Financial Section

THE JAPAN STEEL WORKS, LTD.

Six-Year Summary

Years ended March 31

Consolidated	Millions of Yen					
	2008	2007	2006	2005	2004	2003
Net sales	**¥220,851**	¥207,138	¥173,353	¥158,274	¥136,309	¥134,268
Net income	**17,484**	12,515	6,586	3,284	2,000	831
Total assets	**262,453**	232,444	196,656	184,683	180,019	173,772
Total net assets	**85,231**	75,621	66,039	58,075	54,689	51,025
Amounts per share (yen):						
Net income	**¥47.10**	¥33.71	¥17.57	¥8.70	¥5.39	¥2.23

Non-Consolidated	Millions of Yen					
	2008	2007	2006	2005	2004	2003
Net sales	**¥189,318**	¥177,493	¥145,555	¥129,948	¥114,272	¥115,137
Net income	**15,878**	12,233	6,026	2,429	1,392	607
Total assets	**243,433**	215,693	180,734	168,808	168,571	161,869
Total net assets	**77,958**	69,907	60,602	52,899	50,810	47,570
Amounts per share (yen):						
Net income	**¥42.77**	¥32.95	¥16.07	¥6.39	¥3.75	¥1.64
Cash dividends applicable to the year	**¥12.00**	¥9.00	¥5.00	¥3.00	¥2.00	—

Contents

Financial Performance (Consolidated)

Operating Results

1. Net Sales

Sales by the Machinery Products Business for the reporting period were at approximately the same level as for the previous term, but the Steel Products Business posted good results. Total sales consequently rose 7% from the previous year, to ¥220,851 million (US$2,204 million).

2. Operating Income

Operating income posted an increase of 32% to ¥32,475 million (US$324 million). This is mainly attributable to growth in profits as a result of increased sales, in addition to cost reductions stemming from an improved capacity utilization rate thanks to a steady inflow of orders. The Company's success in pushing through increases in selling prices to offset higher prices of raw materials was also a contributory factor.

3. Net Income

Net income rose 40% to ¥17,484 million (US$174 million), pushing up earnings per share to ¥47.10 (US$0.47).

4. Overseas sales

Sales in the East Asian markets were up 20% over the previous year, at ¥49,737 million (US$496 million). Sales in North America rose 41% to ¥9,371 million (US$94 million), while sales in other regions increased by 18% to ¥44,828 million (US$447 million). Total overseas sales grew by 21% to ¥103,937 million (US$1,037 million), accounting for 47% of the Company's total sales on a consolidated basis.

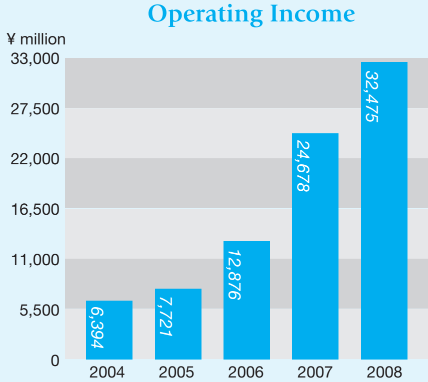
Cash Flows

Cash and cash equivalents stood at ¥36,133 million (US$361 million) at the reporting term-end, up ¥8,660 million year-on-year after the elimination of non-cash components. This is attributable to an increase in income before income taxes and minority interests to ¥30,461 million (US$304 million) compared with ¥22,235 million for the previous term, in addition to the posting of a net cash inflow thanks to the more efficient employment of working capital. These positive factors more than offset expenditures (capital investment) for the enhancement of production efficiency and the repayment of a portion of interest-bearing debt, producing a substantial operating cash flow.

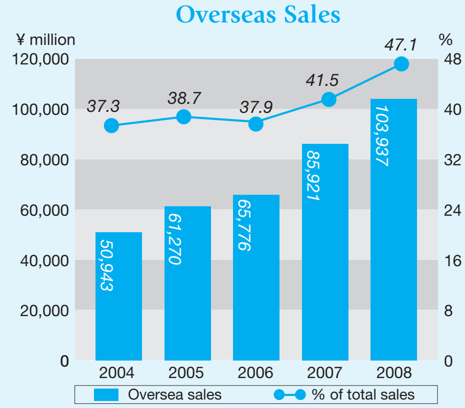
Cash Flow from Operating Activities

Net cash provided by operating activities amounted to ¥42,040 million (US$420 million), up from ¥35,630 million for the previous term. This was due to the posting of ¥30,461 million in income before income taxes and minority interests, as well as depreciation costs in the amount of ¥9,311 million, a non-cash component. The decrease in trade payables due to the receipt of advances outweighed income taxes paid and a rise in trade payables to boost production in line with increased sales, which was insufficient to offset the inflow mentioned above.

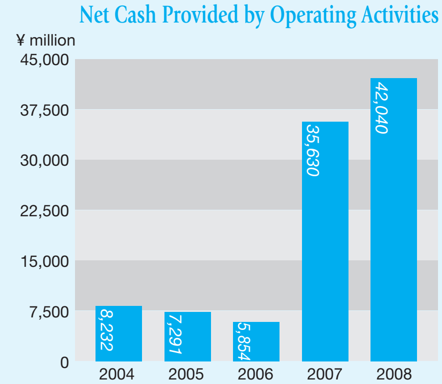
Operating Income



Overseas Sales



Net Cash Provided by Operating Activities



Net Cash from Investment Activities

Net cash used in investing activities amounted to ¥24,765 million (US$247 million), up from ¥9,599 million for the previous term. This increase was due mainly to capital investment for the purpose of raising production efficiency through the acquisition of cutting-edge equipment, as a result of which the Company's expenditure for the acquisition of property, plant and equipment came to ¥12,820 million. Outlay was also made for the purchase of investment securities.

