanism (CDM) projects reducing greenhouse gas emissions, mainly in developing countries, as stipulated in the Kyoto Protocol and the Marrakesh Accords, until Ovako will achieve zero CO₂ emissions from its own steel production. Ovako has also started dialogues with its customers on the introduction of a climate surcharge to maintain its momentum to invest in sustainable technical solutions such as hydrogen-fuelled heating.



※Ovako SUSTAINABILITY REPORT 2020

Information Disclosure according to TCFD Recommendations

Established by the Financial Stability Board (FSB), Task Force on Climate-related Financial Disclosures, or TCFD, in June 2017 announced the final report (TCFD Recommendations) and presented a framework for companies to disclose information on climate-related risks and opportunities.

Considering the situation of international society that is working to achieve the long-term goals of the Paris Agreement, Sanyo Special Steel has expressed its support for the TCFD Recommendations. To this end, we will disclose information regarding the impact of climate change on our business activities.

(Reference) TCFD-recommended disclosure items and where to find in this report

TCFD recommendations	Page
[Governance] The organization's governance around climate-related risks and opportunities	
a)The board's oversight of climate-related risks and opportunities	p.9
b)Management's role in assessing and managing climate-related risks and opportunities	p.9
[Strategy] The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material	
a)The climate-related risks and opportunities the organization has identified over the short, medium, and long term	p.12
b)The impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	p.12
c)The resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	p.12
[Risk Management] How the organization identifies, assesses, and manages climate-related risks	
a)The organization's processes for identifying and assessing climate-related risks	p.9
b)The organization's processes for managing climate-related risks	p.9
c)How processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	p.9
[Metrics and Targets] The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	
a)The metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	pp.10,14
b)Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	pp.10,11
c)The targets used by the organization to manage climate-related risks and opportunities and performance against targets	pp.10,14

TCFD scenario analysis

TCFD Recommendations call for disclosure regarding the resilience of the organization's strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario. In the special steel industry, stakeholders including investors are increasingly interested in changes in key user industries, such as a shift towards EVs for future significant reduction of CO2 emissions and introduction of carbon pricing and its impact.

Sanyo Special Steel carried out scenario analysis by examining long-term impacts on the Group through 2050 by referring to the climate change scenarios (a 2°C or lower scenario and a 4°C scenario) by the International Energy Agency (IEA) and International Panel on Climate Change (IPCC).

*2°C or lower scenario: a scenario in which necessary measures are taken to limit the temperature rise to 2°C or lower compared with the level at the time of the industrial revolution
 4°C scenario: a scenario in which special measures against climate change were not taken and the average temperature increases about 4°C.

TCFD scenario analysis

Scenario	Major climate-related events	Assumed impacts (key risks and opportunities)		Sanyo Special Steel's strategies
2°C or lower scenario	Carbon neutral-related responses by customers (increasing needs for low carbon, decarbonized steel and products and technologies leading to reduction in environmental load, shift to transportation with less CO ₂ emissions (railroad), shift to hydrogen society, etc.)	-Increase in demand for EAF steel, which emits relatively less CO ₂ and materials, technologies and products that lead to CO ₂ emission reduction at users (long-life bearing steel, hydrogen resistant stainless steel, etc.)	Opportunity ↑	-Promote development of eco-products that contribute to CO ₂ emission reduction in the parts manufacturing stage at users and during usage as end products (deepen technologies that respond to further needs for high reliability in fields such as EVs, wind power generation, and hydrogen society, and other fields where global growth is expected towards carbon neutrality, and develop and expand sales of strategic items such as metal powder for 3D printers)
	Change in demand structure due to shift to EV, increasing needs for smaller and lighter automobile parts	-Rising needs for Sanyo Special Steel's highly reliable special steel products along with EV Shift-Increasing demand for Sanyo Special Steel's highly reliable special steel products that have properties to contribute to making parts smaller and lighter	Opportunity ↑	-With highly clean steel, our strength, at the core, accurately respond to new customer requests and environmental issues resulting from changes in social and industrial structures -Strengthen supply chain competitiveness in collaboration with users
		-Decline in special steel consumption per automobile	Risk ↓	
	Growth of wind power generation market due to expansion of renewable energy	-Increase in demand for Sanyo Special Steel's highly reliable bearing steel that leads to reduced maintenance and failure prevention of wind power generation facilities	Opportunity ↑	-Shed light on the fatigue mechanism under environments unique to wind power generation and promote development and market introduction of bearing steel for wind power generation that realizes long life and high reliability
	Intensified competition for mineral resource due to changes in electric power and storage batteries demand	-Increasing needs for Sanyo Special Steel's high-performance materials that do not rely on rare metals	Opportunity ↑	-Promote development and offering of high-performance products that save on rare resources (ECOMAX series, Co-free maraging steel powder, etc.)
		-Instability in procurement of auxiliary ingredients due to restrictions on rare metal exports	Risk ↓	-Ensure and expand sources for auxiliary ingredients -Further enhance procurement supply chain management
	Introduction of carbon pricing including carbon tax	-Cost increase of electric power and fuels *Additional burden resulting from carbon tax, etc. means a loss of funds for research and development and it may lower the international competitiveness of the Japanese industries as a whole	Risk ↓	-Promote CO ₂ emission reduction of Sanyo Special Steel Group with eco-solutions, such as eco-processes and green energy utilizations -Promote procurement of inexpensive carbon-free electricity and win the understanding of users regarding the value of low carbon and decarbonization of steel and necessary costs, and reflect them on to selling price, thereby securing an appropriate margin
		-Relative improvement in superiority of electric furnaces, which have comparatively less CO ₂ emissions, and especially of Ovako which is more advanced in terms of decarbonization	Opportunity ↑	-Strengthen cost competitiveness of the group through synergies with Nippon Steel and Ovako
	Shift to EAF for steel production and increased use of scrap iron	-Intensifying global competition to acquire superior scraps	Risk ↓	-Expand and ensure procurement sources for main raw materials and optimize raw materials mix -Reduce procurement costs for raw materials and fuels in collaboration with Nippon Steel Group
	4°C scenario	More frequent and serious weather disasters	-Damage on production facilities from serious weather disasters, inundation of business bases and warehouses in coastal areas, and obstacles to procurement of raw ingredients, materials and equipment as well as product supply	Risk ↓
Rising average temperature		-Health hazard such as heat stroke and increased risks of facility failures		
	Decline in water resources and rising sea level	-Hindrance to operations caused by decline in stability of water supply		

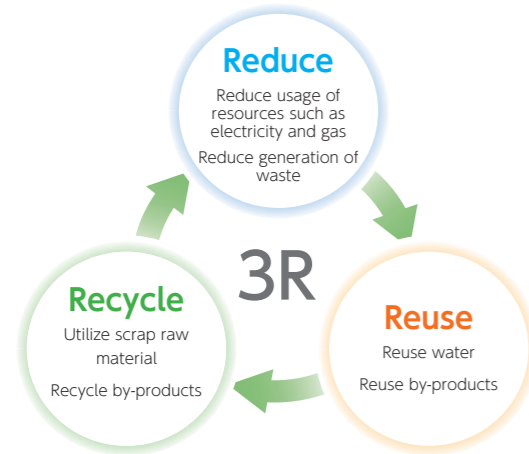
Contributing to resource-recycling Society

Special steel products created from recycled materials

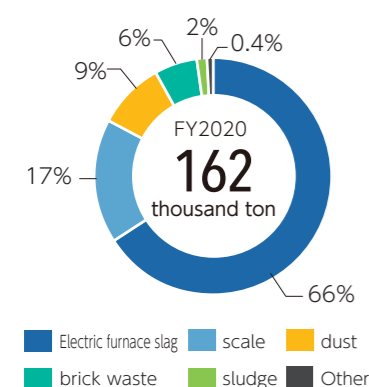
We use electric arc furnace steel-making (which uses iron scrap as a main ingredient) to manufacture special steel, contributing to the recycling and effective use of iron resources. Scrap iron accounts for around 80% of our raw materials, and if materials recycled internally are included, around 95% of our raw materials are recycled products.

Initiatives to reduce by-products

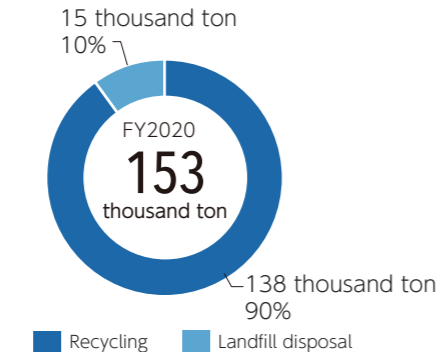
In FY2020, the amount of by-products generated by our production activities was 162 thousand tons, and the amount processed, including the volume sold, was 153 thousand tons. By-products include electric furnace slag, scale, dust, brick waste, and sludge. Based on the 3 R (Reduce, Reuse, Recycle) concept, we encourage recycling of these by-products and, of the amount processed in FY2020, approximately 90% was either recycled or reduced down by incineration, with the remaining amount, approximately 10%, finally being disposed of in landfills. Moving forward, we will work to expand the use of by-products in new applications in order to reduce disposal in landfills.



By-product generation



By-product throughput



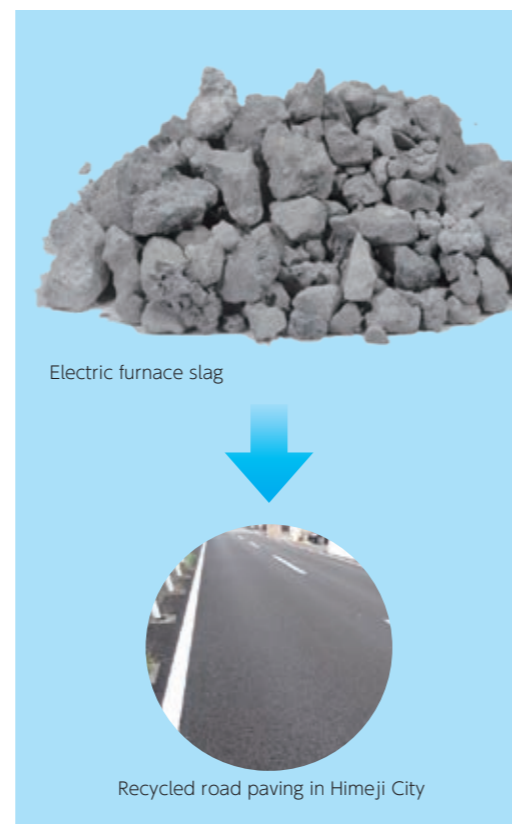
Recycling slag from electric arc furnace

We promote the recycling of electric furnace slag generated as a by-product of the manufacturing process, and by ensuring reliable quality in the product and responding to a diverse range of needs, we have been able to maintain a 100% recycling rate of this resource. Our slag products are used mainly as roadbed material for roads and as an asphalt aggregate instead of natural resources such as stone and sand. Moving forward, we expect it to be used as a raw material in "inhibitors" to control foam expansion of molten steel and as a recycled aggregate for paved surfaces.

We use pressurized steam-aging facilities to pressurize our slag products to the highest level in Japan in a process that effectively stabilizes any expansion in the products.

In addition, we use a classification machine that can sort slag products into six stages simultaneously, from coarse-grained aggregate to fine grains, and multi-functional classification equipment made up of a granulator that chamfers aggregate particles to adjust grain size and improve wear resistance. Using these manufacturing processes, we provide customers with high-quality electric furnace slag products.

We intend to focus on realizing a sustainable society as we continue to comply with the Nippon Slag Association's "Guidelines for Management of Iron and Steel Slag Products" and not only deploy management systems across all areas including manufacturing, quality, and sales, but also submit to reviews by third-party organizations to enhance management systems and further improve reliability.



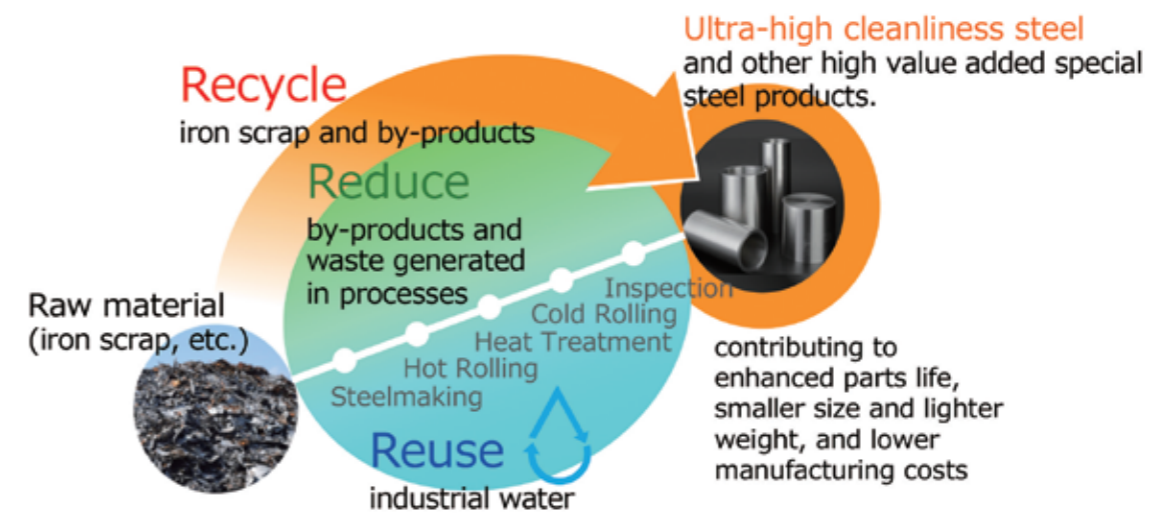
Received Awards for Resources Recirculation Technologies and Systems supported by METI

Subject: Recycling iron scrap into high-value-added special steel using electric arc furnace

The Awards for Resources Recirculating Technologies and Systems is aimed at promoting recirculating business through the encouragement and popularization gained by commending businesses and initiatives that have features of developing superior technologies that contribute to limiting the generation of waste and reuse and recycling. It is hosted by Japan Environmental Management Association for Industry, with the support of the Ministry of Economy, Trade and Industry.

