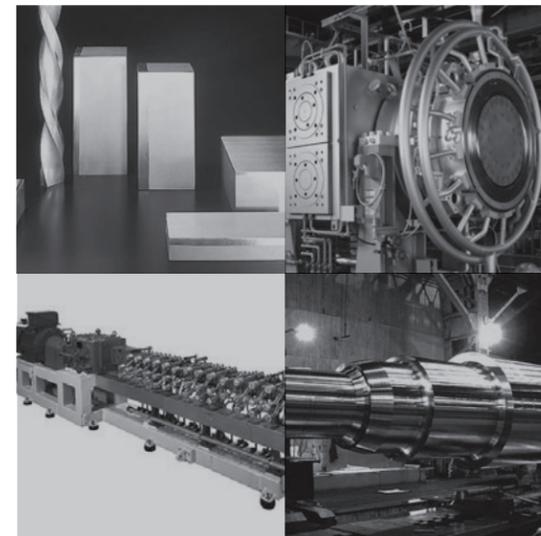


ANNUAL REPORT 2018



ANNUAL  
REPORT  
2018

for the year ended March 31, 2018



## Profile

In 1907, the Japanese government launched a joint venture for the purpose of domestic weapons production in Muro-ran, Hokkaido—later to become a major steel manufacturing center—consisting of two British firms (W.G. Armstrong and Vickers) and one Japanese company. That was the birth of The Japan Steel Works, Ltd. (JSW).

After World War II, the company turned its sophisticated technologies and considerable experience to meeting peacetime needs. Continuing to produce high-quality steel, it developed machinery making use of this steel and endeavored to open up new business fields. In addition to heavy and chemical industries such as electric power, steel, ship-building, and petrochemicals, the company broadened into areas from automobiles to electrical machinery and information equipment, earning a worldwide reputation as an integrated producer of steel materials and machinery.

Today, having grown into a comprehensive materials provider and manufacturer of mechatronics products, JSW is meeting society's needs at the forefront. In the steel and energy products business, we are serving the needs of the energy industry in areas such as electrical power generation, oil refining, natural gas, and wind power generation. In the industrial machinery products business, we supply equipment for manufacturing and processing plastic materials, along with a diverse range of products in areas from information technology to defense.

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### Forward-looking statements

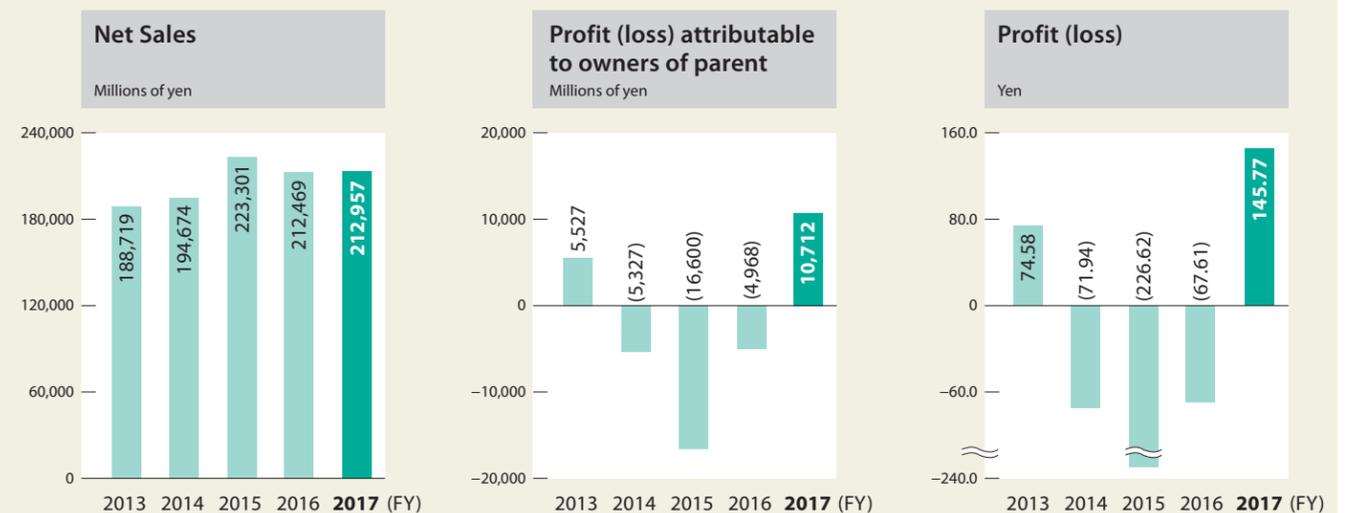
The performance forecasts included in this report are judgments based on the information that was available to the JSW Group at the time this report was prepared and the actual results may differ significantly from these forecasts due to a variety of factors.

