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

ANNUAL REPORT 2013

APRIL 1.2012-MARCH 31.2013

SANYO SPECIAL STEEL-THE CONFIDENT CHOICE

SANYO SPECIAL STEEL

Printed in japan.

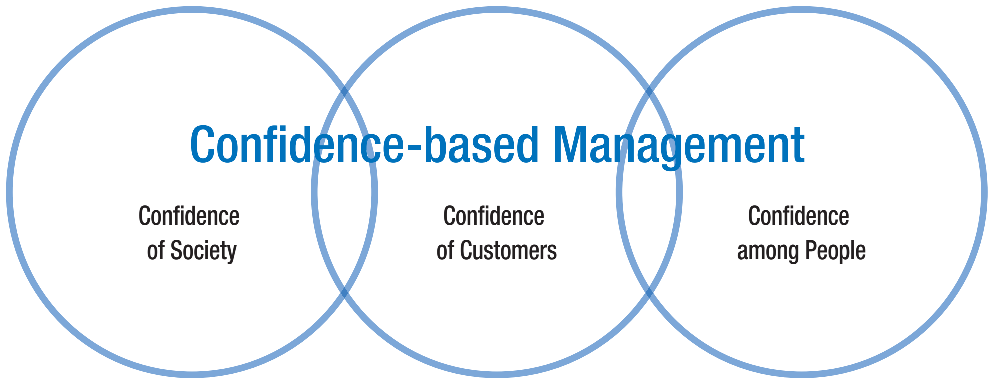
Profile

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

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

Basic Management Policies

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



“Confidence of society”

We intend to earn the confidence of society by contributing to the realization of an affluent and cultural society and fulfilling our commitment as a member of society through "production of high-quality special steel."

“Confidence of customers”

We intend to earn the confidence of customers by offering high-quality special steel and promptly and properly responding to their needs.

“Confidence among people”

We intend to establish the confidence among people through communicating with all stakeholders and carrying out self-reliant actions conforming to social norms.

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

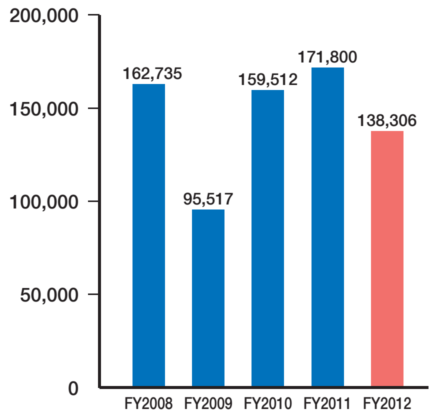
CONSOLIDATED FINANCIAL HIGHLIGHTS

Sanyo Special Steel Co., Ltd. and consolidated subsidiaries

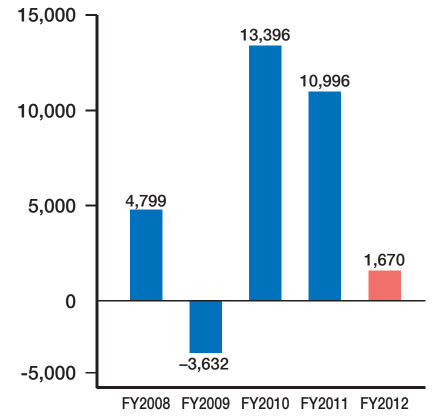
	FY2010	FY2011	FY2012	Change FY2011 / FY2012	FY2012
Operating Results (for the year)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net sales	¥ 159,512	¥ 171,800	¥ 138,306	(19.5)	$ 1,471,188
Operating income (loss)	14,200	11,349	1,517	(86.6)	16,136
Ordinary income (loss)	13,396	10,996	1,670	(84.8)	17,764
Net income (loss)	7,822	6,408	509	(92.1)	5,416
Financial Position (at year-end)			(Millions of Yen)	(%)	(Thousands of US Dollars)*1
Net assets *2	92,591	96,993	97,152	0.2	1,033,417
Total assets	188,213	212,365	198,772	(6.4)	2,114,371
Financial Indicator			(%)		
ROS (Ordinary income to Net sales)	8.4	6.4	1.2	–	–
ROE (Net income to Net assets)	8.8	6.8	0.5	–	–
Net D/E Ratio *3	0.42 (0.14) *4	0.54 (0.26) *4	0.53 (0.38) *4	–	–
			(Yen)		(US Dollars)*1
Net income (loss) per share	48.47	39.71	3.16	(92.0)	0.03
Net assets per share	571	598	598	0.1	6.37
Cash dividends per share	10.00	9.00	2.00	(77.8)	0.02

*1 US dollar amounts are converted, for convenience purpose only, at the rate of ¥94.01=US$1, the approximate rate of exchange on March 31, 2013.
*2 Minority interests are included in net assets.
*3 Net debt equity ratio - (gross interest-bearing debt - cash and deposits) / equity
*4 We have not implemented liquidation of receivables since the end of fiscal 2009.
Figures in parentheses show net debt equity ratio if we had liquidized receivables.

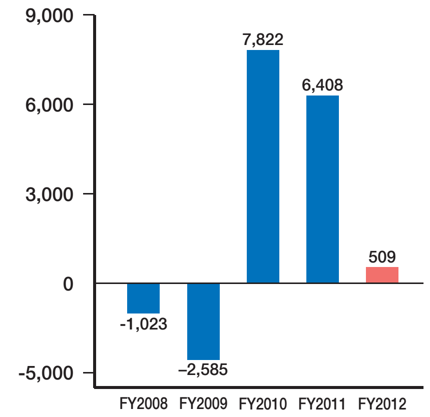
Net Sales
(Millions of Yen)



Ordinary Income
(Millions of Yen)



Net Income
(Millions of Yen)



MESSAGE FROM PRESIDENT

Fiscal 2012 Overview

During the year ended March 31, 2013, the Japanese economy remained sluggish until the end of the year due to the slowdown of overseas economy and ongoing appreciation of the yen caused by such factors as the European debt crisis and financial dislocation, power supply problems and worsening relationship between Japan and China since early autumn. After the turn of the year, however, the Japanese economy started to show a sign of recovery fuelled by the correction of the extremely strong yen, expectation on the government's fiscal stimulus measures and a rise in stock prices.

The special steel industry grew steadily at the beginning of the year mainly supported by demand from the automobile industry. But in the summer, demand from the construction machinery and industrial equipment industry fell sharply as a result of the deceleration of emerging economies including China and the yen continuing to hover at historic highs. In addition, the situation was worsened after early autumn by a decline of demand from the automobile industry and the subsequent large-scale inventory adjustment triggered by the Senkaku Islands dispute, and such trend continued until the end of the year. After the turn of the year, special steel demand seemed to be on a recovery track as the inventory adjustment came to an end and correction of the extremely strong yen generated expectation on the economic recovery. As a result, net sales of the Sanyo Special Steel Group fell by ¥33,493 million from the previous year to ¥138,306 million, reflecting a decline in sales volume and sales price due to the lower iron scrap price under the iron scrap surcharge system. In terms of profit, ordinary income decreased by ¥9,325 million to ¥1,670 million despite the cost reduction efforts primarily owing to decline in sales volume, fuel cost hikes and increased depreciation expense. Net income fell by ¥5,898 million to ¥509 million mainly due to posting of loss on sale and disposition of fixed asset.

Fiscal 2013 Outlook

Concerning future prospects, demand will likely recover thanks to the correction of the extremely strong yen and positive effect of the government's fiscal stimulus package. Nonetheless, the business environment surrounding the Sanyo Special Steel Group is expected to remain difficult in light of the slowdown of emerging economies' growth and intensifying international competition, as well as the problem of rising electricity costs in Japan.

Under such circumstances, the Sanyo Special Steel Group will be stepping up efforts to strengthen its non-price competitiveness. At the same time, the Group will be making all-out efforts to build a business structure capable of stably supplying high-quality special steel that meet customers' needs by ensuring that production responds to demand trends and by implementing an aggressive internal cost-cutting measures.

By taking all these factors into account, in fiscal 2013, we expect net sales to be ¥160,000 million, ordinary income to be ¥5,000 million, and net income to be ¥3,000 million.

Dividend Policy

Our basic policy on profit distribution is to reward our shareholders by strengthening our business foundation while increasing profits available for distribution. Concerning dividend payment, we intend to meet our shareholders' expectations primarily by distributing profits based on periodic business performance while giving due consideration to both the payout ratio and the amount of funds required for investments and other activities to enhance our corporate value. Our measure of profit distribution is consolidated payout ratio of about 20% and a non-consolidated payout ratio of about 30% based on our consolidated performance. However, since our priority is to reinforce our business foundation and improving our financial structure in order to enhance corporate value, we would like to use slightly lower figures than the standard values in implementing interim and year-end dividend - a consolidated payout ratio of 15 - 20% and a non-consolidated payout ratio of 20 -30% - and implementing interim and year-end dividends at least for the present.

Regarding dividends for fiscal 2013, we are seeking to implement dividend payment based on periodic earnings performance in line with our dividend policy. However, the specific amounts of dividend payments have not been decided at this point.

We would like to ask our shareholders and investors for their continued support and understanding of the Sanyo Special Steel Group in the coming years.

September 2013

Yasuo Takeda
Representative Director and President

THE 8TH MEDIUM-TERM BUSINESS PLAN (FY2011 - FY2013)

1. Strategy

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

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

We regard the new environment that surrounds us, namely multi-polar world economy brought about by the rise of emerging countries and a changing demand structure resulting from the advancement of low-carbon societies, as our business opportunities as well as potential risks. We seek to establish a globally competitive company by enhancing our non-price competitiveness while also improving cost competitiveness.

Through these efforts, we will pave the way for future profit growth. We will also continue to implement various measures for further consolidating our business foundation and to promote growth strategies while maintaining a sound financial basis.

