



ANNUAL REPORT 2007

THE JAPAN STEEL WORKS, LTD.

JSW

Profile

Founded in 1907, The Japan Steel Works, Ltd. (JSW) had by the end of World War II accumulated rich reserves of sophisticated technologies as Japan's largest private-sector manufacturer of weapons. Following the war, these technologies formed the foundations for the Company's shift to peacetime industry. Taking advantage of its expertise in producing unexcelled steel and machinery, the Company has developed a wide range of machinery while successfully entering new business fields. The Company is proud of the acclaim it has won for its large steel castings and forgings, heavy machinery and steel structures, steel plates, plastics machinery, and industrial machinery, as well as equipment and engineering for the oil, gas, chemical, and petrochemical industries.

At present, JSW is a leader in the development of advanced technologies for the fields of new and natural energies, advanced materials, optics, electronics, biotechnology, and other cutting-edge areas. It also is moving into urban redevelopment and environment-related businesses and carrying out complex business initiatives in a wide range of industrial and social areas. Nonetheless, the Company remains committed to providing valuable products and services to world markets and to gaining the confidence of customers while achieving profitability that satisfies its shareholders.

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Forward-Looking Statements

The forward-looking statements in this annual report reflect judgments based on information available at the present time. Actual results may differ widely due to various factors.

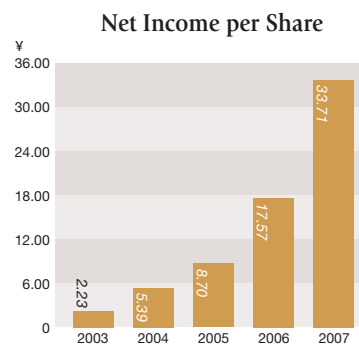
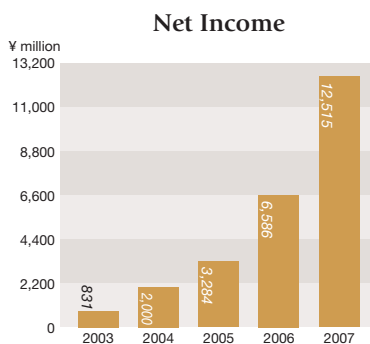
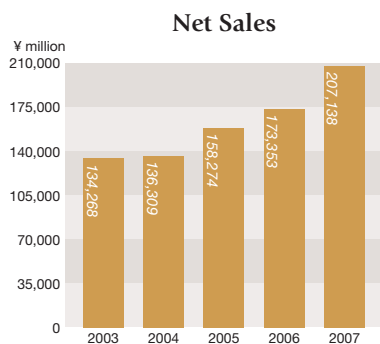
Financial Highlights (Consolidated)

THE JAPAN STEEL WORKS, LTD. AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Net sales	¥207,138	¥173,353	\$1,754,663
Net income.....	12,515	6,586	106,014
Total assets	232,444	196,656	1,969,030
Total net assets	75,621	66,039	640,584
Per share of common stock			
(yen and U.S. dollars):			
Net income	¥33.71	¥17.57	\$0.29

Notes: 1. Amounts in U.S. dollars are presented solely for convenience and based on the rate of ¥118.05 = US\$1.00, the rate of exchange on March 31, 2007, the date of the Company's most recent balance sheet.

2. For the non-consolidated financial statements, see pages 34 to 37.



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

Outline of our Revised Medium-Term Management Plan (J2008R)

The JSW Group set out a three-year Medium-Term Management Plan (J2008) in May 2006, and started to work towards achieving the numerical targets set out therein. Having achieved the relevant targets in fiscal 2006, the first year of the plan, two years ahead of schedule, we have recently formulated a new Revised Medium-Term Management Plan (J2008R) running for two years from fiscal 2007 to 2008, and have started work accordingly.

Priority targets

Expanding business capacity
Improving capital efficiency
Promoting CSR

Numerical targets

Total sales: Over ¥235 billion (consolidated) /
over ¥205 billion (non-consolidated)
Ordinary income: Over ¥27.5 billion (consolidated) /
over ¥26 billion (non-consolidated)
Net interest-bearing debt: Under ¥17 billion (non-consolidated)
Return on total assets (ROA): Over 11% (non-consolidated)

Capital expenditure

We anticipate capital expenditure totaling approximately ¥40 billion (including leases) over the two year period (investment in fiscal 2006: ¥10.2 billion). In terms of areas in which investment will be targeted, (1) 85% will go to upgrading and expanding facilities to increase productivity, (2) 10% will go to new lines of business and development to enable further growth and (3) 5% will go to environmental, safety and other such measures.

With demand for large forged steel products such as thermal and nuclear power plants components, pressure vessels for oil refineries and rolls/rolling products expected to increase in the future, we are aiming to step up capital expenditure designed to increase production and efficiency, primarily in the area of forged steel, to cater to the expanding market for large and ultra-large ingot products, even further in the future as we continue to increase out profits.

Priority measures according to business segment

Steel Products Business

Steel castings and forgings sector

Expanding top niche products in the energy market

We intend to further reinforce our business by focusing on increasing productivity in relation to our core large forged steel products and expanding our manufacturing capabilities, primarily targeting power plant components, for which there is strong demand, and nuclear vessel components, for which there is expected to be emerging new demand, primarily in the United States and China.

Steel plates and structures sector

Reinforcing growth areas in line with innovations in energy

There is a trend towards growing demand for oil refining facilities in line with increasing demand for energy, with global demand for natural gas as a form of green energy also on the increase. Similarly, there is also healthy demand for the pressure vessels, clad steel pipes and plates that are used in such facilities. To meet this demand, we will establish production systems for welding, assembly and other such processes and increase productivity, aiming to step up manufacturing capabilities for large forged steel products, which are amongst the main materials used in pressure vessels.

Machinery Products Business

Plastics machinery sector

Becoming the world's leading comprehensive manufacturer of plastics machinery

We intend to follow a policy of enhancing competitiveness by improving high-performance products to increase our market share, and implementing extensive cost improvements in every area within the plastics sector, from upstream (pelletizing), through midstream (modification), to downstream (molding). We also plan to make full use of the Technical Center currently under construction at our Hiroshima Plant (scheduled completion date: June 2007) to expand our film and sheet operations.

Other machinery sector (IT equipment, defense-related equipment, other industrial machinery, comprehensive wind power equipment, etc.)

