

## Financial Section

THE JAPAN STEEL WORKS, LTD.

### Six-Year Summary

Years ended March 31

Consolidated	Millions of Yen					
	2007	2006	2005	2004	2003	2002
Net sales .....	<b>¥207,138</b>	¥173,353	¥158,274	¥136,309	¥134,268	¥131,976
Net income .....	<b>12,515</b>	6,586	3,284	2,000	831	756
Total assets .....	<b>232,444</b>	196,656	184,683	180,019	173,772	183,523
Total net assets .....	<b>75,621</b>	66,039	58,075	54,689	51,025	50,741
Amounts per share (yen):						
Net income .....	<b>¥33.71</b>	¥17.57	¥8.70	¥5.39	¥2.23	¥2.03

Non-Consolidated	Millions of Yen					
	2007	2006	2005	2004	2003	2002
Net sales .....	<b>¥177,493</b>	¥145,555	¥129,948	¥114,272	¥115,137	¥116,380
Net income .....	<b>12,233</b>	6,026	2,429	1,392	607	371
Total assets .....	<b>215,693</b>	180,734	168,808	168,571	161,869	173,200
Total net assets .....	<b>69,907</b>	60,602	52,899	50,810	47,570	47,389
Amounts per share (yen):						
Net income .....	<b>¥32.95</b>	¥16.07	¥6.39	¥3.75	¥1.64	¥1.00
Cash dividends applicable to the year .....	<b>¥9.00</b>	¥5.00	¥3.00	¥2.00	—	—

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# Financial Performance (Consolidated)

## Operating Results

### 1. Net Sales

We achieved net sales of ¥207,138 million (US\$1,755 million), up ¥33,785 million, or 19.5%, from the previous year. This increase in sales is attributable to dramatic rises in both domestic sales and exports by the Steel Products Business and the Machinery Products Business.

### 2. Operating Income

Operating income increased ¥11,802 million, or 91.7%, to ¥24,678 million (US\$209 million) in line with a rise in gross profit. We achieved an operating margin\* of 11.9%, an improvement of 4.5 percentage points.

\*Operating margin: Ratio of operating income to sales

### 3. Net Income

Net income rose by ¥5,929 million, or 90.0%, to ¥12,515 million (US\$106 million). This took earnings per share to ¥33.71, up from ¥17.57 for the previous year.

### 4. Overseas sales

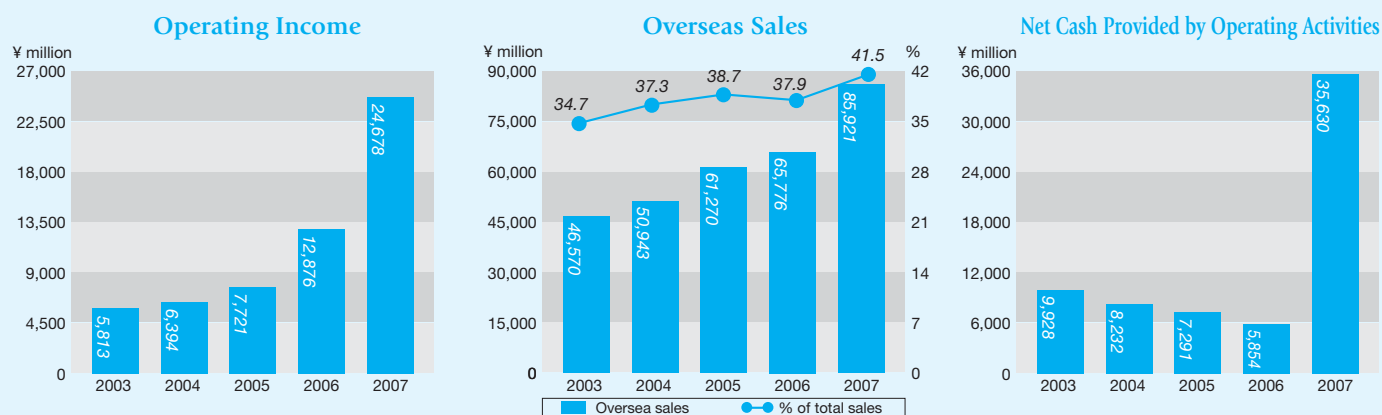
Sales in East Asia increased by 15% from the previous year to ¥41,448 million (US\$351 million). In North America, sales fell 4% to ¥6,630 million (US\$56 million), while in other regions, sales rose 67% to ¥37,842 million (US\$321 million). Total overseas sales grew 31% year-on-year to ¥85,921 million (US\$728 million), accounting for 42% of the Company's total sales on a consolidated basis.

## Cash Flow

Cash and cash equivalents stood at ¥27,472 million (US\$233 million) at the reporting term-end, up ¥9,293 million year-on-year after the elimination of non-cash components. This substantial cash inflow was the combined result of: 1) income before income taxes and minority interests of ¥22,235 million (compared with ¥11,223 million for the previous term) and 2) a surplus which resulted from more efficient employment of working capital, which more than offset increased capital expenditures to enhance production efficiency, and the repayment of a portion of interest-bearing debt.

### Cash Flow from Operating Activities

Net cash provided by operating activities amounted to ¥35,630 million (US\$302 million), up from ¥5,854 million for the previous year. This was due to the posting of ¥22,235 million in income before income taxes and minority interests, as well as depreciation costs and amortization costs of ¥4,691 million, and a decrease in working capital (mainly due to the receipt of advances received for products) which outweighed income taxes paid and a rise in working capital to boost production in line with an increase in sales.



### Net Cash used in Investment Activities

Net cash used in investment activities amounted to ¥9,599 million (US\$81 million), compared with ¥6,534 million for the previous year. This was primarily due to an outlay of ¥6,497 million in the acquisition of new, cutting-edge facilities to increase production efficiency.

### Cash Flow used in Financing Activities

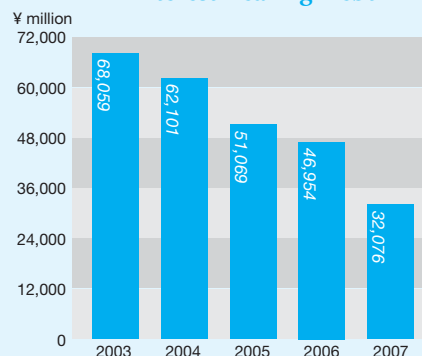
Net cash used in financing activities totaled ¥16,750 million (US\$142 million), up from ¥5,307 million in the previous year. This was due largely to an expenditure of ¥14,877 million for the repayment of long- and short-term loans and corporate bonds issued by subsidiaries, and also the payment of dividends to shareholders.

## Financial Position

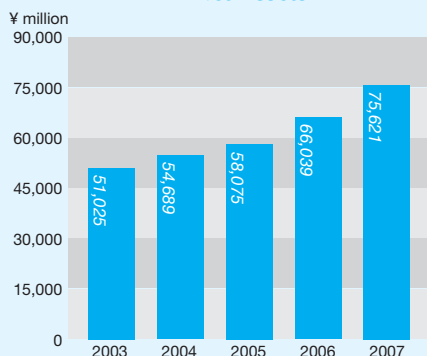
Total assets as of the end of March 2007 came to ¥232,444 million (US\$1,969 million), up ¥35,788 million, or 18.2%, from the previous term-end. This was due to an increase in current assets as a result of a growth in trade receivables and inventory assets. This, in turn, stemmed from increased orders, as well as a higher book value of property, plant and equipment for the Steel Products Business.

Liabilities stood at ¥156,823 million (US\$1,328 million), up ¥26,207 million, or 20.1%, from the previous term-end. A rise in advances received for products, trade payables, and other current liabilities accompanied an increase in orders and sales. Interest-bearing debt decreased by ¥14,877 million to ¥32,076 million (US\$272 million). Net assets totaled ¥75,621 million (US\$641 million) for the term.