Cash Flow from Financing Activities

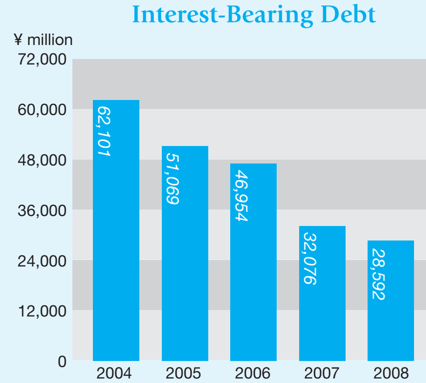
Net cash used in financing activities amounted to ¥8,571 million (US$86 million), down from ¥16,750 million for the previous term. This net outflow consists mainly of a net loan repayment of ¥3,454 million in addition to the payment of ¥5,000 million in dividends to shareholders.

Financial Position

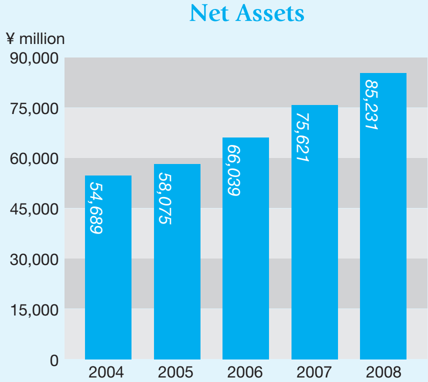
Total assets as of the end of March 2008 stood at ¥262,453 million (US$2,620 million), up ¥30,009 million, or 12.9%, from the previous term-end. This was due to increased cash as a result of greater efficiency in the employment of working capital, a rise in current assets caused by an increase in inventory assets (principally goods in process), an increase in property, plant and equipment resulting from capital expenditure, mainly in the Steel Products Business, and a year-on-year increase in the purchase of investment securities.

Liabilities at the reporting term-end stood at ¥177,221 million (US$1,769 million), up ¥20,398 million, or 13.0%, over the previous term-end. This is attributable to a rise in advances received for products and trade payables posted under current liabilities accompanying an increase in orders and sales. Interest-bearing debt declined by ¥3,485 million to ¥28,592 million (US$285 million). Net assets at the reporting term-end totaled ¥85,231 million (US$851 million), for an increase of ¥9,610 million, or 12.7%, over the previous term-end.

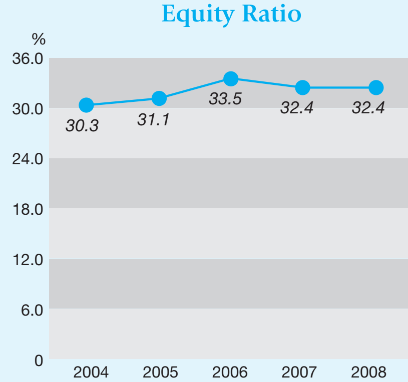
Interest-Bearing Debt



Net Assets



Equity Ratio



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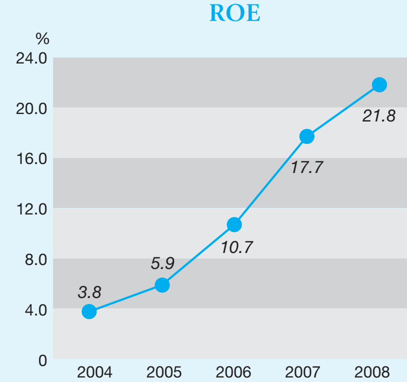

THE JAPAN STEEL WORKS, LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2008 and 2007

ASSETS	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 3) 2008
Current assets:			
Cash on hand and in banks (Note 12)	**¥ 36,552**	¥ 27,881	**$ 364,827**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**176**	329	**1,757**
Trade	**51,909**	53,448	**518,106**
Other	**642**	804	**6,408**
Less allowance for doubtful accounts	**(315)**	(305)	**(3,144)**
Inventories (Note 4)	**66,815**	58,228	**666,883**
Deferred tax assets (Note 13)	**3,921**	3,631	**39,136**
Other current assets	**8,961**	3,757	**89,440**
Total current assets	**168,663**	147,774	**1,683,431**
Property, plant and equipment, at cost (Notes 5, 6 and 8)**:**			
Land	**9,749**	10,154	**97,305**
Buildings and structures	**64,051**	62,424	**639,295**
Machinery and equipment	**85,829**	79,767	**856,662**
Construction in progress	**3,108**	1,907	**31,021**
	162,739	154,254	**1,624,304**
Less accumulated depreciation	**(101,462)**	(95,611)	**(1,012,696)**
Property, plant and equipment, net	**61,277**	58,642	**611,608**
Intangible assets	**623**	1,578	**6,218**
Investments, long-term loans and other assets:			
Investments in unconsolidated subsidiaries and affiliates	**353**	888	**3,523**
Investment securities (Note 16)	**24,247**	17,283	**242,010**
Other long-term loans receivable	**213**	63	**2,126**
Deferred tax assets (Note 13)	**1,542**	1,368	**15,391**
Other assets	**5,726**	4,982	**57,151**
Less allowance for doubtful accounts	**(196)**	(137)	**(1,956)**
Total investments, long-term loans and other assets	**31,888**	24,449	**318,275**
Total assets	**¥262,453**	¥232,444	**$2,619,553**

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 3) 2008
Current liabilities:			
Short-term bank loans (Note 8)	**¥ 6,218**	¥ 6,611	**$ 62,062**
Current portion of long-term debt (Note 8)	**2,135**	7,091	**21,310**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	**692**	143	**6,907**
Trade	**48,040**	49,389	**479,489**
Other	**4,490**	4,727	**44,815**
Advances received for products	**49,018**	29,405	**489,250**
Accrued expenses	**9,756**	11,983	**97,375**
Accrued income taxes (Note 13)	**9,975**	7,317	**99,561**
Other current liabilities	**5,981**	5,209	**59,697**
Total current liabilities	**136,308**	121,877	**1,360,495**
Long-term liabilities:			
Long-term debt (Note 8)	**20,239**	18,374	**202,006**
Accrued retirement benefits (Note 15):			
For employees	**5,484**	4,559	**54,736**
For directors and corporate auditors	**149**	237	**1,487**
Deferred tax liabilities (Note 13)	**1,406**	4,044	**14,033**
Other long-term liabilities	**13,633**	7,728	**136,071**
Total long-term liabilities	**40,913**	34,945	**408,354**
Net assets			
Shareholders' equity (Notes 18)**:**			
Common stock:			
Authorized — 1,000,000,000 shares			
Issued — 371,463,036 shares in 2008 and 2007	**19,694**	19,694	**196,567**
Capital surplus	**5,422**	5,422	**54,117**
Retained earnings	**58,492**	46,019	**583,811**
Treasury stock, at cost (234,126 shares in 2008 and 190,337 shares in 2007)	**(137)**	(59)	**(1,367)**
Total shareholders' equity	**83,472**	71,077	**833,137**
Valuation, translation adjustments and other:			
Net unrealized gain on investment securities	**1,930**	5,808	**19,263**
Loss on deferred hedges	**(254)**	(1,364)	**(2,535)**
Translation adjustments	**(160)**	(118)	**(1,597)**
Total valuation, translation adjustments and other	**1,514**	4,325	**15,111**
Minority interests	**244**	218	**2,435**
Total net assets	**85,231**	75,621	**850,694**
Total liabilities and net assets	**¥262,453**	¥232,444	**$2,619,553**