2. Key Action Programs

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

SEGMENT INFORMATION

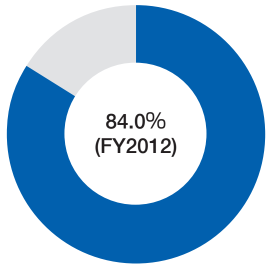
Specialty Steel

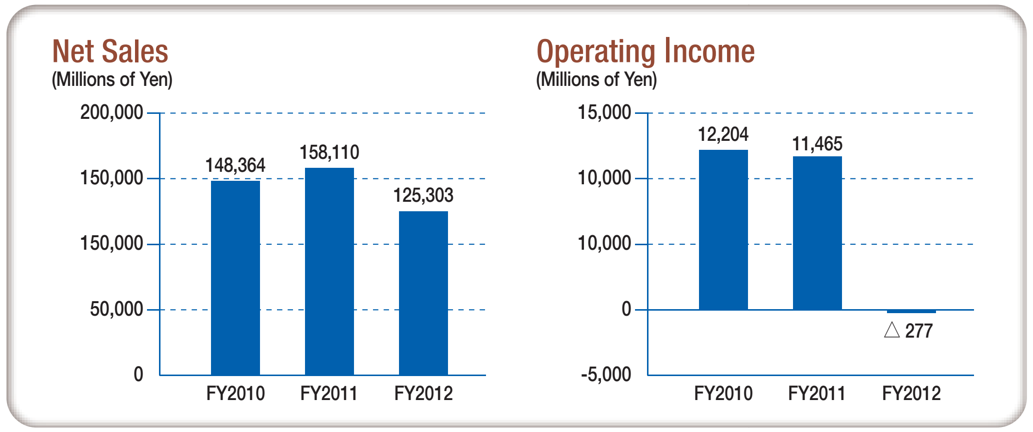
In the Specialty Steel segment, we manufacture and sell various special steel products including bearing steel, which boasts a top share in the total domestic production, as well as engineering steel, stainless steel, heat resistant steel and tool steel.

Fiscal 2012 Overview

Sales volume declined in fiscal 2012, mainly due to a significant drop in demand from the construction machinery and industrial equipment sectors, following the slowdown of the emerging economies such as China. Furthermore, sales price also declined reflecting a drop in the iron scrap price under the iron scrap surcharge system. As a result, net sales decreased to ¥125,303 million (down ¥32,806 million year-on-year). On the profit front, although we focused on cost reduction, we registered operating loss of ¥277 million (down ¥11,741 million year-on-year) mainly due to such factors as decrease in sales volume, higher fuel cost and increase in depreciation expenses.

Sales Breakdown





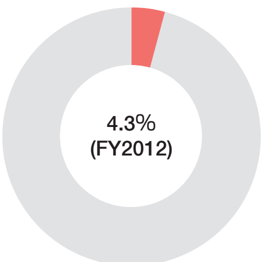
Special Materials

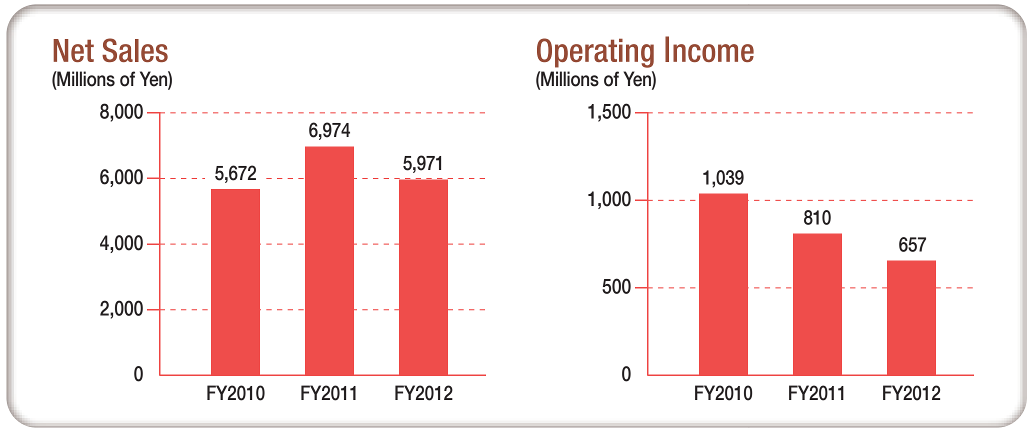
The Special Materials segment manufactures and sells heat/corrosion-resistant alloys and metal powder products, among others.

Fiscal 2012 Overview

In the Special Materials segment, net sales amounted ¥5,971 million (down ¥1,002 million year-on-year) and operating income was ¥657 million (down ¥152 million year-on-year).

Sales Breakdown





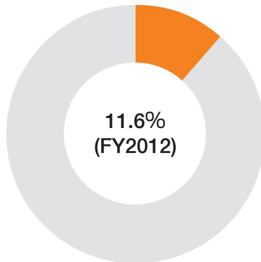
Formed and Fabricated Materials

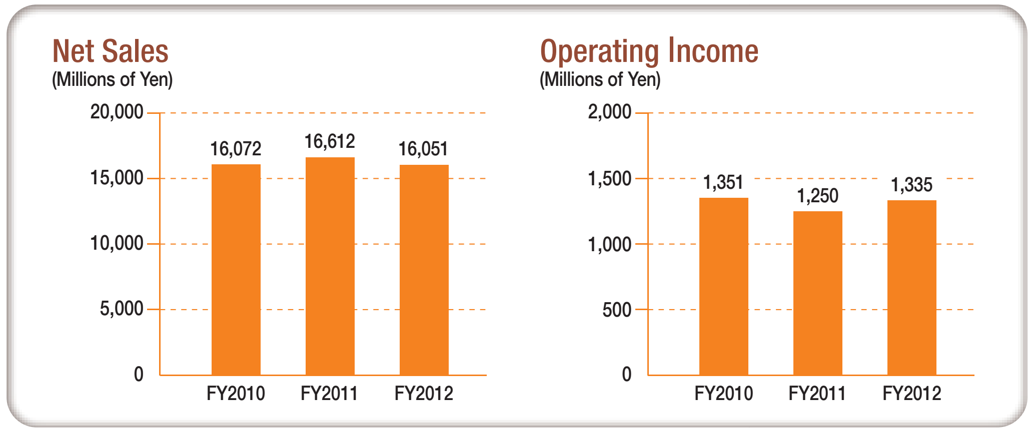
The Formed and Fabricated Materials segment uses an integrated process to manufacture high-quality formed and fabricated materials from high-cleanliness steel, which is produced using our high-cleanliness steel manufacturing technology. Our formed and fabricated materials include cut rings produced by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

Fiscal 2012 Overview

In the Formed and Fabricated Materials segment, sales volume declined from the previous term primarily due to lower demand from the construction machinery and industrial equipment sectors. As a result, the segment recorded net sales of ¥16,051 million (down ¥560 million year-on-year). Operating income amounted ¥1,334 million (up ¥84 million year-on-year) thanks to cost reduction at the formed and fabricated materials subsidiary.

Sales Breakdown





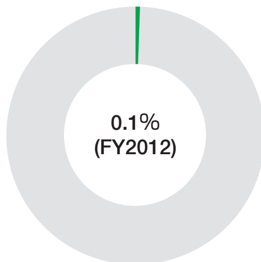
Other

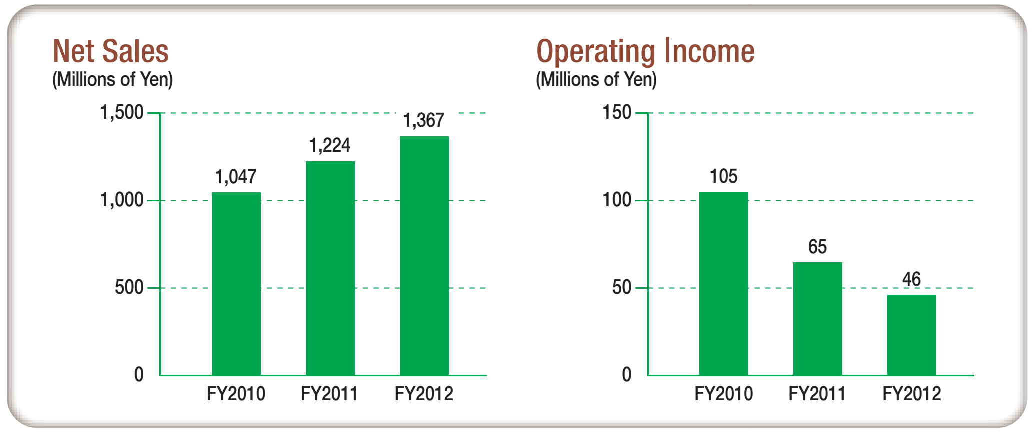
We provide information processing services through our subsidiaries.

Fiscal 2012 Overview

Net sales increased to ¥1,367 million (up ¥142 million year-on-year), and operating income was ¥46 million (down ¥18 million year-on-year).

Sales Breakdown





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

RESEARCH AND DEVELOPMENT

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

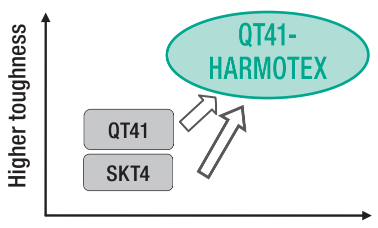
Our Major Newly Developed Products

QT41-HARMOTEX," a hot-die steel

Contributing to the greater longevity with enhanced toughness and softening resistance

QT41-HARMOTEX is a hot-die steel which is suitable for large-scale industrial equipment parts such as hot-die for hammer forging and hot press die holder. QT41-HARMOTEX is twice as tough as conventional steel and reduces die cracking or chipping. In addition, the softening resistance is 1.5 times greater than that of conventional steel and reduces dies wear or loss of resilience when they are used for a long period of time. QT41-HARMOTEX is expected to contribute to increasing the lifespan of dies.

Positioning of QT41-HARMOTEX



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

Fourfold wear resistance compared to the conventional product – contributing to extend dies' longevity

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

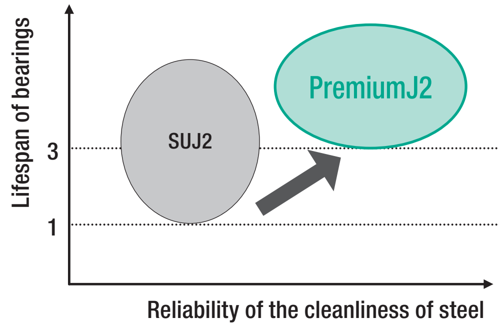
Pierce punch

"PremiumJ2, " a new grade bearing steel

Responding to the needs for smaller bearings with greater longevity

PremiumJ2 is a new grade bearing which has enabled us to extend the lifespan of the existing bearing in a stable manner. Premium J2 was produced with a combination of new technologies, which are namely a new steelmaking technology to reduce harmful non-metallic inclusions in steel, and a new inspection technology to evaluate the frequency of non-metallic inclusions in large volumes of steel to prove the low incidence of such inclusions. By using PremiumJ2, it has become possible to decrease variation in the minimum lifespan of bearings. PremiumJ2 is expected to respond to the growing needs for smaller bearings and peripheral parts with greater longevity.

