

ANNUAL REPORT 2008

for the year ended March 31, 2008

JSW

THE JAPAN STEEL WORKS, LTD.

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

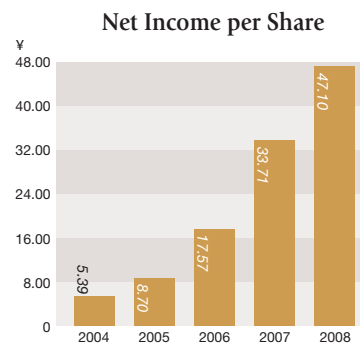
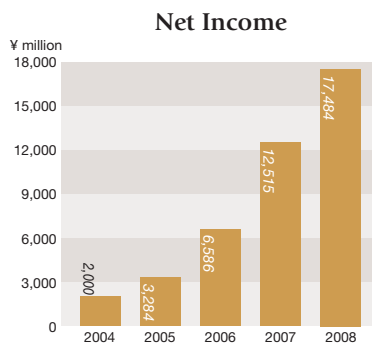
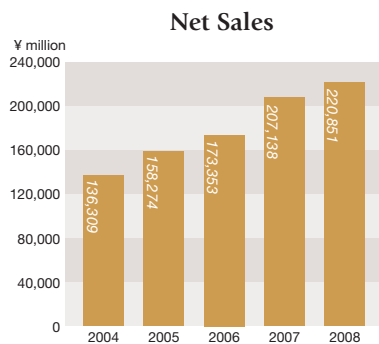
The forward-looking statements in this annual report reflect judgments based on information available at the present time. Actual results may differ widely due to various factors.

Financial Highlights (Consolidated)

THE JAPAN STEEL WORKS, LTD. AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Net sales	¥220,851	¥207,138	\$2,204,322
Net income.....	17,484	12,515	174,508
Total assets	262,453	232,444	2,619,553
Total net assets	85,231	75,621	850,694
Per share of common stock (yen and U.S. dollars):			
Net income	¥47.10	¥33.71	\$0.47

Note: Amounts in U.S. dollars are presented solely for convenience and based on the rate of ¥100.19 = US\$1.00, the rate of exchange on March 31, 2008, the date of the Company's most recent balance sheet.



Message from the President



Masahisa Nagata
President

Business Performance and Operating Environment

The Japanese economy showed a trend of gradual expansion during the reporting period against the backdrop of improving corporate earnings, increased capital investment, and a brighter employment situation. The economy's outlook is growing gloomier, however, in view of the possibility of economic stagnation worldwide, particularly in the United States, stemming from the high price of oil and the principal raw materials, as well as the impact of the U.S. subprime mortgage loan crisis.

In these circumstances, JSW continued during the reporting term to vigorously pursue the main targets under its Revised Medium-Term Management Plan (J2008R): namely, enhancing the scale of its business, improving capital efficiency, and promoting CSR. We also made a considerable amount of capital investment in response to growing demand, and to enable us to produce products with a higher degree of value added. We achieved reductions in costs, shortened lead times

through improvement to production processes, and achieved some success in pushing through higher selling prices to offset rising raw material prices. Through the early collection of receivables and an increase in advance payments, we improved our capital efficiency and operating cash flow. Overall business performance for the term exceeded our initial expectations.

Orders received for the reporting term, on a consolidated basis, posted an increase of 16% over the preceding term, to ¥264,550 million (US\$2,640 million), thanks to brisk business in both of the Company's principal segments — Steel Products and Machinery Products.

Sales for the Machinery Products segment were at approximately the same level as the previous year, but Steel Products enjoyed a strong performance, with year-on-year growth of 7% to ¥220,851 million (US\$2,204 million).

The growth in revenues led to increased profits, and the steady inflow of orders allowed us to realize a reduction in costs, thanks to a higher capacity utilization rate and improved productivity. We also succeeded in raising selling prices to offset higher raw material prices, and as a result, operating income rose 32% year-on-year, to ¥32,475 million (US\$324 million), ordinary income grew by 32% to ¥30,864 million (US\$308 million), and net income was up 40% at ¥17,484 million (US\$174 million).

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.

There was no special commemorative dividend for the reporting term, but ordinary dividends for the year were raised by ¥6 per share from the previous term, to ¥12 per share. An interim dividend of ¥4.50 per share was also paid, bringing the term-end dividend per share to ¥7.50, an increase of ¥3.00 over our initial projection.

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.