Consolidated Statements of Income

For the years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	**2008**
Net sales	**¥220,851**	¥207,138	**$2,204,322**
Cost of sales (Note 14)	**160,642**	156,545	**1,603,374**
Gross profit	**60,209**	50,592	**600,948**
Selling, general and administrative expenses (Note 14)	**27,733**	25,914	**276,804**
Operating income	**32,475**	24,678	**324,134**
Other income (expenses):			
Interest and dividend income	**369**	230	**3,683**
Interest expense	**(466)**	(633)	**(4,651)**
Other, net (Note 9)	**(1,916)**	(2,040)	**(19,124)**
	(2,014)	(2,443)	**(20,102)**
Income before income taxes and minority interests	**30,461**	22,235	**304,032**
Income taxes (Note 13)**:**			
Current	**14,184**	9,761	**141,571**
Deferred	**(1,228)**	(63)	**(12,257)**
Minority interests in net income of consolidated subsidiaries	**21**	21	**210**
Net income (Note 20)	**¥ 17,484**	¥ 12,515	**$ 174,508**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2007

	Millions of Yen											
	Number of shares of common stock in issue (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
Net changes in items other than those in shareholders' equity						—	375	(1,364)	19	(969)	31	(937)
Balance at March 31, 2007	371,463	¥19,694	¥5,422	¥46,019	¥(59)	¥71,077	¥5,808	¥(1,364)	¥(118)	¥4,325	¥218	¥75,621

	Millions of Yen											
	Number of shares of common stock in issue (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, 2007	371,463	¥19,694	¥5,422	¥46,019	¥ (59)	¥71,077	¥5,808	¥(1,364)	¥(118)	¥4,325	¥218	¥75,621
Net income				**17,484**		**17,484**						**17,484**
Cash dividends paid				**(5,012)**		**(5,012)**						**(5,012)**
Purchases of treasury stock					**(77)**	**(77)**						**(77)**
Net changes in items other than those in shareholders' equity						**—**	**(3,878)**	**1,110**	**(42)**	**(2,811)**	**25**	**(2,785)**
Balance at March 31, 2008	**371,463**	**¥19,694**	**¥5,422**	**¥58,492**	**(137)**	**¥83,472**	**¥1,930**	**¥ (254)**	**¥(160)**	**¥1,514**	**¥244**	**¥85,231**

	Thousands of U.S. Dollars (Note 3)											
	Number of shares of common stock in issue (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, 2007	371,463	$196,567	$54,117	$459,317	$ (589)	$709,422	$57,970	$(13,614)	$(1,178)	$43,168	$2,176	$754,776
Net income				**174,508**		**174,508**						**174,508**
Cash dividends paid				**(50,025)**		**(50,025)**						**(50,025)**
Purchases of treasury stock					**(769)**	**(769)**						**(769)**
Net changes in items other than those in shareholders' equity						**—**	**(38,706)**	**11,079**	**(419)**	**(28,057)**	**250**	**(27,797)**
Balance at March 31, 2008	**371,463**	**$196,567**	**$54,117**	**$583,811**	**$(1,367)**	**$833,137**	**$19,263**	**$ (2,535)**	**$(1,597)**	**$15,111**	**$2,435**	**$850,694**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	**2008**
Operating activities:			
Income before income taxes and minority interests	**¥30,461**	¥22,235	**$304,032**
Depreciation and amortization	**9,577**	5,050	**95,588**
Loss on impairment of goodwill	**739**	—	**7,376**
Interest and dividend income	**(369)**	(230)	**(3,683)**
Interest expense	**466**	633	**4,651**
Equity in loss (income) of unconsolidated subsidiaries and affiliates	**37**	(38)	**369**
Loss on revaluation of real estate for sale	**—**	21	**—**
Loss on write-downs of investment securities	**258**	6	**2,575**
Gain on sales of investment securities	**—**	(2)	**—**
Amortization of net retirement benefit obligation at transition	**772**	772	**7,705**
Loss on disposal of tangible and intangible assets	**1,248**	944	**12,456**
Gain and loss on sales of property, plant and equipment	**(1,896)**	(25)	**(18,924)**
Gain on sales of securities of affiliates	**(118)**	—	**(1,178)**
Changes in operating assets and liabilities:			
Trade assets	**28,196**	11,464	**281,425**
Trade liabilities	**(5,266)**	9,618	**(52,560)**
Inventories (Note 4)	**(8,586)**	(7,666)	**(85,697)**
Other	**(1,890)**	(850)	**(18,864)**
Subtotal	**53,630**	41,932	**535,283**
Interest and dividends received	**392**	253	**3,913**
Interest paid	**(457)**	(649)	**(4,561)**
Income taxes paid	**(11,525)**	(5,906)	**(115,031)**
Net cash provided by operating activities	**42,040**	35,630	**419,603**
Investing activities:			
Increase in tangible and intangible assets	**(12,820)**	(6,497)	**(127,957)**
Decrease in tangible and intangible assets	**2,549**	54	**25,442**
Purchases of investment securities	**(13,941)**	(2,026)	**(139,146)**
Proceeds from sales of investment securities	**3**	35	**30**
Proceeds from redemption of investment securities	**200**	—	**1,996**
Reimbursement of long-term deposits on contracts	**(446)**	(389)	**(4,452)**
(Increase) decrease in short-term loans receivable	**(302)**	0	**(3,014)**
Increase in long-term loans receivable	**(150)**	—	**(1,497)**
Payments upon incorporation of unconsolidated subsidiaries	**(100)**	(11)	**(998)**
Purchases of shares of common stock of subsidiaries	**—**	(745)	**—**
Proceeds from sales of securities of affliates	**700**	—	**6,987**
Other	**(456)**	(17)	**(4,551)**
Net cash used in investing activities	**(24,765)**	(9,599)	**(247,180)**
Financing activities (Note 8)**:**			
Decrease in short-term bank loans	**(393)**	(6,211)	**(3,923)**
Increase in long-term bank loans	**4,000**	—	**39,924**
Decrease in long-term bank loans	**(7,061)**	(8,636)	**(70,476)**
Bond payments	**(30)**	(30)	**(299)**
Dividend payments	**(5,012)**	(1,845)	**(50,025)**
Acquisition of treasury stock	**(77)**	(31)	**(769)**
Sales of treasury stock	**—**	0	**—**
Other	**2**	3	**20**
Net cash used in financing activities	**(8,571)**	(16,750)	**(85,547)**
Effect of exchange rate changes on cash and cash equivalents	**(43)**	12	**(429)**
Increase in cash and cash equivalents	**8,660**	9,293	**86,436**
Cash and cash equivalents at beginning of the year	**27,472**	18,179	**274,199**
Cash and cash equivalents at end of the year (Note 11)	**¥36,133**	¥27,472	**$360,645**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Fiscal year 2007 (Year ended March 31, 2008)