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



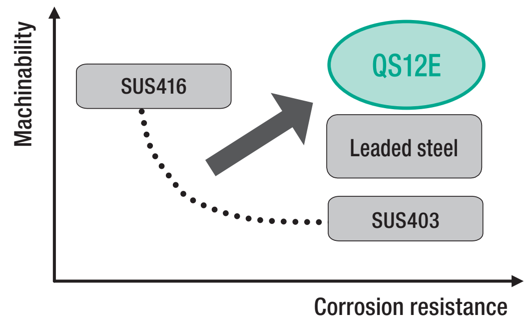
"QS12E," a lead-free cutting stainless steel

An environmentally friendly product that does not contain lead

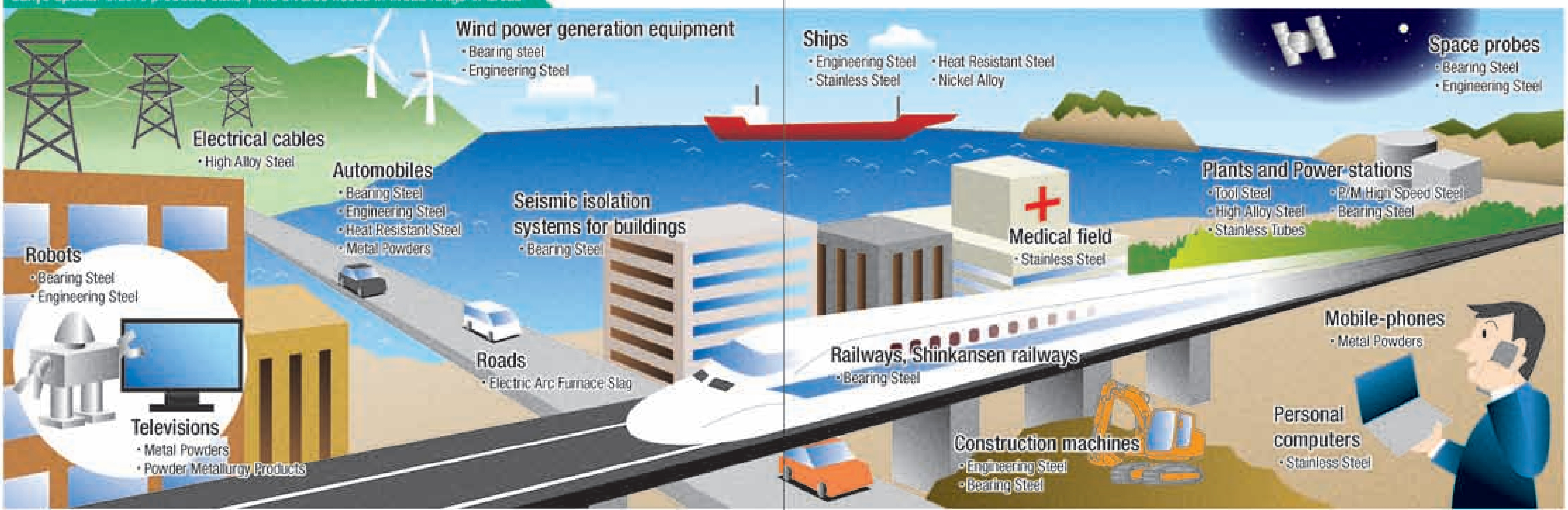
QS12E is a martensitic free cutting stainless steel that does not contain lead that carry heavy environmental burden, yet it has higher quality characteristics compared to conventional steel. By reducing the lead content of steel, we can respond to the demand of users who wish to abolish totally the use of harmful substances.

Usually, machinability and corrosion resistance have an inverse relationship. However, QS12E offers better machinability than conventional lead-containing steel while realizing higher corrosion resistance.

Positioning of QT41-HARMOTEX



Sanyo Special Steel's products satisfy the diverse needs in broad range of areas



CORPORATE GOVERNANCE

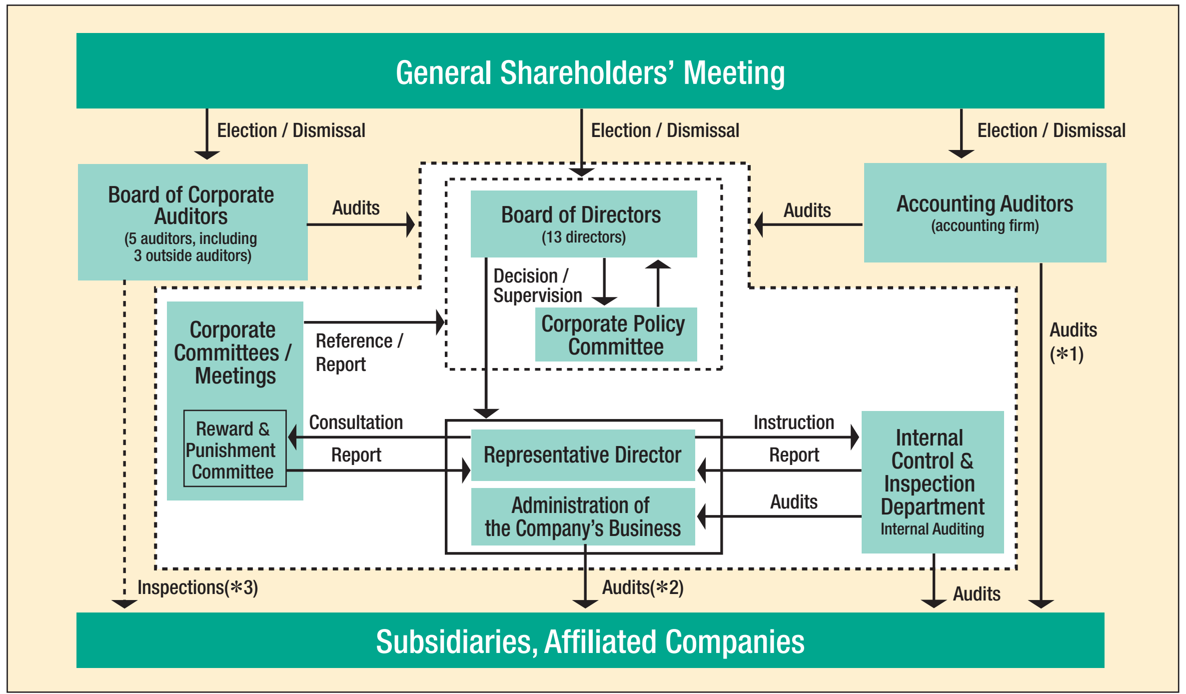
We are striving to enhance our corporate governance and internal control systems with a view to building management infrastructure that ensures integrity, fairness and transparency of our operations.

Fundamental Measures for Corporate Governance

The Company adopts a corporate auditor system.
Concerning business execution, we make decisions on important issues and supervise execution of business operations at meetings of the Board of Directors (held monthly) and at extraordinary meetings of the Board of Directors (held as necessary). We also set up company-wide committees and hold meetings to discuss important matters concerning operations. These include the Corporate Policy Committee to facilitate efficient decision-making on management such as the Board of Directors meetings, the Corporate Behavior and Ethics Special Committee to ensure thorough compliance and solid corporate governance, the Security & Trade Control Committee, the Environmental Conservation Committee and the Corporate Budget Committee.
Corporate auditors' audits are conducted as necessary based on the auditing policies formulated each year by the Board of Corporate Auditors. Audits are conducted on a broad range of areas, including not only directors' execution of their duties but also on risk management and compliance from an internal control perspective. Corporate auditors express their opinions to the representative director based on the audit results and, if necessary, also to business execution functions. We have a standing corporate auditor system in place in order to further strengthen our auditing structure. (We have a standing corporate auditor system in place in order to further strengthen our auditing structure.) Furthermore, we designate one of the outside corporate auditors as an independent director based on the provision prescribed by the Tokyo Stock Exchange.
As for accounting audits, we formulate audit policies through discussions between corporate auditors and accounting auditors, and then audits are performed based on these policies. We also hold meetings where accounting auditors can report and explain the audit results to corporate auditors as necessary, so that corporate auditors and accounting auditors can perform their audit duties in close coordination.
Internal audits are also performed by the Internal Control & Inspection Department based on the internal audit plan prepared each year. Audits are conducted on business execution of our respective business functions and subsidiaries.

Our organizational structure for corporate governance and internal control

(As of June 27, 2013)



(*1) We audit of our subsidiaries and affiliated companies through auditing consolidated financial statements.
(*2) Each of our subsidiaries and affiliated companies has a supervisory department.
(*3) Corporate auditors perform inspections as necessary on the operations and asset status of subsidiaries.
Full-time corporate auditors serve concurrently as corporate auditors of our domestic subsidiaries and fulfill their responsibilities in that capacity.

Development and Management of Internal Control Systems

We drafted a basic policy to create internal control systems at the Board of Directors meeting in accordance with the Company Law of Japan and relevant laws and ordinances. We develop our internal control systems which support our corporate management that emphasizes integrity, fairness and transparency under this policy.
In addition, we established the Internal Control & Inspection Department as an organ to evaluate our internal control systems, and we have been working on the development and operation of the "Management's Report system on Internal Control over Financial Reporting" as required by the Financial Instruments and Exchange Act since fiscal 2008. In this regard, we set up a working group for internal control management, which is a cross-functional committee composed of members from across the Sanyo Special Steel Group, in order to address risks in financial reporting, share relevant information, and discuss educational guidelines, and we are working to further reinforce our internal control systems in order to ensure the adequacy of information in financial reporting.