Sanyo Special Steel has been offering high-value-added special steel products that contribute to prolonging product life, making them smaller and lighter, and reducing parts manufacturing costs by developing a highly productive process for ultra-clean steel and case hardening steel that reduces the use of rare resources in the manufacturing process of special steel in electric furnace steel manufacturing using scrap iron from factories as raw materials. The award was given in recognition of these initiatives' contributions to the 3R* activities contributing to the development of a resource recycling society and their potential to contribute to the realization of carbon neutrality.

*3R: Reduce, Reuse, Recycle



■ Sanyo Special Steel's 3R activities (image)

Employee receives meritorious person award for environmental conservation

Kenichi Okada, senior expert of the Environmental Management Department received the meritorious person award for environmental conservation from the Hyogo Prefecture Association for Corporate Environmental Conservation. The award is aimed at raising environmental conservation awareness by commending persons who made significant contributions to environmental conservation, including the prevention of pollution.

Okada has been working on reducing CO₂ emissions and introducing energy-saving facilities by utilizing his knowledge and experience regarding facilities that he had accumulated in facility maintenance and construction operations and contributed to efficient facility operations. Further, he has served as the manager for preventing air pollution since 2014 and that of water quality since 2016. He was commended for striving to manage each facility, educate employees, and develop a system to prevent violation of laws and regulations.



Environmental load reduction

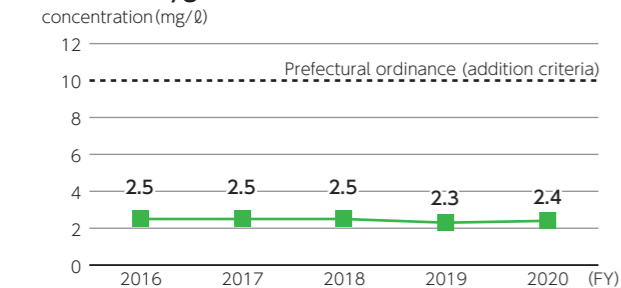
Efficient use of water resources

Water is vital for the manufacture of our products. It is used to cool steel and equipment, and also as a source of power for equipment. Although our manufacturing base (Himeji City, Hyogo Prefecture) does not lie in an area assessed by WRI Aqueduct to be facing high water stress, we reuse more than 90% of the water employed in our production process, in recognition of the fact that water is a limited resource. We also have our own source of water (groundwater) in addition to water supply from the industrial waterworks. Contaminated water that has been used in the factory is sent to an on-site treatment facility to be purified. After this, the purified water is reused in the factory, while the remainder undergoes further treatment before being released into public waterways. At the point where the water drains into public waterways, there is a system that takes automatic measurements to constantly monitor pH levels, turbidity, chemical oxygen demand (COD), nitrogen, and phosphorus, and if levels go beyond our voluntary in-house management standards then an alert is issued to allow the person in charge to deal with the issue in a prompt manner. In addition, the water is regularly analyzed for harmful substances, by an external organization as part of our efforts to manage water quality and prevent water pollution.

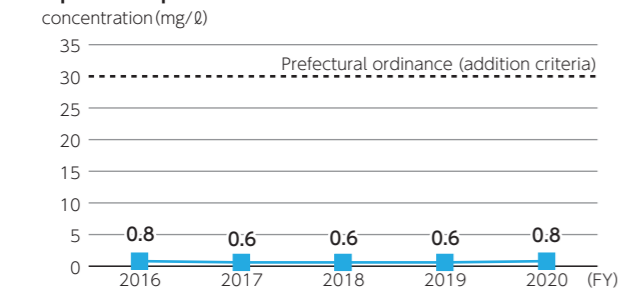


Wastewater treatment facility

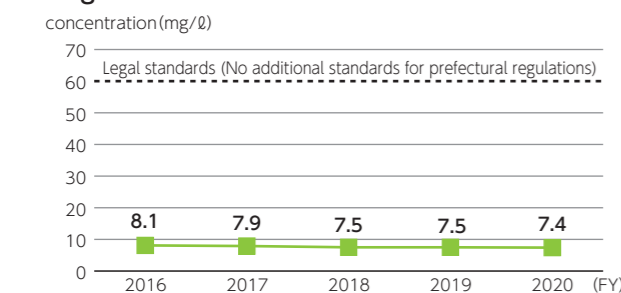
Chemical oxygen demand in wastewater (COD)



Suspended particulate matter in wastewater (SS)



Nitrogen concentration in wastewater

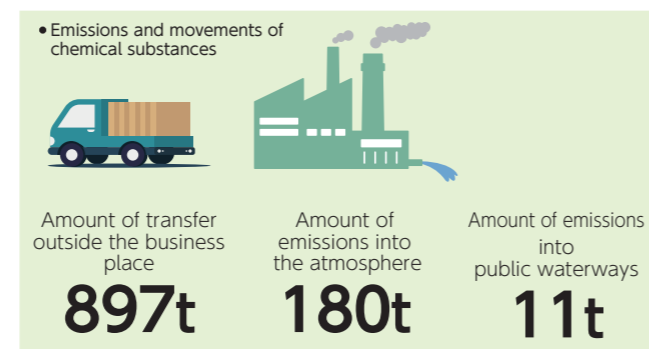


Appropriate controls on chemical substances

In accordance with the PRTR* Act, we monitor the amount of chemical substances released and transferred. Volumes are reported to the Ministry of Economy, Trade and Industry, and we also work on initiatives to curtail the amount released. Furthermore, PCB waste is properly stored and controlled in accordance with the PCB Special Measures Act and, in addition, all applicable equipment is systematically updated/disposed of to ensure disposal is completed by the deadlines stipulated in the Act.

High-concentration PCB waste is covered based on well-known documents from the Ministry of Economy, Trade and Industry. The final excavation of the equipment was carried out, and all of the equipment was processed by JESCO within the deadline. The consignment has been completed. Low-concentration PCB waste squirts the target equipment. To complete the disposal within the deadline, make a plan and update the equipment. We are proceeding with the disposal.

* PRTR (Pollutant Release and Transfer Register): a statutory system that promotes improvements in the monitoring and management of the amounts of specified chemical substances emitted into the environment



Proper disposal of waste

Sanyo Special Steel subcontracts services to industrial waste disposal companies that can dispose of waste in a proper manner, and we conduct checks to ensure that subcontractors hold the appropriate licenses as well as preliminary inspections of their disposal facilities. In addition, we check that our waste is being disposed of in an appropriate manner through regular inspections of disposal facilities and by confirming industrial waste disposal conditions in a manifest. We have introduced a manifest in electronic format to ensure that operations are running properly, and we make every effort to separate waste at the sites where waste is generated.

Reduction of air pollutants

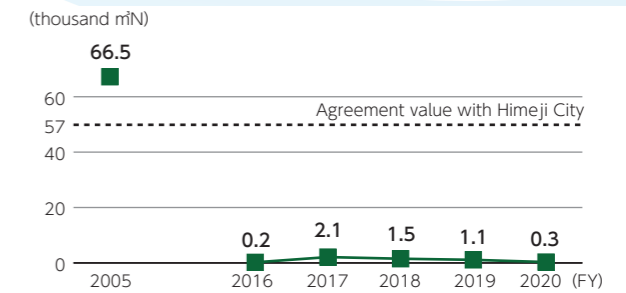
At facilities that generate soot and smoke, we have achieved SOx (sulfur oxide) emissions well below the levels agreed on with the Himeji City council by switching the fuel from heavy crude oil with high sulfur content to LNG (town gas) which contains almost no sulfur. In a bid to reduce NOx (nitrogen oxide) emissions, we are using low NOx burners and implementing proper combustion controls, among other initiatives. We have also introduced units that automatically measure NOx in a system that enables us to constantly monitor heating furnaces, which produce large volumes of emissions.

Furthermore, revisions to the Air Pollution Control Act in April 2018 stipulated that operators should voluntarily reduce emissions of mercury concentrations in exhaust gases from electric steel-making furnaces. Sanyo Special Steel regularly measures and records mercury concentrations in accordance with the voluntary standards recommended by the Japan Iron and Steel Federation to confirm that the concentrations meet voluntary control standards.

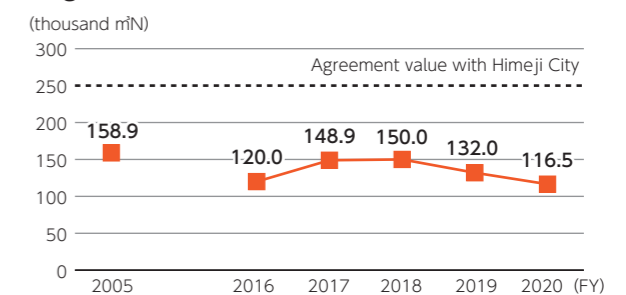
In terms of dust collection facilities, we are working on initiatives to increase and enhance equipment capacity, such as the installation of dust collection units in continuous casting sheds in FY2018.

We also use traditional methods of dealing with dust that include patrols by water sprinkler vehicles and street sweepers to help prevent the dust scattering.

Sulfur oxide emissions



Nitrogen oxide emissions



Improvement Plans for environmental conservation

Topics	Target/KPI	FY 2020 Resultst	Self-Assessment
Energy-saving and global warming prevention	Reductions in CO ₂ emissions resulting from the promotion of energy-saving measures (Goal: 2.6% reduction in FY2020 compared to BAU*) *Business as usual (if no special measures are taken)	<ul style="list-style-type: none"> Amount of reduction in CO₂ emissions: 0.39% vs BAU New heating furnaces using regenerative burners Switch to LED lighting 	○○
Recycling of by-products	Reduction in volume of dust and sludge sent to landfill	<ul style="list-style-type: none"> Outsourcing of dust recycling to sub-contractor 	○○
	Improve percentage of brick waste recycled	<ul style="list-style-type: none"> Use of brick waste as heat-resistance raw material 	○○
Compliance with statutory laws and regulations	Compliance with regulatory standards (Water Pollution Prevention Act, and the Air Pollution Control Act, etc.)	<ul style="list-style-type: none"> Attainment of regulatory standards in all items (No violations of, or deviation from, laws, regulations or agreements.) 	○○○
Education and development activities for employees	Regular education and development activities for employees	<ul style="list-style-type: none"> Implementation of activities to beautify the local area (approx. 200 participants) Registration of data into carbon footprint calculator for individual households (20 participants) 	○○○
	Increase in the number of staff holding official environmental qualifications	<ul style="list-style-type: none"> On-going initiatives to increase the number of staff with managerial qualifications in the prevention of pollution 	○○
Promotion of information disclosure	Regular publication of environmental reports	<ul style="list-style-type: none"> Release of "Sanyo Special Steel Report" on website 	○○○
	Cooperation with environmental agencies such as local government bodies	<ul style="list-style-type: none"> Implementation of "Environment Month" events 	○○○

Self-Assessment: The level to which targets have been achieved are classified under 3 stages
 ○○○:Plans have been met ○○○:Good progress is being made to achieve plans
 ○:Further initiatives will be undertaken to achieve plans

Confidence with Customers

Quality improvement

Quality assurance is about creating a process that allows us to accurately grasp the needs of customers and provide a reliable supply of products that meet those needs, and is directly linked to our corporate philosophy of "Confidence-based Management." The Group has established a quality management system based on ISO9001:2015, and we promote quality control activities that create product quality by integrating our sales division, engineering division, production division, and quality assurance division to ensure that we satisfy product standards such as JIS and various overseas standards. Furthermore, the Group aims to continue to be an enterprise that maintains sustainable growth by placing emphasis not only on controlling product quality but also on ensuring that the quality management system, which is a key part of our corporate structure, can respond to environmental changes such as globalization and changing customer needs and address the needs to make improvements to realize a more efficient structure.

Quality Assurance System

The Quality Assurance Department plays a central role in the quality management system maintained and managed by Sanyo Special Steel, which forms the cornerstone of our quality assurance system. The process for product quality control is developed through collaboration between various divisions. The Sales Division gains an understanding of customer needs, the Engineering Division then reflects these requirements in the manufacturing designs, and the Production Division creates the final product based on these designs. In addition, Sanyo Special Steel continues to work to provide products that inspire ever-more confidence, using its Quality Assurance Department (an independent department responsible for all aspects of quality assurance) to provide checks and balances in a bid to optimize and enhance quality assurance functions. The Quality Assurance Committee meets regularly and is chaired by the Director in Charge of Quality Assurance. The Committee discusses basic policy and plans concerning quality assurance for the fiscal year and implements improvement activities such as "systematic improvements in key issues," "prevention of quality complaints," "enhancement of quality assurance," and "improvements in customer satisfaction levels."

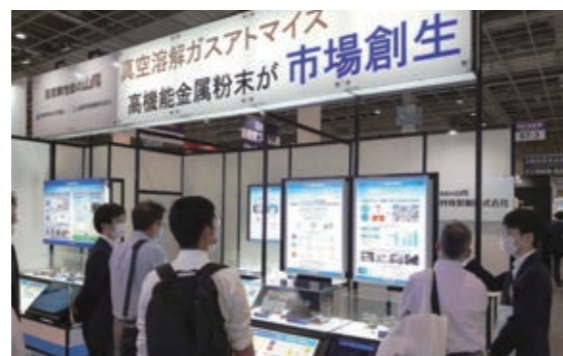


Quality Assurance Initiatives

Under ISO9001:2015, individual organizations need to conduct operational risk assessments to address new requirements for "risk and opportunity initiatives." Based on issues at Sanyo Special Steel that have been identified through these assessments, we have been rolling-out a medium-to-long term PDCA (Plan-Do-Check-Act) plan in a bid to upgrade our quality assurance. Specifically, we are working to improve our quality management system by continuously updating our quality manuals, implementing quality patrols, and sharing information between organizations through internal quality audits. In addition, we are promoting educational activities, including lectures to raise employees' awareness on quality issues and e-learning programs regarding quality compliance in November, which is National Quality Month.

Understanding and reflecting customer needs

Once a year, we survey our customers to have them assess us on QCDD (Quality, Cost, Delivery, Development). We analyze the results and extract any points with low scores for improvement, leading to even higher customer satisfaction. Furthermore, in order to understand the needs of customers in a timely manner, we hold meetings to exchange technical ideas with customers and we also take part in exhibitions, both in Japan and overseas. We not only present detailed information on the products and new technologies we have developed, but we also collect information on customers' latest needs, which is then used to develop and improve our products.



Promotion of skill transfer activities

We have been organizationally and systematically carrying out skill transfer activities since FY2015 and consistently promoting one-on-one training by pairing employees to impart the skills with those learning them, creating training materials, and implementing a commendation system to improve their motivation.