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 Financial Instruments and Exchange Law of Japan.

As permitted by the Financial Instruments 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 accompanying 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 ended 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 neither consolidated nor 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.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

(c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be 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

Prior to April 1, 2006, the Company 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 for the year ended March 31, 2007 from the amount which would have been recorded under the previous method.

(h) Provision for losses on construction contracts

With respect to construction works that have not yet been delivered as of March 31, 2008, a provision for losses on construction contracts has been made at the estimated amount of total losses anticipated in the following fiscal year and thereafter for losses which are deemed certain to be incurred and whose amounts can be reasonably estimated. As a result, cost of sales increased by ¥647 million ($6,458 thousand) and operating income and income before income taxes and minority interests decreased by the same amount for the year ended March 31, 2008.

(i) 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 by the declining-balance method over the estimated useful lives of the respective assets, except that the straight-line method is applied to buildings. Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

(Changes in method of accounting for depreciation)
(1) Buildings
Effective the year ended March 31, 2008, the Company and its domestic subsidiaries have changed their method of accounting for depreciation of buildings acquired on or after April 1, 2007 in accordance with the revised Corporate Tax Law. The effect of this change on operating income and income before income taxes and minority interests was not material for the year ended March 31, 2008.

(2) Structures, machinery and equipment
Until the year ended March 31, 2007, the straight-line method was applied to the depreciation of structures, and machinery and equipment excluding certain machinery. Effective the year ended March 31, 2008, the method of accounting for depreciation of these assets has been changed to the declining-balance method.

This change resulted from the fact that, in order to address the substantial increase in the number of orders for high-quality and large-sized products, influenced by changes in the international energy structure and exposed global environmental problems, which in turn has increased the burden on production facilities and has increased the cost of repairs, the Company and its subsidiaries have started to transform their production system effective the current fiscal year as set forth in the revised medium-term management plan, "J-2008(R)," released on May 14, 2007.

As a result of the change in method of accounting for depreciation, depreciation expense increased by ¥3,294 million ($32,878 thousand), operating income decreased by ¥2,401 million ($23,964 thousand) and income before income taxes and minority interests deceased by ¥2,402 million ($23,974 thousand) compared with the corresponding amounts which would have been recorded if the previous method had been followed.

(Additional Information)
Regarding property, plant and equipment acquired on or before March 31, 2007, effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have adopted a method of accounting for depreciation that conforms to the revised Corporate Tax Law. Specifically, when the book value of an asset reaches 5% of its acquisition cost based on the method of accounting for depreciation applied prior to the revision, the difference between the amount equivalent to 5% of acquisition cost and memorandum value of the asset is depreciated in equal amounts over a period of five years from the year following the year in which the book value of the asset reaches 5% of its acquisition cost, and such depreciation is reported as depreciation expense. As a result, operating income decreased by ¥535 million ($5,340 thousand) and income before income taxes and minority interests deceased by ¥536 million ($5,350 thousand) from the corresponding amounts which would have been recorded if the previous method had been followed.

(j) Bond issuance expenses
Bond issuance expenses are charged to income as incurred.

(k) 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.

(l) 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, 2008 and 2007 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 or loss is 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 plans.

(m) Income taxes
Deferred tax assets and liabilities have been recognized in the consolidated balance sheets at March 31, 2008 and 2007 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.

(n) Research and development expenses
Research and development expenses are charged to income when incurred.

(o) 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.

(p) 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 currency 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.

(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 adopted this accounting standard. As a result, provision for directors' bonuses in the amount of ¥162 million was 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 adopted an 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. The amount corresponding to total shareholders’ equity under the previous method of presentation was ¥76,767 million at March 31, 2007.

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 ¥100.19 = U.S.$1.00, the rate of exchange prevailing on March 31, 2008. 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, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Real estate for sale	**¥ 43**	¥ 49	**$ 429**
Finished products	**1,602**	2,407	**15,990**
Work in process	**60,305**	51,670	**601,906**
Raw materials and supplies	**4,864**	4,100	**48,548**
Total	**¥66,815**	¥58,228	**$666,883**

5. Depreciation

Depreciation expense for property, plant and equipment for the years ended March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Depreciation expense	**¥9,249**	¥4,691	**$92,315**

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). Such depreciation expense for the years ended March 31,2008 and 2007 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Advanced depreciation expense	**¥308**	¥379	**$3,074**

7. Contingent Liabilities

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
As endorsers of trade notes receivable:			
Discounted with banks	**¥ —**	¥ 9	**$ —**
Endorsed with other	**72**	94	**719**
As guarantors of loans:			
Muroran Environmental Plant Service Co., Ltd.	**669**	415	**6,677**
Medical Corporation Bokoi	**1,895**	—	**18,914**
Employees and other	**943**	1,108	**9,412**
Total	**¥3,580**	¥1,626	**$35,732**

Medical Corporation Bokoi had a temporary deficiency in net assets at March 31, 2008. It is reorganizing its businesses based on its medium-term management plan and its financial condition is expected to improve after the next fiscal year. The Company was offered mortgage collateral in return for its guarantee of the loan of Medical Corporation Bokoi.