Board of Directors

(As of June 27, 2013)

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

* Outside Corporate Auditor

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

The Company has adopted the "Rules on Large-scale Acquisition of Sanyo Special Steel's Shares."
These rules were established for the purpose of securing sufficient time and information for the Board of Directors to examine the conditions of acquisition proposals and offer alternative plans so that our shareholders can make "informed judgment" (an appropriate judgment based on sufficient time and information) and preventing inappropriate large-scale purchases of shares that may damage the Company's corporate value and the common interests of the shareholders.
We believe that those who control the Company's decisions on financial matters and business policies should fully understand the Company's "Basic Management Policy" and consistently seek to secure and enhance the Company's corporate value and the shareholders' common interests. We also believe that, when a large-scale acquisition of the Company's shares has been proposed, the ultimate judgment on whether or not to accept the proposal should be made by the shareholders at the time of proposal. We also believe that it is the Company's responsibility to secure sufficient time and information for the shareholders to examine the proposal and make a final judgment in order to protect and enhance the Company's corporate value and shareholders' common interests.
The Company has adopted the "Rules on Large-Scale Acquisition of Sanyo Special Steel's Shares" based on such beliefs.

CSR ACTIVITIES

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

Compliance Structure

The Company has established the "Guidelines for Corporate Behavior," which indicate how we should act as a corporation, and the "Helpline," a whistle-blowing system, as a part our compliance structure.
Furthermore, we provide compliance education encompassing various themes and hold compliance lectures to improve our employees' compliance awareness.

Hold lecture sessions on compliance

Clearly-defined Company Rules

Guidelines for Corporate Behavior

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

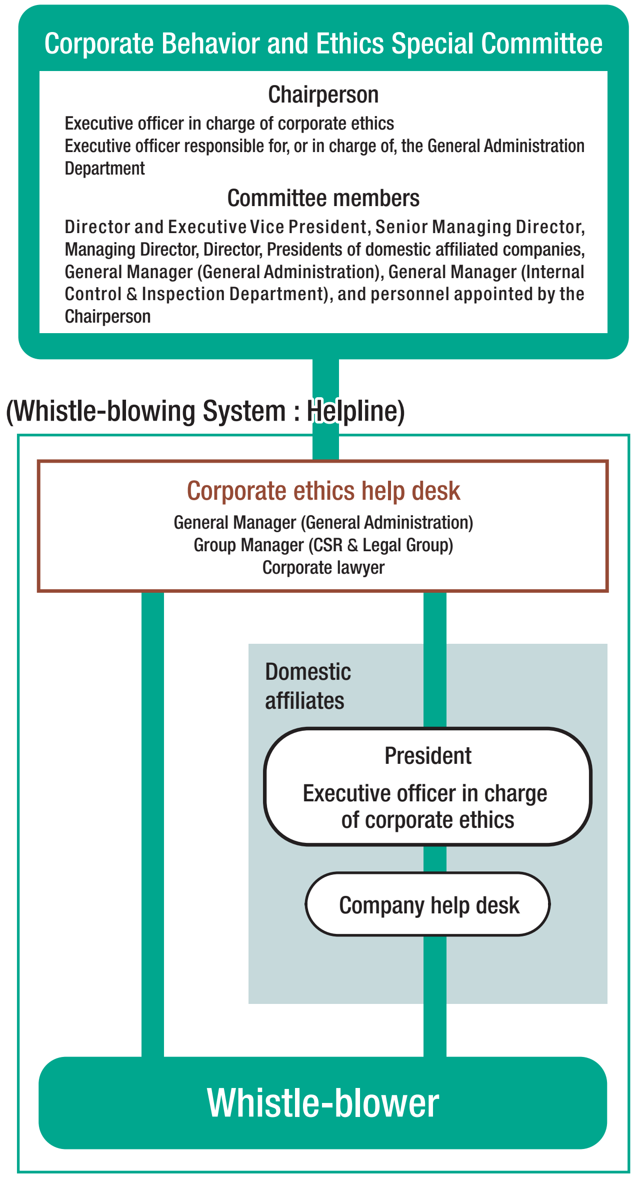
Code of Conduct

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

Corporate Behavior and Ethics Regulations

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

Compliance Structure



Establishment of a Corporate Behavior and Ethics Special Committee

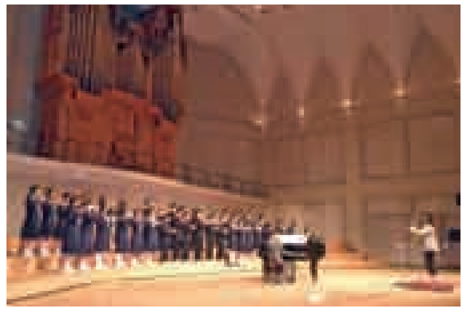
The Committee discusses compliance policies and specific measures based on these policies. If any situation or behavior deviates or is likely to deviate form lows and regulations etc., the Committee investigates the actual situation, deliberates on appropriate corrective measures, and takes other relevant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

Establishment of a Whistle-blowing System

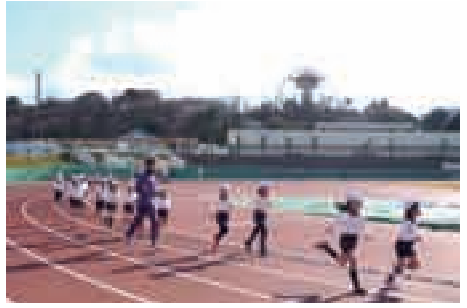
We have initiated a "Helpline," a whistle-blowing system designed to help prevent occurrence of misconduct.
The "Helpline" is aimed at detecting at an early stage any apparent or probable circumstances/acts which are deemed inappropriate in light of lows and regulations, social norms, and/or company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

Social Contributions

We are actively engaged in various regional and social contribution programs. For example, we hold concerts for elementary and middle school students and assist in marathon events at the elementary school in our neighborhood. Our employees also participate voluntarily in cleanup activities in the area surrounding our plant for beautification purposes.



Holding chorus concerts of elementary school/ junior high school students



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

Cleaning areas around plants by voluntary employees

Workplaces where all employees can work actively to prove themselves

Sanyo Special Steel has been making efforts so that all employees can prove themselves at workplaces as part of its work-life balance measures. Among others, we are trying "to create workplaces where female employees feel comfortable," through improving child care/nursing supports, implementing rehabilitation support measures and creating a re-employment system. We aim for workplaces where employees are not discriminated because of their sex.

Environmental Conservation

The Company's core business is to manufacture special steel primarily out of iron scrap, thereby playing a part in the resource circulation society through recycling of iron resources. In addition, our special steel products with superior characteristics have enabled us to reduce weight of the final products, extend the products' longevity and rationalize their manufacturing process, contributing to society-wide energy saving.
We also promote other environmental initiatives such as reduction of greenhouse emissions and efficient use of various resources.

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

Introducing battery-powered company cars

Planting trees inside and outside our plant

FINANCIAL FIGURES

Financial Position

Total assets at the end of fiscal 2012 decreased to ¥198,772 million (¥13,592 million lower than the balance at the end of fiscal 2011) due primarily to decreases in trade notes and accounts receivable despite increases in tangible fixed assets.
Total liabilities decreased to ¥101,620 million (¥13,750 million lower than the balance at the end of fiscal 2011) mainly attributable to decreases in trade notes and accounts payable and other accounts payable.
Net assets increased to ¥97,152 million (¥158 million higher than the balance at the end of fiscal 2011) mainly due to increases in foreign currency translation adjustments.

Cash Flows

Cash flows for fiscal 2012 are summarized as follows. Net cash provided by operating activities was ¥23,794 million (an increase of ¥19,642 million in cash inflow compared to fiscal 2011), which resulted from net income before income taxes (¥1,280 million), depreciation expenses (¥11,581 million), a decrease in trade receivables (an increase in cash flow of ¥20,527 million) and a decrease in trade payable (an increase in cash flow of ¥8,231 million).
Net cash used in investing activities was ¥20,535 million (an increase of ¥2,631 million in cash outflow from fiscal 2011) primarily owing to capital investment to improve productivity, upgrade existing equipment and implement environmental/energy-saving measures.
Net cash provided by financing activities was ¥2,503 million (a decrease of ¥8,793 million in cash inflow compared to fiscal 2011) mainly due to an increase in borrowings (¥3,488 million).
The balance of cash and cash equivalents at the end of fiscal 2012 stood at ¥22,421 million (¥5,921 million higher than the balance at the end of fiscal 2011).

FINANCIAL FIGURES

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2012	**2013**	**2013**
Current Assets:			
Cash and bank deposits (Note 5 and 17)	¥ 18,557	¥ **22,684**	$ **241,294**
Notes and accounts receivable, trade (Note 5, 10 and 20)	61,863	**41,434**	**440,739**
Less: Allowance for doubtful accounts	(9)	**(6)**	**(59)**
Inventories (Note 7)	49,123	**45,780**	**486,967**
Deferred tax assets (Note 13)	2,017	**2,081**	**22,132**
Other	1,481	**2,672**	**28,420**
Total current assets	133,032	**114,645**	**1,219,493**
Property, Plant and Equipment:			
Land (Note 9)	7,119	**7,123**	**75,770**
Buildings and structures (Note 9)	44,875	**46,067**	**490,020**
Machinery and equipment (Note 9)	181,385	**199,139**	**2,118,273**
Construction in progress	7,058	**549**	**5,844**
	240,437	**252,878**	**2,689,907**
Less: Accumulated depreciation	(174,587)	**(183,938)**	**(1,956,581)**
Total property, plant and equipment	65,850	**68,940**	**733,326**
Intangibles	712	**757**	**8,058**
Investments and Others:			
Investments in securities (Note 5, 6 and 8)	8,139	**10,364**	**110,244**
Long-term loans receivable	1,821	**1,614**	**17,169**
Deferred tax assets (Note 13)	210	**94**	**997**
Prepaid pension cost (Note 12)	1,876	**1,714**	**18,227**
Other	1,016	**812**	**8,638**
Less: Allowance for doubtful accounts	(291)	**(168)**	**(1,781)**
Total investments and other assets	12,771	**14,430**	**153,494**
Total assets	¥ 212,365	¥ **198,772**	$ **2,114,371**

The accompanying notes are integral parts of these statements.