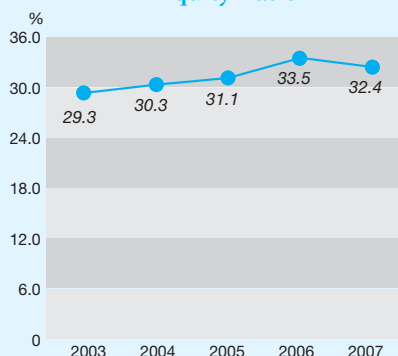
### Interest-Bearing Debt



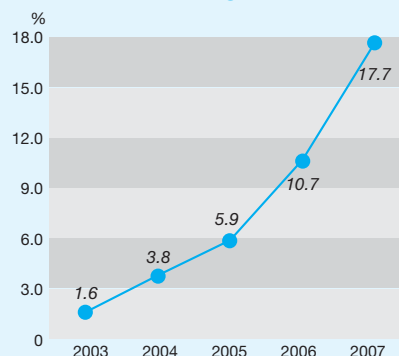
### Net Assets



### Equity Ratio



### ROE



**Consolidated Balance Sheets**

March 31, 2007 and 2006

<b>ASSETS</b>	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	<b>2007</b>	2006	<b>2007</b>
<b>Current assets:</b>			
Cash on hand and in banks (Note 11) .....	<b>¥ 27,881</b>	¥ 18,572	<b>\$ 236,180</b>
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates .....	<b>329</b>	374	<b>2,787</b>
Trade .....	<b>53,448</b>	45,398	<b>452,757</b>
Other .....	<b>804</b>	602	<b>6,811</b>
Less allowance for doubtful accounts .....	<b>(305)</b>	(266)	<b>(2,584)</b>
Inventories (Note 4) .....	<b>58,228</b>	50,583	<b>493,249</b>
Deferred tax assets (Note 12) .....	<b>3,631</b>	2,998	<b>30,758</b>
Other current assets .....	<b>3,757</b>	3,838	<b>31,825</b>
Total current assets .....	<b>147,774</b>	122,100	<b>1,251,792</b>
<b>Property, plant and equipment</b> (Notes 5, 6 and 8):			
Land .....	<b>10,154</b>	9,697	<b>86,014</b>
Buildings and structures .....	<b>62,424</b>	60,311	<b>528,793</b>
Machinery and equipment .....	<b>79,767</b>	75,105	<b>675,705</b>
Construction in progress .....	<b>1,907</b>	1,219	<b>16,154</b>
	<b>154,254</b>	146,333	<b>1,306,684</b>
Less accumulated depreciation .....	<b>(95,611)</b>	(93,229)	<b>(809,920)</b>
Property, plant and equipment, net .....	<b>58,642</b>	53,103	<b>496,756</b>
<b>Intangible assets</b> .....	<b>1,578</b>	1,444	<b>13,367</b>
<b>Investments, long-term loans and other assets:</b>			
Investments in unconsolidated subsidiaries and affiliates .....	<b>888</b>	861	<b>7,522</b>
Investment securities (Note 15) .....	<b>17,283</b>	14,664	<b>146,404</b>
Other long-term loans receivable .....	<b>63</b>	—	<b>534</b>
Deferred tax assets (Note 12) .....	<b>1,368</b>	1,185	<b>11,588</b>
Other assets .....	<b>4,982</b>	3,527	<b>42,202</b>
Less allowance for doubtful accounts .....	<b>(137)</b>	(231)	<b>(1,161)</b>
<b>Total investments, long-term loans and other assets</b> .....	<b>24,449</b>	20,007	<b>207,107</b>
<b>Total assets</b> .....	<b>¥232,444</b>	¥196,656	<b>\$1,969,030</b>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2007	2006	2007
<b>Current liabilities:</b>			
Short-term bank loans (Note 8) .....	¥ 6,611	¥ 12,822	\$ 56,002
Current portion of long-term debt (Note 8) .....	7,091	7,181	60,068
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates .....	143	89	1,211
Trade .....	49,389	41,607	418,374
Other .....	4,727	1,688	40,042
Advances received for products .....	29,405	10,388	249,089
Accrued expenses .....	11,983	8,710	101,508
Deferred tax liabilities (Note 12) .....	—	1	—
Accrued income taxes (Note 12) .....	7,317	3,446	61,982
Other current liabilities .....	5,209	3,541	44,125
Total current liabilities .....	<u>121,877</u>	<u>89,478</u>	<u>1,032,418</u>
<b>Long-term liabilities:</b>			
Long-term debt (Note 8) .....	18,374	26,950	155,646
Accrued retirement benefits (Note 14):			
Employees .....	4,559	3,275	38,619
Directors and corporate auditors .....	237	443	2,008
Deferred tax liabilities (Note 12) .....	4,044	4,040	34,257
Other long-term liabilities .....	7,728	6,427	65,464
Total long-term liabilities .....	<u>34,945</u>	<u>41,137</u>	<u>296,019</u>
<b>Net assets</b>			
<b>Shareholders' equity</b> (Notes 17 and 18):			
Common stock:			
Authorized — 1,000,000,000 shares			
Issued — 371,463,036 shares in 2007 and 2006 .....	19,694	19,694	166,828
Capital surplus .....	5,422	5,422	45,930
Retained earnings .....	46,019	35,469	389,826
Treasury stock, at cost (190,337 shares in 2007 and 156,861 shares in 2006) .....	(59)	(28)	(500)
Total shareholders' equity .....	<u>71,077</u>	<u>60,557</u>	<u>602,092</u>
<b>Valuation, translation adjustments and other:</b>			
Net unrealized gain on investment securities .....	5,808	5,433	49,199
Loss on deferred hedges .....	(1,364)	—	(11,554)
Translation adjustments .....	(118)	(137)	(1,000)
Total valuation, translation adjustments and other .....	<u>4,325</u>	<u>5,295</u>	<u>36,637</u>
<b>Minority interests</b> .....	<u>218</u>	<u>186</u>	<u>1,847</u>
<b>Total net assets</b> .....	<u>75,621</u>	<u>66,039</u>	<u>640,584</u>
<b>Total liabilities and net assets</b> .....	<u>¥232,444</u>	<u>¥196,656</u>	<u>\$1,969,030</u>

# Consolidated Statements of Income

For the years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2007	2006	2007
<b>Net sales</b> .....	<b>¥207,138</b>	¥173,353	<b>\$1,754,663</b>
<b>Cost of sales</b> (Note 13) .....	<b>156,545</b>	136,335	<b>1,326,091</b>
Gross profit .....	<b>50,592</b>	37,018	<b>428,564</b>
<b>Selling, general and administrative expenses</b> (Note 13) .....	<b>25,914</b>	24,141	<b>219,517</b>
Operating income .....	<b>24,678</b>	12,876	<b>209,047</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>230</b>	149	<b>1,948</b>
Interest expense .....	<b>(633)</b>	(843)	<b>(5,362)</b>
Other, net (Note 9) .....	<b>(2,040)</b>	(959)	<b>(17,281)</b>
	<b>(2,443)</b>	(1,653)	<b>(20,695)</b>
<b>Income before income taxes and minority interests</b> .....	<b>22,235</b>	11,223	<b>188,352</b>
<b>Income taxes</b> (Note 12):			
Current .....	<b>9,761</b>	4,406	<b>82,685</b>
Deferred .....	<b>(63)</b>	130	<b>(534)</b>
<b>Minority interests in net income of consolidated subsidiaries</b> .....	<b>21</b>	99	<b>178</b>
<b>Net income</b> (Note 19) .....	<b>¥ 12,515</b>	¥ 6,586	<b>\$ 106,014</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2007 and 2006