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

All short-term bank loans, with interest at annual rates ranging from 1.10% to 1.875% at March 31, 2008 and 0.40% to 6.39% at March 31, 2007, were unsecured.

Long-term debt at March 31, 2008 and 2007 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Loans from banks and insurance companies with interest at annual rates ranging from 1.28% to 2.45%	**¥12,344**	¥15,405	**$123,206**
Less those maturing within one year	**(2,105)**	(7,061)	**(21,010)**
0.72% straight bonds, due 2008	**30**	60	**299**
Less those maturing within one year	**(30)**	(30)	**(299)**
0.92% straight bonds, due 2010	**10,000**	10,000	**99,810**
Long-term indebtedness reflected in the consolidated balance sheets	**¥20,239**	¥18,374	**$202,006**

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized below:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 2,135	$ 21,310
2010	2,322	23,176
2011	10,647	106,268
2012	570	5,689
2013	3,240	32,339
2014 and thereafter	3,460	34,534

The assets pledged as collateral for long-term debt at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Property, plant and equipment, at net book value	**¥10,777**	¥11,994	**$107,566**

9. Other Income (Expenses) — Other, Net

The details of “Other, net” in “Other income (expenses)” for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Loss on sales or disposal of property, plant and equipment	**¥(1,293)**	¥ (950)	**$(12,905)**
Gain on sales of property, plant and equipment	**1,941**	31	**19,373**
Gain on sales of raw materials and supplies	**341**	272	**3,404**
Amortization of net retirement benefit obligation at transition	**(693)**	(693)	**(6,917)**
Provision for compensation for completed works	**(665)**	(485)	**(6,637)**
Gain on cancellation fees received	**—**	175	**—**
Gain on sales of securities of affiliates	**118**	—	**1,178**
Gain on sales of investment securities	**—**	2	**—**
Loss on write-downs of investment securities	**(258)**	(6)	**(2,575)**
Loss of revaluation of real estate for sale	**—**	(21)	**—**
PCB disposal expenses	**—**	(277)	**—**
Loss on impairment of goodwill	**(739)**	—	**(7,376)**
Expenses for relocation of the head office	**(152)**	—	**(1,517)**
Other, net	**(514)**	(88)	**(5,130)**
Total	**¥(1,916)**	¥(2,040)	**$(19,124)**

10. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets recognized by the Company and its consolidated subsidiaries for the year ended March 31, 2008 was as follows:

Location	Use	Classification
Yokohama-shi, Kanagawa prefecture (a subsidiary engaged in the machinery products business)	—	Goodwill

The company and its consolidated subsidiaries group assets into the smallest independent cash flow generating units possible on the basis of managerial accounting.

The above goodwill was written down to its recoverable value, resulting in an impairment loss of ¥739 million ($7,376 thousand), because the related subsidiary was unable to generate the amount of profit set forth in the initial plan when the investment in such subsidiary had been determined by the Company.

The recoverable value was measured on the basis of the revised business plan for the asset group.

11. Leases

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation/amortization and net book value of the leased property as of March 31, 2008 and 2007, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

Year ended March 31, 2008

	Millions of Yen		
	Acquisition cost	Accumulated depreciation/ amortization	Net book value
Buildings	**¥ 8**	**¥ 2**	**¥ 5**
Machinery and vehicles	**4,836**	**2,137**	**2,699**
Equipment	**2,721**	**1,381**	**1,340**
Software	**306**	**188**	**117**
Total	**¥7,872**	**¥3,710**	**¥4,162**

	Thousands of U.S. Dollars		
	Acquisition cost	Accumulated depreciation/ amortization	Net book value
Buildings	**$ 80**	**$ 20**	**$ 50**
Machinery and vehicles	**48,268**	**21,329**	**26,939**
Equipment	**27,158**	**13,784**	**13,375**
Software	**3,054**	**1,876**	**1,168**
Total	**$78,571**	**$37,030**	**$41,541**

Year ended March 31, 2007

	Millions of Yen		
	Acquisition cost	Accumulated depreciation/ amortization	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

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,269 million ($12,666 thousand) and ¥1,096 million, which were equal to the depreciation/amortization of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2008 and 2007, respectively.

Future minimum lease payments subsequent to March 31, 2008 under non-cancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Year ending March 31,	Finance leases	Operating leases	Finance leases	Operating leases
2009	¥1,297	¥ 517	$12,945	$ 5,160
2010 and thereafter	2,865	791	28,596	7,895
Total	¥4,162	¥1,308	$41,541	$13,055

12. Cash Flow Information

(a) Cash and Cash Equivalents

Cash and cash equivalents in the accompanying consolidated statements of cash flows and cash on hand and in banks in the accompanying consolidated balance sheets at March 31, 2008 and 2007 are reconciled as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Cash on hand and in banks in the consolidated balance sheets	**¥36,552**	¥27,881	**$364,827**
Time deposits with maturities of over three months	**(418)**	(408)	**(4,172)**
Cash and cash equivalents in the consolidated statements of cash flows	**¥36,133**	¥27,472	**$360,645**

(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 used for the acquisition during the year ended March 31, 2007:

	Millions of Yen
	2007
Current assets	¥675
Non current assets	704
Goodwill	258
Current liabilities	(829)
Non-current liabilities	(88)
Acquisition cost of Tahara Machinery Ltd.	¥720
Cash and cash equivalents of Tahara Machinery Ltd.	¥ (80)
Net cash used for acquisition of Tahara Machinery Ltd.	¥639

(c) Significant components of assets that increased resulting from an acquisition of an operation during the year ended March 31, 2007 are summarized as follows:

	Millions of Yen
	2007
Non-current assets	¥458
Goodwill	191
Total assets	¥650

13. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, enterprise taxes and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.5% for the years ended March 31, 2008 and 2007. Income taxes of the overseas consolidated subsidiaries are based generally on the tax rates applicable in their respective countries of incorporation.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007 differ from the statutory tax rate for reasons summarized in the table below:

	2008	2007
Statutory tax rate	**40.5%**	40.5%
Effect of:		
Increase in Valuation allowance	**3.0**	—
Income taxes paid for prior years	**—**	1.9
Other	**(1.0)**	1.2
Effective tax rates	**42.5%**	43.6%

The significant components of the Company's deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 766**	¥ 560	**$ 7,645**
Accrued bonuses	**1,493**	1,373	**14,902**
Unrealized gain on intercompany transactions	**584**	573	**5,829**
Accrued retirement benefits for employees	**3,583**	2,474	**35,762**
Accrued retirement benefits for directors and corporate auditors	**146**	223	**1,457**
Loss on revaluation of inventory items	**75**	80	**749**
Loss on revaluation of monetary goods	**1,140**	231	**11,378**
Depreciation	**1,176**	424	**11,738**
Provision for compensation for completed works	**320**	196	**3,194**
Provision for losses on construction contracts	**262**	—	**2,615**
PCB disposal expenses	**188**	202	**1,876**
Tax loss carryforwards	**176**	136	**1,757**
Loss on deferred hedges	**406**	948	**4,052**
Unrealized loss on investment securities	**811**	17	**8,095**
Other	**297**	194	**2,964**
Gross deferred tax assets	**11,431**	7,638	**114,093**
Valuation allowance	**(1,443)**	(510)	**(14,403)**
Total deferred tax assets	**9,987**	7,127	**99,681**
Deferred tax liabilities:			
Reserve for advanced depreciation	**1,995**	2,100	**19,912**
Reserve for special account for advanced depreciation	**634**	—	**6,328**
Prepaid pension cost	**874**	—	**8,723**
Unrealized gain on investment securities	**2,124**	3,969	**21,200**
Gain on deferred hedges	**233**	—	**2,326**
Reversal of allowance for doubtful accounts	**49**	47	**489**
Other	**14**	55	**140**
Total deferred tax liabilities	**5,926**	6,172	**59,148**
Net deferred tax assets	**¥ 4,058**	¥ 955	**$ 40,503**

14. Research and Development Expenses

Research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Research and development expenses	**¥3,402**	¥3,312	**$33,955**

15. Employees' Retirement Benefit Plans

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2008 and 2007 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
1. Retirement benefit obligation	**¥(27,918)**	¥(28,716)	**$(278,651)**
2. Plan assets at fair value	**17,201**	21,364	**171,684**
3. Unfunded retirement benefit obligation (1+2)	**(10,717)**	(7,351)	**(106,967)**
4. Unrecognized net retirement benefit obligation at transition	**1,530**	2,302	**15,271**
5. Unrecognized actuarial loss	**4,887**	901	**48,777**
6. Prior service cost	**974**	1,267	**9,722**
7. Subtotal (3+4+5+6)	**(3,325)**	(2,879)	**(33,187)**
8. Accrued retirement benefits	**¥ (5,484)**	¥ (4,559)	**$ 54,736**
9. Prepaid pension cost	**¥ 2,159**	¥ 1,679	**$ 21,549**

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are outlined as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
1. Service cost	**¥1,756**	¥1,737	**$17,527**
2. Interest cost	**451**	501	**4,501**
3. Expected return on plan assets	**(410)**	(424)	**(4,092)**
4. Amortization of net retirement benefit obligation at transition	**772**	772	**7,705**
5. Amortization of actuarial loss	**191**	179	**1,906**
6. Amortization of prior service cost	**155**	155	**1,547**
7. Retirement benefit expenses	**¥2,916**	¥2,922	**$29,105**

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

	2008	2007
Discount rate	**2.00%**	2.00%
Expected rate of return on plan assets	**2.00%**	2.00%

16. Securities

March 31, 2008

(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	**¥ 6,432**	**¥11,679**	**¥5,246**
Carrying value does not exceed acquisition cost:			
Stocks	**13,174**	**10,930**	**(2,243)**
Total	**¥19,606**	**¥22,609**	**¥3,003**

	Thousands of U.S. Dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Carrying value exceeds acquisition cost:			
Stocks	**$ 64,198**	**$116,569**	**$52,361**
Carrying value does not exceed acquisition cost:			
Stocks	**131,490**	**109,093**	**(22,387)**
Total	**$195,688**	**$225,661**	**$29,973**

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

	Millions of Yen	Thousands of U.S. Dollars
Other unlisted securities	**¥1,637**	**$16,339**

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

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

	Millions of Yen
Other unlisted securities	¥1,843

17. Liquidation of Notes and Accounts Receivable

Notes and accounts receivable deducted from trade receivables for liquidation at March 31, 2008 and 2007 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Notes receivable	**¥ —**	¥ 871	**$ —**
Accounts receivable	**6,776**	9,244	**67,632**

18. Supplementary Information for Consolidated Statements of Changes in Net Assets

Year ended March 31, 2008

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

	Number of shares			
	End of March 31, 2007	Increase in shares during the year	Decrease in shares during the year	End of March 31, 2008
Issued stock:				
Common shares	371,463,036	—	—	371,463,036
Treasury stock:				
Common shares	190,337	43,789	—	234,126

Note The increase in the number of common shares held in treasury of 43,789 was due to the acquisition of fractional shares of less than one unit.