FINANCIAL FIGURES

LIABILITIES AND NET ASSETS	Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars (Note 3) 2013
Current Liabilities:			
Short-term loans (Note 5 and 11)	¥ 31,603	¥ **31,759**	$ **337,825**
Current portion of long-term loans (Note 5, 9 and 11)	4,546	**8,648**	**91,991**
Notes and accounts payable, trade (Note 5 and 10)	18,345	**13,342**	**141,917**
Accounts payable, other	11,245	**4,224**	**44,932**
Accrued income taxes	2,456	**150**	**1,592**
Accrued expenses	9,273	**6,241**	**66,383**
Other	697	**693**	**7,387**
Total current liabilities	78,165	**65,057**	**692,027**
Long-term Liabilities:			
Long-term loans (Note 5, 9 and 11)	34,671	**34,023**	**361,908**
Accrued employees' retirement benefits (Note 12)	1,234	**936**	**9,956**
Accrued directors' and corporate auditors' retirement benefits	58	**73**	**772**
Deferred tax liabilities (Note 13)	747	**1,112**	**11,830**
Reserve for environmental measures	294	**213**	**2,266**
Other	203	**206**	**2,195**
Total long-term liabilities	37,207	**36,563**	**388,927**
Total liabilities	115,372	**101,620**	**1,080,954**
Contingent Liabilities (Note 20)			
Net Assets (Note 14)			
Shareholders' Equity:			
Common stock:			
Authorized - 474,392,000 shares			
Issued - 167,124,036 shares	¥ 20,183	¥ **20,183**	$ **214,687**
Capital surplus	22,596	**22,596**	**240,359**
Retained earnings	54,933	**54,474**	**579,450**
Less: Treasury stock, at cost (5,770,712 shares in 2012 and 5,787,262 shares in 2013)	(1,768)	**(1,773)**	**(18,854)**
Total shareholders' equity	95,944	**95,480**	**1,015,642**
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	1,419	**1,422**	**15,125**
Foreign currency translation adjustments	(806)	**(263)**	**(2,803)**
Total accumulated other comprehensive income	613	**1,159**	**12,322**
Minority Interests	436	**513**	**5,453**
Total net assets	96,993	**97,152**	**1,033,417**
Total liabilities and net assets	¥ 212,365	¥ **198,772**	$ **2,114,371**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2012 and 2013

	Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars (Note 3) 2013
Net Sales	¥ 171,800	¥ **138,306**	$ **1,471,188**
Cost of Sales (Note 15)	147,554	**125,048**	**1,330,158**
Gross profit	24,246	**13,258**	**141,030**
Selling, General and Administrative Expenses (Note 15)	12,897	**11,741**	**124,894**
Operating income	11,349	**1,517**	**16,136**
Other Income:			
Interest and dividend	176	**178**	**1,896**
Exchange gains	—	**501**	**5,330**
Other	426	**579**	**6,155**
	602	**1,258**	**13,381**
Other Expenses:			
Interest	(520)	**(767)**	**(8,164)**
Equity in losses of unconsolidated subsidiaries and affiliates	—	**(114)**	**(1,209)**
Other	(435)	**(224)**	**(2,380)**
	(955)	**(1,105)**	**(11,753)**
Ordinary income	10,996	**1,670**	**17,764**
Extraordinary:			
Gain on sale of land	3	**17**	**184**
Loss on sale and disposition of property, plant and equipment	(396)	**(409)**	**(4,350)**
Gain on sale of investments in securities and others	5	**2**	**17**
	(388)	**(390)**	**(4,149)**
Income before income taxes and minority interests	10,608	**1,280**	**13,615**
Income Taxes (Note 13):			
Current	3,538	**416**	**4,425**
Deferred	617	**307**	**3,268**
	4,155	**723**	**7,693**
Income before minority interests	6,453	**557**	**5,922**
Minority Interests in Net Income of Consolidated Subsidiaries	45	**48**	**506**
Net income	¥ 6,408	¥ **509**	$ **5,416**

	Yen 2012	Yen 2013	U.S. dollars (Note 3) 2013
Per Share:			
Net income (Note 16)	¥ 39.71	¥ **3.16**	$ **0.03**
Cash dividends	¥ 9.00	¥ **2.00**	$ **0.02**
Net assets	¥ 598.42	¥ **598.99**	$ **6.37**

The accompanying notes are integral parts of these statements.

FINANCIAL FIGURES

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
Income Before Minority Interests	¥ 6,453	¥ **557**	$ **5,922**
Other Comprehensive Income:			
Valuation difference on available-for-sale securities	(309)	**3**	**29**
Foreign currency translation adjustments	(88)	**372**	**3,963**
Share of other comprehensive income of an affiliate accounted for by the equity method	(23)	**211**	**2,246**
Total other comprehensive income (Note 4)	(420)	**586**	**6,238**
Comprehensive Income	6,033	**1,143**	**12,160**
Comprehensive income attributable to:			
Owners of the parent	5,999	**1,055**	**11,218**
Minority interests	34	**88**	**942**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2012

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

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

The accompanying notes are integral parts of these statements.

FINANCIAL FIGURES

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2013

	Number of outstanding common shares	Millions of yen			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	**167,124,036**	**¥ 20,183**	**¥ 22,596**	**¥ 54,933**	**¥ (1,768)**
Net income	—	—	—	**509**	—
Cash dividends paid	—	—	—	**(968)**	—
Acquisition of treasury stock	—	—	—	—	**(7)**
Disposal of treasury stock	—	—	**(0)**	—	**2**
Other changes for fiscal year 2012, net	—	—	—	—	—
Total changes for fiscal year 2012	—	—	**(0)**	**(459)**	**(5)**
Balance at end of year	**167,124,036**	**¥ 20,183**	**¥ 22,596**	**¥ 54,474**	**¥ (1,773)**

	Millions of yen			
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total
Balance at beginning of year	**¥ 1,419**	**¥ (806)**	**¥ 436**	**¥ 96,993**
Net income	—	—	—	**509**
Cash dividends paid	—	—	—	**(968)**
Acquisition of treasury stock	—	—	—	**(7)**
Disposal of treasury stock	—	—	—	**2**
Other changes for fiscal year 2012, net	**3**	**543**	**77**	**623**
Total changes for fiscal year 2012	**3**	**543**	**77**	**159**
Balance at end of year	**¥ 1,422**	**¥ (263)**	**¥ 513**	**¥ 97,152**

	Number of outstanding common shares	Thousands of U.S. dollars (Note 3)			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at beginning of year	**167,124,036**	**$ 214,687**	**$ 240,359**	**$ 584,332**	**$ (18,800)**
Net income	—	—	—	**5,416**	—
Cash dividends paid	—	—	—	**(10,298)**	—
Acquisition of treasury stock	—	—	—	—	**(75)**
Disposal of treasury stock	—	—	**(0)**	—	**21**
Other changes for fiscal year 2012, net	—	—	—	—	—
Total changes for fiscal year 2012	—	—	**(0)**	**(4,882)**	**(54)**
Balance at end of year	**167,124,036**	**$ 214,687**	**$ 240,359**	**$ 579,450**	**$ (18,854)**

	Thousands of U.S. dollars (Note 3)			
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total
Balance at beginning of year	**$ 15,096**	**$ (8,576)**	**$ 4,637**	**$ 1,031,735**
Net income	—	—	—	**5,416**
Cash dividends paid	—	—	—	**(10,298)**
Acquisition of treasury stock	—	—	—	**(75)**
Disposal of treasury stock	—	—	—	**21**
Other changes for fiscal year 2012, net	**29**	**5,773**	**816**	**6,618**
Total changes for fiscal year 2012	**29**	**5,773**	**816**	**1,682**
Balance at end of year	**$ 15,125**	**$ (2,803)**	**$ 5,453**	**$ 1,033,417**

The accompanying notes are integral parts of these statements.

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 10,608	**¥ 1,280**	**$ 13,615**
Adjustments -			
Depreciation and amortization	10,927	**11,581**	**123,194**
Increase (decrease) in allowance for doubtful accounts	4	**(91)**	**(971)**
Decrease in accrued employees' retirement benefits, less payments	(76)	**(300)**	**(3,186)**
Increase in prepaid pension cost	158	**163**	**1,729**
Increase in accrued directors' and corporate auditors' retirement benefits, less payments	1	**15**	**159**
Decrease in reserve for environmental measures	(82)	**(81)**	**(862)**
Interest and dividend income	(176)	**(178)**	**(1,896)**
Interest expense	520	**767**	**8,164**
Gain on sale of investments in securities	(5)	**(2)**	**(18)**
Equity in losses of unconsolidated subsidiaries and affiliates	—	**114**	**1,209**
Loss on sale and disposition of property, plant and equipment	392	**392**	**4,167**
Changes in assets and liabilities:			
Notes and accounts receivable, trade	(9,050)	**20,527**	**218,349**
Inventories	(7,026)	**3,592**	**38,212**
Notes and accounts payable, trade	2,629	**(9,208)**	**(97,951)**
Other, net	(525)	**3**	**27**
Subtotal	8,299	**28,574**	**303,941**
Interest and dividend income received	175	**179**	**1,908**
Interest expense paid	(520)	**(739)**	**(7,864)**
Income taxes paid	(3,803)	**(4,220)**	**(44,889)**
Net cash provided by operating activities	4,151	**23,794**	**253,096**
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(13,177)	**(20,476)**	**(217,805)**
Acquisition of intangible assets	(153)	**(227)**	**(2,416)**
Acquisition of investments in securities	13	**(1,806)**	**(19,211)**
Decrease (increase) in long-term loans receivable	(1,988)	**211**	**2,243**
Decrease (increase) in over three-month deposits	(2,055)	**1,794**	**19,089**
Other, net	(542)	**(31)**	**(329)**
Net cash used in investing activities	(17,902)	**(20,535)**	**(218,429)**
Cash Flows from Financing Activities:			
Increase in short-term loans	227	**19**	**202**
Proceeds from long-term loans	16,700	**8,000**	**85,097**
Repayment of long-term loans	(4,000)	**(4,531)**	**(48,197)**
Payments for purchase of treasury stock	(13)	**(7)**	**(74)**
Proceeds from sale of treasury stock	3	**2**	**21**
Cash dividends	(1,614)	**(968)**	**(10,298)**
Cash dividends to minority shareholders	(7)	**(12)**	**(125)**
Net cash provided by financing activities	11,296	**2,503**	**26,626**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(33)	**159**	**1,695**
Net Increase (Decrease) in Cash and Cash Equivalents	(2,488)	**5,921**	**62,988**
Cash and Cash Equivalents at Beginning of the Year	18,988	**16,500**	**175,509**
Cash and Cash Equivalents at End of the Year (Note 17)	¥ 16,500	**¥ 22,421**	**$ 238,497**

The accompanying notes are integral parts of these statements.