Amid this business environment, we forecast continued firm demand for JSW's Steel Products business, driven by strong global demand for energy, principally in the form of electric power, oil, and natural gas. We are still pressing ahead with a plan to increase production at our Muroran Plant, which we have been pursuing since fiscal 2007 through large-scale capital investments. However, it is feared that under our current capital investment plan, our production capacity would be insufficient to cope with the future demand that is now being predicted. Because of this, we are now examining the advisability of further investments. Meanwhile, in the Machinery Products segment we expect to be the

beneficiary of a firm undertone in demand for resin production and processing machinery, notably in China and the Middle East.

Progress in Revised Medium-Term Management Plan (J2008R)

JSW has formulated a Revised Medium-Term Management Plan (J2008R) covering the two years of fiscal 2007 and 2008.

With regard to our earnings performance in fiscal 2007, ended March 2008, sales were slightly higher than our initial target, while profits far exceeded targets. In fiscal 2008, our profit forecasts also exceed initial targets.

Regarding capital expenditures, we have earmarked a total of ¥55 billion (including lease assets) for the two-year period, primarily as investments for renovation and expansion of production facilities to raise productivity. Steady progress was realized in fiscal 2007.

Numerical targets (consolidated)

(¥ billion)

	Fiscal 2007			Fiscal 2008		
	Targets under J2008R	Results	Increase	Targets under J2008R	Current Forecasts	Increase
Sales	217	220.8	3.8 1.8%	235	238	3 1.3%
Operating income	26	32.4	6.4 24.6%	29	33.3	4.3 14.8%
Ordinary income	25	30.8	5.8 23.2%	27.5	32	4.5 16.4%
Net income	13	17.4	4.4 33.8%	14.5	17.7	3.2 22.1%

Note: Amounts less than ¥100 million have been rounded down

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

June 2008



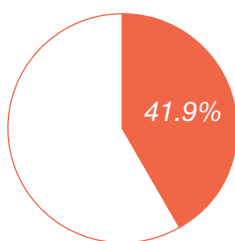
Masahisa Nagata
President

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, 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, nuclear power-related machinery and equipment, 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

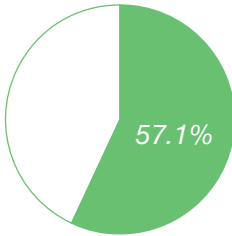
materials to products, producing a wide range of pressure vessels (for oil refining and the chemical industry) and nuclear power plants through the use of our advanced welding technology and facilities. These products enjoy strong demand from Japan as well as overseas.

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 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

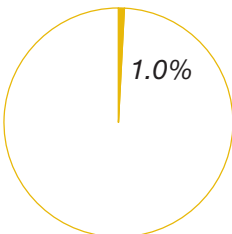
We manufacture defense-related equipment, power plant equipment, environment-related equipment, and other industrial machinery to meet wide-ranging demand. As such, our activities are developing on a world-wide scale. In recent years, we also have been devoting effort to developing environment-related 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.

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 the steel castings and forgings sector, demand was seen for components for thermal and nuclear power stations. In the steel plates and structures sector, demand was seen for pressure vessels used by oil refineries and for clad steel pipes used for natural gas pipeline projects, as well as for clad steel plates for desalination plants and chemical tankers. Total orders for steel products came to ¥118,007 million (US\$1,178 million), an increase of ¥15,307 million, or 15%, over the previous term.

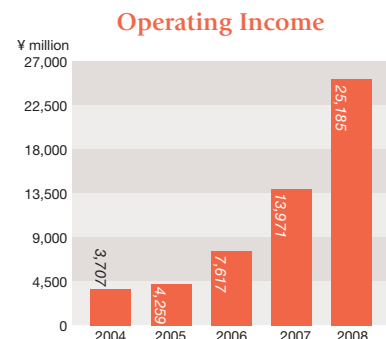
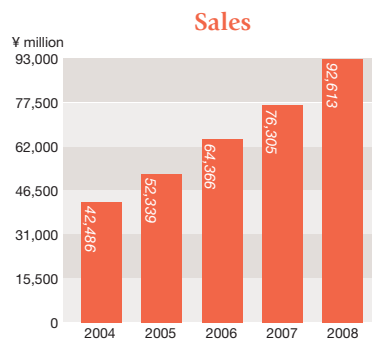
Sales were up by ¥16,308 million, or 21%, at ¥92,613 million (US\$924 million). This came in spite of a slack season in demand for clad steel pipes for natural gas pipeline projects, where sales fell from the previous year. This was because steady growth in demand for electric power generation components, pressure vessels for oil refineries, and clad steel plates compensated for this shortfall.