We positioned FY2021 as the first fiscal year of the 2025 medium-term plan for skill transfer activities. Various section managers presented their workplace vision, which they want to realize through the activities, and are carrying out activities considering the future shape of their workplace by sharing it with employees involved in the activities.

Against such a background, this turned out to be the year in which the human resource development through skill transfer activities done so far bore fruit, as the manufacturing sites were able to transform the production system smoothly to respond to requests for significant production increase given order recovery from the beginning of the fiscal year and prevented recurrence of accidental stoppages despite the tight production situation.

Moving forward, we will promote skill transfer activities as a wide-ranging human resource activity aimed at nurturing multi-skilled workers and early nurturing of new hires with a focus on transferring knowledge of skilled employees.



Promotion of TPM (total productive maintenance) activities



The entire production division is working on TPM activities to thoroughly eliminate losses and waste due to equipment breakdowns and problems, increase production efficiency, and provide a reliable supply of products.

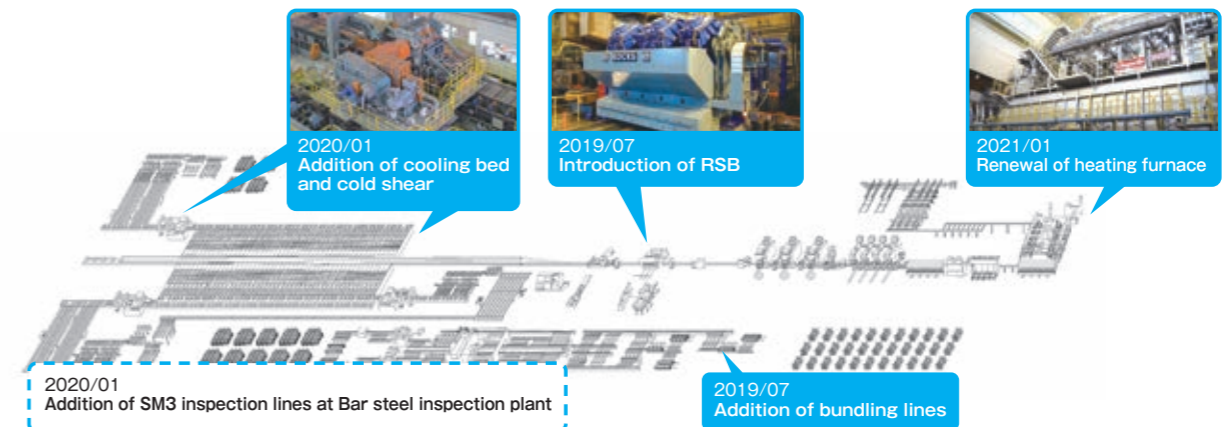
In terms of activities, we have not only set up the "TPM School" as a place to provide training on basic knowledge about equipment and machinery to develop human resources with a good understanding of the equipment. But we are also creating common-interest groups for individual work categories on topics such as quality improvement, productivity improvement, safety, and cost to allow us to make improvements every day. This year, we have been distributing online the in-house TPM contests held four times a year to present the activity achievements so that more involved employees can watch them.

Moreover, we are coming up with and introducing new equipment and devices at TPM School to vitalize TPM activities.

Refurbishment work of Small and medium Bar Rolling Mill completed

The refurbishment work of a Small and medium Bar Rolling Mill, which was being driven forward as the core of the production structure reform, was completed in January 2021.

This investment was aimed to make the mill capable of responding to changes in the demand structure in the future. We invested a total of 19.5 billion yen in improving the respective capacities in rolling, purifying, testing, and heating furnace. The investment enables the plant to respond, without lowering production efficiency, to demands for a smaller diameter of rolled steel or smaller lots anticipated in the future. The introduction of Reducing and Sizing Block mill (RSB) enabled the preparation of materials that users can easily process (reducing hardness of steel by high reduction rolling and refinement of grain size) and allows users to eliminate the heat treatment process. We will leverage the impact of this investment to the maximum extent and will continue to strive for further improvement in quality, delivery, and cost competitiveness.



Confidence with Customers

Expanding Technological superiority

Sanyo Special Steel Group is further pursuing technological innovation by strengthening research and development and quality competitiveness for sustainable growth of the Sanyo brand through globalization. In research and development activities, we clarified the functions of basic research and product and technology development and strengthened the medium- to long-term research and development planning function to expand technological innovation in each field of basic research, new product and technology development, and evaluation technologies in a bid to swiftly and continuously create highly reliable products and new technology with an eye on global expansion. We are also emphasizing on the early realization of synergy effects through collaboration among group companies.

Investigating core principles with a focus on product characteristics

All of our technology is based on the core principles. Now more than ever before, it is essential that we enhance our core research to more thoroughly investigate those core principles, given today's demands for ever more advanced product characteristics and mass-production technology. The researchers gazing down at the microscopic level have their focus on the performance of the final product.

Serving needs from a multilateral approach

As the pace of technological progress accelerates, customer needs are becoming increasingly diverse and sophisticated. We look from the customer's perspective to identify those qualities and characteristics that are the true key to progress and work on these to optimize our steel from its composition and structure through to production. We are exploring the very limits of steel's potential

Earning trust through sophisticated evaluation and analytical techniques

When it comes to special steel, even slight differences in composition can impact the characteristics of the material. The progress of evaluation technology—making the invisible visible and the unknown known—is the source of new knowledge and the basis for the trust placed in us. R&D that incorporates cutting-edge evaluation technology earns people's trust in steel.



Research and development activities

Research and development activities of Sanyo Special Group are promoted by the Research & Development Center. It spent a total of 2,110 million yen in research and development costs in FY2020. The Group is also engaged in research and development in close collaboration with universities and research organizations of users.

Below is a table showing research and development activities by segment.

Segment	Research purpose	Key tasks	R&D costs (FY2020)
Steel products	- Development of high-performance products for promising fields such as automotive, environment and energy, and robot-related industry -Strengthening of quality and cost competitiveness through improvement of manufacturing processes of mainstay products such as bearing steel, engineering steel, and stainless steel as well as tool steel	-Upgrading of bearing steel manufacturing process and material evaluation technology and development of long-life steel -Development of engineering steel for electrification of automobile and industrial machinery -Development of high-performance stainless steel for the environment and energy field -Development of tool steel suitable for the severe processing and molding -Upgrading of simulation utilizing CAE technology and its application to manufacturing process	1,536 million yen
Metal powders	-Technology and product development of metal powder-related products, which have growth potential	-Development of new metal powder products in fields such as electronic materials, magnetic materials, and industrial machinery	526 million yen
Formed and fabricated materials	-Strengthening of technology and cost competitiveness of the formed and fabricated materials business	-Strengthening of technology competitiveness through establishment of rapid design technology for optimum molds -Quality improvement of ring rolling articles by utilizing CAE analysis technology	47 million yen

New Lineup of Nickel- and Molybdenum-free High Strength Case-hardening Steel

ECOMAX5 for Omitting or Simplifying Parts Manufacturing Processes

— Contributes to reduction of cost and CO₂ emissions when manufacturing high-strength parts such as gears and shafts —

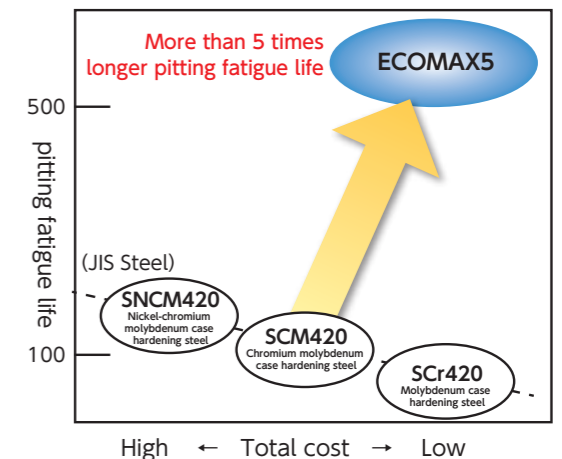
Sanyo Special Steel has developed ECOMAX5 as a new addition to its proprietary ECOMAX series of nickel- and molybdenum-free high-strength case hardening steels. The developed steel meets the expectations for compact and lightweight designs of parts with excellent strength, which is a prominent feature of the ECOMAX Series. It also features a new alloy design that enables customers to omit or simplify their parts manufacturing processes, thereby contributing to the reduction of CO₂ emissions, which has recently become increasingly desirable in terms of life cycle assessment (LCA).



- ECOMAX5 is expected to be used for gears and shafts

Contributions to the miniaturization and weight reduction of automotive parts such as gears and shafts

Parts that require high strength are typically made from materials with added or increased amounts of rare and costly alloy elements such as nickel and molybdenum. The ECOMAX series, including ECOMAX5, is based on advanced clean steel technology that maximizes the inherent performance of steel. By optimizing the balance of alloy elements such as chromium and silicon, and the operating conditions ECOMAX5 achieves significant strength improvements despite using nickel or molybdenum. It achieves more than five times the life of typical case hardened steel (JIS SCM420), particularly against (pitting failure) on gear teeth surfaces. The improved fatigue strength of parts promises further downsizing and weight reduction of various mechanical units, including those for automobiles.

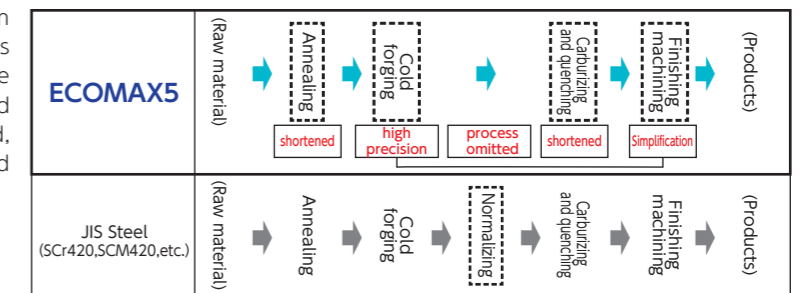


Contributions to the reduction of CO₂ emissions by simplifying or omitting parts processes

In parts manufacturing processes that use case hardening steel, when cold forging, a heat treatment process called "annealing" is used to soften the material. To anneal alloy steels such as case hardened steel, the material is usually heated to about 800°C until it becomes an austenite structure, and then slow-cooled over a long period of time to precipitate spherical carbides, which softens the material. With ECOMAX5, carbides spheroidize and soften in less than half the processing time of conventional methods without slow cooling by holding the material in the low temperature range for a short time.

In addition, the presence of evenly dispersed spherical carbides due to annealing facilitates high-precision forming in cold forging and improves compatibility with near net shaping.

Additionally, because of its superior properties for preventing grain coarsening during carburization compared to typical case hardened steels and other grades in the ECOMAX series, the normalizing process—usually applied after cold forging and before carburizing—can be omitted, and the processing time can be greatly reduced due to higher carburizing temperatures.



- Simplification and omission of the manufacturing process for gear and shaft parts (example)

Confidence of Suppliers

Realization of sustainable procurement

The Group promotes procurement activities based on its Basic Procurement Policy, ensures compliance with laws and social norms, conducts fair and equitable transactions widely, with an open-door policy regardless of whether it be in Japan or overseas, and promotes environmentally-friendly procurement activities with our suppliers. These days we are required to contribute to the sustainability of society in various forms as part of our corporate social responsibility. The Group has identified principles for "sustainable procurement" such as accountability, transparency, respect for human rights, and ethical behavior in the procurement of raw materials and services, and these principles are reflected in our procurement decisions. In addition, we strive to maintain and improve mutual understanding and trust with our suppliers as we aim for mutual development as business partners; and through stronger partnerships, we endeavor to realize "sustainable procurement" that will contribute to the sustainability of business operations for all our suppliers.

Basic procurement policies

In our procurement activities, Sanyo Special Steel complies with all relevant laws, conducts an open-door policy across the board, regardless of whether in Japan or overseas, and conducts fair and equitable transactions as we strive to build partnerships with our suppliers. We also promote environmentally-friendly procurement activities.

1. Compliance with laws, regulations, and social norms

In addition to complying with all relevant laws and regulations, as well as social norms, and acting in good faith, we manage any information obtained in the course of a transaction in a proper manner. We will also ensure that any relationships with anti-social forces posing a threat to the order and security of civil society are not allowed to continue.

2. Fair and equitable trading

Regardless of whether in Japan or overseas, Sanyo Special Steel conducts an open-door policy across the board, providing all suppliers with the opportunity to participate and conducting transactions based on economic rationale.

3. Building partnerships

Sanyo Special Steel conducts transactions with all its suppliers on a fair and equal basis as we strive to maintain and improve mutual understanding and trust and aim for mutual development as business partners.

4. Promotion of environmentally-friendly procurement activities

In collaboration with our suppliers, we are building a system that ensures we do not purchase raw materials, other materials, or machine parts that contain hazardous chemicals.

Responsible procurement



Initiatives for the construction of a reliable procurement framework

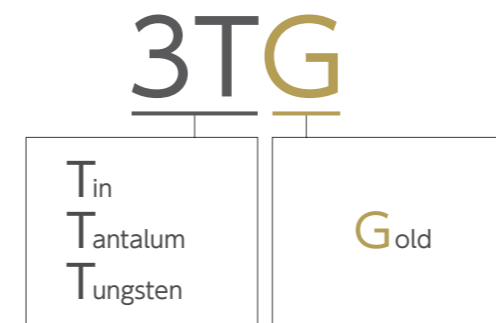
Sanyo Special Steel factories are usually in production 24 hours a day. Consequently, with the collaboration of our suppliers, we use a 24-hour system to take delivery of scrap iron (our main raw material). We also procure the required amounts of ferro-alloys and supplementary material when needed. In anticipation of the risk of disruptions to supplies due to disasters and other factors, we try to gain an understanding of production conditions, production locations, delivery routes, and other information for our key procurement items through initiatives such as visiting our suppliers' factories. We also regularly share information on procurement items with suppliers, and we have established a sustainable production system for times of emergency by securing prompt replacements in the event of an emergency and by holding an appropriate amount of stock on our premises.

