

Message from the President



Masahisa Nagata
President

Business Performance and Operating Environment

The Japanese economy continued its ongoing recovery over the course of the reporting period, driven primarily by strong corporate performance and growth in areas such as capital expenditure and exports on the back of the continued steady expansion of the economies across the globe, both in industrialized nations and emerging economies such as China. With a continuing upward trend in demand for energy and materials the world over, demand for JSW products such as components for thermal and nuclear power plants, oil refineries and petrochemical plants remained robust.

During the year under review, which was the first fiscal year of our Medium-Term Management Plan (J2008), we continued to actively focus on achieving the priority objectives set out under the plan, namely increasing profitability, improving capital efficiency and promoting CSR. Specifically, in addition to actively proceeding with capital expenditure in line with growing demand and production of high value-added products,

we have also continued to revise our product prices in line with rising raw material costs, and to enhance productivity through initiatives such as improving manufacturing processes, cutting costs and reducing lead times. On other fronts, we continued to make every effort to improve the Company's operating cash flow, including measures such as the early collection of receivables and increasing advances in line with healthy incoming orders. As a result, we achieved substantial year-on-year increases in both revenues and earnings, and managed to significantly reduce our interest-bearing debt. We thus achieved the final targets set out under our Medium-Term Management Plan (J2008) a full two years ahead of schedule.

With the climate remaining healthy following on from the previous year, orders received over the course of the year rose by ¥1,148 million to ¥228,804 million (US\$1,938 million), marking the second year in a row that we have managed to secure orders totaling over ¥200,000 million.

Thanks to substantial increases in domestic and export sales in our core lines of business in the form of steel products and machinery products, sales rose by ¥33,785 million year-on-year to ¥207,138 million (US\$1,755 million).

Operating income, meanwhile, went up by ¥11,802 million year-on-year to ¥24,678 million (US\$209 million) on the back of improved profits from increased revenues, an improved profit margin with an increase in the capacity utilization ratio, and upward revisions to product prices in line with rising raw material costs.

Ordinary income (see note on next page) saw a year-on-year increase of ¥11,689 million, taking the total to ¥23,459 million (US\$199 million). Despite posting extraordinary losses in the form of losses on the disposal of noncurrent assets and PCB (polychlorinated biphenyl) disposal expenses, net income rose by ¥5,929 million year-on-year to ¥12,515 million (US\$106 million) in line with the significant increase in ordinary income.

In terms of appropriation of retained earnings for the year, we are maintaining our basic policy of steadily increasing dividends to shareholders, more accurately reflecting periodic income. On the other hand, we intend to retain a sufficient amount of earnings for appropriation to capital expenditure to ensure long-term

business development and investments for technical development, to strengthen the Company's financial position.

In terms of dividends for the year, ordinary dividends were increased by ¥1 from the previous year to ¥6 per share, which, combined with commemorative dividends of ¥3 to mark the Company's centenary, made for a total dividend of ¥9 per share.

Note: Ordinary income does not appear on the income statement.

Outlook

In spite of uncertain factors relating to the global economy, such as trends in the US economy, the direction of crude oil and raw material costs and fears over interest rate hikes, the global economy is still expected to continue growing. In Japan, too, with sustained active capital expenditure and a high level of employment in the private sector, the economy is also expected to retain its underlying strength on the back of an anticipated gradual recovery in consumer spending.

In view of this business environment, JSW has recently formulated a Revised Medium-Term Management Plan (J2008R) running for the two years fiscal 2007 and 2008, during which time the Company intends to continue enhancing its enterprise value by expanding the scale of its businesses, improving capital efficiency and promoting CSR.

Our forecasts for fiscal 2007, the first year of the aforementioned plan, reflect high hopes for a continued strong showing in power plant components, oil refinery towers and pressure vessels and clad steel plates and pipes in the Steel Products Business thanks to anticipated sustained investment in production facilities relating to power, oil and gas development by our customers in line with growing worldwide demand for energy.

The Machinery Products Business is also expected to continue performing well on the back of underlying strong demand for plastics manufacturing and processing machinery, and anticipated increases in demand for wind power generation equipment and magnesium alloy injection molding machines.

On the subject of earnings, we will change our depreciation method from the straight line method to the declining balance method for all property, plant and

equipment apart from buildings and attached facilities in the following term, in an effort to enable the early recovery of funds invested over the coming year, thereby improving our ability to respond to changes in the business environment. We will also increase our depreciation burden with the equal depreciation of the residual value of fully depreciated assets over five years (in accordance with changes in depreciation regulations). The negative impact of such measures, however, is expected to be counteracted by the positive impact of increased production and cutting cost, enabling us to increase both revenues and earnings.

With regard to the Company's organizational structure, we continue to work on complying with corporate ethics, reinforcing internal control, upgrading human resources and stepping up group management, as well as focusing on health and safety management and environmental protection initiatives.

November 2007 will mark the centenary of the establishment of JSW. Having reached this milestone, we are extremely grateful to all of our shareholders and clients, local people and any other concerned parties for all of their kind support since the Company was first formed as a joint venture between three Japanese and British companies at our Muroran site, in southern Hokkaido, in 1907.

As competition continues to intensify on a global scale, we intend to continue enhancing our enterprise value by promoting technology-focused management and providing reliable products and services that satisfy our clients, so that we can continue to earn the trust of our shareholders and develop into a company whose employees feel motivated and proud.

We look forward to receiving the support and encouragement of our shareholders in the future.

June 2007



Masahisa Nagata
President