Millions of Yen

	Number of shares of common stock (Thousands)	common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on investment securities	Loss on deferred hedges	Translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
Balance at March 31, 2005 .....	371,463	¥19,694	¥5,421	¥30,053	¥(14)	¥55,154	¥2,539	¥—	¥(232)	¥2,307	¥614	¥58,075
Net income .....				6,586		6,586						6,586
Cash dividends paid .....				(1,114)		(1,114)						(1,114)
Bonuses to directors and corporate auditors .....				(55)		(55)						(55)
Purchases of treasury stock .....					(13)	(13)						(13)
Sales of treasury stock .....			0		0	0						0
Unrealized holding gain on securities .....							2,893			2,893		2,893
Translation adjustments .....									94	94		94
Minority interests .....											(427)	(427)
Balance at March 31, 2006 .....	<u>371,463</u>	<u>¥19,694</u>	<u>¥5,422</u>	<u>¥35,469</u>	<u>¥(28)</u>	<u>¥60,557</u>	<u>¥5,433</u>	<u>¥—</u>	<u>¥(137)</u>	<u>¥5,295</u>	<u>¥186</u>	<u>¥66,039</u>

Millions of Yen

	Number of shares of common stock (Thousands)	common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on investment securities	Loss on deferred hedges	Translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
Balance at March 31, 2006 .....	371,463	¥19,694	¥5,422	¥35,469	¥(28)	¥60,557	¥5,433	—	¥(137)	¥5,295	¥186	¥66,039
Adjustments for inclusion of a subsidiary in consolidation .....				6		6						6
Net income .....				12,515		12,515						12,515
Cash dividends paid .....				(1,856)		(1,856)						(1,856)
Bonuses to directors and corporate auditors .....				(115)		(115)						(115)
Purchases of treasury stock .....					(31)	(31)						(31)
Sales of treasury stock .....			0		0	0						0
Unrealized holding gain on securities .....							375			375		375
Unrealized gains or losses on hedges .....								¥(1,364)		(1,364)		(1,364)
Translation adjustments .....									19	19		19
Minority interests .....											31	31
Balance at March 31, 2007 .....	<u>371,463</u>	<u>¥19,694</u>	<u>¥5,422</u>	<u>¥46,019</u>	<u>¥(59)</u>	<u>¥71,077</u>	<u>¥5,808</u>	<u>¥(1,364)</u>	<u>¥(118)</u>	<u>¥4,325</u>	<u>¥218</u>	<u>¥75,621</u>

Thousands of U.S. Dollars (Note 3)

	Number of shares of common stock (Thousands)	common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on investment securities	Loss on deferred hedges	Translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
Balance at March 31, 2006 .....	371,463	\$166,828	\$45,930	\$300,457	\$ (237)	\$512,978	\$46,023	—	\$(1,161)	\$44,854	\$1,576	\$559,416
Adjustments for inclusion of a subsidiary in consolidation .....				51		51						51
Net income .....				106,014		106,014						106,014
Cash dividends paid .....				(15,722)		(15,722)						(15,722)
Bonuses to directors and corporate auditors .....				(974)		(974)						(974)
Purchases of treasury stock .....					(263)	(263)						(263)
Sales of treasury stock .....			0		0	0						0
Unrealized holding gain on securities .....							3,177			3,177		3,177
Unrealized gains or losses on hedges .....								\$(11,554)		(11,554)		(11,554)
Translation adjustments .....									161	161		161
Minority interests .....											263	263
Balance at March 31, 2007 .....	<u>371,463</u>	<u>\$166,828</u>	<u>\$45,930</u>	<u>\$389,826</u>	<u>\$ (500)</u>	<u>\$602,092</u>	<u>\$49,199</u>	<u>\$(11,554)</u>	<u>\$(1,000)</u>	<u>\$36,637</u>	<u>\$1,847</u>	<u>\$640,584</u>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

For the years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2007	2006	2007
<b>Operating activities:</b>			
Income before income taxes and minority interests .....	¥22,235	¥11,223	\$188,352
Depreciation and amortization .....	5,050	4,371	42,778
Interest and dividend income .....	(230)	(149)	(1,948)
Interest expense .....	633	843	5,362
Bonds issuance expenses .....	—	61	—
Equity in income of unconsolidated subsidiaries and affiliates .....	(38)	(58)	(322)
Loss on revaluation of real estate for sale .....	21	—	178
Loss on write-downs of investment securities .....	6	34	51
Gain on investment securities .....	(2)	(98)	(17)
Amortization of net retirement benefit obligation at transition .....	772	782	6,540
Loss on disposal of tangible and intangible assets .....	944	491	7,997
(Gain) loss on sales of property, plant and equipment .....	(25)	57	(212)
Loss on impairment of fixed assets .....	—	63	—
Changes in operating assets and liabilities:			
Trade assets .....	11,464	(279)	97,111
Trade liabilities .....	9,618	4,752	81,474
Inventories (Note 4) .....	(7,666)	(6,094)	(64,939)
Other .....	(850)	(575)	(7,200)
Subtotal .....	41,932	15,426	355,205
Interest and dividends received .....	253	169	2,143
Interest paid .....	(649)	(824)	(5,498)
Income taxes paid .....	(5,906)	(8,916)	(50,030)
<b>Net cash provided by operating activities</b> .....	<b>35,630</b>	<b>5,854</b>	<b>301,821</b>
<b>Investing activities:</b>			
Proceeds from sales of marketable securities .....	—	29	—
Increase in tangible and intangible assets .....	(6,497)	(4,884)	(55,036)
Decrease in tangible and intangible assets .....	54	67	457
Purchases of investment securities .....	(2,026)	(201)	(17,162)
Proceeds from sales of investment securities .....	35	166	296
Reimbursement of long-term deposits on contracts .....	(389)	(453)	(3,295)
Collection of short-term loans receivable .....	0	0	0
Collection of long-term loans receivable .....	—	0	—
Payment upon incorporation of unconsolidated subsidiaries .....	(11)	(99)	(93)
Purchases of shares of common stock of subsidiaries .....	(745)	(894)	(6,311)
Other .....	(17)	(267)	(144)
<b>Net cash used in investing activities</b> .....	<b>(9,599)</b>	<b>(6,534)</b>	<b>(81,313)</b>
<b>Financing activities (Note 8):</b>			
Decrease in short-term bank loans .....	(6,211)	(4,535)	(52,613)
Increase in long-term bank loans .....	—	3,000	—
Decrease in long-term bank loans .....	(8,636)	(5,549)	(73,155)
Proceeds from issuance of bonds .....	—	9,938	—
Bonds payments .....	(30)	(7,030)	(254)
Dividend payments .....	(1,845)	(1,114)	(15,629)
Acquisition of treasury stock .....	(31)	(13)	(263)
Sales of treasury stock .....	0	0	0
Other .....	3	(3)	25
<b>Net cash used in financing activities</b> .....	<b>(16,750)</b>	<b>(5,307)</b>	<b>(141,889)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b> .....	<b>12</b>	<b>55</b>	<b>102</b>
<b>Increase (decrease) in cash and cash equivalents</b> .....	<b>9,293</b>	<b>(5,931)</b>	<b>78,721</b>
<b>Cash and cash equivalents at beginning of the year</b> .....	<b>18,179</b>	<b>24,111</b>	<b>153,994</b>
<b>Cash and cash equivalents at end of the year (Note 11)</b> .....	<b>¥27,472</b>	<b>¥18,179</b>	<b>\$232,715</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

Fiscal year 2006 (Year ended March 31, 2007)

## 1. Basis of Presentation

The Japan Steel Works, Ltd. (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain overseas subsidiaries are consolidated on the basis of fiscal periods ending December 31, and one domestic subsidiary's year end is January 31, both of which differ from that of the Company. However, the necessary adjustments have been made if the effect of the difference is material.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written them down.

Differences, not significant in amount, between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in companies accounted for by the equity method have been charged or credited to income in the year of acquisition and are included in selling, general and administrative expenses.

### (b) Foreign currency translation

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets (excluding minority interests) which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year.

### (c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

### (d) Inventories

Real estate for sale, finished products and work in process are stated at cost determined by the specific identification method. Raw materials are stated at cost determined by the moving average method.