Implementation of a supplier awards (to strengthen partnerships)

Sanyo Special Steel believes that building good trading relationships with suppliers is essential for sustainable procurement and values its partnerships with suppliers. As part of this, we have set up an award scheme for suppliers. Under the supplier award scheme, we comprehensively evaluate a number of factors to select suppliers who have attained outstanding achievements and present them with an award. The scheme covers raw materials, various other materials, maintenance, and outsourcing services supplied to each division, and the factors used in evaluations include the quality, cost competitiveness, delivery deadline management, business status of the supplier, environmental measures taken, and service provided with regard to transactions carried out with Sanyo Special Steel over a fixed period of time. In fiscal 2021, we also commended five companies that made outstanding achievements.

Procurement of ferro-alloys considered to be "conflict-free"

"Conflict minerals" indicate four minerals mined in the Democratic Republic of Congo (DRC) and its neighboring countries; these are tin, tantalum, tungsten, and gold, and they are referred to as 3TG (from their initials). There are concerns that some of the profits from the trade in 3TG are used as a source of funding for militia groups, contributing to human rights violations and conflict. While we purchase tantalum and tungsten needed in the manufacture of special steel, we check through our suppliers that any purchases are "DRC conflict-free" (i.e. not used to fund militia groups.) In addition, if customers ask whether our products are "DRC conflict-free," then we issue a statement declaring them to be so using the "Conflict Mineral Report Template."



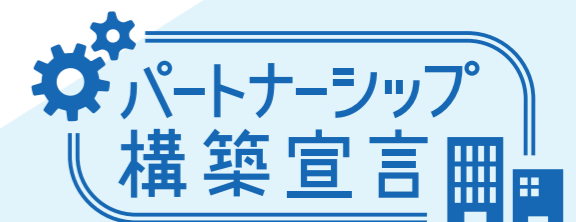
Declaration for the establishment of Partnership relations

Sanyo Special Steel announced a Declaration for the establishment of Partnership relations that aims to improve value addition throughout our supply chain by working together to co-exist and co-prosper with our supply chain partners.

The Declaration for the establishment of Partnership relations is an initiative for which the framework and system has been affirmed by the "Council on Promoting Partnership Building for Cultivating the Future" comprising representatives from the business circles and the labor organizations as well as related ministers and promoted by the Cabinet Office and the Small and Medium Enterprise Agency.

The initiative aims to: prevent SMEs and small enterprises from "bearing burdens caused by unfair trade conditions" and continuing to advance efforts for encouraging companies to introduce appropriate trade practices, while taking into consideration impacts of the COVID-19; and to encourage companies to build new partnerships involving efforts for increasing value added across supply chains and open innovation across business scales, groups and borders, and others.

We will continue strengthening partnership relations with our suppliers to seek mutual development as business partners.



Confidence of Employee

Corporate health management

Based on the recognition that the safety and health of employees are the major premises of business activities, Sanyo Special Steel considers developing a workplace environment where each employee can work every day with a sense of fulfillment as an essential management task and drafted the Sanyo Special Steel Corporate Health Management Declaration. We extended the retirement age to 65 in April 2021, but the risk of suffering from lifestyle-related diseases and critical illness increases as we age. Further, poor mental health affects the vitalization of productivity and the organization quite negatively, so it is essential to prevent it and detect it early on.

From these perspectives, Sanyo Special Steel developed a health and productivity management promotion structure headed by the president as the chief health officer and works together with the health insurance association to improve each employee's lifestyle and comprehensively prevent poor mental health.

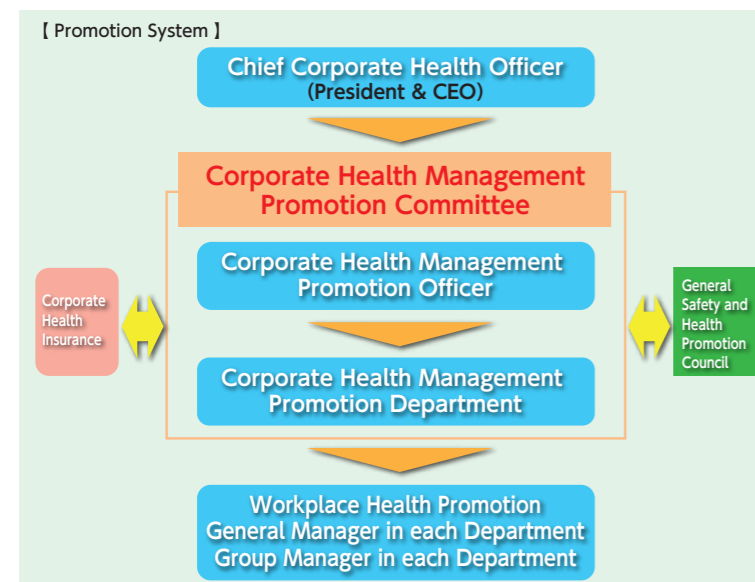
Sanyo Special Steel Corporate Health Management Promotion

Sanyo Special Steel recognizes that its employees' safety and health are the basic premises and a material management issue. Based on the principle, we declare that we will maintain and enhance employees' health through comprehensive efforts, working together with the health insurance association. We continuously strive to create a good working environment for our employees to work with a sense of fulfillment every day.

August, 2021

Sanyo Special Steel Co., Ltd.
Representative Director and President
MIYAMOTO Katsuhiko

For promotion of corporate health management



Sanyo Special Steel considers employees' health management from the perspective of business management and makes investments in their health to improve the vitality and productivity of employees and energize organizations. Poor mental and physical health of employees reduces productivity but also may lead to an outflow of human resources due to leave of absence, quitting a job, or other reasons. We offer statutory health check-ups, tests for detecting metabolic syndrome, and health guidance to employees, in addition to stress checks, which were made mandatory in FY2016 regularly. We carry out group analysis based on the results of these tests and recommend those suffering from high-stress levels to see an occupational physician. Moreover, we have a mental health consultation counter that counsels for smoking cessation and dieting treatments.

In August 2021, we developed a health and productivity management promotion structure headed by the president as the chief corporate health officer to promote further initiatives and continued improvement. Also, we established a health and productivity promotion conference involving occupational doctors, health insurance associations, and labor unions as a meeting body and placed employees in charge of promoting health at each workplace. We will develop a working environment where each employee can work every day with a sense of fulfillment through continuous improvement.

Prevention of mental health issues

We will maintain and enhance employees' mental health through measures to prevent mental health issues.

[Key initiatives]

- Strengthen mental health-related measures through line management relationships, such as labor management seminars and training following promotion to a managerial position



Hold labor management seminar



Line management such as an individual interview

Support for lifestyle improvement

We will promote employees' health through lifestyle improvement.

[Key initiatives]

- Hold a "walking event" for employees to make it a habit to take exercise (offer incentives depending on the number of steps they take during the period)
- Reduce smoking rate through proactive measures
 - Set no-smoking day
 - Conduct training to quit smoking
- Provide specified health guidance to improve lifestyle



Development of a good working environment

We will create a working environment where employees can work with a sense of fulfillment through continuous improvement.

[Key initiatives]

- Take measures to prevent heatstroke
 - Provide air-conditioned uniforms
 - Install water servers at each workplace in the facilities
 - Provide salt supplements and rehydration drinks
- Conduct educational activities for employees, such as health-related lectures



Provide air-conditioned work uniform



Install water servers at each workplace

Prevention of diseases and infections

We will minimize the risks of employees getting diseases by carrying out thorough hygiene management

[Key initiatives]

- Take preventive measures against COVID-19 infections
 - Implement workplace vaccination
 - Install hand sanitizers at key locations in the facilities
 - Formulate the company's guidelines for preventing infections
- Distribute oral-care goods via the health insurance association



Workplace vaccination for COVID-19

Confidence of Employee

Diversity management

Sanyo Special Steel recognizes that a good working environment for female employees is also ideal for male employees. We have been creating a workplace where all employees can demonstrate their abilities irrespective of their gender. More recently, the globalization of business activities has been rapidly advancing, and about 70% of Sanyo Special Steel Group employees are foreign nationals. Under such circumstances, we established the Diversity Promotion Group in January 2021 as a dedicated organization.

Diversity-related initiatives of businesses need to improve corporate competitiveness by enabling all employees, regardless of gender, nationality, age, academic background, or career history, to fully demonstrate their ability. We are implementing various initiatives to promote female participation, utilize senior employees after extended retirement age, and employ people with disabilities. For further growth in individual employees and the development of Sanyo Special Steel, we will vitalize diversity and inclusion where diverse human resources gather and develop mutually.

Active participation by women

We have set a goal of raising the ratio of female staff to 25%. We have increased the business areas where they can work actively by systematically recruiting female employees and expanding the range of their work. Also, we introduced a system for female employees to continue working by alleviating the pressure on them during their life events, such as childcare leave, childcare allowances, and shorter working hours.

Under the Plan of Action for General Employers in accordance with the Act on the Promotion of Female Participation and Career Advancement in the Workplace, we have set a goal to increase the average length of service of female employees by 15% in three years from April 2020 to the end of March 2023 compared with March 2020. We are promoting the awareness of female employees through external training and developing an organizational culture that encourages their participation.



Percentage of female staff
(As of the end of March 2021)

13%

(Planning jobs 25%, Technical jobs 6%)



Active participation by senior generation

Extension of retirement age

Ahead of other special steel manufacturers, Sanyo Special Steel extended the retirement age from 60 to 65 in April 2021.

It is to promote experienced employees to further demonstrate their ability as highly skilled experts in the field where they have served for many years by boosting their morale and the vitality of the workplace. We will also promote expertise and skill transfer, nurture younger employees, and strengthen competitiveness through maintenance and improvement of manufacturing abilities.

Extend employment program

Sanyo Special Steel has established an extended employment program for employees who have reached the age of 65. Making active use of certain older staff members who are healthy, wanting to work, and capable of performing their jobs is consistent with the concept of diversity. Employees who are deemed necessary in the performance of work and from the viewpoint of technology and skills transfer as of the time they turn 65 stay on in extended employment as "senior citizen partners." As of April 1, 2021, there were 78 "senior partners" active across various work sites.



Employment of people with disabilities

We promote the employment of people with disabilities in a bid to achieve a society where everyone can enjoy an active working life.

We not only promote recruitment initiatives in conjunction with Hello Work (the Japanese government's Employment Service Center) and special support schools, etc., but we are also constantly making efforts to improve the work environment in both hard and soft aspects. In addition, any employee certified as disabled after joining the company is offered support to keep working, with consideration given to his/her work content and working hours. As of June 1, 2021, we had 23 employees with disability playing an active role in a range of work sites.

Promotion of work-life balance

To achieve a work-life balance means to perform one's duty at work with a sense of fulfillment and satisfaction while at the same time having a free and diverse choice of lifestyle options in terms of family and community life. The "Work-Style Reform Related Bill," a package of legislation to give a push towards better work-life balance, has been implemented one by one since April 2019. "Work-style reforms" such as the prohibition of long working hours, properly managed working hours, and the obligation for employees to take a certain number of annual leave days have become increasingly important in terms of achieving a work-life balance. Sanyo Special Steel promotes Wednesdays as "no-overtime days." It promotes increased productivity in a bid to reduce overtime hours, as well as to improve the rate of paid leave taken. In terms of the paid leave taken by employees, the figure at Sanyo Special Steel remained low (48.4%) in FY2020 due to employment adjustment amid the COVID-19 pandemic, but it has been striving to achieve the goal of 70%. Furthermore, as well as encouraging employees to take blocks of paid leave or incremental leave and establishing a system that exceeds statutory requirements for maternity leave, childcare leave, and nursing care leave, etc., we are also striving to achieve a work-life balance for each employee by creating a work environment and culture that makes it easier to take these leaves.



Respect for human rights

In the Guidelines for Corporate Behavior, which describes the actions taken by a company, Sanyo Special Steel Group has stipulated that it aims to respect human rights inside and outside Japan, abide by the relevant laws and regulations and conform to and respect the spirit of international rules. We also aim to fulfill our social responsibilities to create a sustainable society based on high ethical standards and promote business activities that respect human rights.

Human rights-related education and relief mechanisms

Sanyo Special Steel Group, through various educational opportunities, including grade-based training and labor management seminars, has been developing a corporate culture in which each employee's human rights and diversity of each employee are respected.

The Group also has established a help desk regarding various compliance issues, including human rights. We notify employees of the details of the system, contact details of the service, and that those who consulted or made a report would not be disadvantaged. We have developed a mechanism in which employees and involved parties can seek consultation, and the company can grasp and identify human rights violations.

In response to individual matters reported to the consultation service, we investigate the facts and protect the privacy of the whistleblowers and those who came for a consultation to avoid being disadvantaged and strive to appropriately solve them with advice from lawyers and external experts as necessary.

Prevention of child labor and forced labor

Sanyo Special Steel Group ensures compliance with labor-related laws and regulations in various countries and regions in accordance with the international norms and corporate behavior guidelines to prevent child labor and forced labor in business activities.

Building and maintenance of sound labor-management relationship

Sanyo Special Steel Group respects labor unions' rights to organize and collective bargaining in line with laws, regulations, and labor agreements. We strive to build and maintain sound labor-management relationships and mutual understanding based on bilateral dialogues, which are the basis of the relationship with labor unions. The Group has regular discussions regarding management conditions, safety and health, management-related various issues, labor conditions such as salary and bonuses, and work-life balance.

We comply with the rules, such as minimum wages, stipulated by laws and ordinances of various countries and regions and set forth treatments, such as salary, based on the conditions agreed in sincere negotiations with labor unions. We have adopted performance-based remuneration for a bonus. The amount is decided based on the business performance of the previous fiscal year based on an agreement with labor unions upon negotiations.

Confidence of Employee

Creating a safe workplace

Human resource development

Sanyo Special Steel systematically offer various training in accordance with job description and career as well as training for all employees to develop their abilities. We are also encouraging employees of affiliates to participate in such training to promote human resource development of the Group.

Nurturing of personnel who can think autonomously

Under our basic policy of “developing employees and make full use of their potential,” we have developed a meticulous education and training system to nurture personnel who can think autonomously with an independent mindset and can-do spirit and are able to set forth tasks on their own and solve them and are also providing timely training in addition to education through daily operations.

We also have an incentive program for acquiring qualifications, in which reward is given if an employee acquires a qualification or license, division-based specialized training such as for patents and sales, and diverse group training as well as dispatch to various external training and correspondence education as support systems and training for employees’ self-development.