## Financial Highlights (Consolidated)

The Japan Steel Works, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2016, 2017, and 2018

	Millions of yen		Thousands of U.S. dollars	
	FY2015	FY2016	FY2017	FY2017
<b>For the year</b>				
Net sales	¥223,301	¥212,469	<b>¥212,957</b>	<b>\$2,004,490</b>
Operating income	14,423	12,340	<b>21,318</b>	<b>200,659</b>
Profit (loss) attributable to owners of parent	(16,600)	(4,968)	<b>10,712</b>	<b>100,828</b>
<b>At year-end</b>				
Total assets	293,138	275,315	<b>297,433</b>	<b>2,799,633</b>
Total net assets	111,340	107,587	<b>118,600</b>	<b>1,116,340</b>
<b>Ratios</b>				
ROE	-13.5%	-4.6%	<b>9.6%</b>	
Equity ratio	37.5%	38.6%	<b>39.3%</b>	
<b>Amounts per share</b> (yen and U.S. dollars)				
Profit (loss)	¥(226.62)	¥(67.61)	<b>¥145.77</b>	<b>\$1.37</b>
Cash dividends applicable to the year	5.00	15.00	<b>37.50</b>	<b>0.35</b>

Notes 1: Amounts in U.S. dollars are presented solely for convenience and based on the rate of ¥106.24 = US\$1.00, the rate of exchange on March 31, 2018.  
2: The figures for 2015 have been revised due to changes in the financial results.  
3: The Company conducted a 1-for-5 reverse common stock split effective on October 1, 2016. For the sake of simplicity, the profit (loss) per share in the table above is calculated using the number of shares after the reverse stock split.



## Message from the President



### Overview of Fiscal 2017

#### Business performance

In fiscal 2017, ended March 31, 2018, overseas economies remained on a mild recovery path overall. This was in part because economies in the United States, Europe, and other industrialized countries as well as China continued to recover underpinned by strong consumer spending and an expansion in exports while economies in emerging nations also turned around on the back of

higher resource prices and an expansion in exports. The Japanese economy also recovered moderately thanks to an improvement in the employment situation and growth in capital investment and exports.

With respect to the JSW Group's operating environment, the Industrial Machinery Products Business segment performed well for the most part due to growing demand for such plastic products for automobiles as materials for automotive lithium-ion batteries. However, conditions remained difficult for the Steel and Energy Products Business segment, reflecting a prolonged

slump in demand for products used in thermal power and nuclear power plants.

Under these conditions, the JSW Group promoted its business activities in accordance with the medium-term management plan entitled JGP2017 during fiscal 2017, the final year of the plan. Despite a harsh business environment, the Steel and Energy Products Business segment cut back on invested capital and reviewed its business domain in order to make a strategic move for a rebound. Meanwhile, the Industrial Machinery Products Business segment accelerated its business growth by expanding its business domain and taking other measures.

For fiscal 2017, total orders amounted to ¥236,050 million (US\$2,221 million), up 32.9% over the previous year, due to increases in orders generated by both the Steel and Energy Products Business and Industrial Machinery Products Business segments. Net sales edged up 0.2% to ¥212,957 million (US\$2,004 million), with higher sales in the Industrial Machinery Products Business segment offsetting lower sales in the Steel and Energy Products Business segment. With regard to profits, the JSW Group posted operating income of ¥21,318 million (US\$200 million), up 72.8%; ordinary income of ¥22,117 million (US\$208 million), up 82.6%; and profit attributable to owners of parent of ¥10,712 million (US\$100 million) (as opposed to a loss attributable to owners of parent of ¥4,968 million in the previous fiscal year).