(b) Dividends

(1) Dividends paid to shareholders

(i) Approval: Ordinary general meeting of shareholders held on June 28, 2007
Type of shares: Common stock
Total amount of dividends: ¥3,341 million ($33,347 thousand)
Dividends per share: ¥9 ($0.090)
Record date: March 31, 2007
Effective date: June 29, 2007

(ii) Approval: Meeting of Board of Directors held on September 19, 2007
Type of shares: Common stock
Total amount of dividends: ¥1,670 million ($16,668 thousand)
Dividends per share: ¥4.5 ($0.045)
Record date: September 30, 2007
Effective date: December 10, 2007

(2) Dividends whose record date fell in the year ended March 31, 2008, but whose effective date is after the year then ended

Approval: Ordinary general meeting of shareholders held on June 27, 2008
Type of shares: Common stock
Total amount of dividends: ¥2,784 million ($27,787 thousand)
Dividends per share: ¥7.5 ($0.075)
Record date: March 31, 2008
Effective date: June 30, 2008
Source of dividends: Retained earnings

Year ended March 31, 2007

(a) Total number and periodic changes in number of shares in issue 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: The increase in the number of common shares held in treasury of 34,744 was due to the acquisition of fractional shares of less than one unit.
2: The decrease in the number of common shares held in treasury of 1,268 was due to sales of shares to shareholders with fractional shares of less than one unit.

(b) Dividends

(1) 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 million
Dividends per share: ¥5
Record date: March 31, 2006
Effective date: June 29, 2006

(2) Dividends whose record date fell in the year ended March 31, 2007, but whose effective date is after the year then ended

Approval: Ordinary general meeting of shareholders held on June 28, 2007
Type of shares: Common stock
Total amount of dividends: ¥3,341 million
Dividends per share: ¥9
Record date: March 31, 2007
Effective date: June 29, 2007
Source of dividends: Retained earnings

19. Shareholders' Equity

The Corporation Law of Japan (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.

20. Amounts per Share

Net income per share 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 are calculated based on the number of shares of common stock outstanding at each year end.

	Yen		U.S. Dollars
	Year ended March 31,		Year ended March 31,
	2008	2007	**2008**
Net income	**¥ 47.10**	¥ 33.71	**$0.47**
Net assets	**228.93**	203.09	**2.28**

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

(Directors' bonuses)
As described in Note 2(q), effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted an accounting standard for directors' bonuses. The effect of this change was to increase "Operating expenses" in "Eliminations and corporate" by ¥162 million and to 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.

(Change in method of accounting for depreciation)
As described in Note 2(i), effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of structures, and machinery and equipment from the straight-line method to the declining-balance method. The effect of this change was to increase "Depreciation expense" in "Steel pruducts" by ¥2,314 million ($23,096 thousand), in "Machinery products" by ¥ 960 million ($9,582 thousand), in "Regional development" by ¥9 million ($90 thousand), and in "Eliminations and corporate" by ¥10 million ($100 thousand); and to increase "Operating expenses" in "Steel products" by ¥1,573 million ($15,700 thousand), in "Machinery products" by ¥809 million ($8,075 thousand), in "Regional development" by ¥9 million ($90 thousand) and in "Eliminations and corporate" by ¥9 million ($90 thousand) and to decrease "Operating income" by the same amounts as the corresponding increases in "Operating expenses" for the year ended March 31, 2008 compared with the corresponding amounts which would have been recorded if the previous method had been followed.

(Depreciation expense)
As described in Note 2(i), regarding property, plant and equipment acquired on or before March 31, 2007, effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have adopted a method of accounting for depreciation that conforms to the revised Corporate Tax Law. Specifically, when the book value of an asset reaches 5% of its acquisition cost based on the method of accounting for depreciation applied prior to the revision, the difference between the amount equivalent to 5% of acquisition cost and memorandum value of the asset is depreciated in equal amounts over a period of five years from the year following the year in which the book value of the asset reaches 5% of its acquisition cost, and such depreciation is reported as depreciation expense. As a result, "Depreciation expense" increased in "Steel products" by ¥365 million ($3,643 thousand), in "Machinery products" by ¥277 million ($2,765 thousand), in "Regional development" by ¥4 million ($40 thousand) and in "Eliminations and corporate" by ¥10 million ($100 thousand); and "Operating expenses" increased in "Steel products" by ¥278 million ($2,775 thousand), in "Machinery products" by ¥242 million ($2,415 thousand), in "Regional development" by ¥4 million ($40 thousand) and in "Eliminations and corporate" by ¥10 million ($100 thousand) and "Operating income" decreased by the same amounts as the corresponding increases in "Operating expenses" for the year ended March 31, 2008 compared with the corresponding amounts which would have been recorded if the previous method had been followed.

(Provision for losses on construction contracts)
As described in Note 2(h), with respect to construction works that have not yet been delivered as of March 31, 2008, a provision for losses on construction contracts has been made at the estimated amount of total losses anticipated in the following fiscal year and thereafter for losses which are deemed certain to be incurred and whose amounts can be reasonably estimated. As a result, "Operating expenses" increased in "Machinery products" by ¥647 million ($6,458 thousand) and "Operating income" decreased in that segment by the same amount for the year ended March 31, 2008.

	Millions of Yen					
Year ended March 31, 2008	Steel Products	Machinery Products	Regional Development	Total	Eliminations and Corporate	Consolidated
Sales and operating income:						
Sales to third parties	**¥92,613**	**¥126,155**	**¥ 2,082**	**¥220,851**	**¥ —**	**¥220,851**
Intra-group sales and transfers	**2,235**	**308**	**66**	**2,610**	**(2,610)**	**—**
Net sales	**94,848**	**126,464**	**2,149**	**223,462**	**(2,610)**	**220,851**
Operating expenses	**69,662**	**113,200**	**1,460**	**184,323**	**4,052**	**188,375**
Operating income	**¥25,185**	**¥ 13,263**	**¥ 689**	**¥ 39,138**	**¥ (6,662)**	**¥ 32,475**
Total assets, depreciation expense, loss on impairment of goodwill and capital expenditures:						
Total assets	**¥90,741**	**¥ 94,718**	**¥13,276**	**¥198,737**	**¥63,716**	**¥262,453**
Depreciation expense	**5,802**	**3,023**	**334**	**9,160**	**151**	**9,311**
Loss on impairment of goodwill	**—**	**—**	**—**	**—**	**739**	**739**
Capital expenditures	**7,896**	**3,563**	**267**	**11,727**	**367**	**12,095**