Human resource management: ~Establishing work tasks and training themes through dialog~

During personnel appraisals at the company, we naturally discuss final outcomes, but in addition, we also place emphasis on questions such as “Did you set high goals and strive to achieve them?” or “Did you carry out a definitive process to achieve your goals?” in the appraisal in order to foster self-direction and the spirit to take on a challenge in our employees. Employees’ work tasks and topics are established through dialogue with their line manager, which allows them to clarify goals and make efforts to improve their skills. This approach also leads to a strengthening of the relationship of trust between managers and their staff. At Sanyo Special Steel, we also support the self-realization of each individual through a self-assessment system in which individual employees can state their own aspirations regarding job and workplace options through career design talks and interviews for junior employees.



Training for international personnel

In response to the globalization of the business environment, we are accelerating our training of employees capable of performing on the international stage.

We are developing a global mindset by offering overseas language training for Freshers in planning work and short-term language training overseas for selected employees. At the same time, we are working on systematic nurturing of international personnel who can consciously act with diverse perspectives going beyond borders, build favorable relationships through ample communications with users and involved parties throughout the world, and produce results through systematic planning, including dispatch to overseas affiliates based on a role model and to study abroad and dispatch to research institutions overseas.

Introduction of self-transformation program through multifaceted observation

In FY2020, we introduced a self-transformation program through multifaceted observation. The program targets the management layer, including officers and division and department managers. Participants confirm their evaluation by superiors, colleagues, and subordinates to grasp how their actions are viewed by their subordinates and people around them and thereby objectively grasp their management and behavioral characteristics and use this as an opportunity for self-transformation.



As a manufacturing enterprise, our Group believes that “safety” should be afforded top priority above all. Evidence of this is the way that employees greet each other with “Keep Safe!” to impart a sense of safety in one another. In order to put our corporate philosophy of “Corporate-based Management” into practice, our goal is to achieve “no accidents at all over the year” under the Group’s safety activities. We believe that we need to achieve a total absence of accidents throughout the year across the entire Group in order to build relationships of trust with various stakeholders and to achieve sustainable growth for the Group. All employees need to work together on safety activities, and if even one person is left out, then the goal cannot be achieved. There are no short-cuts in safety activities. Our objective is to achieve a whole year that is totally free of accidents by building up safety activities in the Group day-by-day to create a workplace where all employees are safe and can work with peace of mind.

2021 Comprehensive Health and Safety Management Policy

Basic policy

All members of workplace review whether or not they are not blindly believing that the current work method is the safest and whether their sensitivity to feel what is dangerous as dangerous. Do not take your eyes off hazards, identify risks, and build safe workplace environment that can be further improved

Slogan

Obviously there are risks hidden in familiar operations
Go back to your first time and assess risks from different angles

Three safety principles

Stop, Step Back, Check Hands & Feet—then double-check that it is really safe

Goal

Achieve a total absence of accidents
Occupation accidents “0” Accidents on the way to work “0”

Occupational health and safety activities - to ensure safety -

Safety and health management

Sanyo Special Steel has in place a Safety and Health Committee chaired by the general safety and health manager (Executive Officer in charge of Safety & Disaster Prevention Office) that works to secure safety and security of employees in the workplace. The Committee meets every month to discuss matters such as basic measures to avoid danger to the safety and health of employees, the cause of industrial accidents and measures to prevent their recurrence. Since majority of the members are the labor union representatives in accordance with law, the committee reflects the opinion of workers in the safety and health policies. The state of safety-related activities for each month is checked by the Corporate Policy Committee, while the summary of safety and health activities for the whole year is reported to the Board. We are constantly making progress through effective use of PDCA cycle (planning, implementing, monitoring/supervising, and taking steps for improvement).

For overseas subsidiaries, we identify weak points in terms of safety by utilizing safety monitoring at local plants and online meetings and offer support and instructions for safety activity promotion by exchanging opinions and sharing information regarding initiatives by respective companies.

Grade-based training

Safety knowledge, risk behavior, and sensitivity to hazards, etc., vary for each age group and grade. Therefore, we need to conduct specialist training for each respective grade. For the training targeting rehired employees (between ages 60

and 64) and senior citizen partners (ages 65 and above) in 2020, we included employees of the members of our suppliers’ organization.

Simulated experience training center for safety

We have established a simulated experience training center for safety that allows us to simulate dangers in a bid to eradicate occupational accidents. In 2020, 2,485 employees were trained at the center, and to date the total is 28,754. In 2018, we installed VR (virtual reality) equipment to give a more realistic experience. Moving forward, we will add new training content to allow us to consider the importance of hazard avoidance with our members of staff.



Creating a safe workplace

Safety Proposal Making System

We have launched a Safety Proposal Making System aimed at strengthening measures to prevent accidents by inviting proposals on ways to identify unsafe spots in each workplace, ideas for safeguarding, and methods for working in safety, based on which we implement improvements. Sourcing proposals from workers who are actually working on site is not only effective in developing specific safety measures but also promises improvement in the workers' safety consciousness while preparing a proposal. We believe that the system will turn into a safety activity of truly bottom-up nature, which forms the core of our safety activities. In FY2020, 36 safety proposals were made.

Moreover, we designate Safety Pros from among team leaders of work sites who are expected to lead by example in initiating improvement in work operations and environments of the team. In this way, we are working to raise safety awareness and create a synergy with the Safety Proposal Making System.

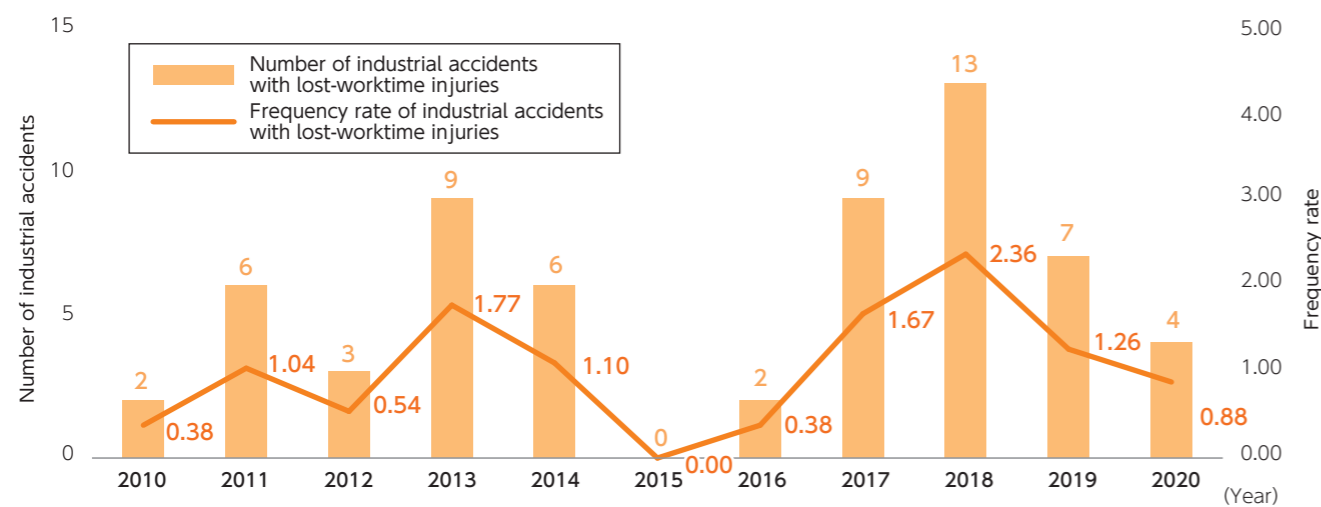
Activities of Safety Promoters

Sanyo Special Steel has been running the Safety Promoter activities since 2016 with the goal of "bringing true safety" through an integration of top-down style and bottom-up style safety activities. We select young to mid-career employees from each workplace and educate them on accurate safety knowledge and the importance of adherence to rules, and thereby train personnel who can independently judge on safety and take action.

Young and mid-career employees who are designated as a Safety Promoter will patrol the work sites of their own as well as of others, through which they notice the strengths and weaknesses of their own workplace and hone their sensitivity to recognize hazards. They also engage in risk assessment activities to sort out hazardous works, all of which are combined with improvement measures for facilities to put in place a state of substantial safety.



(Number and Frequency Rate of Industrial Accidents with Lost-worktime Injuries)



<For reference> Frequency rate = number of lost-worktime injuries ÷ cumulative hours worked × 1,000,000

Disaster prevention initiatives

Risk management in emergency situations

Many employees work at our company, where we have various types of facilities and equipment. In addition to establishing a regular fire and disaster prevention management system, we take various steps to prevent accidents and stop the spread of (minimize) damage when a disaster does occur. For example, we have developed manuals in preparation for possible plant accidents such as fires or explosions and natural disasters such as earthquakes, and we hold regular disaster drills, among other measures.

The basic policy for FY2020 was "to aim to raise awareness of fire and disaster prevention measures through drills and training and create a workplace culture and staff well able to respond to disaster situations," with the following four points set as priority items.

- "Enhance fire and disaster prevention management"
- "Enhance management of facilities at high risk of fire, explosion, or leakage"
- "Improve capacity to respond to disasters through on-going training and drills for fire and disaster prevention"
- "Enhance disaster prevention measures by using specialist disaster prevention teams."

In FY2020, we started fire and disaster prevention risk assessments to improve disaster prevention awareness of employees at both plants and offices. We will identify new risks and formulate and implement countermeasures to reduce potential risks.

Initiatives to heighten disaster prevention and readiness awareness

To further enhance disaster prevention and readiness awareness among staff, the company holds workshops each year targeting supervisors and officers responsible for hazardous materials as well as workshops for fire prevention officers and disaster prevention officers. We are making efforts to improve the level of control of small and minute amounts of hazardous materials at licensed facilities by providing direct instruction to workplace managers and those responsible for handling hazardous materials and high-pressure gas.

In FY2020 at the workshop for supervisors and officers responsible for hazardous materials held in July, participants were reminded of the types of hazardous materials regulated under the Fire Service Act and the current state of hazardous materials facilities, etc., on our factory premises. We also raised their awareness of their responsibilities and duties as supervisors and responsible officers.

At the workshops for fire prevention officers and disaster prevention officers held in September, participants were reminded to carry out disaster prevention management inspections (once a year) in each workplace using a voluntary inspection check sheet to prevent shelves and cabinets from toppling and items from falling. They also deepened their understanding of the need of first aid, cardiopulmonary resuscitation and AED in saving lives from disasters, accidents or sudden sickness.

Regarding the management of facilities, we worked on 3S activities in licensed facilities for hazardous materials and high-pressure gas equipment, with June and March designated as the months for improving controls in the licensed facilities, and October as the designated month for improving controls on high-pressure gas equipment. Moving forward, we will continue to promote further awareness of disaster prevention issues among employees through these disaster prevention training programs and control enhancement activities.

In FY2018, we started holding a first-aid course for operating managers. The course provided training on critical care/ cardiopulmonary resuscitation (chest compressions/use of AED), preventing blood loss, and other first-aid related topics with help from nurses.

Conducting disaster drills

The equipment and hazardous materials used at our company differ from workplace to workplace. Furthermore, awareness of disaster prevention, as well as experience in disaster prevention, varies widely among employees, not to mention new employees

participating in disaster prevention training for the first time. In addition, the scale of a disaster may require coordination with affiliated companies. In view of this, when conducting disaster prevention drills, we identify appropriate emergency situations to ensure that drills are more specific and practical.

Typical disaster prevention drills in FY2020

In FY2020, we conducted a large number of drills, including a large-scale earthquake disaster drill, a joint factory disaster drill with the Shikama Fire Department, and initial firefighting drills at each workplace.

Disaster drills carried out in FY2020 **51**

Disaster drills for major earthquakes

In FY2020, We conducted a major earthquake disaster drill on September 2 based on the scenario of a huge earthquake with an epicenter in the Nankai Trough that has disrupted lifeline systems providing power, water, gas, and transportation. The goal of the drill was to "walk home." At the beginning of the drill, participants evacuated to the primary evacuation point to be accounted for, and then moved on to the ground, which is the final evacuation point, split into groups according to the direction of their homes, formed up in lines, and started walking towards home (up to the factory gates). Assuming employees who have difficulties returning home as well as evacuating, the drill was made more practical and incorporated distribution of emergency rations. When a large earthquake occurs, transport facilities would be in chaos, and roads would be disrupted. Through these drills, we will continue working to raise awareness and readiness of the employees.

Emergency drill conducted jointly with Shikama fire station

In November 2020, we held a disaster drill at an extrusion plant in conjunction with the Shikama Fire Department, based on the scenario of a fire occurring at a transformer of an electrical room, which caused both electric fire and oil fire resulting in a power outage of the plant.

The drill included a series of training such as initial fire extinguishment by a local fire fighting team, fire extinguishment by private and public fire brigades, rescue of and first aid for injured, and information gathering and communication of instructions by the disaster task force.

We set forth the main theme of the drill as implementation and confirmation of cutting power before fire extinguishing activities in electric fire and practicing foam fire extinguishment in oil fire. Moving forward, we will continue to work towards improving our awareness and response skills to help prevent fires/disasters in the workplace by practicing these kinds of disaster drills.



Preparing for earthquakes and other wide-area disasters

In the event of a major earthquake and other disasters, it would be difficult to confirm and consolidate information on employees' safety and whereabouts by phone or other conventional means. Sanyo Special Steel, therefore, has introduced a system that uses the internet to account for their safety during emergencies, and has built a system enabling us to take measures necessary for business continuity.