Looking ahead, the world economy is expected to continue recovering moderately, driven by the U.S.,

European, and other industrialized economies. In Japan, we expect the economy to remain on a moderate recovery path as well. On the other hand, uncertainties regarding intensifying trade frictions, the impact of export-oriented companies due to respective countries' trade policies, and rising geopolitical risks in the Middle East and other regions require close monitoring.

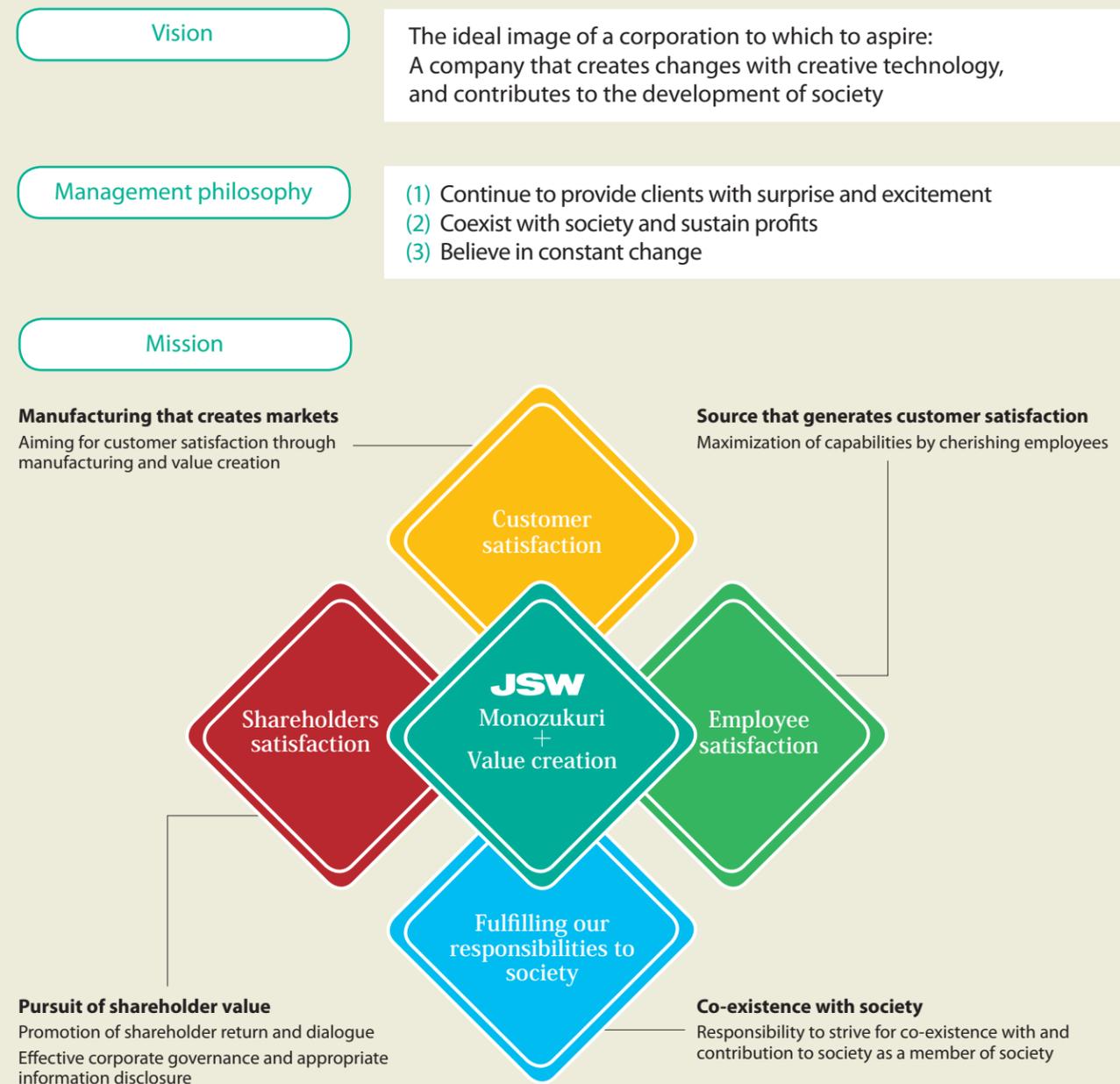
Under these circumstances, the JSW Group's Steel and Energy Products Business segment is expected to continue facing a difficult business environment amid a prolonged delay in demand recovery for nuclear power products as well as stagnant demand in products for thermal power plants after the passage of the Paris Agreement. To achieve a return to profitability, we will continue rebuilding our business foundation and fostering new businesses. In the Industrial Machinery Products Business segment, we will further expedite business expansion not only by augmenting production capacity aimed at responding to robust demand but also strengthening alliances and after-sales services.