Year ended March 31, 2008	Thousands of U.S. Dollars					
Sales and operating income:						
Sales to third parties	$924,374	$1,259,158	$ 20,781	$2,204,322	$ —	$2,204,322
Intra-group sales and transfers	22,308	3,074	659	26,051	(26,051)	—
Net sales	946,681	1,262,242	21,449	2,230,382	(26,051)	2,204,322
Operating expenses	695,299	1,129,853	14,572	1,839,735	40,443	1,880,178
Operating income	$251,372	$ 132,378	$ 6,877	$ 390,638	$ (66,494)	$ 324,134
Total assets, depreciation expense, loss on impairment of goodwill and capital expenditures:						
Total assets	$905,689	$ 945,384	$132,508	$1,983,601	$635,952	$2,619,553
Depreciation expense	57,910	30,173	3,334	91,426	1,507	92,933
Loss on impairment of goodwill	—	—	—	—	7,376	7,376
Capital expenditures	78,810	35,562	2,665	117,048	3,663	120,721

	Millions of Yen					
Year ended March 31, 2007	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

(b) Geographical segment information

(Directors' bonuses)
As described in Note 2(q), effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted an accounting standard for directors' bonuses. The effect of this change was to increase "Operating expenses" in "Eliminations and corporate" by ¥162 million and to 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.

(Change in method of accounting for depreciation)
As described in Note 2(i), effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of structures, and machinery and equipment from the straight-line method to the declining-balance method. The effect of this change was to increase "Operating expenses" in "Japan" by ¥2,392 million ($23,875 thousand) and in "Eliminations and corporate" by ¥9 million ($90 thousand) and to decrease "Operating income" by the same amounts as the corresponding increases in "Operating expenses" for the year ended March 31, 2008 compared with the corresponding amounts which would have been recorded if the previous method had been followed.

(Depreciation expense)
As described in Note 2(i), regarding property, plant and equipment acquired on or before March 31, 2007, effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have adopted a method of accounting for depreciation that conforms to the revised Corporate Tax Law. Specifically, when the book value of an asset reaches 5% of its acquisition cost based on the method of accounting for depreciation applied prior to the revision, the difference between the amount equivalent to 5% of acquisition cost and memorandum value of the asset is depreciated in equal amounts over a period of five years from the year following the year in which the book value of the asset reaches 5% of its acquisition cost, and such depreciation is reported as depreciation expense. As a result, "Operating expenses" increased in "Japan" by ¥525 million ($5,240 thousand) and in "Eliminations and corporate" by ¥10 million ($100 thousand) and "Operating income" decreased by the same amounts as the corresponding increases in "Operating expenses" for the year ended March 31, 2008 compared with the corresponding amounts which would have been recorded if the previous method had been followed.

(Provision for losses on construction contracts)
As described in Note 2(h), with respect to construction works that have not yet been delivered as of March 31, 2008, a provision for losses on construction contracts has been made at the estimated amount of total losses anticipated in the following fiscal year and thereafter for losses which are deemed certain to be incurred and whose amounts can be reasonably estimated. As a result, "Operating expenses" increased in "Japan" by ¥647 million ($6,458 thousand) and "Operating income" decreased in that segment by the same amount for the year ended March 31, 2008.

Year ended March 31, 2008	Japan	North America	Asia (except Japan)	Total	Eliminations and Corporate	Consolidated
	Millions of Yen					
Sales and operating income:						
Sales to third parties	**¥213,344**	**¥2,685**	**¥4,821**	**¥220,851**	**¥ —**	**¥220,851**
Inter-area sales and transfers	**6,000**	**166**	**1,020**	**7,186**	**(7,186)**	**—**
Net sales	**219,344**	**2,851**	**5,841**	**228,038**	**(7,186)**	**220,851**
Operating expenses	**180,891**	**2,671**	**5,648**	**189,211**	**(835)**	**188,375**
Operating income	**¥ 38,453**	**¥ 180**	**¥ 193**	**¥ 38,826**	**¥ (6,351)**	**¥ 32,475**
Total assets	**¥197,180**	**¥2,350**	**¥3,895**	**¥203,426**	**¥59,027**	**¥262,453**

Year ended March 31, 2008	Japan	North America	Asia (except Japan)	Total	Eliminations and Corporate	Consolidated
	Thousands of U.S. Dollars					
Sales and operating income:						
Sales to third parties	**$2,129,394**	**$26,799**	**$48,119**	**$2,204,322**	**$ —**	**$2,204,322**
Inter-area sales and transfers	**59,886**	**1,657**	**10,181**	**71,724**	**(71,724)**	**—**
Net sales	**2,189,280**	**28,456**	**58,299**	**2,276,055**	**(71,724)**	**2,204,322**
Operating expenses	**1,805,480**	**26,659**	**56,373**	**1,888,522**	**(8,334)**	**1,880,178**
Operating income	**$ 383,801**	**$ 1,797**	**$ 1,926**	**$ 387,524**	**$ (63,390)**	**$ 324,134**
Total assets	**$1,968,061**	**$23,455**	**$38,876**	**$2,030,402**	**$589,151**	**$2,619,553**

Year ended March 31, 2007	Japan	North America	Asia (except Japan)	Total	Eliminations and Corporate	Consolidated
	Millions of Yen					
Sales and operating income:						
Sales to third parties	¥200,185	¥3,550	¥3,402	¥207,138	¥ —	¥207,138
Inter-area 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

(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, 2008 and 2007 are summarized as follows:

Year ended March 31, 2008	East Asia	North America	Other	Total
	Millions of Yen			
Overseas sales	**¥49,737**	**¥9,371**	**¥44,828**	**¥103,937**
Total consolidated sales				**¥220,851**
Overseas sales as a percentage of total consolidated sales (%)	**22.5**	**4.2**	**20.3**	**47.1**

Year ended March 31, 2008	East Asia	North America	Other	Total
	Thousands of U.S. Dollars			
Overseas sales	**$496,427**	**$93,532**	**$447,430**	**$1,037,399**
Total consolidated sales				**$2,204,322**
Overseas sales as a percentage of total consolidated sales (%)	**22.5**	**4.2**	**20.3**	**47.1**

Year ended March 31, 2007	East Asia	North America	Other	Total
	Millions of Yen			
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

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, 2008 and 2007, 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, 2008 and 2007, 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

As described in Note 2(i), effective the year ended March 31, 2008, the Company and its consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 27, 2008

A MEMBER OF ERNST & YOUNG GLOBAL