Operating income recorded a sharp year-on-year gain of ¥11,214 million, or 80%, to ¥25,185 million



Monoblock Low Pressure Turbine Rotor Shaft

(US\$251 million), thanks to increased production on the back of higher orders and sales, as well as reductions in production costs, all of which served to offset the higher prices of raw materials.



Business prospects

In the steel castings and forgings sector, demand for electricity in China shows no signs of weakening, while in the U.S., plans for the construction of nuclear power plants are taking shape. As a result, demand for thermal and nuclear power plant components is expected to remain strong.

In the steel plates and structures sector too, demand for pressure vessels for use in petroleum refineries is expected to rise to more than three times the level in 2004. We can thus look forward to continuing strong demand for our products.

Machinery Products

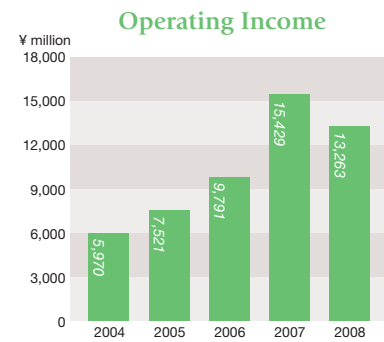
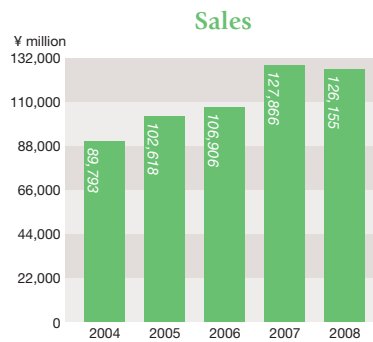
In orders for machinery products, orders for IT equipment recorded a temporary dip, but solid growth was seen in orders for resin production and processing machinery, plastic extrusion machinery, and in the Company's wind power development business. As a result, total orders for this segment rose ¥20,343 million, or 16%, to ¥144,461 million (US\$1,442 million).

Turning to sales, resin production and processing machinery, as well as plastic extrusion machinery for makers of motor vehicles and consumer electronics items showed steady growth. On the other hand, the reporting term was a slack period for capital investment by makers of IT equipment, and thus sales to these customers declined. Sales for this segment posted a slight year-on-year decline of ¥1,711 million, or 1%, to ¥126,155 million (US\$1,259 million).

Operating income was down by ¥2,166 million, or 14%, at ¥13,263 million (US\$132 million).



Electric Servo Drive DISC Injection Machine



Business prospects

In the plastics machinery sector, the current strong demand for pelletizers in China is expected to continue, and demand in India, Russia, and South America is also expected to rise. Demand for injection molding machines will likely remain on par with the previous year's level. However, it is difficult to forecast trends in demand with any degree of precision.

In the field of other machinery, flat panel display manufacturers are expected to resume investment in machinery for producing low temperature polysilicon (LTPS) small and medium-sized flat panel displays. Mass production of organic electroluminescent (EL)

panels is also gaining momentum. The market is expected to expand as a result of equipment investments by leading manufacturers of LTPS panel displays.

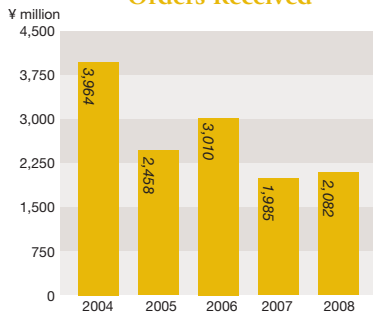
In our magnesium alloy injection molding machine business, we expect to see continued growth in applications for notebook PCs, resulting in a rise in demand for medium-scale machinery. Growth in orders for our wind power generators in the previous term is expected to be reflected in sales in the current term, which are forecast to double year-on-year in our wind power generation business.

Regional Development

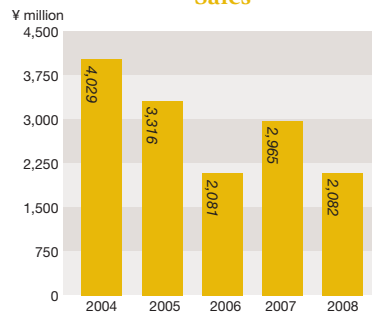
Orders for this segment came to ¥2,082 million (US\$21 million), roughly the same level as the previous term. Sales declined by ¥883 million (30%) to ¥2,082 million, while operating income was down by ¥179 million (21%), at ¥689 million (US\$7 million).