Our consolidated forecasts for fiscal 2018 are: total orders of ¥230.0 billion (US\$2,164 million), net sales of ¥220.0 billion (US\$2,070 million), operating income of ¥22.0 billion (US\$207 million), ordinary income of ¥22.0 billion (US\$207 million), and profit attributable to owners of parent of ¥15.0 billion (US\$141 million).

We look forward to the further guidance and support of all shareholders.

June 2018

# JSW's Model of Value Creation

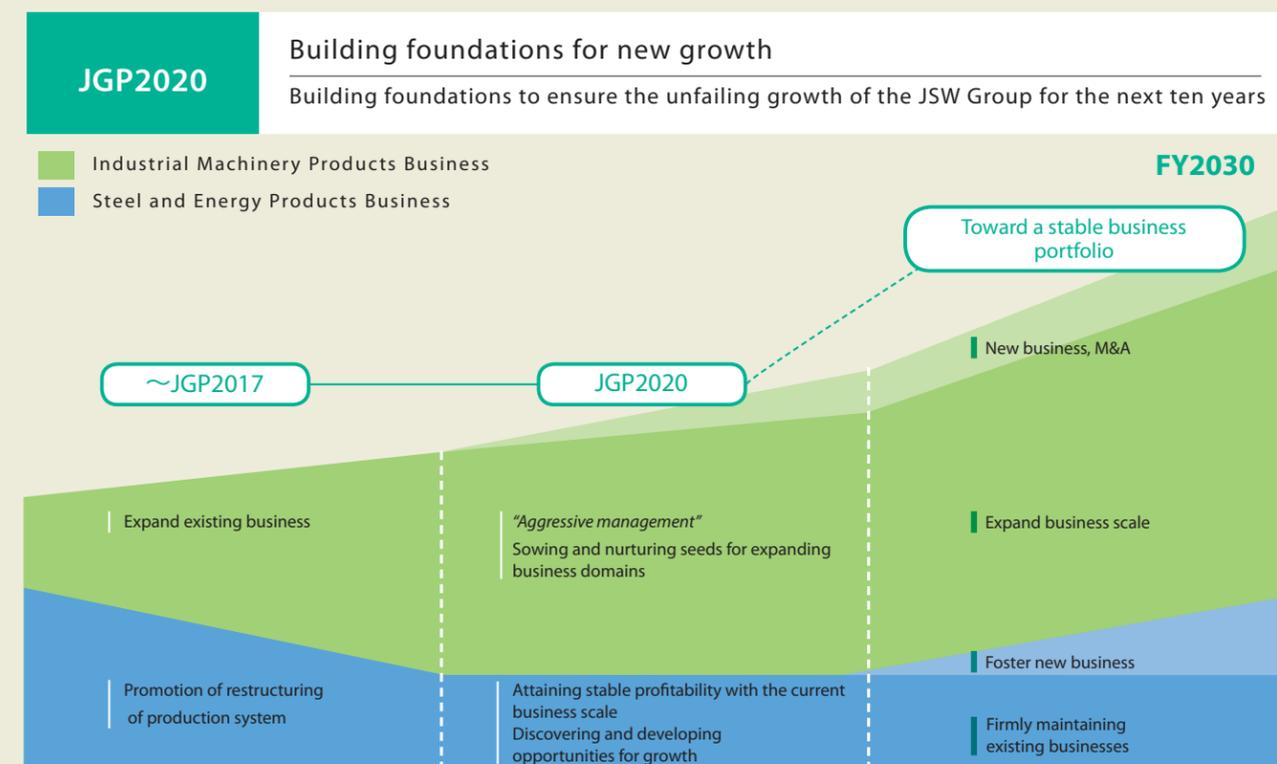


*Yonpo yoshi*

While aiming to achieve stable growth as a company through *monozukuri* (good manufacturing practices) and value creation, we will contribute to society by performing our obligations on four different fronts, ensuring satisfaction for customers, employees and shareholders as well as fulfilling our responsibilities to society.