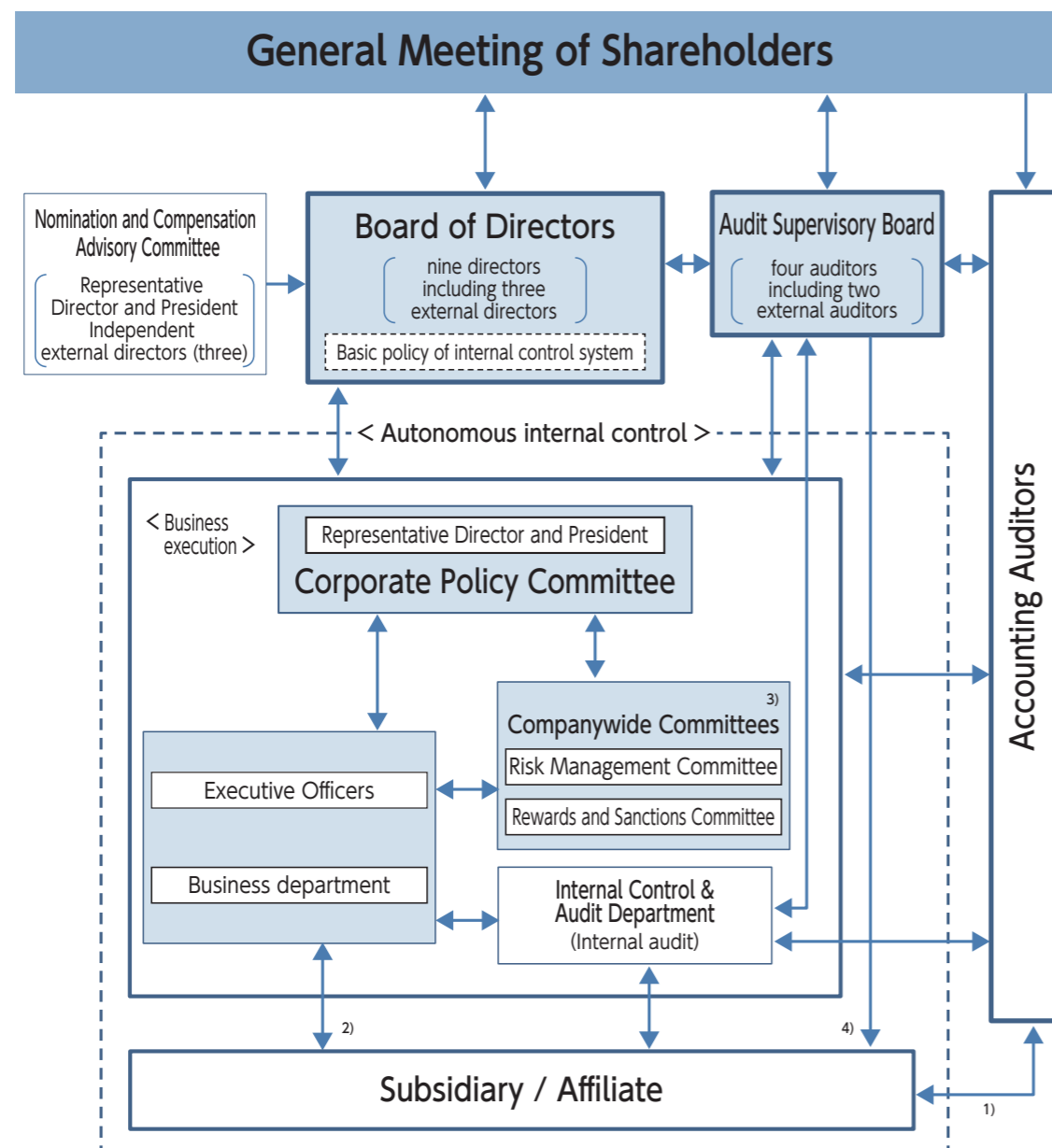
Further, we have set aside, at our head office plant, emergency food and drinking water necessary to ensure safe return to home or standby of the employees working at the plant and other subsidiaries and affiliates located within the premises. For sales bases situated in urban areas, we have stored disaster prevention equipment assuming it would be difficult for employees to return home, in preparation for likely wide-area disasters such as a major earthquake.

Enhancement of Corporate Governance

Sanyo Special Steel, under its corporate philosophy "Confidence-based Management," aims 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." Moreover, we recognize that earning the confidence of customers by rapidly ascertaining exactly what their needs are and providing them with high-quality special steel products, and building confidence among people by deepening communication with all of our stakeholders and acting autonomously in conformity with social norms are essential for the company's survival and consider it as our mission.

In order to realize this, Sanyo Special Steel has developed a corporate governance structure suited to the Group's business, and we will work to enhance corporate governance in a bid to improve efficiency, soundness, and transparency in our management.

Overview of corporate governance



- 1) Audit of our subsidiaries and affiliates are conducted by Accounting Auditor as part of the audit of our consolidated accounts.
- 2) Each subsidiary and affiliate has a designated section in charge of auditing.
- 3) Committees and meetings include the Security Trade Control Committee, the Environmental Conservation Committee, the Corporate Budget Committee, among others.
We also have a compliance help-desk, a whistle-blowing system to prevent the occurrence or recurrence of any breach of compliance.
- 4) Members of the Audit & Supervisory Board investigate the operations and assets of subsidiaries as needed.

Sanyo Special Steel is a company with an Audit and Supervisory Board. By adopting a structure where a Board of Directors that includes three independent external directors and an Audit & Supervisory Board that includes two external Audit & Supervisory Board Members audit and supervise the business execution, we ensure the enhancement of corporate governance and in turn the adequacy and swiftness of decision-making and transparency and fairness in management.

Aiming to set a clear division of responsibilities between "deciding policies and overseeing the management" and "executing business," as well as to be able to make swift decisions amid the changing and diversifying business environment, we have adopted the executive officer system.

Board of Directors

The Board of Directors consists of nine directors (of which three are independent external directors and one person is a female director) and four Audit & Supervisory Board members (of which two are external members) and meets once a month as a rule to decide important matters and supervise business execution by directors.

Ratio of independent external directors

1/3

(Three out of nine directors are independent outside directors)

Number of female directors

1

(One out of nine directors is female)

Audit & Supervisory Board

The Audit and Supervisory Board, which consists of four members including three full-time members (of which two are full-time external members) and one part-time member, formulates auditing policy for each year and conducts the audit as needed with a broad perspective and covering not only the performance of duties by the directors but also the state of risk management, compliance, and other matters pertaining to internal control. Based on its results, an audit opinion is presented to the Representative Director and President and also to other business execution divisions as needed, ensuring objectivity and neutrality of management audit function. Sanyo Special Steel adopts a Senior Audit & Supervisory Board Member system to further strengthen the auditing structure. In order to prepare for cases where the number of Audit & Supervisory Board Members falls below the required number stipulated by laws and regulations, we have appointed one Substitute Audit & Supervisory Board Member.

Nomination & Compensation Advisory Committee

The Nomination & Compensation Advisory Committee comprises of the Representative Director and President and independent external directors and is a non-statutory advisory body independent of other entities such as the Board of Directors. The committee discusses all matters pertaining to nomination and compensation of directors, and the Representative Director and President advises the Board of Directors as needed on the contents and opinions discussed. The Board of Directors resolves regarding the nomination and compensation of directors taking into account the discussions by the committee.

Corporate Policy Committee

The Corporate Policy Committee consists of the Representative Director and President and directors who are posted in Japan. The committee is chaired by the Representative Director and President and is held twice a month in principle to confirm the basic management policy and other important matters.

Risk Management Committee and other company-wide committees

Risk Management Committee is composed of all directors including external directors, all Audit & Supervisory Board members and others, with the Representative Director and President serving as the chairman and is held four times a year in principle. The committee discusses and exchanges views on matters such as development and operation status of internal control systems and operation status of whistle-blowing system.

Besides these, with respect to business execution, we have also established company-wide committees and meetings that discuss important business matters such as the Zero Carbon Promotion Committee to realize carbon neutrality in 2050 and the Safety and Health Committee.

Measures to improve the functioning of the Board of Directors

To improve the functions of the Board of Directors, we also conduct analyses and evaluation of the Board's effectiveness. We do this through a questionnaire survey targeting directors and the Audit & Supervisory Board members on all aspects of the Board of Directors, from its composition to the way it is run, the state of discussions, and how the cooperation with outside directors is going, among other topics. The Board then assesses the outcome of the survey.

In FY2020, based on the results of the evaluation of the effectiveness in FY2019, we set the following tasks and took measures.

<FY2020 tasks and measures>

- (1) Optimizing the ratio between internal and external directors
The 108th Annual General Meeting of Shareholders held on June 25, 2020, approved proposal to appoint nine directors including three independent external directors, satisfying the requirement of one-third of directors as independent external directors for listed company with a parent company.
- (2) Offering of training opportunities for directors and Audit & Supervisory Board members
 - (i) A training session on TSE's rules regarding governance and revisions to the Companies Act was held in July 2020.
 - (ii) A workshop on ESG was held in September 2020.
- (3) Sharing of contents of interaction with shareholders (investors)
In addition to the IR activity report (twice a year) and the report on the results of the exercise of voting rights at the General Meeting of Shareholders, we shared the details of the interaction with institutional investors who are our shareholders, with the Board of Directors.
- (4) Establishing a forum for interaction with external directors
In addition to the regular meetings between the Representative Director and the members of the Audit & Supervisory Board, aimed at exchange of views from a broad perspective, we held meeting for exchange of opinions between external directors and Audit & Supervisory Board members in August 2020 and between outside directors and internal directors in October 2020.

Taking the above measures into account, the evaluation of the effectiveness for FY2020 concluded that Sanyo Special Steel's Board of Directors has been functioning effectively.

For FY2021, we will focus on tackling the following tasks and implement necessary measures that would contribute to further improvement in the effectiveness of the Board of Directors.

<Tasks for FY2021>

- (1) Further enhancement of discussions from a company-wide, medium- to long-term perspective
- (2) Enhancing ESG-oriented measures
- (3) Enhancing the opportunities for interaction between outside directors, internal directors, and Audit & Supervisory Board members (continued from FY2020)

Officers



The expertise and experience of Board members

Aiming to have a system for effective corporate governance and agile decision making to keep up with the changes in the business environment, Sanyo Special Steel has set the size of its Board of Directors appropriate for the Group's business lineup and challenges. The Board has a well-balanced and diverse mix of members in terms of experience, knowledge, and expertise. We also have appointed three independent directors, including a female director, expecting opinions and oversight of our management from objective and expert viewpoints.

	Full name	expertise and experience								
		Corporate management	Manufacturing, engineering, research & development	Sales	Finance and accounting	Personnel & labor relations	International experience	Legal	ESG	Other
Director, Member of the Board	MIYAMOTO Katsuhiro*	●			●	●	●	●	●	●
	TAKAHASHI Kozo	●			●	●		●	●	
	OI Shigehiro	●	●	●					●	
	OMAE Kozo	●		●			●		●	
	YANAGIMOTO Katsu	●	●	●			●			
	HIGUCHI Shinya	●		●	●	●	●	●	●	
Non-executive	KOBAYASHI Takashi*							●	●	●
	ONISHI Tamae*					●			●	●
	USUKI Masaharu*	●			●				●	●
Audit & Supervisory Board Member	NAGANO Kazuhiko	●		●	●	●		●	●	
	OE Katsuaki				●	●				●
	YOGI Hiroshi				●		●			●
	SONODA Hiroto	●		●		●			●	

* Miyamoto Katsuhiro, Kobayashi Takashi, Onishi Tamae and Usuki Masaharu are the four directors comprising the Nomination & Compensation Advisory Committee, a non-statutory advisory body of Sanyo Special Steel.

Policies and procedures upon selection and dismissal of executives and nomination of director and Audit & Supervisory Board member candidates

Our policy for selecting executives is to judge a person by experience, knowledge, and expertise regardless of their gender, age, or nationality to create an optimum structure in which each person can adequately fulfill their roles and responsibilities and aptly address managerial challenges facing the Group. As for the nomination of director and Audit & Supervisory member candidates, in addition to the above conditions, the size and composition of the Board of Directors and Audit & Supervisory Board, as a policy, are decided with consideration to the balance among members. The above policies have been approved by the Board of Directors.

Our policy on dismissal of senior management, in case there has been any irregularity, serious violation of law or of the Articles of Incorporation or the person has been deemed as unable to carry out the role or responsibility assigned, is to take the decision after comprehensively assessing the matter at the Board of Directors meeting.

Further, the selection or dismissal of senior management or the nomination of director and Audit & Supervisory Board member candidates are resolved at the Board of Directors meeting after deliberations at the Nomination & Compensation Advisory Committee comprising the Representative Director and President and independent external directors. Nomination of Audit & Supervisory Board member candidates require the prior consent of the Audit & Supervisory Board.

After the discussions at the Nomination & Compensation Advisory Committee and resolution at the Board of Directors meeting, a proposal for dismissal is introduced at the Annual General Meeting of Shareholders, and the dismissal of a director or Audit & Supervisory member is finalized by the resolution of the said proposal.

Policies and procedures upon deciding the compensation of directors by the Board of Directors

(i) Policy on deciding compensation

The compensation of directors is decided taking into account the required abilities and responsibilities, contents of the assignments depending on full-time or part-time, considering which the base amount is set by position. As for business execution directors, the total amount is performance-linked so as to be an incentive to ensure sustainable growth of the Group and improvement of corporate value, with the base amount fluctuating within a certain range corresponding to the consolidated performance of Sanyo Special Steel, and the monthly compensation for each director is decided within the upper limit approved at the Annual General Meeting of Shareholders. The parameters for the performance-linked compensation are consolidated ordinary income from the perspective of short- and medium-term performance incentive (considering profit targets, etc. in the Medium-term Business Plan), and return on equity (ROE) from the perspective of contribution to shareholders. The performance-linked compensation of Sanyo Special Steel is calculated by multiplying the base amount stipulated by position with the fluctuation rate stipulated based on the performance of these parameters. This fluctuation rate is varied within a ±20% range and is set to equally reflect the three factors of short-term performance incentive, medium- to long-term performance incentive and shareholder contribution.

Non-executive directors receive a fixed compensation amount depending on their work, and the monthly compensation for each director is decided within the upper limit approved at the Annual General Meeting of Shareholders.

(ii) Procedures to decide the compensation

The policies and the concrete compensations to the directors are resolved at the Board of Directors meeting after deliberations at the Nomination & Compensation Advisory Committee comprised of Representative Director and President and independent directors.

Standards for of independent directors

Sanyo Special Steel, in order to secure the objectivity and transparency required for appropriate governance of the company, considers the human, capital, transactional or other relationships based on the independence standards stipulated by Tokyo Stock Exchange, Inc. to judge the independence of external directors.

Transactions with related parties

As for the transactions with the parent company group, the Board of Directors has resolved to carry out any transaction, based on appropriate terms similar to general transactions with other companies, in accordance with Sanyo Special Steel's internal rules. Regarding important transactions such as mutual supply of steel and cash management system, the Board of Directors confirms that such transactions do not differ markedly from the terms of regular transactions with third parties as well as that such transactions contribute to the company's business and do not harm its interests.