### (e) Short-term investments and investment securities

Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

### (f) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for possible bad debts at an amount estimated based on the historical experience with bad debts on normal receivables plus an additional allowance for specific uncollectible amounts determined by reference to the collectibility of individual doubtful accounts.

### (g) Provision for compensation for completed works

The Company previously accounted for losses on compensation for defects claimed concerning completed works when it provided compensation for such claims. Effective the year ended March 31, 2007, as a result of an increase in the amount of compensation provided for such claims, the Company provided a provision for compensation for completed works by estimating losses on future possible claims. As a result, income before income taxes and minority interests decreased by ¥485 million (\$4,108 thousands) for the year ended March 31, 2007 from the amount which would have been recorded under the previous method.

### (h) Property, plant and equipment and depreciation

Property, plant and equipment is stated on the basis of cost. Depreciation of property, plant and equipment is determined principally by the straight-line method over the estimated useful lives of the respective assets. Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income.

### (i) Bond issuance expenses

Bond issuance expenses are charged to income as incurred.

### (j) Leases

Non-cancelable lease transactions are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

### (k) Retirement benefits

An employee whose employment is terminated is entitled, in most cases, to a lump-sum severance payment determined by reference to the current basic rate of pay, length of service and the conditions under which the termination occurs.

Accrued retirement benefits for employees at March 31, 2007 and 2006 have been provided primarily at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet

dates, as adjusted for the unrecognized net retirement benefit obligation at transition, prior service cost and unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. The net retirement benefit obligation at transition is being amortized principally over a period of 10 years by the straight-line method.

Prior service cost is being amortized as incurred by the straight-line method over a period of 10 years, which is shorter than the average remaining years of service of the eligible employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of 10 years, which is shorter than the average remaining years of service of the employees participating in the plan.

#### (l) Income taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements at March 31, 2007 and 2006 with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

#### (m) Research and development costs

Research and development costs are charged to income when incurred.

#### (n) Revenue recognition

Revenues are generally recognized on sales of products at the time of shipment or on a completed-contract basis, except for those related to large-scale contracts with long-term construction periods of 2 years or more and contracted amounts of ¥3 billion or more which are recognized by the percentage-of-completion method.

#### (o) Derivatives

Derivatives positions are stated at fair value. Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Foreign receivables and payables are translated at the applicable forward foreign exchange rates if certain conditions are met. In addition, the related interest differential paid or received under interest-rate swaps utilized as hedging instruments is recognized over the terms of the swap agreements as an adjustment to the interest expense of the underlying hedged items if certain conditions are met.

#### (p) Adoption of "Opinion Concerning Establishment of Accounting Standard for the Impairment of Fixed Assets"

On August 9, 2002, the Business Accounting Council issued "Opinion Concerning Establishment of Accounting Standard for the Impairment of Fixed Assets," and on October 31, 2003, the Accounting Standards Board of Japan issued No. 6 entitled "Guidance on Accounting Standard for Impairment of Fixed Assets." Effective the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries adopted this accounting standard and guidance. As a result, a loss on impairment of property, plant and equipment in the amount of ¥63 million was recognized and income before income taxes and minority interests decreased by the same amount for the year ended March 31, 2006 from the corresponding amount which would have been recorded under the previous method. The accumulated impairment losses have been directly deducted from each asset's acquisition cost in the consolidated balance sheet at March 31, 2006.

#### (q) Adoption of "Accounting Standard for Directors' Bonuses"

On November 29, 2005, the Accounting Standards Board of Japan issued Statement No. 4 entitled "Accounting Standard for Directors' Bonuses." Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted this accounting standard. As a result, provision for directors' bonuses in the amount of ¥162 million (\$1,372 thousand) has been recognized and income before income taxes and minority interests decreased by the same amount for the year ended March 31, 2007 from the corresponding amount which would have been recorded under the previous method.

#### (r) Adoption of "Accounting Standard for Presentation of Net Assets in the Balance Sheet"

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007. The amount corresponding to total shareholders' equity under the previous method of presentation was ¥76,767 million (\$650,292 thousand).

### 3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollars is included solely for convenience, as a matter of arithmetic computation only, at ¥118.05 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2007. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

### 4. Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Real estate for sale .....	¥ 49	¥ 1,068	\$ 415
Finished products .....	2,407	1,652	20,390
Work in process .....	51,670	44,085	437,696
Raw materials and supplies .....	4,100	3,777	34,731
Total.....	<u>¥58,228</u>	<u>¥50,583</u>	<u>\$493,249</u>

### 5. Depreciation

Depreciation charges for property, plant and equipment for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Depreciation .....	¥4,691	¥4,112	\$39,737

## 6. Advanced Depreciation

Accumulated advanced depreciation related to government grants received has been deducted directly from the acquisition costs of certain tangible fixed assets (plant, machinery and equipment). These depreciation charges are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Advanced depreciation .....	<b>¥379</b>	¥379	<b>\$3,211</b>

## 7. Contingent Liabilities

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
As endorser of trade notes receivable:			
Discounted with banks .....	<b>¥ 9</b>	¥ 65	<b>\$ 76</b>
Endorsed with other .....	<b>94</b>	134	<b>796</b>
As guarantees of loans:			
Muroran Environmental Plant Service Co., Ltd. ....	<b>415</b>	—	<b>3,515</b>
Employees and other .....	<b>1,108</b>	—	<b>9,386</b>
Total .....	<b>¥1,626</b>	¥199	<b>\$13,774</b>

## 8. Short-Term Bank Loans and Long-Term Debt

All short-term bank loans, with interest at annual rates ranging from 0.40% to 6.39% at March 31, 2007 were unsecured.

Long-term debt at March 31, 2007 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Loans from banks and insurance companies with interest at annual rates ranging from 1.00% to 2.50% .....	<b>¥15,405</b>	¥24,042	<b>\$130,496</b>
Less those maturing within one year ....	<b>(7,061)</b>	(7,151)	<b>(59,814)</b>
0.72% straight bonds, due 2008 ....	<b>60</b>	90	<b>508</b>
Less those maturing within one year ....	<b>(30)</b>	(30)	<b>(254)</b>
0.92% straight bonds, due 2010 ....	<b>10,000</b>	10,000	<b>84,710</b>
Long-term indebtedness reflected in balance sheets .....	<b>¥18,374</b>	¥26,950	<b>\$155,646</b>

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized below:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008 .....	¥ 7,091	\$60,068
2009 .....	2,135	18,086
2010 .....	2,322	19,670
2011 .....	10,587	89,682
2012 .....	330	2,795
2013 and thereafter .....	3,000	25,413

The assets pledged as collateral for long-term debt at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Property, plant and equipment, at net book value .....	<b>¥11,994</b>	¥12,750	<b>\$101,601</b>

## 9. Other Income (Expenses) — Other, Net

The details of "Other, net" in "Other income (expenses)" for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Loss on sales or disposal of property, plant and equipment....	<b>¥ (950)</b>	¥(555)	<b>\$ (8,047)</b>
Gain on sales of property, plant and equipment .....	<b>31</b>	6	<b>263</b>
Gain on sales of raw materials and supplies .....	<b>272</b>	118	<b>2,304</b>
Loss on impairment of fixed assets .....	<b>—</b>	(63)	<b>—</b>
Amortization of net retirement benefit obligation at transition...	<b>(693)</b>	(693)	<b>(5,870)</b>
Provision for compensation for completed works .....	<b>(485)</b>	—	<b>(4,108)</b>
Gain on cancellation fees received .....	<b>175</b>	4	<b>1,482</b>
Gain on sales of investment securities .....	<b>2</b>	98	<b>17</b>
Loss on write-downs of investment securities .....	<b>(6)</b>	(34)	<b>(51)</b>
Loss of revaluation of real estate for sale .....	<b>(21)</b>	—	<b>(178)</b>
PCB disposal expenses .....	<b>(277)</b>	—	<b>(2,346)</b>
Other, net .....	<b>(88)</b>	160	<b>(745)</b>
Total .....	<b>¥(2,040)</b>	¥(959)	<b>\$ (17,281)</b>