# New Medium-term Management Plan "JGP2020"

## Corporate Vision for FY2030 and Basic Concept behind JGP2020



## Numerical target for JGP2020

(Unit: Billions of yen)

JSW		FY2017	JGP2020
Consolidated sales	≥ 260.0 billions of yen	212.9	≥260.0
Consolidated operating income	≥ 30.0 billions of yen (ROS ≥ 11.5%)	21.3	≥30.0
Ratio of operating profit on sales		10.0%	≥11.5%
ROA		3.7%	≥7%
ROE		9.6%	≥14%

Industrial Machinery Products Business		FY2017	JGP2020
Consolidated sales		170.2	≥205.0
Operating income		23.8	≥28.0
Ratio of operating profit on sales		13.9%	≥13.6%

Steel and Energy Products Business		FY2017	JGP2020
Consolidated sales		40.8	≥45.0
Operating income		△1.5	≥3.0
Ratio of operating profit on sales		-3.7%	≥6.6%

## JGP2020: 3 Basic Policies (priority issues)

### JGP2020: Lay foundations looking ahead to 2030

#### “Growth” in Industrial Machinery Products Business, “Rebirth” in Steel and Energy Products Business

##### (1) Optimize management resources and strengthen alliances

Rationalization through reallocation of management resources

- ➔ Actively invest in Industrial Machinery Products Business and restructure Steel and Energy Products Business according to sales

Business according to sales

Scale up business by promoting alliances and M&A

- ➔ Move away from principle of self-sufficiency

##### (2) Strengthen after-sales services (stock-based business)

Strengthen foundations of service structure focusing on Industrial Machinery Products Business

- ➔ Generate stable profits and increase customer satisfaction

Build strong customer base through service business

- ➔ Lay foundations for next businesses

##### (3) Increase exploration and fostering of new businesses

Explore new businesses with an eye on megatrends

Foster and develop business mainly in four areas: aircraft components, hydrogen, crystal devices, and deposition systems



Under the guidance of a partner company, JSW will build a factory for aircraft components, make capital investments and acquire certification to produce cladding metal products and multi-material products at Muroran. JSW will construct a mass production system for multi-material products for commercial aircraft for which demand is expected to grow in the future.



JSW will expand and step up the hydrogen station business centered on pressure accumulators and compressors, incorporating its own hydrogen-resistant material technologies. JSW will spread MH tanks based on hydrogen storing alloy technologies into the domains of energy storage and supply systems and fuel cell applications.



The development of infrastructure and terminals ready for the fifth-generation communication standard (5G) is gathering pace. The applications of crystal materials have expanded in the areas of optical communication, wireless communication and sensing. JSW is working to develop composite substrates for SAW devices, composite substrates for optical communication and gallium nitride (GaN) crystal substrates matched with the aforementioned applications.



The electron cyclotron resonance (ECR) deposition system deposits high quality films such as semiconductor laser coatings with expanding applications and protection layers for electronic devices. JSW will work to further expand sales of ECR systems and broaden the lineup of different deposition systems for wafers, including atomic layer deposition (ALD) systems and electron beam evaporation systems.

Based on the basic policies listed on page 6, we intend to steadily promote the following business strategies.

#### Industrial Machinery Products Business

Basic strategy in the JGP2020 plan for the Industrial Machinery Products Business is to sow the seeds and nurture them to expand business domains through “offensive management.”

Primary business strategies are listed below.

##### Film and sheet equipment

- Reinforce production facility as soon as possible in response to robust demand mainly for use in manufacturing separator films.
- Strive to expand business in the areas of packaging materials, industrial materials and optical applications as a comprehensive film equipment manufacturer.