Promoting technology-focused management

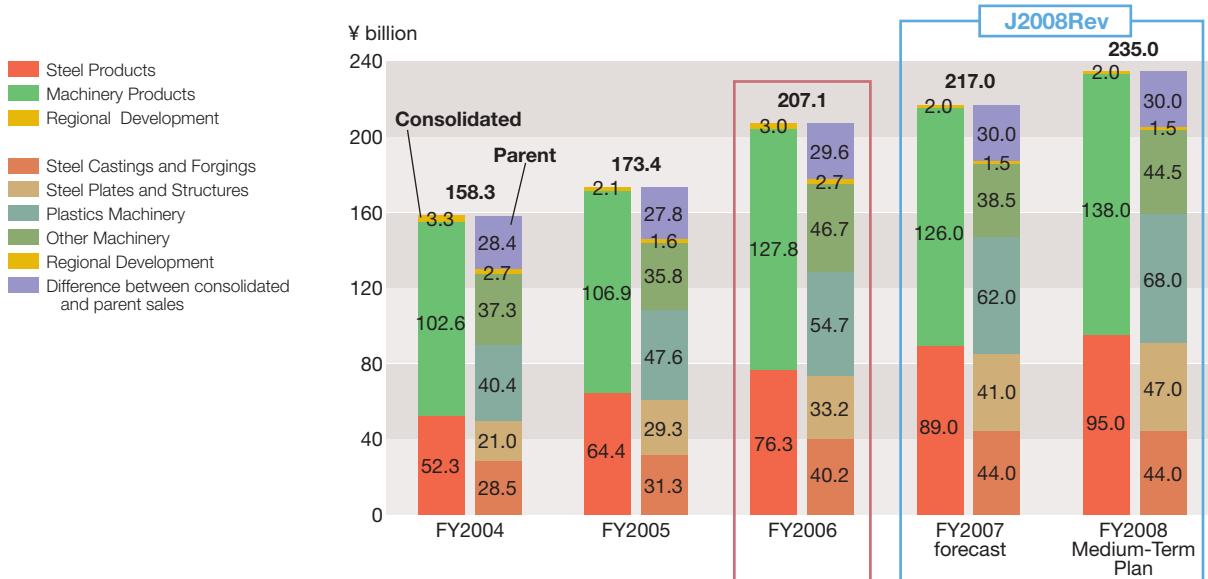
Based on the proprietary technology at our disposal, we intend to follow a policy of promoting technology-focused

management in priority areas to cultivate new lines of business and lay the foundations for future profits.

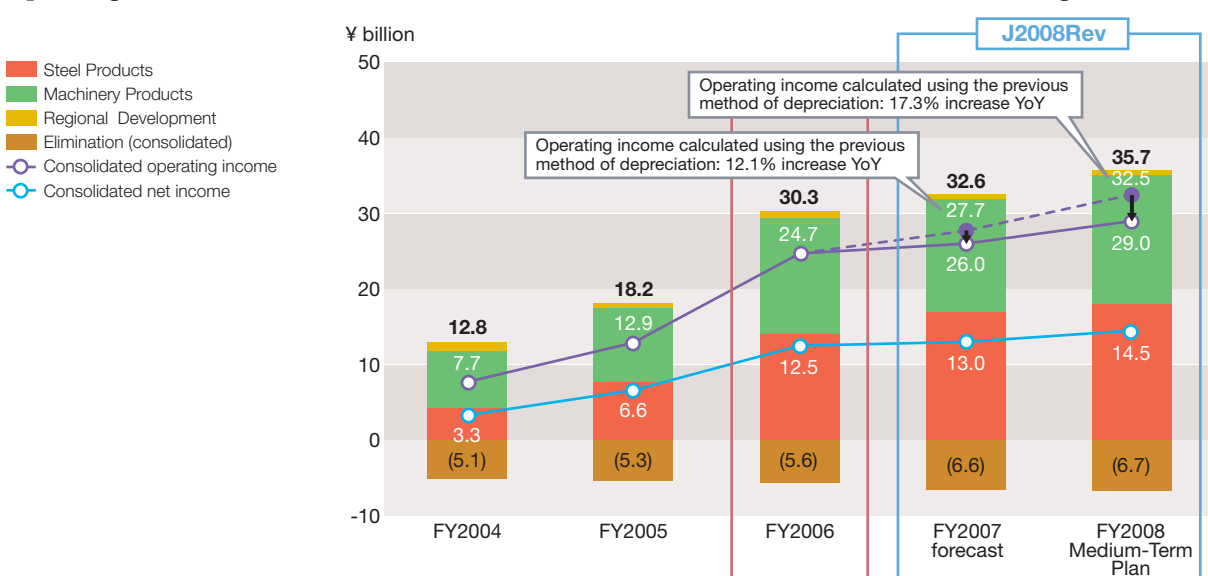
Regional Development Business

Securing stable profits

Sales from FY2004 to FY2006 and Revised Medium-Term Management Plan



Operating Income and Net Income from FY2004 to FY2006 and Revised Medium-Term Management Plan

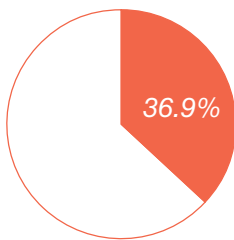


Our Business Domains

JSW and the JSW Group carry out a wide range of business activities in a variety of fields. In the steel products area, these activities include the production and sale of steel castings and forgings and the production and sale of steel plates and structures. In the machinery area, these activities include the production and sale of plastics and other machinery as well as the production and sale of magnesium alloy injection molding machines and molded products, which is a business area developed in recent years. In addition, we are active in regional development and information systems as part of our program of business diversification.

Steel Products

Sales Composition



Steel Castings and Forgings

Making steel in electric furnaces, we produce a broad range of cast products, as well as steel ingots for casting and for rolling. After undergoing heat treatment, machining, and finishing, these products are used in machinery and facilities for the shipbuilding, electrical machinery, steel, bridge, general industrial machinery, and nuclear power plant industries, where their quality and reliability have won high praise in Japan and abroad.

Main Business Lines

Here our main business lines are the production and sale of products for power generation, steel-making, chemical machinery, bridge-building, nuclear power-related machinery and equipment, and raw materials for electronic materials and dies.



Steel Plates and Structures

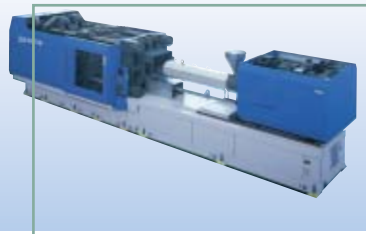
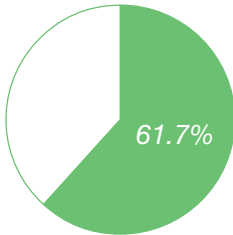
Our plate rolling mill, the largest in Japan, can roll extremely thick, wide, and long steel plates with a maximum thickness of up to 350 millimeters, a maximum width of 4.8 meters, and a maximum length of 20 meters. It is used to produce a variety of steel plates. In addition, we carry out integrated manufacturing processes from raw materials to products, producing a wide range of pressure vessels (for oil refining and the chemical industry) and products for bridge-building and nuclear power plants through the use of our advanced welding technology and facilities. These products enjoy strong demand from Japan as well as overseas.