## 10. Leases

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation and net book value of the leased property as of March 31, 2007 and 2006, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

Year ended March 31, 2007

	Millions of Yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings .....	<b>¥ 8</b>	<b>¥ 1</b>	<b>\$ 7</b>
Machinery and vehicles .....	<b>3,465</b>	<b>1,754</b>	<b>1,710</b>
Equipment .....	<b>2,593</b>	<b>1,280</b>	<b>1,312</b>
Software .....	<b>274</b>	<b>117</b>	<b>156</b>
Total .....	<b>¥6,341</b>	<b>¥3,154</b>	<b>\$3,187</b>

	Thousands of U.S. Dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings .....	<b>\$ 68</b>	<b>\$ 8</b>	<b>\$ 59</b>
Machinery and vehicles .....	<b>29,352</b>	<b>14,858</b>	<b>14,485</b>
Equipment .....	<b>21,965</b>	<b>10,843</b>	<b>11,114</b>
Software .....	<b>2,321</b>	<b>991</b>	<b>1,321</b>
Total .....	<b>\$53,715</b>	<b>\$26,717</b>	<b>\$26,997</b>

Year ended March 31, 2006

	Millions of Yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings .....	<b>¥ 38</b>	<b>¥ 33</b>	<b>¥ 5</b>
Machinery and vehicles .....	3,904	2,028	1,875
Equipment .....	2,431	1,010	1,420
Software .....	167	76	90
Total .....	<b>¥6,541</b>	<b>¥3,148</b>	<b>¥3,392</b>

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,096 million (\$9,284 thousand) and ¥1,057 million, which were equal to the depreciation of

the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2007 and 2006, respectively.

Future minimum lease payments subsequent to March 31, 2007 on non-cancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of Yen		Thousands of U.S. Dollars	
	Finance leases	Operating leases	Finance leases	Operating leases
2008.....	¥1,098	¥ 619	\$ 9,301	\$ 5,244
2009 and thereafter.....	2,088	1,206	17,687	10,216
Total.....	<u>¥3,187</u>	<u>¥1,825</u>	<u>\$26,997</u>	<u>\$15,460</u>

## 11. Cash Flow Information

### (a) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows and cash on hand and in banks in the consolidated balance sheets at March 31, 2007 and 2006 are reconciled as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Cash on hand and in banks in balance sheets.....	<b>¥27,881</b>	¥18,572	<b>\$236,180</b>
Time deposits with maturities of over three months.....	<b>(408)</b>	(392)	<b>(3,456)</b>
Cash and cash equivalents in cash flow statements.....	<u><b>¥27,472</b></u>	<u>¥18,179</u>	<u><b>\$232,715</b></u>

### (b) Summary of assets and liabilities of a newly consolidated subsidiary following acquisition of its shares

The following is a summary of the assets and liabilities of Tahara Machinery Ltd., which was newly consolidated upon acquisition of its shares, and reconciliation of the related acquisition cost and net cash outflows during the year ended March 31, 2007.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2007	2007
Current assets.....	<b>¥675</b>		<b>\$ 5,718</b>
Non current assets.....	<b>704</b>		<b>5,964</b>
Goodwill.....	<b>258</b>		<b>2,186</b>
Current liabilities.....	<b>(829)</b>		<b>(7,022)</b>
Non current liabilities.....	<b>(88)</b>		<b>(745)</b>
Acquisition cost of Tahara Machinery Ltd.....	<b>¥720</b>		<b>\$(6,099)</b>
Cash and Cash equivalents of Tahara Machinery Ltd.....	<b>¥ (80)</b>		<b>\$ (678)</b>
Net cash used for acquisition of Tahara Machinery Ltd.....	<u><b>¥639</b></u>		<u><b>\$ 5,413</b></u>

### (c) Significant components of assets that increased resulting from an acquisition of an operation are as follows;

	Millions of Yen		Thousands of U.S. Dollars
	2007	2007	2007
Non current assets.....	<b>¥458</b>		<b>\$3,880</b>
Goodwill.....	<b>191</b>		<b>1,618</b>
Total assets.....	<u><b>¥650</b></u>		<u><b>\$5,506</b></u>

## 12. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, enterprise tax and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.5% for the years ended March 31, 2007 and 2006. Income taxes of the overseas consolidated subsidiaries are based generally on the tax rates applicable in their respective countries of incorporation.

The Company has omitted a reconciliation between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2006 because the differences between these rates were less than 5%.

The effective tax rate reflected in the consolidated statement of income for the year ended March 31, 2007 differs from the statutory tax rate for reasons summarized in the table below:

	2007
Statutory tax rate.....	<b>40.5%</b>
Effect of:	
Income taxes paid for prior years.....	<b>1.9</b>
Other.....	<b>1.2</b>
Effective tax rate.....	<u><b>43.6%</b></u>

The significant components of the Company's deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Allowance for doubtful accounts.....	¥ —	¥ 14	\$ —
Accrued enterprise tax.....	<b>560</b>	282	<b>4,744</b>
Accrued bonuses.....	<b>1,373</b>	1,161	<b>11,631</b>
Unrealized gain on intercompany transactions.....	<b>573</b>	420	<b>4,854</b>
Accrued employees' retirement benefits.....	<b>2,474</b>	2,609	<b>20,957</b>
Accrued directors' and corporate auditors' retirement benefits.....	<b>223</b>	181	<b>1,889</b>
Loss on revaluation of inventory items.....	<b>80</b>	1,043	<b>678</b>
Loss on revaluation of monetary goods.....	<b>231</b>	90	<b>1,957</b>
Depreciation.....	<b>424</b>	—	<b>3,592</b>
Provision for compensation for completed works.....	<b>196</b>	—	<b>1,660</b>
PCB disposal expenses.....	<b>202</b>	—	<b>1,711</b>
Loss carryforward.....	<b>136</b>	—	<b>1,152</b>
Loss on deferred hedges.....	<b>948</b>	—	<b>8,030</b>
Unrealized loss on investment securities.....	<b>17</b>	6	<b>144</b>
Other.....	<b>194</b>	237	<b>1,643</b>
Gross deferred tax assets.....	<b>7,638</b>	6,043	<b>64,701</b>
Valuation allowance.....	<b>(510)</b>	—	<b>(4,320)</b>
Total deferred tax assets.....	<u><b>7,127</b></u>	<u>6,043</u>	<u><b>60,373</b></u>
Deferred tax liabilities:			
Reserve for advanced depreciation.....	<b>2,100</b>	2,195	<b>17,789</b>
Unrealized gain on investment securities.....	<b>3,969</b>	3,707	<b>33,621</b>
Reversal of allowance for doubtful accounts.....	<b>47</b>	—	<b>398</b>
Other.....	<b>55</b>	0	<b>466</b>
Total deferred tax liabilities.....	<u><b>6,172</b></u>	<u>5,902</u>	<u><b>52,283</b></u>
Net deferred tax assets.....	<u><b>¥ 955</b></u>	<u>¥ 141</u>	<u><b>\$ 8,090</b></u>

### 13. Research and Development Expenses

Research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Research and development expenses .....	<b>¥3,312</b>	¥3,022	<b>\$28,056</b>