In transactions involving the company and its directors, if the transaction falls under conflict-of-interest transaction, it is reported to and approved by the Board of Directors in accordance with the laws and regulations and company rules governing the Board of Directors and we confirm that such a transaction is not damaging to the company.

Transactions involving the company and auditors and other involved parties are also appropriately disclosed corresponding to the importance and nature of transaction in accordance with laws and regulations.

Policy regarding dialog with shareholders

Sanyo Special Steel, from the perspective of ensuring sustainable growth and increasing corporate value in the medium to long term, implements various measures to promote constructive dialog with shareholders. The dialog with shareholders and investors overall is supervised by the Director in charge of Accounting & Finance and General Administration, and the various departments led by the Accounting & Finance Department and the General Affairs Department collaborate and strive to enhance the measures.

Specifically, in addition to actively presenting information and holding detailed Q&A sessions with respect to shareholders at the Annual General Meeting of Shareholders, we ensure enhanced dialog with them by holding earnings briefings and plant tours to promote understanding of the management status of the company. We also work on improving the dialog with securities analysts and institutional investors by holding earnings telephone conferences four times a year and earnings briefings twice a year to explain our management strategy, business details, performance, etc. and implementing measures such as interviews and telephone meetings with investors both within Japan and overseas. We were forced to cancel the earnings briefings and plant tours in FY2020 due to the impact of COVID-19, but we exchanged views with institutional investors utilizing telephone conference and online meeting systems. The views, etc. obtained through such initiatives from shareholders and investors are conveyed to the management layer and are utilized in the management of the company. Further, insider information (undisclosed important facts) are appropriately managed in accordance with the company rules.

Internal Control Systems

Compliance and Risk Management Systems

Sanyo Special Steel has approved a “Basic Policy on Internal Control Systems” at its Board of Directors meeting and has set up an Internal Control Department responsible for planning and auditing internal controls as well as functional departments responsible for risk management in individual sectors to form an organizational structure to run the internal control system in the Group. In addition, we have assigned risk management officers to each department and group company; these officers are responsible for planning and promoting autonomous internal control activities in their respective departments / companies.

Based on this organizational structure, we operate the internal control system as described below.

1 Internal control plans

Each year, Sanyo Special Steel formulate a Group-wide internal control plan based on amendments to statutory laws and regulations and changes in the business environment. This plan contains basic policies; plans for different functions such as safety, the environment, disaster prevention, and quality; internal audit plans; and training plans. Each department and group company then formulates their respective plans based on the Group-wide plan.

2 Autonomous internal control activities

Sanyo Special Steel’s individual departments and group companies implement their own autonomous internal control activities in accordance with internal control plans, based on the nature of their business operations and inherent risks. Specifically, they develop operating regulations, manuals, and other materials and conduct training. They also conduct self-inspections and carry out improvements to operations based on the results.

In the event of an accident, disaster, or situation that risks violating the law, the department or group company concerned immediately reports the fact to the Internal Control Department; in addition, corrective measures, such as measures to prevent any recurrence, are taken in collaboration with associated departments. Furthermore, the Internal Control Department gathers these cases, including cases at Nippon Steel Corporation, Sanyo Special Steel’s parent company, and shares them within the Group, allowing individual departments and group companies to carry out inspections to check for similar risks.

3 Internal audits, etc.

In internal audits, the Internal Control Department and respective functional departments check the status of internal controls using documentation such as internal control checklists and monitor each department/group company. Internal audit is also carried out by parent company Nippon Steel Corporation, with which we jointly implement internal control activities.

In addition, as a measure to complement internal controls, we have established and operated a whistle-blowing help desk that can be used by employees of Sanyo Special Steel and its group companies, their families, and suppliers’ employees. We also conduct surveys on employee awareness regarding internal controls and compliance.

4 Assessments and improvements

The Internal Control Department and the Director in charge of respective functional departments report on the operational status of the internal control system to the quarterly meeting of the Risk Management Committee, and to the Board of Directors; in addition, these reports are also shared with individual departments/group companies at the quarterly meetings of risk management officers.

The Director in charge of the Internal Control Department assesses the effectiveness of the internal control system based on information such as the status of internal control activities implemented and the results of internal audits, and once the results of assessments are compiled, they are reported to the Risk Management Committee and the Board of Directors.

Based on the assessment results, we formulate improvement initiatives to help make the internal control system more effective, and these initiatives are reflected in the internal control plan for the following fiscal year.

5 Training and raising awareness

We have set up courses on internal controls through grade-based training for executives and employees of Sanyo Special Steel and its group companies. Furthermore, we are proactively working to raise awareness of internal control concepts and improvements in workplace culture, among other topics, through talks between the Internal Control Department and respective departments/group companies.

6 Cooperation among external directors, auditors, and accounting auditors

Independent external directors, as members of the Nomination & Compensation Advisory Committee—a body independent from the Board of Directors and other organs—discuss overall issues related to the appointment and compensation of executives, the content of which, as well as opinions, are reported as needed to the Board of Directors via the Representative Director and President.

As members of the Risk Management Committee, the external directors and members of the Audit & Supervisory Board attend the committee meetings, where they present and exchange opinions. External directors and Audit & Supervisory Board members also hold regular meetings with the Representative Directors and other officers, through which smooth and appropriate mutual exchange of information is maintained. In terms of interaction with the accounting auditor, we submit regular reports on the operating status of the Risk Management Committee as well as assessment results on internal controls pertaining to financial reporting and exchange opinions.

Sanyo Special Steel has established the Guidelines for Corporate Behavior that prescribe the standards of behavior we should follow as a corporation and a Code of Conduct as guidance on conduct to be observed in the course of business activities within the framework of the Guidelines for Corporate Behavior. Moreover, we make efforts to ensure officers and employees are thoroughly familiar with these standards. (Guidelines for Corporate Behavior and Code of Conduct can be found on page 27 of this report.)

The Risk Management Committee, chaired by the president, is held every quarter and regularly reports on matters related to risk management such as formulation of an internal control plan, its implementation status, compliance with laws and regulations, company rules, labor safety, human rights violations including sexual harassment and abuse of power as well as the environment, disaster prevention, quality, financial reporting, information security, and other such ESG risks. The matters discussed at the Risk Management Committee meeting are reported to the Risk Management Officers Meeting, attended by the risk management officers of each department and group company, thus ensuring a structure that enables information sharing.

In order to review the status of compliance with various laws, regulations, and company rules, we use internal control checklists for each department and group company, have established internal audit and whistle-blowing system and help desk, and regularly conduct questionnaire survey of all employees.

Sanyo Special Steel will endeavor in the future to cultivate higher ethical standards by continuously implementing such activities and will make efforts to maintain and improve the management health of not only Sanyo Special Steel but also of the Group as a whole. Sanyo Special Steel is also committed to putting into practice its mission to “fulfill our social contribution through business” by promoting business activities rooted in high ethical standards.



Message from top-level executives

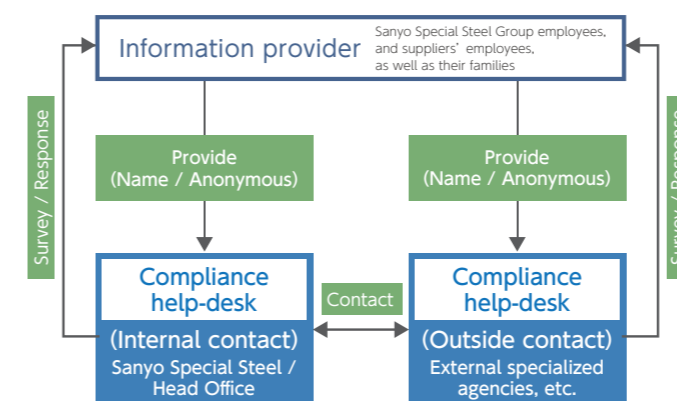
Implementation of internal control training, familiarization activities

Sanyo Special Steel Group sets forth Confidence-based Management as its corporate philosophy and ensures compliance by all officers and employees through regular training while the top executives disseminate messages.

Specifically, we conduct grade-based internal control training, hold regular compliance lectures, implement e-learning on compliance and harassment across the group, and theme-based training on anti-trust law, security export control, mental health, and labor management. Furthermore, all departments and affiliated companies conduct compliance training appropriate to the individual department and ensure that employees are familiar with laws, regulations, rules, and penal regulations necessary for the execution of business.

Compliance help desk (whistle-blowing system)

In response to the recent revision of the Whistle-blower Protection Act, we set up a compliance help desk as a whistle-blowing and consultation system. It aims to prevent an occurrence or recurrence of incidents or behaviors that seem to violate or have violated statutory laws, social norms, company rules, or other regulations. The help desk is available for Sanyo Special Steel Group employees, casual workers, temporary workers, suppliers’ employees, and their family members. It provides consultation to those with problems they cannot solve at their workplace or talk to anyone else, so they don’t need to take it all on themselves. They can also consult or report anonymously so that no one will suffer disadvantage. Besides our help desk, employees can use the compliance help desk of our parent Nippon Steel Corporation. Under its company policy, it responds promptly and appropriately to any consultation or report. The compliance help desk also has a role in monitoring the status of internal control activities.



* No disadvantage will be suffered as a result of a consultation or report. Secrecy is maintained in strictest confidence.

Company Profile

(As of March 31, 2021)

Company Name : Sanyo Special Steel Co., Ltd.

Head Office : 3007, Nakashima, Shikama-ku, Himeji, Hyogo
672-8677, Japan

Established : January 11, 1935

President : MIYAMOTO Katsuhiko

Number of Employees : 6,441 (consolidated basis)
[Domestic 2,060, Overseas 4,381]
1,602 (non-consolidated basis)

Capital : 53,800 million yen

Net Sales : Consolidated basis : 210,721 million yen (Fiscal 2020)

Fiscal Year End : March 31

Business Segment : Specialty Steel : Manufacturing and marketing of various special steel products, including bearing steel, engineering steel, stainless steel, heat resistant steel and tool steel.

Metal powder : Manufacturing and marketing of metal powders and powder metallurgy products.

Formed and Fabricated Materials : Manufacturing and marketing of formed and fabricated materials made from special steel bars and tubes.

Others : Providing information processing services.

Stock Information

(As of March 31, 2021)

Total Number of Shares Authorized to be Issue : 94,878,400

Total Number of Shares Issued : 54,507,307

Stock Listings : Tokyo Securities Exchange(1st Section)

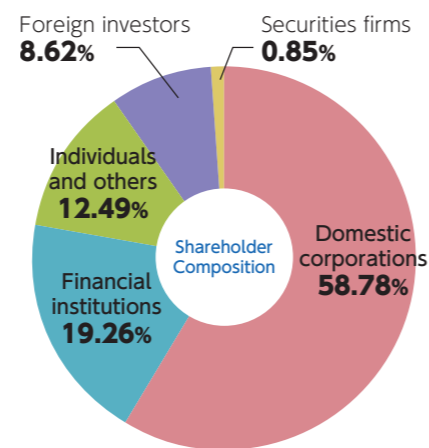
Number of Shareholders : 10,603

Principal Shareholders

	number of stock held	ratio of shareholding
NIPPON STEEL CORPORATION	28,863,000	52.97%
Custody Bank of Japan, Ltd.(trust account)	3,024,000	5.55%
Company's Kyoeikai Association	2,488,000	4.56%
The Master Trust Bank of Japan, Ltd. (trust account)	1,964,000	3.60%
Company's employee shareholding association	784,000	1.44%
Sumitomo Mitsui Banking Corporation	639,000	1.17%
Marubeni-Itochu Steel Inc.	621,000	1.14%
MUFG Bank, Ltd.	569,000	1.04%
Sumitomo Mitsui Trust Bank, Limited	566,000	1.03%
The Dai-ichi Life Insurance Company, Limited	487,000	0.89%

※The number of shares held omits fractions of less than 1,000 shares.

※The shareholding ratio is shown after deducting treasury stock and rounding down to the third decimal place



Global Business Activities

Superior ability to serve our customers, achieved through a tripolar structure
We have built a global network centered on our integrated special steel manufacturing hubs in Japan, Europe, and India. Through this network, we can accurately identify customer needs in various areas of the world and then provide a stable supply of high-quality products out of our manufacturing hubs.

Greater potential through concentration of technical strength
By combining new technology with the technology we've built up over many years in operation, we create products and processes that contribute to the future society.

Promoting our brand globally
Through close coordination between Group hubs, we are rapidly enhancing our brand value and making further strides forward toward earning global recognition for "Sanyo Special Steel - the Confident Choice."

Integrated Special Steel Works

- Japan Sanyo Special Steel Co., Ltd.
- Sweden Ovako Group AB
- India Mahindra Sanyo Special Steel Pvt. Ltd.



Formed and Fabricated Materials Works

- Japan Santoku Tech Co., Ltd.
- China Ningbo Sanyo Special Steel Products Co., Ltd.
- Thailand Siam Sanyo Special Steel Product Co., Ltd.
- Mexico Sanyo Special Steel Manufacturing de México, S.A. de C.V.



Secondary Processing Works

- Thailand SKJ Metal Industries Co., Ltd.
- Indonesia P.T. SANYO SPECIAL STEEL INDONESIA



Sales Office

- U.S.A SANYO SPECIAL STEEL U.S.A., INC.
- China SANYO SPECIAL STEEL TRADING (SHANGHAI) CO., LTD.
- India Sanyo Special Steel India Pvt. Ltd.



Guidelines for Corporate Behavior

The steel industry in Japan, which is the base material industry, is required to carry out the mission of contributing to the improvement of people's lives and development of the Japanese economy and society, through constantly supplying steel products that are useful in wide-ranging applications to society. Based on this mission and a strong awareness that it is a member of society, Sanyo Special Steel has established a trusting relationship with society, through faithful and fair business operations.

Business corporations should widely contribute to society and are expected to create added values through fair competition and develop the economy and society through generation of jobs. Sanyo Special Steel aims to respect human rights inside and outside Japan, abide by the relevant laws and regulations and conform to and respect the spirit of international rules. We also aim to fulfill our social responsibilities regarding creation of a sustainable society, based on high ethical standards.

To fulfill these missions, Sanyo Special Steel has established the "Guidelines for Corporate Behavior" that specify the expected actions in detail.