Main Business Lines

Our main business lines are the production and sale of products for oil refining, the petroleum and general chemical industries, and for power generation and bridge-girders, as well as a wide range of pressure vessels, clad steel plates, and clad steel pipes.

Machinery Products

Sales Composition



Plastics Machinery

Working to lead the competition in developing products that address the growing sophistication and diversity of plastics materials, we have built up a solid position as a comprehensive plastics machinery manufacturer that is involved in everything from pelletizers to processing equipment. In addition, we have established a polymer

processing technology development center that can test plastics technologies so as to respond quickly to market changes, and have put in place an integrated development system.

Main Business Lines

JSW's main business lines are the production and sale of injection molding machines, blow molding machines, and other composite plastics production and processing machinery (including pelletizers, equipment for film-making, and others).



Other Machinery

We manufacture defense-related equipment, power plant equipment, environment-related equipment, and other industrial machinery to meet wide-ranging demand. Moreover, we are a comprehensive manufacturer with an integrated system for plant-building ranging from

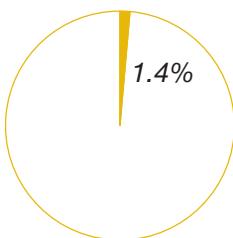
planning, design, procurement, installation, and testing to transfer. As such, our activities are developing on a world-wide scale. In recent years, we also have been devoting effort to developing environment-related business.

Main Business Lines

In this area, our main business lines are the production, sale, and maintenance of fluid machinery, hydraulic machines, optoelectronic equipment, metal-working machinery, waste-treatment equipment, magnesium alloy injection molding machines, and defense-related equipment, comprehensive wind power engineering services, as well as the planning, design, production, and installation of a variety of plants such as processing plants for natural gas, petroleum, and petrochemicals, and environment-related and other plants.

Regional Development

Sales Composition



Regional Development

Centered on the construction of office buildings, commercial facilities, and rental condominiums on Company-owned land, we engage in regional development operations with the objective of ensuring stable earnings to underpin the availability of funds for research and development. Our goal is to raise our

earnings and revitalize local communities through a more effective application of our assets, based on the reserves of expertise we have accumulated in our business operations.

Main Business Lines

Here our main business lines are the rental of properties and the sale of properties developed on idle real estate.

Review of Operations

Steel Products

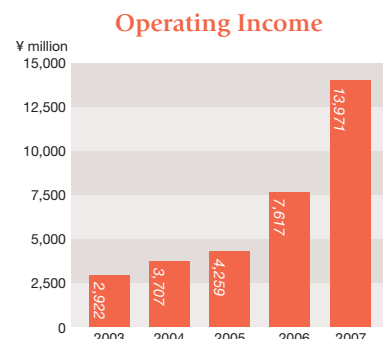
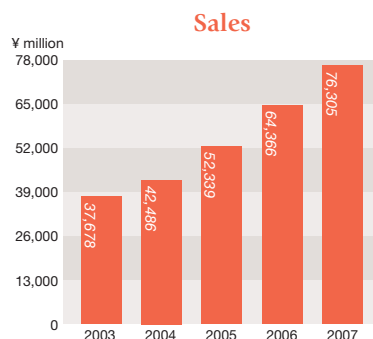
In spite of strong figures for components for thermal and nuclear power plants, reduced orders for products such as oil refinery towers, pressure vessels, and clad steel pipes for offshore natural gas fields — given the absence of any large orders like during the previous year — resulted in an overall 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

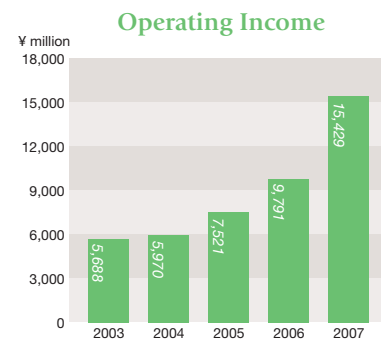
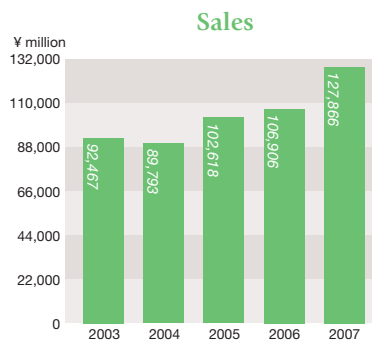
Despite a decline in small and medium-scale plastic injection molding machines for overseas markets, orders received increased overall, largely thanks to continued strong figures for large machines and plastics manufacturing and processing machinery. Elsewhere, laser annealing systems and magnesium alloy 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

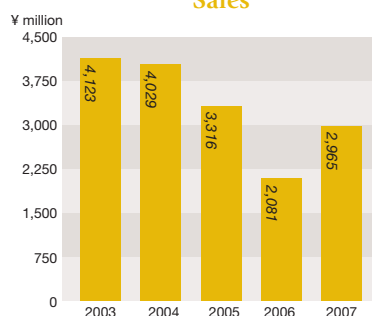
Due to a one-off transaction in the real estate business, relating to which orders were received during the previous year but posted in the reporting year, orders received fell by ¥1,025 million year-on-year to ¥1,985 million (US\$17 million). Sales, on the other hand, were up by ¥884 million from the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



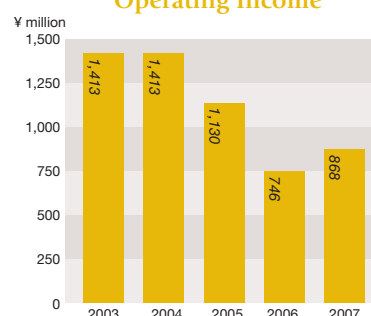
Orders Received



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.

Basic Stance on Corporate Governance

At JSW, we believe we must earn the trust of all our stakeholders, including our shareholders and employees, not merely to raise our enterprise value, which comprises both the Company's economic value and its value to society in the broader sense, but to make possible our very existence.

We have, therefore, designed a set of management structures to ensure an effective system of corporate governance, and have taken all necessary measures to facilitate the appropriate disclosure of corporate information so as to achieve the level of management transparency demanded by investors today.