##### Injection molding machines

- Establish a solid JSW molding machine brand power through mass customization strategy\*.

\* Mass customization strategy

Provide differentiated, customized machines based on a common base to meet the needs of areas and customers.

- Improve the degree of customer satisfaction through proposal-based services utilizing the Internet of Things (IoT) and other technologies as well as aim for higher profitability through preventive maintenance and repair.

##### Laser plasma related equipment

- Strive for further improvement of profitability by strengthening product competitiveness through differentiation of existing products and by expanding service businesses.
- Create new products related to flat panel displays by securing competitive core technologies.

#### Steel and Energy Products Business

Basic strategy in the JGP2020 plan for the Steel and Energy Products Business is to aim for stable profitability for existing products at the current business scale as well as to explore and promote early development of new growth opportunities.

Primary business strategies are listed below.

##### Collaboration with Tsukishima Kikai Co., Ltd.

- Establish structure for collaboration with Tsukishima Kikai to commence factory operation at the Muroran Plant from April 2019.

##### Improvement of fixed costs

- Continue to implement measures to achieve cost structure reforms aligned with the scale of sales, including further restructuring at the Muroran Plant group.

##### Rapid launch of new businesses

- Aim for establishing a future-oriented growth foundation by developing new businesses that will replace existing products while leveraging the Muroran Plant’s long-accumulated expertise on steel and other materials.

## Our Business Domains

The JSW Group comprises 49 subsidiaries (of which 31 are consolidated) and three affiliates (of which one is an equity-method affiliate). Our operating domains are the Steel and Energy Products Business, the Industrial Machinery Products Business, and the Real Estate and Other Businesses.

With three plants in Muroran, Hiroshima, and Yokohama, JSW manufactures a wide range of plastic production and processing machinery as well as molding machines as a general plastic machinery manufacturer. At the same

time, we engage in the production of high-quality cast and forged steel products as well as steel plates and pipes as a time-honored steel manufacturer. In response to changes in the industrial structure, we have not only made a foray into the fields of flat panel display (FPD) devices and wind turbines but also explored opportunities in new business domains, promoting the fostering and development of business in four areas, namely, aircraft components, hydrogen, crystal devices, and deposition systems.

### Industrial Machinery Products Business



#### Plastic Production and Processing Machinery



We manufacture and sell a variety of plastic production and processing machinery, which are highly regarded by users around the world, for a wide range of applications and purposes. Our product lineup in this field includes pelletizers that manufacture plastic pellets; twin-screw extruders for compounding, reactive processing, dewatering, and devolatilizing; film and sheet equipment; and spinning extruders for synthetic fibers.

##### Business Lines

Production, sale, and maintenance of plastic production and processing machinery (including pelletizers, compound extruders, film and sheet equipment, etc.)

#### Molding Machines



All of our standard plastic injection molding machines are provided as an electric type to improve the basic performance of the machines themselves, offer higher precision, provide high productivity and energy saving. The new ADS Series realizes further energy savings via the revised servo control system.

We have also supplied a diverse range of blow molders, which produce various tanks and bottles for automotive gas tanks, thereby meeting various customer needs and receiving high praise.

As for magnesium thixomolding machines, we currently provide a lineup of third-generation injection molding machines that realize more stable molding, a smaller footprint, and energy savings. Demand for these machines is expected to expand in the foreseeable future as more and more magnesium parts are adopted in the automotive field.

##### Business Lines

Production, sale, and maintenance of plastic injection molding machines, blow molders, magnesium thixomolding machines

#### Flat Panel Display Devices



We have been designing and manufacturing excimer laser annealing (ELA) systems, which are used for mass production of high-quality liquid crystal displays (LCD), at the Yokohama Plant since 1995.

We also offer and market laser lift-off (LLO) systems for the production of flexible displays, which are anticipated as promising next-generation displays. Leveraging laser application technology as our core competence, we aim to expand into the fields of FPDs and semiconductors.

##### Business Lines

Electronic components and displays (laser annealing systems, thin-film deposition systems, etc.)