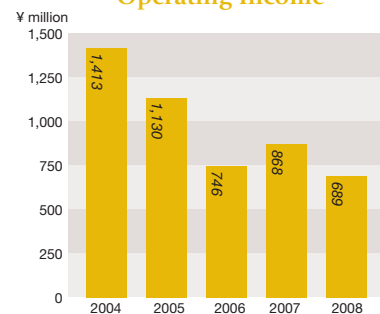
Orders Received



Sales



Operating Income



Capital Expenditure

Capital expenditures for the reporting period totaled ¥12,095 million (US\$121 million), with the majority spent on installation, improvement and maintenance work on a variety 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 and upgrading forging plant facilities, totaling ¥7,896 million (US\$79 million).

In the Machinery Products Business, capital expenditure came to ¥3,563 million (US\$36 million),

primarily as a result of investment in improving machine processing efficiency and opening a film technical center.

In the Regional Development Business, capital expenditure consisted primarily of the purchase of real estate for rental purposes, totaling ¥267 million (US\$3 million).

Regarding capital expenditures not included within individual segments, a capital expenditure totaling ¥367 million (US\$4 million) was incurred in the integration of the operations of two previously separate offices into the new headquarters in Shinagawa Ward in southern Tokyo in August 2007.

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 15 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 as well as detailed measures decided each year for dealing with specific internal control issues. 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.

The Company has clarified in writing its policy of

strict opposition to the activities of criminal organizations or individuals. As specific measures within its internal control system to ensure non-involvement with such criminal elements, the Company has mandated careful background checks on business partners, the inclusion in basic contracts drawn up with other companies of clauses specifying the exclusion of known criminal organizations or individuals, the requirement to report all contacts with such criminal elements, and the establishment of a single dedicated office for the investigation of such reports and the management of countermeasures.

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.

7. Appointing staff to assist corporate auditors, and ensuring the independence thereof

The Company appoints staff from among its employees to assist the corporate auditors in the performance of their duties. The opinions of the auditors themselves are sought with respect to the appointment and dismissal of the said staff and all other personnel-related measures such as performance evaluation and bonuses, and no action is taken without the auditors' agreement, so as to ensure the independence of the auditors' assistants from the influence of the directors of the Company.

8. System for submission of reports to the auditors by the directors and employees of the Company

In addition to attending meetings of the Board of Directors, the Executive Board, and the Management Council, as well as other important managerial meetings, the corporate auditors also request memos and the minutes of decision-making meetings for their perusal, and hold regular meetings (as well as ad hoc meetings when deemed necessary) with the directors and managerial-level employees. The auditors may request reports from directors or employees at any time as they deem this necessary.

The timing of these reports and the method to be used are agreed beforehand through discussions between the auditors and the directors or employees.

The corporate auditors of the Company conduct audits of the Company's subsidiaries to ascertain the state of management of these companies. This is done through close liaison with the corporate auditors of the subsidiaries and the staff of the Company's divisions responsible for supervision of subsidiaries, as well as the Internal Audit Division and other head office divisions.

9. Ensuring effective performance of audits by the corporate auditors

The directors and employees of the Company are fully aware of the importance of audits performed by the corporate auditors, and wherever possible give priority to cooperating with the auditors in their duties.

The corporate auditors have the authority to request the cooperation of the Company's Internal Audit Division, other head office divisions, and all other divisions of the Company in the performance of audits.

The corporate auditors collaborate closely with the accounting auditors (an external accounting firm meeting).

The corporate auditors have the authority to employ the services of legal advisors and other outside experts as appropriate.

Policy Regarding Large-Scale Purchases of Company Shares

By resolution of a meeting of the Board of Directors of The Japan Steel Works, Ltd. held on September 10, 2007, the Company instituted a set of rules to be obeyed and procedures to be followed by any party seeking to make a tender offer for the purchase of 20% or more of the total shares issued and outstanding of the Company. These rules and procedures were adopted under the name of Measures Against Large-Scale Share Acquisitions (Measures to Prevent Takeover). Subsequent to this resolution, an amended

version of these measures (hereinafter “the present plan”) was presented to the Company’s 82nd Regular General Meeting of Shareholders held on June 27, 2008, and the agenda item was approved by vote of a majority of shareholders present.