An Outline of our Corporate Governance System

The Company employs the traditional statutory auditor system, comprising 13 directors and four statutory auditors, two of whom are outside auditors. One outside auditor works on a regular basis. The Board of Directors debates and passes resolutions on matters of importance to the management of the Company, including basic management policies and matters stipulated by legal statute. The Board is also responsible for overseeing the management of day-to-day operations by the heads of departments and plants, and other managers of similar rank.

Meetings are also held by the Executive Board, composed of the Company's president, executive vice presidents, senior directors, and any other person as shall be designated by the president. This committee, augmented when deemed necessary by the heads of operating divisions and general plant managers to form the Management Council, analyzes the business

environment, monitors the progress of business plans, and ensures that knowledge is widely shared among the Company's management staff and that the opinions of specialists are heard and reflected in the final decisions made by the Company's top management. The activities of these bodies ensure that corporate governance is conducted effectively, and, in particular, that the principles of legal and ethical compliance are properly observed.

The Company's statutory auditors (hereafter "corporate auditors") attend meetings of the Board of Directors, the Executive Board, the Management Council, and other important meetings. They also pay regular inspection visits to all the Company's plants and offices, and to its subsidiaries, and exercise strict oversight with regard to the execution of their duties by the Company's directors.

Our Internal Control System

JSW regards it as a management issue of crucial importance to have an effective internal control system in place to ensure the correct performance of business operations. We are, therefore, working to improve our system of internal control in line with our Basic Policy on Internal Control Systems and the specific measures to be taken during fiscal 2007, drawn up by the Board of Directors at the 668th and 685th meetings. The points below delineate the fundamental stance adopted by the management of JSW toward the issue of internal control, and the progress achieved thus far in strengthening the Company's internal control system.

1. Improving the internal control system

In addition to setting up a specialist unit dedicated to supervising the Company's internal control system, the Internal Control Committee holds meetings both regularly and ad hoc as deemed necessary.

2. Observance of legal regulations and the Company's Articles of Incorporation

JSW does not limit compliance to the prevention of illegal acts and the observance of legal regulations and the Company's Articles of Incorporation. It

views compliance in the broader context of general social responsibilities and the upholding of a wide variety of rules and regulations, which include the Company's Vision, its Management Philosophy, and Action Guidelines. The key to success for compliance activities is that the directors take the initiative in setting an example and practicing truthfulness, while raising employee awareness on compliance issues through training sessions and other means.

The implementation of compliance activities is overseen by a director who has been appointed to supervise CSR activities. Committees have been formed to oversee internal controls, security and export controls, environmental management, safety and hygiene (hereafter collectively referred to as "the committees"). These committees undertake activities companywide.

Meanwhile, the planning and administration departments of each business unit closely collaborate with the corresponding departments of management planning, personnel training, accounting and financing, general affairs and legal affairs within the headquarters (hereafter, "headquarters departments") to carry out compliance duties. In this way, we have achieved a division of duties from the overall management control function, and through mutual cooperation, management controls are overseen in every area.

We have established a department responsible for internal controls to ensure that the Company's overall administrative operations observe all laws and regulations, as well as in-house rules. In addition to periodic audits, this department conducts spot audits at other times, as deemed necessary. The results of these audits are reported to the president.

We have also created a system of internal and external routes for reporting and discussing compliance violations when discovered. The person filing the report is guaranteed anonymity. Violators, regardless of whether they are directors or staff, will be punished accordingly, and measures will be taken swiftly to prevent any recurrence.

3. Safeguarding and management of information

We have appointed a chief information security officer (CISO) to ensure the safeguarding and management of information. In accordance with in-house regulations governing the safeguarding of documents and other information and basic data security guidelines, the minutes of general shareholder meetings, meetings of the Board of Directors and Strategy Council meetings, as well as requests for managerial decisions (*ringisho*), and other important documents are stored in written form or in the Company's computer database, where they are held in safekeeping. We also store and manage information relating to our internal controls system, to ensure an adequate degree of disclosure of corporate information.

4. Risk management

The risk management system confirms that the president, the division chief, the general plant managers, the directors in charge of departments within headquarters, and other executives are carrying out their duties within the scope of their authority, as stipulated by job authority regulations and the system for managerial decisions (*ringisho*), and that they control the risks involved in the loss or damage to authority in the execution of duties. Important items pertaining to risk management are discussed at meetings of the Board of Directors or of the Strategy Council.

To manage the wide variety of risks to which the Company is exposed, a director of the Company has been placed in charge of overall risk management. Controls are being implemented across division boundaries by the Internal Controls Committee and other committees. Simultaneously, each business unit's planning and administration departments, as well as the plants' departments and headquarters departments work together with the departments responsible for overseeing every area of risk management. Reports are made on the status of risk management and the suitability of the measures in place at meetings of the Board of Directors and the Strategy Council.

Risk managers are assigned within each division at the headquarters, within each business unit, and at each plant. These risk managers ascertain the appropriateness of existing measures and work to eliminate everyday risks. In the case of critical risk situations, a crisis management headquarters is established to provide the appropriate response. In this way, we are responding to risks under both ordinary and extraordinary circumstances.

5. Ensuring efficient performance of duties

The president is the chief executive officer, and directors have been assigned to departments within the headquarters and our plants. In addition, directors have been put in charge of business units that are responsible for the profitability planning and budget controls of each product division. The directors must perform their duties in an efficient manner within the scope of their authority, as specified in the job authority regulations for the posts of president, director in charge, business unit chief, and general plant manager, or else indicated under the *ringisho* system for managerial decision-making. High-priority items are brought before the Board of Directors or the Strategy Council for discussion, approval and reporting.

At JSW, the management drafts a list of common goals to be shared companywide by directors and employees through incorporation in the Company's Medium-Term Management Plan, and the business plans for each business unit. Each director develops specific measures for achieving these goals. A division of duties is undertaken in line with the in-house regulations, and the specific measures are planned and implemented. Each director conducts a review of the results and provides periodic progress reports, as well as impromptu reports at meetings of the Board of Directors, the Strategy Council and the Management Council. All members of the JSW management are working to ensure impartial personnel evaluations.

The Company has prepared an outline of duties to be executed by each director of the Board, and the order in which these duties are to be performed. Also indicated are the types of work experience, know-how,

specialized skills, and technology required. These documents are revised on an ongoing basis to reflect the actual situation, taking into account all varieties of laws, regulations and risk countermeasures. In addition, the appropriate educational activities and training are recommended for each director and employee.

6. Ensuring appropriate management conduct at Group companies

The Company encourages its subsidiaries to follow its Vision, Management Philosophy and Action Guidelines, and also create their own systems of internal controls. In addition, the Company supports the autonomy of their management.