### Steel and Energy Products Business



#### Electric and Nuclear Power Products



At the Muroran Plant, which manufactures steel in electric furnaces, we produce a broad range of cast products and steel ingots for forged products. In ingots for forgings, we have one of the world's largest production capacities of 670 tons. Our range of presses and hammers of various types and sizes, including two 14,000-ton hydraulic presses, ensures that we can deliver forgings in any needed shape. After undergoing heat treatment, machining, and finishing, the cast and forged steel products are used in the electric power generation industry (fossil fuel, hydroelectric, and nuclear) as well as for steel-making, oil refineries, and industrial machinery and facilities. In addition to being a leading global supplier of numerous extra-large cast and forged steel products, our plants produce a wide range of high-quality small and medium-sized steel cast and forged products.

##### Business Lines

Production and sale of power generation equipment nuclear power-related equipment, etc.

#### Clad Steel Plates and Pipes



At the Muroran Plant, which has one of Japan's largest 4-thick-plate reversing rolling mills, we can roll high-quality, extremely thick, wide, and long steel plates (maximum thickness: 350 millimeters, maximum width: 4.8 meters, maximum length: 20 meters). Using advanced manufacturing technology, we now mainly produce high-quality clad steel plates and clad steel pipes using clad steel plates. All of our products are used in a wide range of industrial applications in Japan and overseas, giving this business a unique profile.

##### Business Lines

Production and sale of clad steel plates, clad steel pipes, extra-thick steel plates, etc.

#### Other Steel Products



The Muroran Plant integrates the various forged steel products it manufactures and leverages the Company's state-of-the-art welding technologies and facilities to produce very large welded structures, such as pressure vessels for oil refineries and petrochemical plants, in an integrated process extending from raw materials to finished products. As a result, we are meeting demand both in Japan and overseas.

##### Business Lines

Production and sale of steelmaking, die materials, oil-refining, petrochemical, and general chemical products, chemical machinery, etc.

# Review of Operations

## Industrial Machinery Products Business

- Plastics Machinery Sector
- Other Machinery Sector

### Performance in Fiscal 2017

Orders totaled ¥186,969 million (US\$1,759 million), up 19.7% from the previous fiscal year, due mainly to increases in plastic production and processing machinery as well as molding machines.

Sales rose 6.8%, to ¥170,267 million (US\$1,602 million). This was attributable primarily to increases in sales of plastic production and processing machinery as well as molding machines despite a rebound decrease in laser annealing systems, for which large sales were posted in the previous fiscal year.

Operating income increased 57.0%, to ¥23,834 million (US\$224 million), due mainly to an increase in sales and cost improvement activities.



Polyolefin extruder/pelletizer



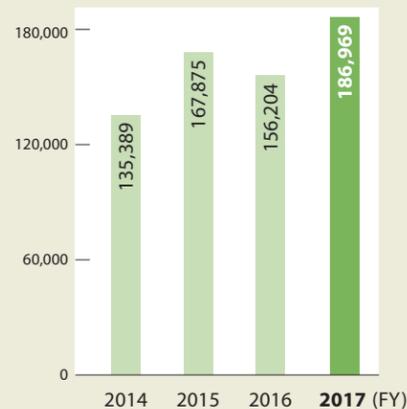
Large-size all-electric injection molding machine



Magnesium alloy injection molding machine

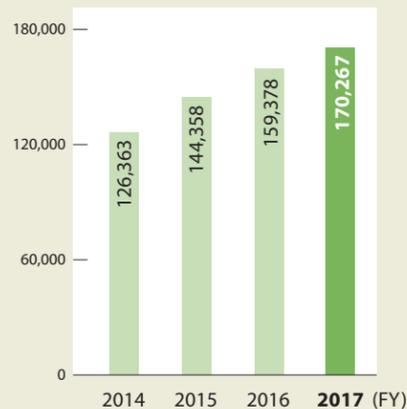
#### Orders Received

Millions of yen



#### Sales

Millions of yen



## Steel and Energy Products Business

- Steel Products Sector
- Steel Plates and Structures Sector

### Performance in Fiscal 2017

Orders totaled ¥47,510 million (US\$447 million), up 143.6% year on year, due mainly to an increase in clad steel pipes.