The present plan is a preemptive measure to prevent a takeover which utilizes the gratis issue of share subscription rights, and is effective for a three-year period ending with the Regular General Meeting of Shareholders to be held in June 2011.

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

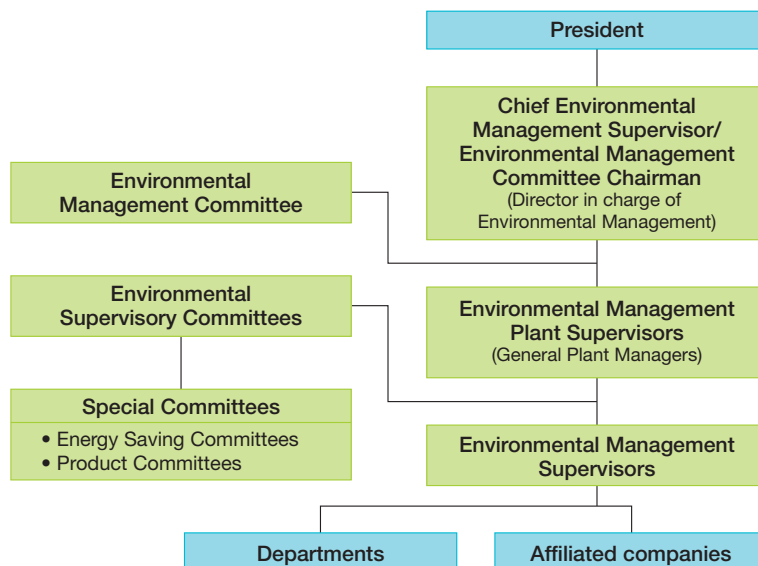
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| <ol style="list-style-type: none"> 1. We aim to carry out environmental tasks in an organized way, and to implement environmental preservation activities continuously. 2. We will set appropriate objectives and targets for reducing the burden our activities impose on the environment. 3. We aim to provide society with products and services that contribute to the preservation of the | <p>environment, as detailed below.</p> <ol style="list-style-type: none"> (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

- | | |
|--|--|
| <p>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.</p> <ol style="list-style-type: none"> 1. Respect laws and regulations and agreements we have concluded with external parties. | <ol style="list-style-type: none"> 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.



Medium-Term Plan for Environmental Management Activities (Fiscal 2006-2010)

We are promoting environmental management activities at our Muroran, Hiroshima, and Yokohama plants. To upgrade our environmental management system, we are implementing various measures to step up environmental preservation activities. Social awareness has changed greatly regarding the need to deal with such issues as the mitigation of global

warming, saving energy, processing waste, and especially illegal dumping of industrial waste. During the five-year period from fiscal 2006 to fiscal 2010, we will take steps to achieve the yearly targets for environmental management activities set out in our medium-term plan.

Environmental Preservation Activities

Reducing atmospheric emissions of nickel compounds

At the Muroran Plant, we are conducting surveys to ensure that emission values are within prescribed standards as part of efforts to curb pollution caused by the release of harmful substances into the atmosphere.

Working together with the local municipal government since fiscal 2005, we have created our own voluntary controls, and have been conducting surveys to monitor emissions and determine the environmental burden posed by these emissions.



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 ¥3,402 million (US\$34 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 (located at Head Office), the Muroran Research Laboratory (situated on the premises of the Muroran Plant), and the Machinery Research Laboratory (located at the Hiroshima 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 transportation, high alloy materials for high-efficiency thermal 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, and a wide range of research and analysis has been conducted on materials technologies involved in the manufacture of blades for wind-power rotors. For fiscal 2007, spending on steel product research and development totaled ¥1,547 million (US\$15 million).

Machinery Products

In the field of machinery-related products, we have been developing high-performance, low-cost technology for magnesium alloy injection molding machines, and high-precision molding technology for plastic extruder and injection molding machinery. 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, and other applications for laser devices. In the field of technology for environmental preservation applications, we are currently working on the development of equipment for the dechlorination and melting of waste plastic. Spending on machinery product research and development totaled ¥1,855 million (US\$19 million) for fiscal 2007.