### 14. Employees' Retirement Benefit Plans

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
1. Retirement benefit obligation....	<b>¥(28,716)</b>	¥(29,145)	<b>\$(243,253)</b>
2. Plan assets at fair value.....	<b>21,364</b>	22,071	<b>180,974</b>
3. Unfunded retirement benefit obligation (1+2).....	<b>(7,351)</b>	(7,073)	<b>(62,270)</b>
4. Unrecognized net retirement benefit obligation at transition ....	<b>2,302</b>	3,074	<b>19,500</b>
5. Unrecognized actuarial loss.....	<b>901</b>	928	<b>7,632</b>
6. Prior service cost .....	<b>1,267</b>	(205)	<b>10,733</b>
7. Subtotal (3+4+5+6).....	<b>(2,879)</b>	(3,275)	<b>(24,388)</b>
8. Accrued retirement benefits ....	<b>¥ (4,559)</b>	¥ (3,275)	<b>\$ (38,619)</b>
9. Prepaid pension cost .....	<b>¥ 1,679</b>	¥ —	<b>\$ 14,223</b>

The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
1. Service cost .....	<b>¥1,737</b>	¥1,592	<b>\$14,714</b>
2. Interest cost .....	<b>501</b>	577	<b>4,244</b>
3. Expected return on plan assets ....	<b>(424)</b>	(373)	<b>(3,592)</b>
4. Amortization of net retirement benefit obligation at transition ....	<b>772</b>	782	<b>6,540</b>
5. Amortization of actuarial loss....	<b>179</b>	953	<b>1,516</b>
6. Amortization of prior service cost ....	<b>155</b>	(25)	<b>1,313</b>
7. Retirement benefit expenses....	<b>¥2,922</b>	¥3,507	<b>\$24,752</b>

The assumptions used in accounting for the above plans were as follows:

	2007	2006
Discount rate .....	<b>2.00%</b>	2.00%
Expected rate of return on plan assets .....	<b>2.00%</b>	2.00%

### 15. Securities

March 31, 2007

(a) Other investment securities with determinable fair value were as follows:

	Millions of Yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Carrying value exceeds acquisition cost:			
Stocks .....	<b>¥5,489</b>	<b>¥15,294</b>	<b>¥9,804</b>
Carrying value does not exceed acquisition cost:			
Stocks .....	<b>189</b>	<b>145</b>	<b>(43)</b>
Total .....	<b>¥5,678</b>	<b>¥15,439</b>	<b>¥9,760</b>

	Thousands of U.S. Dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Carrying value exceeds acquisition cost:			
Stocks .....	<b>\$46,497</b>	<b>\$129,555</b>	<b>\$83,050</b>
Carrying value does not exceed acquisition cost:			
Stocks .....	<b>1,601</b>	<b>1,228</b>	<b>(364)</b>
Total .....	<b>\$48,098</b>	<b>\$130,784</b>	<b>\$82,677</b>

(b) Other investment securities without determinable fair value were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Other unlisted securities .....	<b>¥1,843</b>	<b>\$15,612</b>

March 31, 2006

(a) Other investment securities with determinable fair value were as follows:

	Millions of Yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Carrying value exceeds acquisition cost:			
Stocks .....	¥3,314	¥12,464	¥9,150
Carrying value does not exceed acquisition cost:			
Stocks .....	360	343	(17)
Total .....	<b>¥3,675</b>	<b>¥12,808</b>	<b>¥9,133</b>

(b) Other investment securities without determinable fair value were as follows:

	Millions of Yen
Other unlisted securities .....	¥1,855

### 16. Liquidation of Notes and Accounts Receivable

Notes and accounts receivables deducted from trade receivables for liquidation at March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Notes receivable .....	<b>¥ 871</b>	¥ 524	<b>\$ 7,378</b>
Accounts receivable .....	<b>9,244</b>	6,295	<b>78,306</b>

## 17. Supplementary Information for Consolidated Statements of Changes in Net Assets

(a) Total number and periodic changes in number of outstanding shares and treasury stock by type were as follows:

	Number of shares			
	End of March 31, 2006	Increase in shares during the year	Decrease in shares during the year	End of March 31, 2007
Issued stock:				
Common shares .....	371,463,036	—	—	371,463,036
Treasury stock:				
Common shares .....	156,861	34,744	1,268	190,337

Note 1: Increase in number of treasury stock by 34,744 shares was due to the acquisition of fractional shares of less than one unit.  
 2: Decrease in number of treasury stock by 1,268 shares was due to sales of shares to shareholders with fractional shares of less than one unit.

(b) Dividends

(i) Dividends paid to shareholders

Approval: Ordinary general meeting of shareholders held on June 29, 2006

Type of shares: Common Stock

Total amount of dividends: ¥1,856 (\$15,722 thousand)

Dividends per share: ¥5 (\$0.042)

Record date: March 31, 2006

Effective date: June 29, 2006

(ii) Dividends whose record date fell in to the current fiscal year but whose effective date is after the current fiscal year

Approval: Ordinary general meeting of shareholders held on June 28, 2007

Type of shares: Common Stock

Total amount of dividends: ¥3,341 (\$28,302 thousand)

Dividends per share: ¥9 (\$0.076)

Record date: March 31, 2007

Effective date: June 29, 2007

Source of dividends: Retained earnings

## 18. Shareholders' Equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

## 19. Amounts per Share

Net income per share for the year is calculated based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Net assets per share at the year end are based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each year end.

	Yen		U.S. Dollars
	Year ended March 31,		Year ended
	2007	2006	March 31,
Net income .....	¥ 33.71	¥ 17.57	\$0.29
Net assets .....	¥203.09	¥177.19	\$1.72

## 20. Subsequent Event

On April 3 and 6, 2007, the Company sold the former site of Kashima Plant to Chugoku Mokuzai Co., Ltd. and Kanto Grain Terminal Co., Ltd. respectively. The total sale amount was ¥2,501 million (\$21,186 thousand).

## 21. Segment Information

The Company and its consolidated subsidiaries operate in the following three business segments:

- Operations in the steel products segment include steel castings and forgings, steel plates, pressure vessels and steel structures.
- Operations in the machinery products segment include injection molding machines, film and sheet machinery, blow molding machines, magnesium injection molding machines, waste treatment equipment and manufacturing equipment for electronic products.
- Operations in the regional development segment include the Fuchu Intelligent Park Project and the leasing of real estate.

### (a) Business segment information

As described in Note 2(q) effective April 1, 2006, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for directors' bonuses. The effect of this change was to increase "Operating expenses" in "Eliminations and Corporate" by ¥162 million (\$1,372 thousand) and decrease "Operating income" in "Eliminations and Corporate" by the same amount, for the year ended March 31, 2007 compared with the corresponding amounts which would have been recorded if the previous method had been followed.

Year ended March 31, 2007	Millions of Yen					
	Steel Products	Machinery Products	Regional Development	Total	Eliminations and Corporate	Consolidated
Sales and operating income:						
Sales to third parties .....	¥76,305	¥127,866	¥ 2,965	¥207,138	¥ —	¥207,138
Intra-group sales and transfers .....	2,051	217	8	2,278	(2,278)	—
Net sales .....	78,357	128,084	2,973	209,416	(2,278)	207,138
Operating expenses .....	64,386	112,654	2,105	179,146	3,312	182,459
Operating income .....	¥13,971	¥ 15,429	¥ 868	¥ 30,269	¥ (5,590)	¥ 24,678
Total assets, depreciation expense, and capital expenditures:						
Total assets .....	¥76,022	¥ 93,316	¥13,478	¥182,817	¥49,627	¥232,444
Depreciation expense .....	¥ 2,572	¥ 1,659	¥ 326	¥ 4,559	¥ 132	¥ 4,691
Capital expenditures .....	¥ 6,788	¥ 2,533	¥ 482	¥ 9,804	¥ 20	¥ 9,825