The Company has drafted regulations concerning the operation and management of its subsidiaries. The responsibilities of each division of the Company will be made clear with regard to the controls governing operations and the nurturing of operations of subsidiaries. At the same time, the Company is creating a system whereby reports and notifications can be made regarding subsidiaries' decisions on important issues and other matters of concern, and data can be collected.

Corporate governance system has been adopted whereby directors and statutory auditors can be assigned to JSW subsidiaries. To ensure our subsidiaries' strict adherence to all laws and regulations, as well as in-house company regulations, we request that these companies conduct in-house audits, both periodic and spot audits, through the departments in charge of each subsidiary, and also by a department responsible for the internal auditing of subsidiaries. We will also directly audit operations and provide guidance for improving internal controls of subsidiaries.

The Environment

Environmental policy

The Company recognizes that as a responsible member of society it has an important duty to operate in harmony with the environment. We engage in business with the aim of contributing to the sustainable development of society through production activities that respect environmental integrity, and by developing environmental preservation technologies.

Action plan

1. We aim to carry out environmental tasks in an organized way, and to implement environmental preservation activities continuously.
2. We will set appropriate objectives and targets for reducing the burden our activities impose on the environment.
3. We aim to provide society with products and services that contribute to the preservation of the

environment, as detailed below.

- (1) Through our products we endeavor to increase our value to society in terms of environmental protection, safety and hygiene.
- (2) We provide products and services to reduce environmental loads by obtaining a clear grasp of environmental needs and technical development.

Common policy for plants

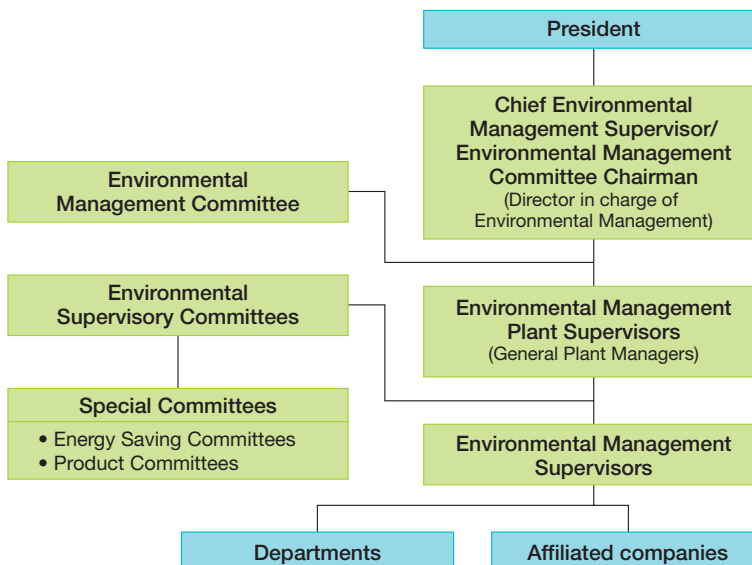
Taking into consideration its business activities, the local community and the surrounding environment, each plant sets out its own environmental policy, objectives and targets using methods compliant with international standards and operates in line with the following guidelines.

1. Respect laws and regulations and agreements we have concluded with external parties.

2. Prevent pollution and reduce and appropriately treat waste.
3. Improve "resource productivity" through implementation of energy efficiency, resource efficiency, and recycling.
4. Inform employees and affiliates that operate our plants of our policies and require their cooperation.

Environmental Management System

The Environmental Management Committee, headed by the Director in charge of Environmental Management, determines matters such as annual environmental management policies and programs of environmental activities for the whole company. Each plant has its own Environmental Supervisory Committee, which promotes environmental management activities and works hand in hand with other group companies to reduce the environmental impact of the Company's activities.



Latest Medium-Term Environmental Plan

In view of the shifting social climate in relation to the environment, not least the Kyoto Protocol coming into effect, we formulated a new Medium-Term Environmental Plan (2006-2010) in 2006. The main points are as follows.

1. Continuing to promote activities geared towards maintaining environmental management systems, legal compliance and communication with stakeholders on a Group-wide basis.
2. Continuing to promote efforts to raise target levels for energy-saving activities to help increase production efficiency at individual plants and resource saving and recycling activities to contribute to the sustainable development of society.
3. Promoting existing measures to ensure the appropriate management of chemicals and reduce the environmental impact of our products on a priority basis to help prevent global warming and reduce environmental impact in the future.
4. Exploring possibilities for manpower-saving methods of collating environmental performance data and the rationalization of environmental management activities in preparation for new environmental regulations, which are expected to be made even tighter in the future.

Environmental Preservation Activities

Renewed ISO 14001 Certifications

In 1998, the Mutoran Plant and the Hiroshima Plant acquired the ISO 14001 (1996) certification, an international standard for environmental management systems. These plants have renewed their certification through inspections for compliance with ISO 14001 (2004). The Yokohama Plant acquired the ISO 14001 (2004) in 2006.



Environmental patrols

We regularly implement environmental patrols at each plant to verify management status and audit data relating to specific air- and water-related facilities, pretreatment facilities, oil-water separation tanks and other such facilities.



Contributing to the Local Environment

We intend to continue undertaking cleanup activities in the area around our Hiroshima Plant twice a year in June and October as part of our overall program of social contribution activities.



Research and development activities were almost entirely funded by the reporting entity (The Japan Steel Works, Ltd.). Combined spending on research and development for the Steel Products business and the Machinery Products business amounted to ¥3,312 million (US\$28 million).

As a materials and mechatronics company, we strive to develop new products and production techniques using our own technology, while also actively promoting widespread technical alliances and joint development in an effort to put new products and technology into effect as quickly as possible. In terms of the direction of research and development, our Research & Development Headquarters continues to promote cooperation with individual business divisions in order to: (1) improve the capabilities, performance and reliability of our core products and (2) develop products and businesses to meet the requirements in new business fields.

Our Research & Development Headquarters encompasses our headquarters (within the Yokohama Plant), the Muroran Research Laboratory (situated on the premises of the Muroran Plant), and the Machinery Research Laboratory (part of which is located at the Hiroshima Plant and the remaining part located at the Yokohama Plant).

Our basic research and development policy is as follows.

1. Promoting the development of new products and businesses by focusing on the five technological fields of new energy & energy savings, information & telecommunications, environmental protection, nanotechnology & materials, and new production technologies. We aim to expand our fields of business by improving our core technologies.
2. Making strenuous efforts to identify new themes for research and development that meet current market needs, and selecting new key development projects that have a high potential to become significant earners for the Company in the future. We will make investments in human resources and property, and allocate funds to selected fields, taking into due consideration the forming of alliances to shorten development time.
3. Promoting promising themes for future technology and basic research to fulfill the needs of 21st century society, and developing them into research and development projects that will translate into new products and businesses in the future.