FINANCIAL FIGURES

Sanyo Special Steel Co., Ltd. and Consolidated Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies

(1) Consolidation and investments in affiliates -

(a) Scope of consolidation and elimination

The Company has 13 subsidiaries as of March 31, 2013 (13 subsidiaries as of March 31, 2012). The consolidated financial statements include the accounts of the Company and 13 of its subsidiaries. The 13 subsidiaries that have been consolidated for fiscal year 2013 are listed below:

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

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

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

(b) Investments in affiliates

Investment in Mahindra Sanyo Special Steel Pvt. Ltd. for the year ended March 31, 2013 is newly accounted for by the equity method.

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

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

(2) Foreign currency translation -

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

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

(3) Securities -

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

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

(4) Derivative Transactions -

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

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

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

(5) Inventories -

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

(6) Depreciation and amortization -

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

(Change in accounting policies that are difficult to distinguish from changes in accounting estimates)

In accordance with the revision of the Corporation Tax Law of Japan, the company and its domestic consolidated subsidiaries have begun applying the depreciation method based on the revised Corporate Tax Law to property, plant and equipment acquired on and after April 1, 2012.

As a result of this change, depreciation expense have decreased by ¥539 million ($5,734 thousand), and operating income, ordinary income and income before income taxes and minority interests have increased by ¥432 million ($4,598 thousand) from the corresponding amounts under the previous depreciation method.

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

(7) Research and development costs -

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

(8) Allowance for doubtful accounts -

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

(9) Accrued employees' retirement benefits -

Employees whose service with the Company and its principal consolidated subsidiaries terminates, under most circumstances, are entitled to retirement benefits determined by reference to the basic rate of pay at the time of termination, length of service and conditions under which the termination occurs.

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

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

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

(11) Reserve for environmental measures

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

(12) Income taxes -

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

(13) Revenue recognition -

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

(14) Net income and cash dividends per share -

Net income per share is computed by dividing net income available for distribution to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the year.

Cash dividends per share shown for each year in the consolidated statements of operations represent dividends declared as applicable to the respective years rather than those paid during the years.

(15) Cash and cash equivalents -

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(16) Consumption tax -

In Japan, a consumption tax, with certain exemptions, is imposed on domestic consumption of goods and services at the rate of 5%. The consumption tax imposed on the Company and its domestic subsidiaries sales to customers is withheld at the time of sale and is subsequently paid to the national government. The consumption tax withheld upon sale is not included in the amount of “net sales” in the consolidated statements of operations but is recorded as liabilities. The consumption tax imposed on the purchases of products, merchandise and services from vendors borne by the Company and its domestic subsidiaries, is not included in the amounts of costs and expenses but is recorded as assets. The balance of consumption tax withheld, net of consumption tax paid, is included in “Other current liabilities” in the consolidated balance sheets.

(17) Reclassifications and restatement -

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

(18) Accounting standards issued but not yet adopted

“Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25) were revised on May 17, 2012. However, these accounting standards have not yet been adopted by the company as of March 31, 2013. Under these revised accounting standards, the accounting treatment of unrecognized actuarial gain and loss and prior service cost and the determination of retirement benefit obligations and current service costs and disclosures were mainly revised. These revisions were made considering the viewpoint of enhancing financial reporting and international convergence of accounting standards.

All revisions under the new standard, except those related to the determination of retirement benefit obligations and current service costs, will be effective from the fiscal year ending March 31, 2014. However, the revisions for the determination of retirement benefit obligations and current service costs will be effective from the fiscal year beginning April 1, 2014. At present, the Company is in the process of evaluating the impact on the consolidated financial statements from the adoption of these revised accounting standards.

FINANCIAL FIGURES

3. U.S. Dollar Amounts

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan. These translations should not be construed as representations that the Japanese yen amounts actually represent or have been or could be converted into U.S. dollars. The rate of ¥94.01 = U.S.$1.00, the approximate rate of exchange as at March 31, 2013, has been used for such translations.

4. Consolidated Statement of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ (341)	¥ **95**	$ **1,008**
Reclassification adjustments	—	**(2)**	**(16)**
Subtotal, before tax	(341)	**93**	**992**
Tax (expense) or benefit	32	**(91)**	**(963)**
Subtotal, net of tax	(309)	**2**	**29**
Foreign currency translation adjustments			
Increase (decrease) during the year	(88)	**373**	**3,963**
Share of other comprehensive income of an affiliate accounted for by the equity method			
Increase (decrease) during the year	(23)	**211**	**2,246**
Total other comprehensive income	¥ (420)	¥ **586**	$ **6,238**

5. Financial Instruments

(1) Status of financial instruments -

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

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

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

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

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

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

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

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

(2) Fair values of financial instruments -

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2012 were as follows. Certain financial instruments were excluded from the following table as the fair values were not available (see Note 2 below).

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and bank deposits	¥ 18,557	¥ 18,557	¥ —
(2) Notes and accounts receivable, trade	61,863	61,863	—
(3) Investments in securities			
Available-for-sale securities	7,169	7,169	—
(4) Notes and accounts payable, trade	(18,345)	(18,345)	—
(5) Short-term loans	(36,134)	(36,134)	—
(6) Long-term loans	(34,569)	(34,629)	△60
(7) Derivative transactions			
①Hedge accounting is not applied	(1)	(1)	—
②Hedge accounting is applied	—	—	—

(※) The debt is displayed by ( ).

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2013 are as follows. Certain financial instruments are excluded from the following table as the fair values are not available (see Note 2 below).

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and bank deposits	¥ **22,684**	¥ **22,684**	¥ —	$ **241,294**	$ **241,294**	$ —
(2) Notes and accounts receivable, trade	**41,434**	**41,434**	—	**440,739**	**440,739**	—
(3) Investments in securities						
Available-for-sale securities	**7,227**	**7,227**	—	**76,880**	**76,880**	—
(4) Notes and accounts payable, trade	**(13,342)**	**(13,342)**	—	**(141,917)**	**(141,917)**	—
(5) Short-term loans	**(40,392)**	**(40,392)**	—	**(429,656)**	**(429,656)**	—
(6) Long-term loans	**(33,936)**	**(34,281)**	**△345**	**(360,983)**	**(364,655)**	**△3,672**
(7) Derivative transactions						
①Hedge accounting is not applied	**(0)**	**(0)**	—	**(1)**	**(1)**	—
②Hedge accounting is applied	—	—	—	—	—	—

(※) The debt is displayed by ( ).

1. The method of estimating fair values of financial instruments and matters about investments in securities and derivative transactions.
   (1) Cash and bank deposits and (2) Notes and accounts receivable, trade
   The book value approximates the fair value because of the short-term maturities of these instruments.
   (3) Investments in securities
   Market prices and quoted prices are used for equity securities.
   See Note 6, "Securities."
   (4) Notes and accounts payable, trade and (5) Short-term loans
   The book value approximates the fair value because of the short-term maturities of these instruments.
   Short-term loans payable includes the current portion of long-term loans.
   (6) Long-term loans
   The discounted cash flow method is used to estimate the fair value of long-term loans by using marginal borrowing rates as the discount rate.
   (7) Derivative transaction
   See Note 17, "Derivatives."

2. Non-listed equity securities whose fair values are not available are excluded from investments in securities above. These instruments as of March 31, 2012 and 2013 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Non-listed equity securities	¥ 478	¥ **478**	$ **5,083**

3. The aggregate maturities subsequent to March 31, 2012 for financial assets with maturities were as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Cash and bank deposits	¥ 18,557	¥ —	¥ —	¥ —
Notes and accounts receivable, trade	61,863	—	—	—
Total	¥ 80,420	¥ —	¥ —	¥ —

The aggregate maturities subsequent to March 31, 2013 for financial assets with maturities are as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Cash and bank deposits	**¥ 22,684**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable, trade	**41,434**	—	—	—
Total	**¥ 64,118**	**¥ —**	**¥ —**	**¥ —**

	Thousands of U.S. dollars			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Cash and bank deposits	**$ 241,294**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable, trade	**440,739**	—	—	—
Total	**$ 682,033**	**$ —**	**$ —**	**$ —**

4. The aggregate maturities subsequent to March 31, 2012 for short-term loans, long-term loans and other interest-bearing debt were as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short -term loans	¥ 36,134	¥ —	¥ —	¥ —
Long-term loans	—	34,569	—	—
Other interest-bearing debt	15	60	42	—
Total	¥ 36,149	¥ 34,629	¥ 42	¥ —

The aggregate maturities subsequent to March 31, 2013 for short-term loans, long-term loans and other interest-bearing debt are as follows:

	Millions of yen			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short -term loans	**¥ 40,392**	**¥ —**	**¥ —**	**¥ —**
Long-term loans	—	**33,936**	—	—
Other interest-bearing debt	**15**	**60**	**27**	—
Total	**¥ 40,407**	**¥ 33,996**	**¥ 27**	**¥ —**

	Thousands of U.S. dollars			
	Within 1 year	1 year or more but within 5 years	5 years or more but within 10 years	Ten years or more
Short -term loans	**$ 429,656**	**$ —**	**$ —**	**$ —**
Long-term loans	—	**360,983**	—	—
Other interest-bearing debt	**160**	**639**	**285**	—
Total	**$ 429,816**	**$ 361,622**	**$ 285**	**$ —**

6. Securities

The aggregate acquisition costs and fair values (book values) of marketable securities classified as available-for-sale securities as of March 31, 2012 and 2013 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2012			**2013**			**2013**		
	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)	Acquisition cost	Fair value (Book value)	Unrealized gain (loss)
Securities whose book value exceeds their acquisition cost:									
Stock	¥ 3,666	¥ 5,744	¥ 2,078	**¥ 3,154**	**¥ 5,335**	**¥ 2,181**	**$ 33,546**	**$ 56,746**	**$ 23,200**
Securities whose acquisition cost exceeds their book value:									
Stock	1,648	1,425	(223)	**2,126**	**1,892**	**(234)**	**22,615**	**20,134**	**(2,481)**
Total	¥ 5,314	¥ 7,169	¥ 1,855	**¥ 5,280**	**¥ 7,227**	**¥ 1,947**	**$ 56,161**	**$ 76,880**	**$ 20,719**