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	—

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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

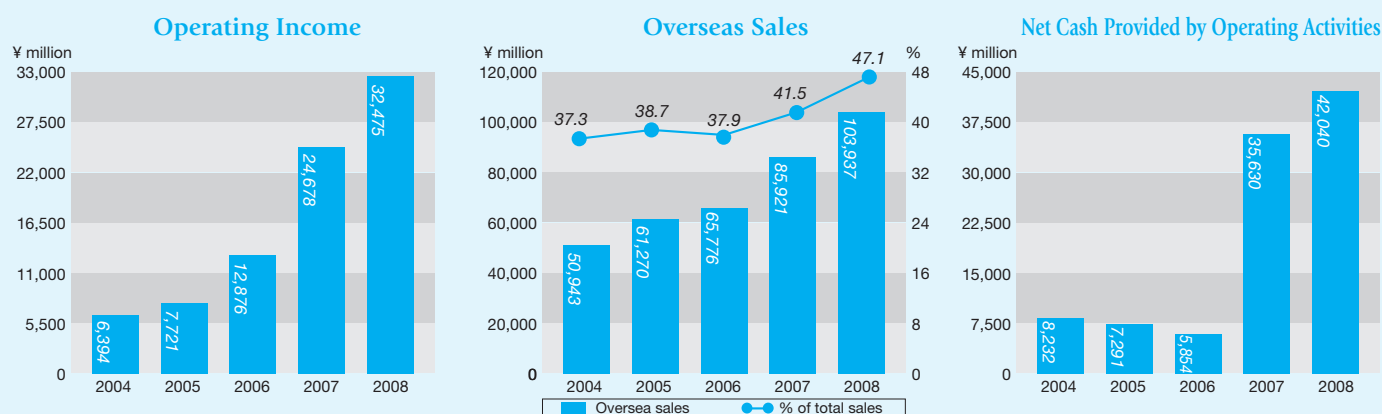
Sales in the East Asian markets were up 20% over the previous year, at ¥49,737 million (US\$496 million). Sales in North America rose 41% to ¥9,371 million (US\$94 million), while sales in other regions increased by 18% to ¥44,828 million (US\$447 million). Total overseas sales grew by 21% to ¥103,937 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.



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.

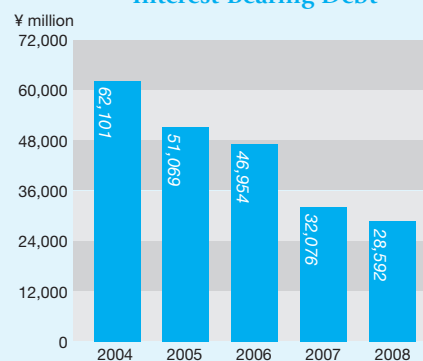
Financial Position

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.

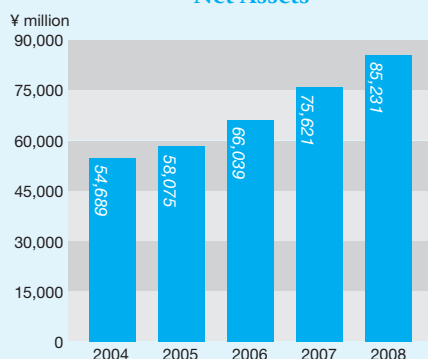
Liabilities at the reporting term-end stood at ¥177,221 million (US\$1,769 million), up ¥20,398 million, or 13.0%, over the previous term-end. This is attributable to a rise in advances received for products and trade payables

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.

