

Review of Operations

Steel Products

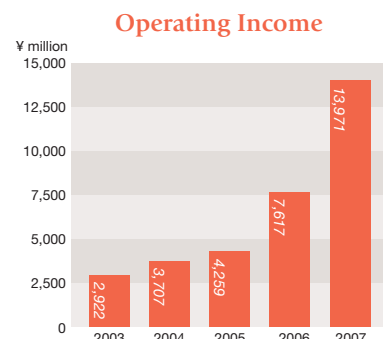
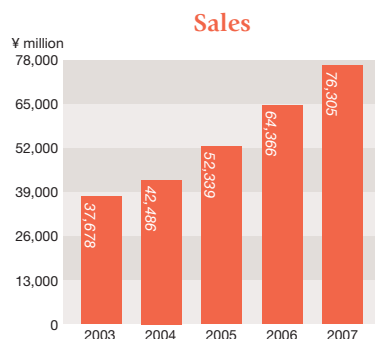
In spite of strong figures for components for thermal and nuclear power plants, reduced orders for products such as oil refinery towers, pressure vessels, and clad steel pipes for offshore natural gas fields — given the absence of any large orders like during the previous year — resulted in an overall year-on-year decline in orders received of ¥2,599 million to ¥102,700 million (US\$870 million).

Sales, meanwhile, were up ¥11,939 million from the previous year at ¥76,305 million (US\$646 million) thanks to improved figures for products such as power plant components and clad steel pipes for offshore natural gas fields.

Operating income rose by ¥6,354 million year-on-year to ¥13,971 million (US\$118 million) on the back of increased sales, improved productivity and revised prices in response to rising raw material costs.



Monoblock Low Pressure Turbine Rotor Shaft



Business prospects

In the steel castings and forgings sector, demand for thermal and nuclear power plant components for the Chinese and US markets is expected to remain strong, with sustained demand also anticipated for large rolls for steel rolling mills. In the steel plates and structures sector too, demand for pressure vessels is expected to remain strong on the back of ongoing new refinery plans in view of rising oil

prices and consumption. Demand for clad steel plates for facilities such as desalination plants and petrochemical plants in the Middle East and steel clad pipes for natural gas fields is also expected to remain at a high level. We intend to continue increasing our profits by capitalizing on the aforementioned firm demand to increase sales, and by cutting costs.

Machinery Products

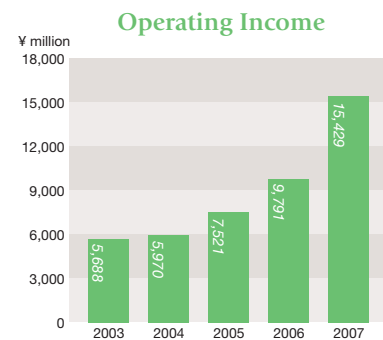
Despite a decline in small and medium-scale plastic injection molding machines for overseas markets, orders received increased overall, largely thanks to continued strong figures for large machines and plastics manufacturing and processing machinery. Elsewhere, laser annealing systems and magnesium alloy injection molding machines for customers in the IT sector, and wind power generation equipment have all continued to perform well, resulting in an overall year-on-year increase of ¥4,771 million to ¥124,118 million (US\$1,051 million).

The term under review saw increased sales of plastics manufacturing and processing machinery on the Middle Eastern and European markets, as well as a continued strong performance from plastics injection molding machines for the production of automotive and consumer electronics. Thanks also to substantial increases in sales of wind power generation equipment and compressors for petrochemical plants, sales rose by ¥20,960 million over the previous year, to ¥127,866



Electric Servo Drive DISC Injection Machine

million (US\$1,083 million). Operating income, meanwhile, rose by ¥5,638 million year-on-year, to ¥15,429 million (US\$131 million), in line with an increase in sales and a reduction in manufacturing costs thanks to increased productivity.



Business prospects

In the plastics machinery sector, the current strong demand for pelletizers and extruders, particularly in the Middle East and China, is expected to continue. Demand for large injection molding machines for use in the production of vehicles and flat panel TVs is also expected to remain healthy, as is demand for large blow-molding machines for the production of plastic fuel tanks for both four- and two-wheeled vehicles. In spite of the anticipated soaring cost of purchased components and intensifying price competition, we intend to make every effort to increase profits by capitalizing on demand to boost sales, and by improving productivity. Having acquired the relevant business

operations, we also intend to significantly increase orders for film and sheet manufacturing equipment.

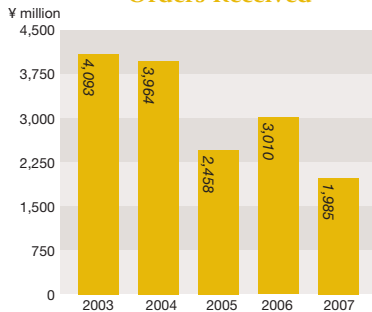
In the field of other machinery, although sales of IT equipment are expected to fall, we intend to take various steps to offset the impact of this, and to increase revenue. These initiatives include entering new markets and expanding applications on the back of the development of high-performance advanced laser annealing systems, as well as providing technical support in relation to magnesium alloy injection molding machines, and continuing to cater to the growing number of power plant plans in the wind power generation business.

Regional Development

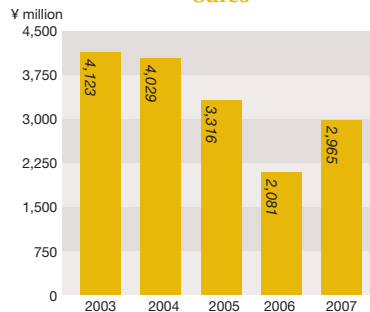
Due to a one-off transaction in the real estate business, relating to which orders were received during the previous year but posted in the reporting year, orders received fell by ¥1,025 million year-on-year to ¥1,985 million (US\$17 million). Sales, on the other hand, were up by ¥884 million from the previous year to ¥2,965 million (US\$25 million). Operating income also rose by ¥122 million year-on-year to ¥868 million (US\$7 million).



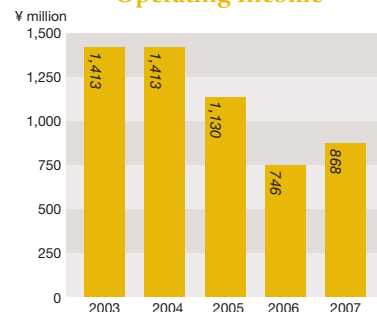
Orders Received



Sales



Operating Income



Capital Expenditure

Capital expenditure over the year totaled ¥9,825 million (US\$83 million), the majority of which was accounted for by installation, improvement and maintenance work on a range of production facilities at the parent company.

Details of capital expenditure according to individual business segments are as follows.

In the Steel Products Business, capital expenditure consisted largely of improving steel plant facilities, improving clad steel pipe manufacturing facilities and upgrading forging plant facilities, totaling ¥6,788 million (US\$58 million). The reporting term also saw the disposal of superannuated company housing.

In the Machinery Products Business, capital expenditure came to ¥2,533 million (US\$21 million), primarily as a result of investment in improving machine processing efficiency.

In the Regional Development Business, capital expenditure consisted primarily of the purchase of real estate for rental purposes, totaling ¥482 million (US\$4 million).

There was no major capital expenditure for non-allocable assets, which are not included within individual segments.