Overview of R&D activities by business segment

Steel Products

In terms of the development of materials-related products, we have been carrying out research and development in areas such as clad steel pipes for natural gas drilling, high alloy materials for combined cycle power generation and nonferrous alloys for the IT industry. We have also been working on the development of hydrogen absorbing alloys, as well as their applied systems such as hydrogen tanks for fuel cells. For fiscal 2006, spending on steel product research and development totaled ¥1,243 million (US\$11 million).

Machinery Products

In the field of machinery-related products, we have been developing high-performance, highly reliable, cost-effective technology for magnesium alloy injection molding machines, high-precision molding technology for plastic extruder and injection molding machinery, and supercritical fluid-assisted processing technology. We have also been working on laser applications, including systems for cutting-edge laser annealing equipment used in the production of TFT (thin-film transistor) liquid crystal displays, as well as telecommunications equipment. In the field of technology for environmental preservation applications, we are currently working on the development of waste plastic melting treatment equipment. Spending on machinery product research and development totaled ¥2,068 million (US\$18 million) for fiscal 2006.

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

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

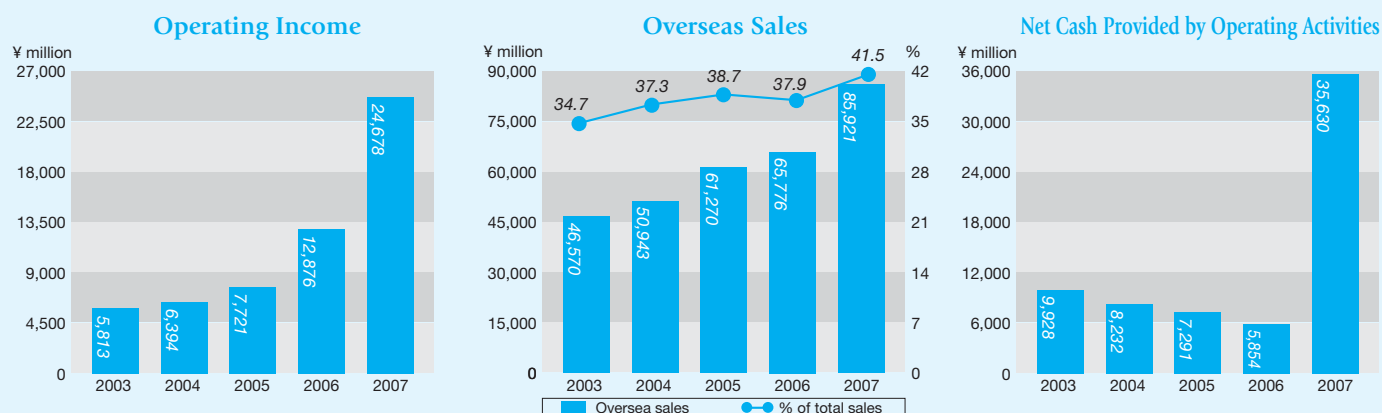
Sales in East Asia increased by 15% from the previous year to ¥41,448 million (US\$351 million). In North America, sales fell 4% to ¥6,630 million (US\$56 million), while in other regions, sales rose 67% to ¥37,842 million (US\$321 million). Total overseas sales grew 31% year-on-year to ¥85,921 million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

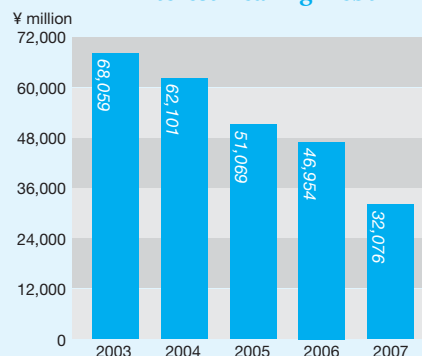
Net cash used in financing activities totaled ¥16,750 million (US\$142 million), up from ¥5,307 million in the previous year. This was due largely to an expenditure of ¥14,877 million for the repayment of long- and short-term loans and corporate bonds issued by subsidiaries, and also the payment of dividends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

Financial Position

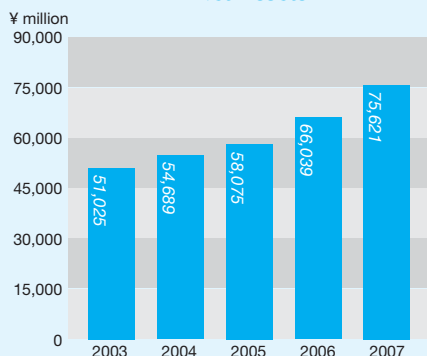
Total assets as of the end of March 2007 came to ¥232,444 million (US\$1,969 million), up ¥35,788 million, or 18.2%, from the previous term-end. This was due to an increase in current assets as a result of a growth in trade receivables and inventory assets. This, in turn, stemmed from increased orders,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

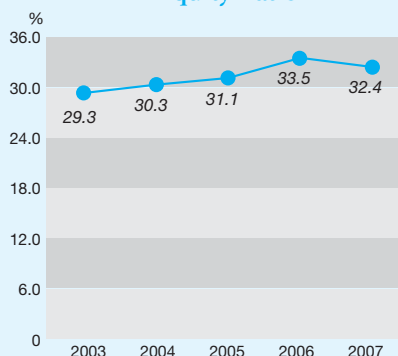
Interest-Bearing Debt



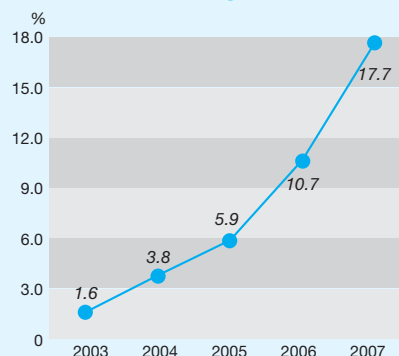
Net Assets



Equity Ratio



ROE



Consolidated Balance Sheets

March 31, 2007 and 2006

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

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
Current liabilities:			
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>
Long-term liabilities:			
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>
Net assets			
Shareholders' equity (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>
Valuation, translation adjustments and other:			
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>
Minority interests	<u>218</u>	<u>186</u>	<u>1,847</u>
Total net assets	<u>75,621</u>	<u>66,039</u>	<u>640,584</u>
Total liabilities and net assets	<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
Net sales	¥207,138	¥173,353	\$1,754,663
Cost of sales (Note 13)	156,545	136,335	1,326,091
Gross profit	50,592	37,018	428,564
Selling, general and administrative expenses (Note 13)	25,914	24,141	219,517
Operating income	24,678	12,876	209,047
Other income (expenses):			
Interest and dividend income	230	149	1,948
Interest expense	(633)	(843)	(5,362)
Other, net (Note 9)	(2,040)	(959)	(17,281)
	(2,443)	(1,653)	(20,695)
Income before income taxes and minority interests	22,235	11,223	188,352
Income taxes (Note 12):			
Current	9,761	4,406	82,685
Deferred	(63)	130	(534)
Minority interests in net income of consolidated subsidiaries	21	99	178
Net income (Note 19)	¥ 12,515	¥ 6,586	\$ 106,014