1. As a company belonging to the basic material industry, Sanyo Special Steel will make efforts to develop and supply high-quality special steel products constantly, to satisfy customers and consumers and to earn their trust.
2. Sanyo Special Steel will ensure fair, transparent and free competition as well as fair trade. We will also maintain sound and proper relationship with political parties and the government.
3. Sanyo Special Steel will make efforts to communicate with shareholders and society in general and disclose corporate information in a positive and fair manner. We will pay careful attention to protecting and administrating information including individual information and customer information.
4. Sanyo Special Steel will respect the versatility, personality and individuality of employees to realize safe and comfortable workplaces with a relaxed and affluent atmosphere.
5. Sanyo Special Steel will take the initiative in solving environmental issues, based on the notion that environmental measures should be implemented by the entire human race and are essential for the existence and activities of business corporations.
6. Sanyo Special Steel will positively perform social contribution activities as a "sound corporation in society."
7. Sanyo Special Steel will handle antisocial forces and groups which pose a threat to the social order and safety in a resolute manner and completely avoid having relationships with such forces and groups.
8. Sanyo Special Steel will abide by the laws of each country and region and respect human rights and international rules in performing global business operations. We will also give consideration to cultures and customs in performing business management, aiming to contribute to the development of the relevant country and region.
9. Top-level executives of Sanyo Special Steel will acknowledge that they are responsible for implementing the Guidelines and act as role models, while making efforts to ensure complete implementation of the guidelines by the group companies and business partners. The executives will also listen actively to the opinions of employees inside and outside the company and establish an internal control system to realize an effective system.
10. In the event of actions being made that go against the Guidelines, top-level executives will clarify the intention to solve the problem with regards to people inside and outside the company and make efforts to identify the cause and prevent recurrence of the trouble. The executives will also provide information promptly and properly and explain the situation, clarify authority and responsibilities, and severely punish the persons involved, including themselves.

Code of Conduct

This Code of Conduct stipulates in concrete terms matters to be observed by Sanyo Special Steel and all of its officers and employees (including Counselors, Senior Advisors, Executive Officers, Executive Councilors, etc. Applies also to those who work on the basis of a commission contract or temporary staffing agreement) in each aspect of our business activities with regard to the ten items set out in the Guidelines for Corporate Behavior. For matters not prescribed in this Code of Conduct, actions should be taken in adherence with the spirit of the Code of Conduct and the Guidelines for Corporate Behavior.

I. In Business Activities

1. Timely and appropriate provision of excellent products and services
We will contribute to the society through providing excellent products and services needed by the society in a timely and appropriate manner, and thereby gaining our customers' satisfaction and trust.
Recognizing that high quality and safety are the prerequisites for excellent products, we will make every effort to achieve them.
 - (1) Accurate understanding of customer needs
We will constantly gather information as to what is demanded in the market and grasp the needs and "seeds" of our customers. By doing so, we aim to provide attractive products and services that meet our customers' requests in a timely and appropriate manner and thereby improve customer satisfaction.
 - (2) Enhancement of customer support system
We will provide after-sales support of our products and services with sincerity, which would help us gain new orders, not to mention successive orders from existing customers. Each division will strengthen its customer support system and improve information materials on products and technologies.
 - (3) Compliance with laws and regulations related to safety
We will pay attention to safety at all times throughout the stages from development of products to manufacturing, storage, sales and transportation, so that our customers can use our products without worry. To this end, we will strictly comply with laws, regulations, standards and work standards regarding product safety.
 - (4) Preparation of easy-to-understand catalogues and specifications
We will take into consideration the ease of understanding in terms of indications and descriptions when preparing product catalogues and specification documents, so as to prevent any accidents that may occur from wrong usage of products or uses other than their designed use.
 - (5) Response to accidents, etc.
When we learn of any product defects or accidents caused by product defects, we will take prompt and appropriate actions including informing relevant divisions, investigating all facts, and taking measures to prevent recurrence.
 - (6) Prevention of accident recurrence
We will investigate the cause of product defects or the accidents caused by product defects. We will share information on such investigation among persons involved by appropriately compiling and utilizing its records and strive to prevent similar accidents in the future.
 - (7) Protection of personal and customer information
We will pay the closest attention to personal and customer information during the entire process from collecting to using, storing and destroying, and ensure strict management of such information.

2. Healthy and favorable relationship with our buyers and suppliers
We will conduct sales and purchases with integrity, fairness and equitability in our business transactions both in and outside of Japan. We will not offer or demand any unreasonable benefits in the course of business transactions.
 - (1) Relationship with buyers
We will limit the offer of entertainment and gifts to our buyers within the socially acceptable and minimum necessary level. We will not offer personal or arbitrary discounts, commissions, or any other benefits, even if it is to gain an order. Maintaining healthy and favorable relationship with our buyers and suppliers, we will abide by our corporate rules on internal approval.
 - (2) Relationship with suppliers
We will select suppliers with fairness and equitability, basing on reasonable criteria such as price, quality, delivery, and after-sales services. When choosing a new partner, we inquire into the candidate's credit standing and other matters, in addition to applying the above criteria and with fairness and equitability. We will, whenever possible, decline any offer of entertainment or gifts from our suppliers. When it is not practicable to decline, we will make a report to our superior and never leave the boundary of socially acceptable practice.
 - (3) Relationship with subsidiaries and affiliates
We deal with our subsidiaries and affiliates with good common sense and integrity. We do not impose on them any conditions unreasonably different from the terms of business that we apply to a third party in a fair and free competition. We will, whenever possible, refrain from offering or accepting entertainment or gifts to and from our subsidiaries or affiliates. When it is necessary to offer or accept such entertainment, etc., we will make a report to our superior and keep it within the socially acceptable and minimum necessary level.
 - (4) Relationship with the government, public offices, local authorities and other public organizations
We will not offer any benefits to foreign or domestic government officials or their equivalents in relation to their execution of duties.
3. Promotion of fair and free competition
The aim of the Antimonopoly Act is to maintain and promote fair and free competition, and thereby secure the interest of consumers and promote the democratic and wholesome development of the national economy. The Subcontract Act aims to ensure fair transactions between main subcontracting entrepreneurs and subcontractors. By complying with these laws and related regulations, we will work to maintain and promote fair and free competition.
 - (1) Compliance with Antimonopoly Act
We will not engage in cartels, bid-rigging, maintenance of resale prices, abuse of superior bargaining position, or any other act in violation of the Antimonopoly Act, and compete fairly and freely with other companies.
 - 1) We will not engage in any unreasonable restraint of trade, such as consulting or making agreements on prices, quantities, or production facilities, or committing bid-rigging, among firms in the same industry or in industrial associations.
 - 2) We will not engage in any act that constitute unfair trade practices, such as refusing to deal with specific firms (discount distributors, etc.) or new entrants, or posing restriction on the buyer's selling prices, in concert with firms in the same industry or industrial associations.
 - (2) Compliance with the Subcontract Act

We do not use our superior bargaining position against our partners in manufacturing contracts or repair contracts to request of them any unfair trade practices or to delay our payments, or any other similar acts.

4. Protection of intellectual property rights
Intellectual property rights are the rights by which inventions, devices, manufacturing know-how, literary works and other creations of the mind, as well as trademarks and other identification marks of business, are protected by law. These include the industrial property rights covering patents, utility models, trademarks, etc., copyrights on artwork, computer program, etc., as well as trade secrets (technical or business information useful for business activities, such as manufacturing or marketing methods, that are kept secret and that are not publicly known).
 - (1) Treatment of Sanyo Special Steel's intellectual property rights
We recognize that the intellectual property rights of Sanyo Special Steel are important assets of the company, and will strive to properly exploit and preserve such rights.
 - 1) Regarding inventions arising from manufacturing and development activities, we will file patent application without delay and take other measures to preserve our intellectual property rights.
 - 2) Recognizing that leakage of intellectual property rights and trade secrets will harm the company's interest and credibility, we will clearly demarcate confidential information from the rest and make such classified management of information clear to third parties.
 - (2) Treatment of other firms' intellectual property rights
We will comply with the laws and regulations related to intellectual properties and the Unfair Competition Prevention Act, and respect the intellectual property rights owned by other firms as they were our own.
 - 1) We will not for any reason obtain trade secrets owned by other firms through theft or other illegal means, or exploit such secrets. Moreover, we will never obtain or exploit them knowing that they have been, or may have been, obtained through illegal means.
 - 2) Even when we have rightly acquired information owned by other firms, we will not implement any technologies published in the patent gazette without permission, make a copy of purchased computer software without permission, or conduct any other act that infringes on the intellectual property rights of other firms.
 - 3) We will conclude appropriate agreement before we exploit intellectual property rights of other firms, and will not abuse them.

II. In relation with the Society

1. Ethical and legal compliance
As a member of the society, we will conduct business activities based on social norms, social common sense, and, not to mention, laws and regulations. In particular, we will comply with laws and regulations in our business with regard to matters below, the violation of which would cause serious consequences.
 - (1) Security Export Control
 - 1) We will not engage in exports of arms, weapons, or any relevant technologies that would disturb the maintenance of world peace and security.
 - 2) With regard to export transactions, we will check the buyer's corporate profile and business activities, and confirm, based on our internal regulations, that the products or technologies to be exported will not be used in development or manufacturing of weapons of mass destruction. As for export transactions and service transactions of products and services that are controlled under relevant laws and regulations, we will take necessary steps pursuant to relevant laws and regulations.
 - (2) Prohibition of insider trading
When we come to learn any insider information of Sanyo Special Steel, its subsidiaries, affiliates, or business partners while performing our work, we will not buy or sell stock of those companies until such information is officially made public. When buying or selling our own shares, we will confirm in advance whether or not we are in possession of any insider information.
 - (3) Treatment of acts of endowment and political contributions
 - 1) When making political contributions or endowments to various organizations, we will comply with the Public Offices Election Act, the Political Funds Control Act, and other relevant laws and regulations, and follow legitimate procedures.
 - 2) We will obtain approval based on our internal regulations prior to making political contributions or endowments.
 - 3) We will strictly avoid any act that may be mistaken to constitute collusion with politics or public administration, or, not to mention, bribery, offer of illegal profit, or illegal political contribution.
2. Avoidance of relationship with anti-social forces
We will stay out of any relationship whatsoever with individuals or organizations that adversely affect social order or impair sound corporate activities. Moreover, we will take a firm stand against such antisocial forces without fear.
 - (1) To ensure that we do not get involved in any unlawful or antisocial behavior, we will hold basic knowledge of the law, social common sense and a sense of justice, and act according to good common sense at all times.
 - (2) We will stand firm against antisocial forces and refuse to have any relationship whatsoever with such forces. In addition, if we receive any unreasonable demands from antisocial forces or the like, we will face it with a firm attitude and will not try to settle the situation by offering money or through provision of other unreasonable benefits.
 - (3) We do not make use of antisocial forces in order to gain benefit for the company or ourselves.
 - (4) We will not engage in any transaction whatsoever with antisocial forces or with any business partners that are associated with antisocial forces.

3. Disclosure of corporate information
 - (1) We will disclose corporate information to our shareholders, investors, customers, business partners, the local community and others in a timely and appropriate manner and strive to communicate with the society at all times and improve the transparency of our management. We will also pay careful attention to protecting and administrating information including personal information and customer information.
 - (2) When disclosing financial statements and other corporate information, we will make every effort to streamline and enhance appropriate internal control that secure the reliability of such information.

4. Environmental conservation and protection
Recognizing that we are drawing various benefits from the earth including resources, energy and other factors needed in our business activities, we will make every effort to preserve the global environment in a better possible condition.

- (1) We will strive to produce environmentally friendly products, control waste generation, and ensure proper waste disposal, while fully recognizing the importance of environmental protection and complying with conventions, laws and regulations related to the environment at all times.
- (2) We will work to improve our environmental consciousness and actively participate in environmental protection activities for energy conservation and recycling, among others.

5. Social contribution
As a corporate citizen, we will serve our social role through business activities and also actively participate in social contribution activities including support of culture and art, cooperation with local communities, volunteer activities, among others, and thereby contribute to social development.

III. In relation with employees

1. Respect of personality and individuality
 - (1) Respect of personality and individuality
We will pay respect to the personality and individuality of each and every person, and aim to foster personnel for expertise, creativity and independence.
 - (2) Respect of human rights and prohibition of discriminatory acts
We will respect the human rights of each and every person, and do not discriminate anyone for their nationality, race, religion, gender, age, or disabilities of any type, or any act that may lead to unjust discrimination.
 - (3) Privacy protection
We will respect the privacy of each and every person, and make every effort towards proper management of personal information.
 - (4) Prohibition of harassment
We will achieve a fair and positive workplace that do not tolerate harassments.
 - 1) We will not commit unnecessary physical contact, sexual jokes, teasing, or any other act that constitutes sexual harassment.
 - 2) We will not commit bullying, defamation, intimidation, or any other act that constitutes power harassment.
2. Safe and healthy working environment
We will strive to secure a safe, worker-friendly, and sound workplace as well as our mental and physical health.
 - (1) Safety and health in workplace
We will place the highest priority on securing safety and health, comply with the laws, regulations and rules related to occupational safety and health, and endeavor to maintain a safe and healthy work environment. Also, in performing work, we will train our sensitivity to predict hazard and to sense harm before it occurs, and react to them systematically.
 - (2) Compliance with laws and regulations related to labor
We will comply with laws and regulations related to labor and strive to maintain and improve a safe, worker-friendly, and healthy work environment.
 - (3) Disaster prevention
To prevent a disaster and stop the spread of damage, we will endeavor to predict and gauge the scale of hazards that are forecast to occur in the future, discuss countermeasures, develop manuals, and thereby maintain and improve our disaster prevention management system.
3. Prohibition of acts that impair the company's interest
As corporate workers, we will perform our work with high ethical standards, not to mention in compliance with internal rules.
 - (1) Compliance with working regulations
We will abide by matters set out in our working regulations and carry out duties while maintaining order in the workplace. We will not commit any unjust or dishonest act.
 - (2) Proper use of corporate assets
We will not make unjust use of corporate assets or mix private interest with the interest of the company. We will not use corporate assets or expenses for personal purposes.
 - (3) Proper use of information systems
We will closely protect IDs and passwords and watch out for theft, manipulation, and breach of information, and, needless to say, we will not use the company's information systems for personal purposes.
 - (4) Prohibition of conflict of interest
We will give priority to the interest of the company and will not commit any act that constitutes conflict of interest with the company.

End