Year ended March 31, 2007	Thousands of U.S. Dollars					
	Steel Products	Machinery Products	Regional Development	Total	Eliminations and Corporate	Consolidated
Sales and operating income:						
Sales to third parties .....	\$646,379	\$1,083,151	\$ 25,116	\$1,754,663	\$ —	\$1,754,663
Intra-group sales and transfers .....	17,374	1,838	68	19,297	(19,297)	—
Net sales .....	663,761	1,084,998	25,184	1,773,960	(19,297)	1,754,663
Operating expenses .....	545,413	954,291	17,831	1,517,543	28,056	1,545,608
Operating income .....	\$118,348	\$ 130,699	\$ 7,353	\$ 256,408	\$(47,353)	\$ 209,047
Total assets, depreciation expense, and capital expenditures:						
Total assets .....	\$643,981	\$ 790,479	\$114,172	\$1,548,640	\$420,390	\$1,969,030
Depreciation expense .....	\$ 21,787	\$ 14,053	\$ 2,762	\$ 38,619	\$ 1,118	\$ 39,737
Capital expenditures .....	\$ 57,501	\$ 21,457	\$ 4,083	\$ 83,050	\$ 169	\$ 83,227

Year ended March 31, 2006	Millions of Yen					
	Steel Products	Machinery Products	Regional Development	Total	Eliminations and Corporate	Consolidated
Sales and operating income:						
Sales to third parties .....	¥64,366	¥106,906	¥ 2,081	¥173,353	¥ —	¥173,353
Intra-group sales and transfers .....	1,275	442	12	1,730	(1,730)	—
Net sales .....	65,641	107,349	2,093	175,084	(1,730)	173,353
Operating expenses .....	58,024	97,557	1,347	156,928	3,548	160,477
Operating income .....	¥ 7,617	¥ 9,791	¥ 746	¥ 18,155	¥ (5,279)	¥ 12,876
Total assets, depreciation expense, loss on impairment of fixed assets and capital expenditures:						
Total assets .....	¥59,830	¥ 87,154	¥14,346	¥161,331	¥35,325	¥196,656
Depreciation expense .....	¥ 2,034	¥ 1,617	¥ 326	¥ 3,978	¥ 134	¥ 4,112
Loss on impairment of fixed assets .....	¥ 44	¥ 19	¥ —	¥ 63	¥ —	¥ 63
Capital expenditures .....	¥ 3,276	¥ 1,706	¥ 0	¥ 4,983	¥ 123	¥ 5,106

## (b) Geographical segment information

As described in Note 2(q) effective April 1, 2006, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for directors' bonuses. The effect of this change was to increase "Operating expenses" in "Eliminations and Corporate" by ¥162 million (\$1,372 thousand) and decrease "Operating income" in "Eliminations and Corporate" by the same amount, for the year ended March 31, 2007 compared with the corresponding amounts which would have been recorded if the previous method had been followed.

Year ended March 31, 2007	Millions of Yen					Eliminations and Corporate	Consolidated
	Japan	North America	Asia (except Japan)	Total			
Sales and operating income:							
Sales to third parties .....	¥200,185	¥3,550	¥3,402	¥207,138	¥ —	¥207,138	
Interarea sales and transfers .....	5,310	106	1,019	6,437	(6,437)	—	
Net sales .....	205,496	3,657	4,421	213,575	(6,437)	207,138	
Operating expenses .....	175,320	3,489	4,229	183,038	(578)	182,459	
Operating income .....	¥ 30,176	¥ 168	¥ 192	¥ 30,537	¥ (5,858)	¥ 24,678	
Total assets .....	¥182,607	¥2,595	¥2,294	¥187,497	¥44,947	¥232,444	

Year ended March 31, 2007	Thousands of U.S. Dollars					
Sales and operating income:						
Sales to third parties .....	\$1,695,765	\$30,072	\$28,818	\$1,754,663	\$ —	\$1,754,663
Interarea sales and transfers .....	44,981	898	8,632	54,528	(54,528)	—
Net sales .....	1,740,754	30,978	37,450	1,809,191	(54,528)	1,754,663
Operating expenses .....	1,485,133	29,555	35,824	1,550,512	(4,896)	1,545,608
Operating income .....	\$ 255,620	\$ 1,423	\$ 1,626	\$ 258,679	\$ (49,623)	\$ 209,047
Total assets .....	\$1,546,861	\$21,982	\$19,432	\$1,588,285	\$380,745	\$1,969,030

Year ended March 31, 2006	Millions of Yen					
Sales and operating income:						
Sales to third parties .....	¥168,005	¥2,286	¥3,061	¥173,353	¥ —	¥173,353
Interarea sales and transfers .....	4,442	94	724	5,261	(5,261)	—
Net sales .....	172,448	2,381	3,785	178,615	(5,261)	173,353
Operating expenses .....	154,412	2,275	3,736	160,423	53	160,477
Operating income .....	¥ 18,036	¥ 106	¥ 49	¥ 18,192	¥ (5,315)	¥ 12,876
Total assets .....	¥161,052	¥2,610	¥2,848	¥166,511	¥30,145	¥196,656

## (c) Overseas sales information

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its overseas consolidated subsidiaries, for the years ended March 31, 2007 and 2006 are summarized as follows:

Year ended March 31, 2007	Millions of Yen			
	East Asia	North America	Other	Total
Overseas sales .....	¥41,448	¥6,630	¥37,842	¥ 85,921
Total consolidated sales ....				207,138
Overseas sales as a percentage of total consolidated sales (%).....	20.0	3.2	18.3	41.5

Year ended March 31, 2007	Thousands of U.S. Dollars			
	East Asia	North America	Other	Total
Overseas sales .....	\$351,105	\$56,163	\$320,559	\$ 727,836
Total consolidated sales ....				1,754,663
Overseas sales as a percentage of total consolidated sales (%).....	20.0	3.2	18.3	41.5

Year ended March 31, 2006	Millions of Yen			Total
	East Asia	North America	Other	
Overseas sales .....	¥36,177	¥6,927	¥22,671	¥ 65,776
Total consolidated sales ....				173,353
Overseas sales as a percentage of total consolidated sales (%).....	20.9	4.0	13.1	37.9

# Report of Independent Auditors



■ Certified Public Accountants  
Hibiya Kokusai Bldg.  
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Chiyoda-ku, Tokyo, Japan 100-0011  
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100  
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## Report of Independent Auditors

The Board of Directors  
The Japan Steel Works, Ltd.

We have audited the accompanying consolidated balance sheets of The Japan Steel Works, Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Japan Steel Works, Ltd. and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

### *Supplemental Information*

- (1) As described in Note 2(r), effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for presentation of net assets in the balance sheet.
- (2) As described in Note 2(q), effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for directors' bonuses.
- (3) As described in Note 20, the Company sold the former site of Kashima Plant on April 3 and 6, 2007.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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.

*Ernst & Young ShinNihon*

June 28, 2007

# Other Financial Information

THE JAPAN STEEL WORKS, LTD.

## Non-Consolidated Balance Sheets

March 31, 2007 and 2006

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Current assets:</b>			
Cash on hand and in banks .....	¥ 22,021	¥ 12,367	\$ 186,540
Notes and accounts receivable:			
Subsidiaries and affiliates .....	8,402	9,801	71,173
Trade .....	41,918	34,201	355,087
Other .....	730	575	6,184
Less allowance for doubtful accounts .....	(64)	(48)	(542)
Inventories .....	51,804	43,892	438,831
Deferred tax assets .....	2,273	1,797	19,255
Other current assets .....	4,160	4,306	35,239
Total current assets .....	<u>131,246</u>	<u>106,894</u>	<u>1,111,783</u>
<b>Property, plant and equipment:</b>			
Land .....	9,129	9,130	77,332
Buildings and structures .....	59,907	58,022	507,471
Machinery and equipment .....	75,771	71,417	641,855
Construction in progress .....	1,896	823	16,061
	<u>146,704</u>	<u>139,394</u>	<u>1,242,728</u>
Less accumulated depreciation .....	(91,120)	(89,302)	(771,876)
Property, plant and equipment, net .....	<u>55,584</u>	<u>50,092</u>	<u>470,851</u>
<b>Intangible assets</b> .....	<b>366</b>	151	<b>3,100</b>
<b>Investments, long-term loans and other assets:</b>			
Investments in subsidiaries and affiliates .....	7,449	6,624	63,100
Investment securities .....	17,819	14,483	150,945
Long-term loans receivable from subsidiaries and affiliates .....	—	31	—
Other assets .....	3,277	2,525	27,759
Less allowance for doubtful accounts .....	(50)	(69)	(424)
Total investments and other assets .....	<u>28,495</u>	<u>23,595</u>	<u>241,381</u>
<b>Total assets</b> .....	<u>¥215,693</u>	<u>¥180,734</u>	<u>\$1,827,133</u>