7. Inventories

Inventories held by the Companies at March 31, 2012 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Merchandise	¥ 1,845	**¥ 1,607**	**$ 17,095**
Finished products	9,523	**8,593**	**91,405**
Work-in-process	22,457	**21,263**	**226,181**
Raw materials and supplies	15,298	**14,317**	**152,286**
Total	¥ 49,123	**¥ 45,780**	**$ 486,967**

8. Unconsolidated Subsidiaries and Affiliates

Items relevant to unconsolidated subsidiaries and affiliates at March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Investments in securities (stocks)	¥ 492	**¥ 2,659**	**$ 28,281**

9. Assets Pledged as Collateral

A breakdown of assets pledged as collateral and the related secured liabilities as of March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Assets pledged as collateral:			
Land	¥ 4,590	**¥ 4,590**	**$ 48,828**
Buildings and structures	5,834	**4,903**	**52,151**
Machinery and equipment	9,533	**7,716**	**82,074**
	¥ 19,957	**¥ 17,209**	**$ 183,053**
Secured liabilities:			
Long-term debt (including those due within one year)	12,700	**16,700**	**177,641**
	¥ 12,700	**¥ 16,700**	**$ 177,641**

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

Notes receivable/payable which reached the maturity at year-end are treated as if they were settled at the clearing date for notes. Consequently, as the year-end dates of March 31, 2012 and 2013 were holidays for banking institutions, the following notes receivable/payable which reached the maturity at year-end are included in the ending balance of notes receivable/payable and other current liabilities:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Notes receivable	¥ 1,862	**¥ 1,193**	**$ 12,687**
Notes payable	¥ 131	**¥ 53**	**$ 559**

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11. Short-term Loans and Long-term Loans

Short-term loans at March 31, 2012 and 2013 represent bank overdrafts with weighted-average interest rates of 0.60% and 0.57%, respectively. It is normal business custom in Japan for short-term borrowings to be rolled over every year. The Company has commitment line contracts for short-term financing arrangements with 3 financial institutions for an aggregate maximum amount of ¥20,000 million ($212,743 thousand). At March 31 2013, the total ¥20,000 million ($212,743 thousand) is unused.

Long-term loans at March 31, 2012 and 2013, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Loans from banks and other financial institutions due 2013 to 2017 with interest rates ranging from 0.24% to 1.75% at March 31, 2012 and due 2014 to 2017 with interest rates ranging from 0.29% to 1.75% at March 31, 2013	¥ 39,100	**¥ 42,569**	**$ 452,814**
Other payables due 2010 to 2021 with interest of 4.05% at March 31, 2012 and due 2010 to 2021 with interest of 4.05% at March 31, 2013	117	**102**	**1,085**
	39,217	**42,671**	**453,899**
Less: Current portion of long-term loans	(4,546)	**(8,648)**	**(91,991)**
	¥ 34,671	**¥ 34,023**	**$ 361,908**

The annual maturities of long-term loans outstanding at March 31, 2013 are as follows:

Year ending at March 31,	Millions of yen	Thousands of U.S. dollars
2014	**¥ 13,748**	**$ 146,240**
2015	**6,293**	**66,940**
2016	**13,940**	**148,283**
2017	**15**	**160**
2018 and thereafter	**27**	**285**
	¥ 34,023	**$ 361,908**

12. Retirement Benefits

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

(1) Funded status of retirement benefit obligations at March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Projected benefit obligation	¥ (8,311)	**¥ (9,164)**	**$ (97,478)**
Plan assets at fair value	7,359	**7,664**	**81,521**
Unfunded projected benefit obligation	(952)	**(1,500)**	**(15,957)**
Unrecognized actuarial loss	1,643	**2,278**	**24,228**
Unrecognized prior service costs	(49)	**—**	**—**
Net of Accrued employees' retirement benefits recognized in the consolidated balance sheets	642	**778**	**8,271**
Prepaid pension cost	1,876	**1,714**	**18,227**
Accrued employees' retirement benefits recognized in the consolidated balance sheets	¥ (1,234)	**¥ (936)**	**$ (9,956)**

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

(2) Components of net retirement benefit expenses for the years ended March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Service cost	¥ 385	**¥ 395**	**$ 4,200**
Interest cost	221	**220**	**2,339**
Expected return on plan assets	(98)	**(101)**	**(1,073)**
Amortization of prior service costs	(49)	**(49)**	**(521)**
Amortization of actuarial loss	154	**95**	**1,013**
Payments for the defined contribution pension plan	188	**185**	**1,965**
Total	¥ 801	**¥ 745**	**$ 7,923**

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

(3) Assumptions used in the calculation of retirement benefit obligations for the years ended March 31, 2012 and 2013 are as follows:

	2012	**2013**
Discount rate	2.8%	**1.4%**
Expected rate of return on plan assets	1.2%	**1.4%**
Method of attributing projected benefits to periods of service	Straight-line basis	**Straight-line basis**
Amortization period for unrecognized prior service costs	10 years	**10 years**
Amortization period for unrecognized actuarial differences	10 years	**10 years**

13. Income Taxes

The Companies are subject to a number of different income taxes which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 40.6% and 38.0% for the years ended March 31, 2012 and 2013, respectively.

At March 31, 2012 and 2013, significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Deferred tax assets:			
Amortization of transition obligations corresponding to contribution of certain marketable securities to employee retirement benefit trust	¥ 2,597	**¥ 2,597**	**$ 27,621**
Devaluation loss on inventories	246	**264**	**2,807**
Accrued bonuses	879	**541**	**5,752**
Devaluation loss on marketable securities	1,147	**1,146**	**12,190**
Accrued employees' retirement benefits	809	**747**	**7,943**
Tax losses carried forward	74	**1,124**	**11,958**
Other	1,610	**936**	**9,961**
Gross deferred tax assets	7,362	**7,355**	**78,232**
Less: Valuation allowance	(1,485)	**(1,601)**	**(17,032)**
Total deferred tax assets	¥ 5,877	**¥ 5,754**	**$ 61,200**
Deferred tax liabilities:			
Unrealized holding gains on securities	¥ (435)	**¥ (526)**	**$ (5,594)**
Gain on contribution of certain marketable securities to employee retirement benefit trust	(1,401)	**(1,401)**	**(14,899)**
Reserve for deferred capital gains from property, plant and equipment	(1,168)	**(1,125)**	**(11,965)**
Prepaid pension cost	(668)	**(610)**	**(6,489)**
Reserve for special depreciation	(471)	**(658)**	**(6,998)**
Other	(254)	**(371)**	**(3,956)**
Total deferred tax liabilities	(4,397)	**(4,691)**	**(49,901)**
Net deferred tax assets	¥ 1,480	**¥ 1,063**	**$ 11,299**

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The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2013 is as follows:

Statutory income tax rate	38.0%
Add (deduct)	
Nondeductible expenses, including entertainment expenses	3.9
Nontaxable income, including dividend income	(4.7)
Equalization tax	1.4
Decrease in valuation allowance	21.2
Other	(3.3)
Effective income tax rate	56.5%

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

14. Net Assets

At the Company's Board of Directors meeting held on May 15, 2012, the directors approved cash dividends amounting to ¥645 million. There are no cash dividends in the consolidated financial statements as of March 31, 2013.

15. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2012 and 2013 totaled ¥1,840 million and ¥1,425 million ($15,155 thousand), respectively.

16. Net Income Per Share

Basis for calculations of net income per share for the years ended March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Net income	¥ 6,408	¥ 509	¥ 5,416
Net income for common stockholders	¥ 6,408	¥ 509	¥ 5,416

	Thousands of shares	
	2012	2013
The weighted-average number of shares of common stock	161,362	161,345

	Yen		U.S. dollars
	2012	2013	2013
Net income per share	¥ 39.71	¥ 3.16	$ 0.03

The Companies have no dilutive securities for the years ended March 31, 2012 and 2013.

17. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2012 and 2013 consist of:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Cash and bank deposits	¥ 18,557	¥ 22,684	$ 241,294
Time deposits with deposit terms of over 3 months and other	(2,057)	(263)	(2,797)
Cash and cash equivalents	¥ 16,500	¥ 22,421	$ 238,497

18. Accounting for Leases

(1) Finance leases –

Non-capitalized finance leases at March 31, 2012 and 2013 are as follows:

As a lessee

Periodic lease charges to the Companies, as a lessee, which are charged to profit or loss for the years ended March 31, 2012 and 2013 are \168 million and ¥149 million ($1,580 thousand), respectively.

Lease assets under finance leases, if capitalized, at March 31, 2012 and 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2012		2013		2013	
	Machinery and vehicles	Other	Machinery and vehicles	Other	Machinery and vehicles	Other
Acquisition cost	¥ 1,486	¥ 38	¥ 1,465	¥ —	$ 15,584	$ —
Accumulated depreciation	1,110	35	1,235	—	13,141	—
Net book value	¥ 376	¥ 3	¥ 230	¥ —	$ 2,443	$ —

Depreciation expense for lease assets computed by the straight-line method over the period of the finance leases with no residual value for the years ended March 31, 2012 and 2013 are ¥168 million and ¥149 million ($1,580 thousand), respectively.