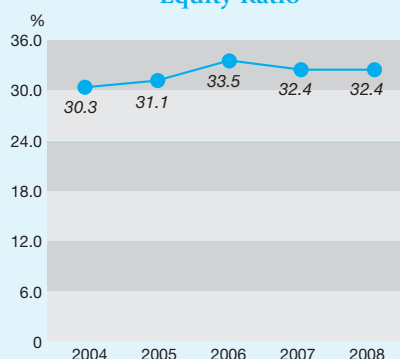
Interest-Bearing Debt



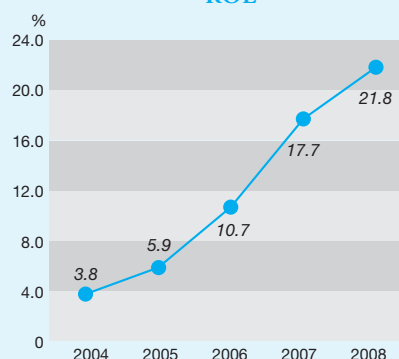
Net Assets



Equity Ratio



ROE



Consolidated Balance Sheets

March 31, 2008 and 2007

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	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	<u>168,663</u>	<u>147,774</u>	<u>1,683,431</u>
 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
	<u>162,739</u>	<u>154,254</u>	<u>1,624,304</u>
Less accumulated depreciation	(101,462)	(95,611)	(1,012,696)
Property, plant and equipment, net	<u>61,277</u>	<u>58,642</u>	<u>611,608</u>
 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	<u>31,888</u>	<u>24,449</u>	<u>318,275</u>
Total assets	<u>¥262,453</u>	<u>¥232,444</u>	<u>\$2,619,553</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2008	2007	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.....	<u>136,308</u>	<u>121,877</u>	<u>1,360,495</u>
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.....	<u>40,913</u>	<u>34,945</u>	<u>408,354</u>
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	<u>83,472</u>	<u>71,077</u>	<u>833,137</u>
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.....	<u>1,514</u>	<u>4,325</u>	<u>15,111</u>
Minority interests	<u>244</u>	<u>218</u>	<u>2,435</u>
Total net assets	<u>85,231</u>	<u>75,621</u>	<u>850,694</u>
Total liabilities and net assets	<u>¥262,453</u>	<u>¥232,444</u>	<u>\$2,619,553</u>

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	<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>

	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.....	<u>371,463</u>	<u>¥19,694</u>	<u>¥5,422</u>	<u>¥58,492</u>	<u>(137)</u>	<u>¥83,472</u>	<u>¥1,930</u>	<u>¥ (254)</u>	<u>¥(160)</u>	<u>¥1,514</u>	<u>¥244</u>	<u>¥85,231</u>

	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.....	<u>371,463</u>	<u>\$196,567</u>	<u>\$54,117</u>	<u>\$583,811</u>	<u>\$(1,367)</u>	<u>\$833,137</u>	<u>\$19,263</u>	<u>\$ (2,535)</u>	<u>\$(1,597)</u>	<u>\$15,111</u>	<u>\$2,435</u>	<u>\$850,694</u>

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 affiliates	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 decreased 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 decreased 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.....	<u>¥66,815</u>	<u>¥58,228</u>	<u>\$666,883</u>

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.....	<u>¥3,580</u>	<u>¥1,626</u>	<u>\$35,732</u>

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...	<u>¥20,239</u>	<u>¥18,374</u>	<u>\$202,006</u>

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:

Year ending March 31,	Millions of Yen		Thousands of U.S. Dollars	
	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.....	<u>42.5%</u>	<u>43.6%</u>

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, 2008	2007	Year ended March 31, 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 products" 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.

Year ended March 31, 2008	Millions of Yen					
	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

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

(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	Millions of Yen					
	Japan	North America	Asia (except Japan)	Total	Eliminations and Corporate	Consolidated
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	Thousands of U.S. Dollars					
	Japan	North America	Asia (except Japan)	Total	Eliminations and Corporate	Consolidated
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	Millions of Yen					
	Japan	North America	Asia (except Japan)	Total	Eliminations and Corporate	Consolidated
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	Millions of Yen			
	East Asia	North America	Other	Total
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	Thousands of U.S. Dollars			
	East Asia	North America	Other	Total
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	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

Report of Independent Auditors



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Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

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

The Board of Directors
The Japan Steel Works, Ltd.

We have audited the accompanying consolidated balance sheets of The Japan Steel Works, Ltd. and consolidated subsidiaries as of March 31, 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

Stock Information

Authorized Shares

1,000,000,000 shares

Issued and Outstanding Shares

371,463,036 shares

Shareholders

29,834

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)	9.05%
Japan Trustee Services Bank, Ltd. (Trust Account)	5.39%
Credit Suisse Zurich	5.00%
Mitsui Life Insurance Co., Ltd.	4.08%
Sumitomo Mitsui Banking Corp.	2.96%
The Chuo Mitsui Trust & Banking Co., Ltd.	2.96%
Clearstream Banking S.A.	2.44%
Mitsui Sumitomo Insurance Co., Ltd.	2.38%
Trust & Custody Services Bank, Ltd. (Trust Account Y)	2.20%
Hitachi, Ltd.	1.36%

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

1,896 (Consolidated 4,540)

Auditor

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

(as of March 31, 2008)

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, Research & Development Headquarters, New Product & New Technical Development, and CTO