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Current liabilities:</b>			
Short-term bank loans .....	¥ 4,980	¥ 10,460	\$ 42,186
Current portion of long-term debt .....	6,922	6,990	58,636
Notes and accounts payable:			
Subsidiaries and affiliates .....	16,450	13,158	139,348
Trade .....	32,346	27,865	274,003
Other .....	4,494	1,688	38,069
Advances received for products .....	27,901	10,115	236,349
Accrued expenses .....	9,669	6,570	81,906
Accrued income taxes .....	6,530	2,728	55,316
Other current liabilities .....	5,918	3,471	50,131
Total current liabilities .....	<u>115,212</u>	<u>83,048</u>	<u>975,959</u>
<b>Long-term liabilities:</b>			
Long-term debt .....	18,095	26,517	153,283
Accrued retirement benefits:			
For employees .....	1,298	347	10,995
For directors and corporate auditors .....	—	284	—
Long-term security deposits received .....	6,078	5,724	51,487
Other long-term liabilities .....	1,092	171	9,250
Deferred tax liabilities .....	4,008	4,036	33,952
Total long-term liabilities .....	<u>30,573</u>	<u>37,082</u>	<u>258,983</u>
<b>Net Assets</b>			
Shareholders' equity:			
Common stock			
Authorized — 1,000,000,000 shares			
Issued — 371,463,036 shares in 2007 and 2006 .....	19,694	19,694	166,828
Capital surplus .....	5,422	5,422	45,930
Legal reserve .....	3,236	3,236	27,412
Retained earnings .....	37,219	26,904	315,282
Treasury stock.....	(59)	(28)	(500)
Total shareholders' equity .....	<u>65,512</u>	<u>55,228</u>	<u>554,951</u>
Valuation, translation adjustments and others:			
Net unrealized gains on investment securities .....	5,758	5,373	48,776
Loss on deferred hedge .....	(1,364)	—	(11,554)
Total Valuation, translation adjustments and others .....	<u>4,393</u>	<u>5,373</u>	<u>37,213</u>
Total Net Assets .....	<u>69,907</u>	<u>60,602</u>	<u>592,181</u>
<b>Total liabilities and net assets .....</b>	<u>¥215,693</u>	<u>¥180,734</u>	<u>\$1,827,133</u>

THE JAPAN STEEL WORKS, LTD.

## Non-Consolidated Statements of Income

For the years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Net sales</b> .....	<b>¥177,493</b>	¥145,555	<b>\$1,503,541</b>
<b>Cost of sales</b> .....	<b>135,373</b>	117,041	<b>1,146,743</b>
Gross profit .....	<b>42,120</b>	28,514	<b>356,798</b>
<b>Selling, general and administrative expenses</b> .....	<b>19,297</b>	17,807	<b>163,465</b>
Operating income .....	<b>22,823</b>	10,706	<b>193,333</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>563</b>	518	<b>4,769</b>
Interest expenses .....	<b>(570)</b>	(781)	<b>(4,828)</b>
Other, net .....	<b>(2,087)</b>	(758)	<b>(17,679)</b>
	<b>(2,094)</b>	(1,021)	<b>(17,738)</b>
<b>Income before income taxes</b> .....	<b>20,728</b>	9,685	<b>175,587</b>
<b>Income taxes:</b>			
Current .....	<b>8,333</b>	3,232	<b>70,589</b>
Deferred .....	<b>161</b>	425	<b>1,364</b>
<b>Net income</b> .....	<b>¥ 12,233</b>	¥ 6,026	<b>\$ 103,626</b>

THE JAPAN STEEL WORKS, LTD.

## Non-Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2007 and 2006

Millions of Yen

	Number of shares of common stock (Thousands)	common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on investment securities	Loss on deferred hedges	Total valuation and other	Total net assets
Balance at March 31, 2005.....	371,463	¥19,694	¥5,421	¥25,283	¥(14)	¥50,385	¥2,513	¥—	¥2,513	¥52,899
Net income.....				6,026		6,026				6,026
Cash dividends paid .....				(1,114)		(1,114)				(1,114)
Bonuses to directors and corporate auditors .....				(55)		(55)				(55)
Purchases of treasury stock...					(13)	(13)				(13)
Sales of treasury stock .....			0		0	0				0
Unrealized holding gain on securities .....						—	2,859		2,859	2,859
Balance at March 31, 2006 .....	<u>371,463</u>	<u>¥19,694</u>	<u>¥5,422</u>	<u>¥30,140</u>	<u>¥(28)</u>	<u>¥55,229</u>	<u>¥5,373</u>	<u>¥—</u>	<u>¥5,373</u>	<u>¥60,602</u>

Millions of Yen

	Number of shares of common stock (Thousands)	common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on investment securities	Loss on deferred hedges	Total valuation and other	Total net assets
Balance at March 31, 2006.....	371,463	¥19,694	¥5,422	¥30,140	¥(28)	¥55,229	¥5,373	¥ —	¥5,373	¥60,602
Net income.....				<b>12,233</b>		<b>12,233</b>				<b>12,233</b>
Cash dividends paid .....				<b>(1,856)</b>		<b>(1,856)</b>				<b>(1,856)</b>
Bonuses to directors and corporate auditors .....				<b>(61)</b>		<b>(61)</b>				<b>(61)</b>
Purchases of treasury stock...					<b>(31)</b>	<b>(31)</b>				<b>(31)</b>
Sales of treasury stock .....			<b>0</b>		<b>0</b>	<b>0</b>				<b>0</b>
Unrealized holding gain on securities .....						—	<b>384</b>		<b>384</b>	<b>384</b>
Unrealized losses on hedges...						—		<b>(1,364)</b>	<b>(1,364)</b>	<b>(1,364)</b>
Balance at March 31, 2007 .....	<u>371,463</u>	<u>¥19,694</u>	<u>¥5,422</u>	<u>¥40,456</u>	<u>¥(59)</u>	<u>¥65,514</u>	<u>¥5,758</u>	<u>¥(1,364)</u>	<u>¥4,393</u>	<u>¥69,907</u>

Thousands of U.S. Dollars (Note 3)

	Number of shares of common stock (Thousands)	common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on investment securities	Loss on deferred hedges	Total valuation and other	Total net assets
Balance at March 31, 2006.....	371,463	\$166,828	\$45,930	\$255,316	\$(237)	\$467,844	\$45,515	\$ —	\$45,515	\$513,359
Net income.....				<b>103,626</b>		<b>103,626</b>				<b>103,626</b>
Cash dividends paid .....				<b>(15,722)</b>		<b>(15,722)</b>				<b>(15,722)</b>
Bonuses to directors and corporate auditors .....				<b>(517)</b>		<b>(517)</b>				<b>(517)</b>
Purchases of treasury stock...					<b>(263)</b>	<b>(263)</b>				<b>(263)</b>
Sales of treasury stock .....			<b>0</b>		<b>0</b>	<b>0</b>				<b>0</b>
Unrealized holding gain on securities .....						—	<b>3,253</b>		<b>3,253</b>	<b>3,253</b>
Unrealized losses on hedges...						—		<b>(11,554)</b>	<b>(11,554)</b>	<b>(11,554)</b>
Balance at March 31, 2007 .....	<u>371,463</u>	<u>\$166,828</u>	<u>\$45,930</u>	<u>\$358,433</u>	<u>\$(500)</u>	<u>\$554,968</u>	<u>\$48,776</u>	<u>\$(11,554)</u>	<u>\$37,213</u>	<u>\$592,181</u>