Outstanding future lease payments due at March 31, 2012 and 2013, including interest, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Due within one year	¥ 148	¥ 146	$ 1,546
Due after one year	230	84	897
Total	¥ 378	¥ 230	$ 2,443

(2) Non-cancelable operating leases –

As a lessee

Outstanding future lease payments under non-cancelable operating leases at March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Due within one year	¥ 14	¥ 15	$ 163
Due after one year	11	5	47
Total	¥ 25	¥ 20	$ 210

19. Derivatives

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

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2012 were as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
Buying			
U.S. dollars	¥ 121	¥ (1)	¥ (1)
Japanese yen	77	(0)	(0)
Total	¥ 198	¥ (1)	¥ (1)

The contracted amount, fair value and unrealized gain (loss) of forward exchange contracts recognized for the year ended March 31, 2013 are as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract Amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:						
Buying						
U.S. dollars	¥ 67	¥ (0)	¥ (0)	$ 711	$ (1)	$ (1)
Japanese yen	2	(0)	(0)	25	(0)	(0)
Total	¥ 69	¥ (0)	¥ (0)	$ 736	$ (1)	$ (1)

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

Derivative transactions to which hedge accounting is applied for the years ended March 31, 2012 and 2013 are as follows:

	2012	**2013**
Method of hedge accounting	Exceptional method for interest rate swap transactions	**Exceptional method for interest rate swap transactions**
Type of derivative transactions	Interest rate swap transactions Payment fixation, Receipt change	**Interest rate swap transactions Payment fixation, Receipt change**
The main hedged items	Long-term loans	**Long-term loans**
Contract amount	¥18,550 million	**¥23,630 million ($251,356 thousand)**
1 year or more of amount of contract	¥15,630 million	**¥16,775 million ($178,438 thousand)**
Fair value	※	※

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

20. Contingent Liabilities

Guarantees against bank loans of employees and affiliates at March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Advanced Green Components, LLC	¥ 282	**¥ 143**	**$ 1,519**
UCHIDA-SATO TECH (THAILAND) CO., LTD.	—	**16**	**171**
Employees	47	**36**	**389**
Total	¥ 329	**¥ 195**	**$ 2,079**

Notes discounted with banks and notes endorsed as of March 31, 2012 and 2013 are ¥218 million and ¥127 million ($1,352 thousand), respectively. Notes discounted with banks and notes endorsed are netted against "Notes and accounts receivable, trade" in the consolidated balance sheets.

21. Segment Information

(1) General information about reportable segments

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

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

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

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

As those described in Note 2, " Summary of Significant Accounting Policies," in accordance with the revision of the Corporation Tax Law of Japan, the company and its domestic consolidated subsidiaries have begun applying the depreciation method based on the revised Corporate Tax Law to property, plant and equipment acquired on and after April 1, 2012. As a result of this change, segment loss of "Specialty Steel" have decreased by ¥428 million ($4,548 thousand) from the corresponding amounts under the previous depreciation method. This change does not have a material effect on the segment income of reportable segments except " Specialty Steel. "

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

Segment information for the years ended March 31, 2012 and 2013 is as follows:

	For the year ended March 31, 2012						
	Millions of yen						
	Reportable segment						
	Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income:							
Net sales							
Outside customers	¥ 148,130	¥ 6,974	¥ 16,612	¥ 84	¥ 171,800	¥ —	¥ 171,800
Intersegment transactions	¥ 9,980	¥ —	¥ —	¥ 1,140	¥ 11,120	¥ (11,120)	¥ —
Total	158,110	6,974	16,612	1,224	182,920	(11,120)	171,800
Segment income	¥ 11,465	¥ 810	¥ 1,250	¥ 65	¥ 13,590	¥ (2,241)	¥ 11,349
(b) Other:							
Depreciation	¥ 10,070	¥ 339	¥ 470	¥ 7	¥ 10,886	¥ (25)	¥ 10,861

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income adjustments of ¥2,241 million are adjustments for inventories of ¥2,232 million, intersegment elimination of ¥38 million and corporate expenses not allocated to each reportable segment of ¥47 million. Corporate expenses are general and administrative expenses not attributed to reportable segments.
3. Segment income is adjusted with operating income in the consolidated statements of operations.
4. As information about segment assets and liabilities is not used to determine the distribution of management resources and evaluate business results, the Companies are not required to disclose information about segment assets and liabilities.

	For the year ended March 31, 2012						
	Millions of yen						
	Reportable segment						
	Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income:							
Net sales							
Outside customers	**¥ 116,178**	**¥ 5,971**	**¥ 16,051**	**¥ 106**	**¥ 138,306**	**¥ —**	**¥ 138,306**
Intersegment transactions	**¥ 9,124**	**¥ —**	**¥ —**	**¥ 1,261**	**¥ 10,386**	**¥ (10,386)**	**¥ —**
Total	**125,303**	**5,971**	**16,051**	**1,367**	**148,692**	**(10,386)**	**138,306**
Segment income (loss)	**¥ (277)**	**¥ 657**	**¥ 1,335**	**¥ 46**	**¥ 1,761**	**¥ (244)**	**¥ 1,517**
(b) Other:							
Depreciation	**¥ 10,711**	**¥ 304**	**¥ 513**	**¥ 9**	**¥ 11,537**	**¥ (24)**	**¥ 11,513**

	Thousands of U.S. dollars						
	Reportable segment						
	Specialty Steel	Special Materials	Formed & Fabricated Materials	Other	Total	Adjustments	Consolidated total
(a) Sales and operating income:							
Net sales							
Outside customers	**$ 1,235,806**	**$ 63,517**	**$ 170,738**	**$ 1,127**	**$ 1,471,188**	**$ —**	**$ 1,471,188**
Intersegment transactions	**$ 97,063**	**$ —**	**$ —**	**$ 13,418**	**$ 110,481**	**$ (110,481)**	**$ —**
Total	**1,332,869**	**63,517**	**170,738**	**14,544**	**1,581,669**	**(110,481)**	**1,471,188**
Segment income (loss)	**$ (2,948)**	**$ 6,994**	**$ 14,198**	**$ 496**	**$ 18,739**	**$ (2,603)**	**$ 16,136**
(b) Other:							
Depreciation	**$ 113,934**	**$ 3,227**	**$ 5,461**	**$ 95**	**$ 122,717**	**$ (253)**	**$ 122,464**

1. The "Other" category is the information service segment not included in reportable segments.
2. Segment income (loss) adjustments of ¥245 million ($2,603 thousand) are adjustments for inventories of ¥283 million ($3,008 thousand) and intersegment elimination of ¥38 million ($405 thousand).
3. Segment income (loss) is adjusted with operating income in the consolidated statements of operations.
4. As information about segment assets and liabilities is not used to determine the distribution of management resources and evaluate business results, the Companies are not required to disclose information about segment assets and liabilities.

FINANCIAL FIGURES

Related Information

Segment related information for the year ended March 31, 2012 was as follows:

(1) Information about products and services –

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

(2) Information about geographic areas –

1. Net sales

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

2. Property, plant and equipment

As Japan, which consists of Sanyo Special Steel Co., Ltd. and its domestic consolidated subsidiaries, represents more than 90% of the amount of property, plant and equipment on the consolidated balance sheet as of March 31, 2012, the Companies are not required to disclose information about property, plant and equipment.

(3) Information about major customers –

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

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Sanyo Special Steel Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sanyo Special Steel Co., Ltd. and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

August 12, 2013
Osaka, Japan

KPMG AZSA LLC

CORPORATE DATA (As of March 31,2013)

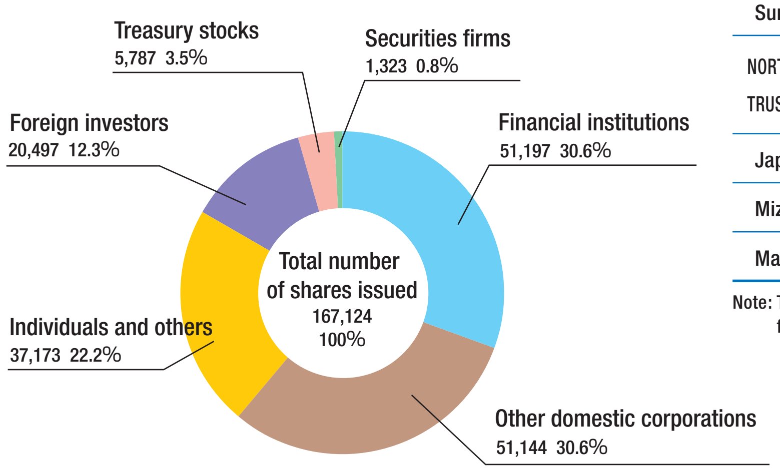
Corporate Data

Corporate Name	Sanyo Special Steel Co., Ltd.
Head Office/Works	3007, Nakashima, Shikama-ku, Himeji, Hyogo 672-8677 Japan phone (+81) 79-235-6003
Established	January 11, 1935
Paid-in Capital	¥20,183 million
Number of Employees	2,829 (consolidated basis) 1,396 (non-consolidated basis)
Register of Shareholders	The Chuo Mitsui Trust & Banking Co., Ltd.
Stock Listings	Tokyo Stock Exchange (1st Section)
Book Closing	March 31
Branches and Offices	Tokyo Regional Office, Osaka Branch, Nagoya Branch, Hiroshima Branch, Kyusyu Sales Office
Homepage Address	http://www.sanyo-steel.co.jp/english/index.html

Stock Information

Total Number of Shares Authorized to be Issued	474,392,000
Total Number of Shares Issued	167,124,036
Number of Shareholders	16,786

Shareholder Composition (thousands of shares)



Principal Shareholders

Name of Shareholder	Percentage of Voting Rights (%)
Nippon Steel Corporation	15.14
Company's Kyoeikai Association	6.08
The Master Trust Bank of Japan, Ltd. (trust account)	4.96
NSK Ltd.	4.66
Japan Trustee Services Bank, Ltd. (trust account)	4.40
Sumitomo Mitsui Banking Corporation	3.55
NORTHERN TRUST CO AVFC RE NORTHERN TRUST GUERNSEY IRISH CLIENTS	2.63
Japan Trustee Services Bank, Ltd. (trust account9)	2.47
Mizuho Corporate Bank, Ltd.	2.27
Marubeni-Itochu Steel Inc.	1.94

Note: The Company holds 5,770 thousand shares of its own stock in treasury, but is excluded from the above list of major shareholders.

Consolidated Subsidiaries and Equity-Method Affiliates

Specialty Steel

Consolidated Subsidiaries

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

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

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

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

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

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

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

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

Equity-method Affiliates

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

Formed and Fabricated Materials

Consolidated Subsidiaries

⑩ Santoku Tech Co., Ltd.
Manufacturing of special steel products (formed and fabricated materials)

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

⑫ Ningbo Sanyo Special Steel Products Co., Ltd.
Manufacturing and marketing of special steel products (formed and fabricated materials)

Equity-method Affiliates

⑬ Advanced Green Components, LLC
Manufacturing of special steel products (formed and fabricated materials)

Other

Consolidated Subsidiaries

⑭ Santoku Computer Service Co., Ltd.
Construction and operation of, and consulting services for, information systems

⑮ Santoku Security Service Co., Ltd.
Security and facilities maintenance services