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
Operating activities:			
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)
Net cash provided by operating activities	35,630	5,854	301,821
Investing activities:			
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)
Net cash used in investing activities	(9,599)	(6,534)	(81,313)
Financing activities (Note 8):			
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
Net cash used in financing activities	(16,750)	(5,307)	(141,889)
Effect of exchange rate changes on cash and cash equivalents	12	55	102
Increase (decrease) in cash and cash equivalents	9,293	(5,931)	78,721
Cash and cash equivalents at beginning of the year	18,179	24,111	153,994
Cash and cash equivalents at end of the year (Note 11)	¥27,472	¥18,179	\$232,715

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	¥379	¥379	\$3,211

7. Contingent Liabilities

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

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%	¥15,405	¥24,042	\$130,496
Less those maturing within one year	(7,061)	(7,151)	(59,814)
0.72% straight bonds, due 2008	60	90	508
Less those maturing within one year	(30)	(30)	(254)
0.92% straight bonds, due 2010	10,000	10,000	84,710
Long-term indebtedness reflected in balance sheets	¥18,374	¥26,950	\$155,646

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	¥11,994	¥12,750	\$101,601

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

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	¥ 8	¥ 1	\$ 7
Machinery and vehicles	3,465	1,754	1,710
Equipment	2,593	1,280	1,312
Software	274	117	156
Total	¥6,341	¥3,154	\$3,187

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

Year ended March 31, 2006

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

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.....	¥27,881	¥18,572	\$236,180
Time deposits with maturities of over three months.....	(408)	(392)	(3,456)
Cash and cash equivalents in cash flow statements.....	<u>¥27,472</u>	<u>¥18,179</u>	<u>\$232,715</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.....	¥675		\$ 5,718
Non current assets.....	704		5,964
Goodwill.....	258		2,186
Current liabilities.....	(829)		(7,022)
Non current liabilities.....	(88)		(745)
Acquisition cost of Tahara Machinery Ltd.....	¥720		\$(6,099)
Cash and Cash equivalents of Tahara Machinery Ltd.....	¥ (80)		\$ (678)
Net cash used for acquisition of Tahara Machinery Ltd.....	<u>¥639</u>		<u>\$ 5,413</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.....	¥458		\$3,880
Goodwill.....	191		1,618
Total assets.....	<u>¥650</u>		<u>\$5,506</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.....	40.5%
Effect of:	
Income taxes paid for prior years.....	1.9
Other.....	1.2
Effective tax rate.....	<u>43.6%</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.....	560	282	4,744
Accrued bonuses.....	1,373	1,161	11,631
Unrealized gain on intercompany transactions.....	573	420	4,854
Accrued employees' retirement benefits.....	2,474	2,609	20,957
Accrued directors' and corporate auditors' retirement benefits.....	223	181	1,889
Loss on revaluation of inventory items.....	80	1,043	678
Loss on revaluation of monetary goods.....	231	90	1,957
Depreciation.....	424	—	3,592
Provision for compensation for completed works.....	196	—	1,660
PCB disposal expenses.....	202	—	1,711
Loss carryforward.....	136	—	1,152
Loss on deferred hedges.....	948	—	8,030
Unrealized loss on investment securities.....	17	6	144
Other.....	194	237	1,643
Gross deferred tax assets.....	7,638	6,043	64,701
Valuation allowance.....	(510)	—	(4,320)
Total deferred tax assets.....	<u>7,127</u>	<u>6,043</u>	<u>60,373</u>
Deferred tax liabilities:			
Reserve for advanced depreciation.....	2,100	2,195	17,789
Unrealized gain on investment securities.....	3,969	3,707	33,621
Reversal of allowance for doubtful accounts.....	47	—	398
Other.....	55	0	466
Total deferred tax liabilities.....	<u>6,172</u>	<u>5,902</u>	<u>52,283</u>
Net deferred tax assets.....	<u>¥ 955</u>	<u>¥ 141</u>	<u>\$ 8,090</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	¥3,312	¥3,022	\$28,056

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

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

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

	2007	2006
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	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	¥5,489	¥15,294	¥9,804
Carrying value does not exceed acquisition cost:			
Stocks	189	145	(43)
Total	¥5,678	¥15,439	¥9,760

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

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

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

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	¥3,675	¥12,808	¥9,133

(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	¥ 871	¥ 524	\$ 7,378
Accounts receivable	9,244	6,295	78,306

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.
 Note 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



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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
Current assets:			
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>
Property, plant and equipment:			
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>
Intangible assets	366	151	3,100
Investments, long-term loans and other assets:			
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>
Total assets	<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
Current liabilities:			
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>
Long-term liabilities:			
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>
Net Assets			
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>
Total liabilities and net assets	<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
Net sales	¥177,493	¥145,555	\$1,503,541
Cost of sales	135,373	117,041	1,146,743
Gross profit	42,120	28,514	356,798
Selling, general and administrative expenses	19,297	17,807	163,465
Operating income	22,823	10,706	193,333
Other income (expenses):			
Interest and dividend income	563	518	4,769
Interest expenses	(570)	(781)	(4,828)
Other, net	(2,087)	(758)	(17,679)
	(2,094)	(1,021)	(17,738)
Income before income taxes	20,728	9,685	175,587
Income taxes:			
Current	8,333	3,232	70,589
Deferred	161	425	1,364
Net income	¥ 12,233	¥ 6,026	\$ 103,626

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.....				12,233		12,233				12,233
Cash dividends paid				(1,856)		(1,856)				(1,856)
Bonuses to directors and corporate auditors				(61)		(61)				(61)
Purchases of treasury stock...					(31)	(31)				(31)
Sales of treasury stock			0		0	0				0
Unrealized holding gain on securities						—	384		384	384
Unrealized losses on hedges...						—		(1,364)	(1,364)	(1,364)
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.....				103,626		103,626				103,626
Cash dividends paid				(15,722)		(15,722)				(15,722)
Bonuses to directors and corporate auditors				(517)		(517)				(517)
Purchases of treasury stock...					(263)	(263)				(263)
Sales of treasury stock			0		0	0				0
Unrealized holding gain on securities						—	3,253		3,253	3,253
Unrealized losses on hedges...						—		(11,554)	(11,554)	(11,554)
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>