Hideo Nomura

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

Senior Managing Director

Hisao Iwashita

In charge of Safety & Hygiene Control, Personnel Department, Finance & Accounting Department and CFO

Managing Directors

Atsushi Igarashi

In charge of CSR & Risk Management, Secretary Office, General Affairs Department, Business Administration Department and Head of Urban Development Division

Yuichi Yoshino

In charge of Products Strategy Office and Head of Research & Development Headquarters

Mitsuhiro Uchikoshi

Head of Steel Business Division

Ikuo Sato

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

Directors

Seiichi Uehara

Head of Ordnance Business Headquarters

Osamu Kishi

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

Yoshitomo Tanaka

In charge of Magnesium Process Equipment & Products Division and Head of Injection Molding Machinery Division

Nobuyuki Toda

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

Koichi Murao

Head of Machinery Business Division

Etsuo Murai

Deputy General Plant Manager of Muroran Plant and Deputy Head of MR-21 Promotion Office

Takao Ishido

Deputy Head of Machinery Business Division and General Plant Manager of Hiroshima Plant

Corporate Auditors

Nobuyuki Minato

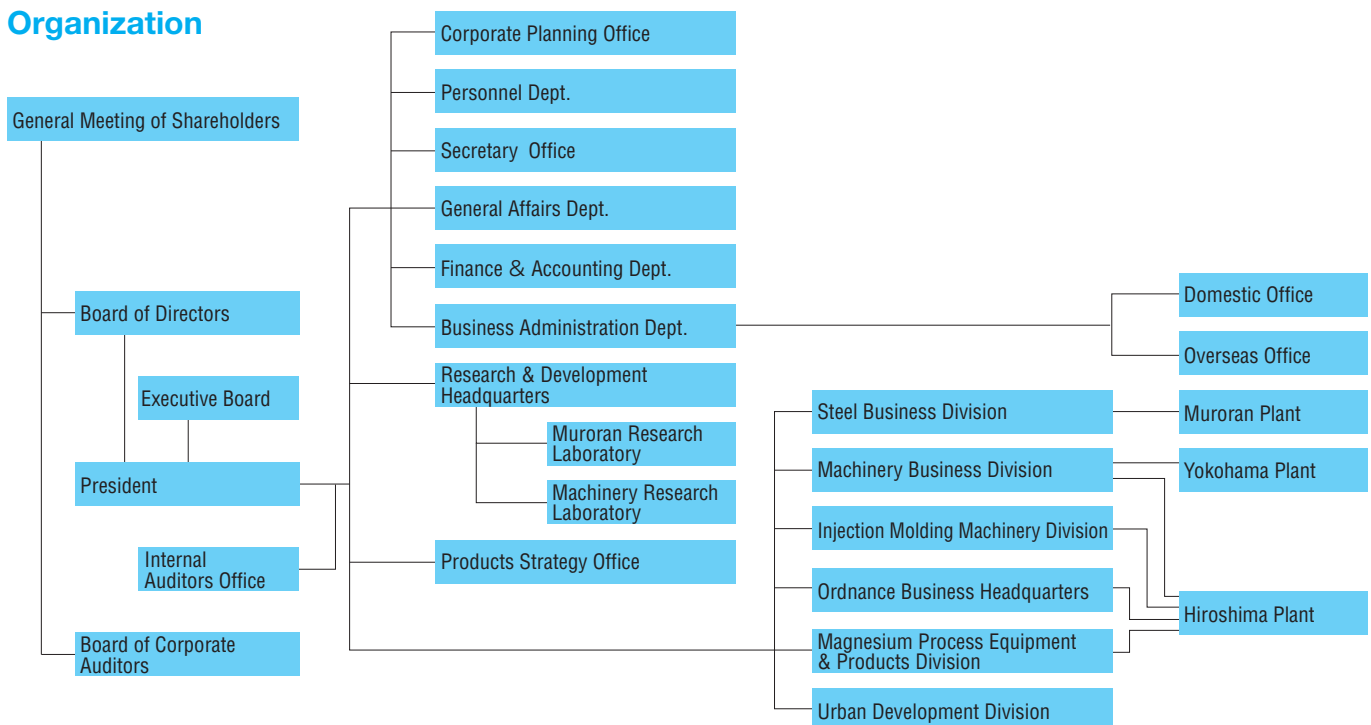
Kenji Uetani

Yasuhisa Naka

Tatsuro Tanoue

(as of June 27, 2008)

Organization



Offices & Plants



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