Stock Information

Authorized Shares

1,000,000,000 shares

Issued and Outstanding Shares

371,463,036 shares

Shareholders

33,803

Stock Listings

Tokyo, Osaka, Nagoya, Fukuoka and Sapporo

Transfer Agent and Registrar

The Chuo Mitsui Trust and Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku,
Tokyo, Japan

Major Shareholders (holding %)

The Master Trust Bank of Japan, Ltd. (Trust Account)	9.08%
Japan Trustee Services Bank, Ltd. (Trust Account)	6.91%
Mitsui Life Insurance Co., Ltd.	3.80%
Sumitomo Mitsui Banking Corp.	2.96%
The Chuo Mitsui Trust & Banking Co., Ltd.	2.69%
Mitsui Sumitomo Insurance Co., Ltd.	2.10%
Japan Trustee Services Bank, Ltd. (Trust Account 4)	1.80%
State Street Bank and Trust Company	1.65%
Credit Suisse Zurich	1.38%
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	1.21%

Corporate Data

Trade Name

The Japan Steel Works, Ltd.

Head Office

Gate City Ohsaki-West Tower,
11-1, Osaki 1-chome,
Shinagawa-ku, Tokyo, Japan

Foundation

November 1, 1907

Paid-in Capital

¥19,694 million

Employees

1,730 (Consolidated 4,313)

Auditor

Ernst & Young ShinNihon
Hibiya Kokusai Bldg.,
2-3, Uchisaiwai-cho 2-chome,
Chiyoda-ku, Tokyo, Japan

(as of March 31, 2007)

JSW's Stock Prices



Board of Directors and Corporate Auditors

President

Masahisa Nagata

Executive Vice Presidents

Tadao Iwadate

Assisting President, in charge of Products Strategy Office, New Product & New Technical Development, CTO and Head of Research & Development Headquarters

Hideo Nomura

Assisting President, in charge of Steel Business Division, Safety & Hygiene Control, Environmental Management, and Security & Export Controls

Managing Directors

Atsushi Igarashi

In charge of Corporate Planning Office, CSR & Risk Management, Corporate Administration Department, CISO and Head of Urban Development Division

Yuichi Yoshino

Head of Injection Molding Machinery Division

Hisao Iwashita

Deputy in charge of CSR & Risk Management, in charge of Personnel Department, CFO and General Manager of Finance & Accounting Department

Mitsuhiro Uchikoshi

Head of Steel Business Division

Toshikazu Ishida

Head of Machinery Business Division

Directors

Ikuo Sato

Deputy Head of Steel Business Division, General Plant Manager of Muroran Plant and Head of MR-21 Promotion Office

Seiichi Uehara

Head of Ordnance Business Headquarters

Osamu Kishi

Head of Products Strategy Office, General Plant Manager of Yokohama Plant and Manager of IT R&D Center

Yoshitomo Tanaka

In charge of Magnesium Process Equipment & Products Division and General Plant Manager of Hiroshima Plant

Nobuyuki Toda

Deputy in charge of CSR & Risk Management and General Manager of Corporate Planning Office

Corporate Auditors

Nobuyuki Minato

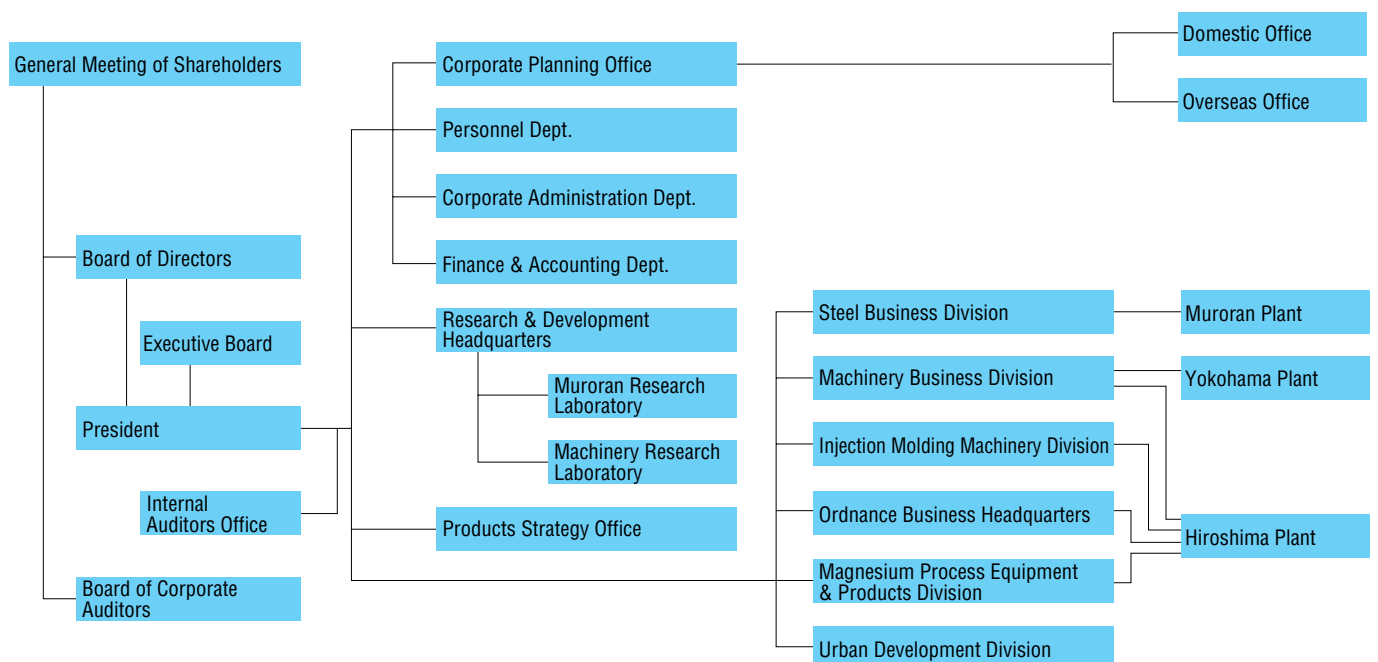
Kenji Uetani

Tatsuo Maruyama

Tatsuro Tanoue

(as of June 28, 2007)

Organization



Offices & Plants



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JSW