Sales were down 20.1%, to ¥40,891 million (US\$384 million), attributable primarily to decreases in sales of products for electronic devices and nuclear power plants as well as clad steel pipes.

Despite decreases in depreciation and amortization and other fixed costs, the Steel and Energy Products Business recorded an operating loss of ¥1,544 million (US\$14 million) due mainly to a decline in sales, compared with operating income of ¥2,794 million in the previous fiscal year.



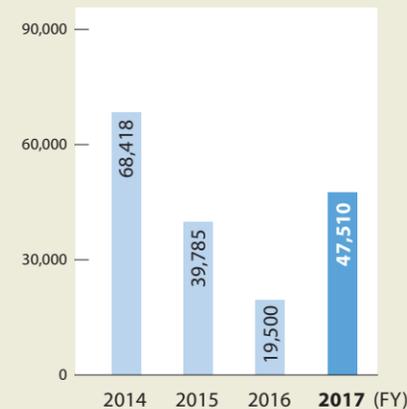
Shell flange used for pressure chamber for nuclear power plant



Clad steel plate

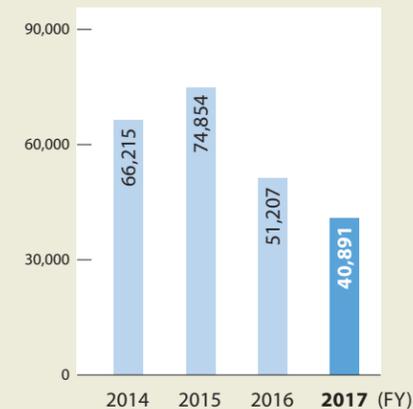
#### Orders Received

Millions of yen



#### Sales

Millions of yen



## Special Feature



### Record-High Orders Received for Film and Sheet Manufacturing Equipment



Film and sheet manufacturing equipment

Demand for film and sheet manufacturing equipment, which is indispensable for lithium-ion batteries, was robust, breaking record-high orders received for three consecutive years since fiscal 2015.

Anticipating the current situation, JSW quadrupled its production capacity compared with the level in fiscal 2015. In response to strong demand, we plan to further double our production capacity toward fiscal 2019.

Going forward, we intend to create high-added-value products that anticipate market needs by releasing new models that achieve 40% improved throughput compared with previous models.



### Overseas Expansion of Train Couplers

JSW received orders for train couplers for Bangladesh's first Dhaka Mass Rapid Transit (MRT) system. There are great expectations for this MRT system as a mass transportation system that not only provides safety but also gives consideration to passengers in terms of comfort and a smooth ride under the hot and humid climate of the country.

With more than 15 million people living in the greater Dhaka area, chronic traffic jams and air pollution have become serious social issues. The opening of the MRT system is expected to alleviate traffic jams and reduce exhaust fumes.

There are a number of infrastructure projects planned mainly in Southeast Asia. We will continue to play a role in the railway development business and contribute to the prosperity of society.



### Record-High Net Sales and Orders Received for Injection Molding Machines

Taking advantage of active demand primarily in the automobile and household goods fields, JSW achieved record-high orders received and net sales for injection molding machines, one of its mainstay products. Orders expanded throughout the product lineup, spanning from vertical injection molding machines to small and ultra-large ones.

In response to a wide range of customer needs, in fiscal 2017 we commenced sales of a high-speed, high-responsive system and a high-load, high-responsive system as options for the J-ADS series of mid-size electric injection molding machines. Highly responsive and highly powerful injection devices equipped with a proprietary built-in direct drive motor, these options make it possible to respond to a broad spectrum of molding requirements that were previously difficult to meet with conventional models.

We are committed to providing products that contribute to productivity, economic efficiency, and the higher quality of our customers.



Vertical injection molding machine



Train coupler



Traffic jam in Dhaka (photo courtesy of JICA)

## Research and Development

Research and development activities were almost entirely funded by the Company during fiscal 2017. Combined spending on research and development for the Steel and Energy Products Business and the Industrial Machinery Products Business amounted to ¥4,369 million (US\$41 million).

Aiming to become a company that contributes to the prosperity of society by generating changes through its innovative technologies, we strive to develop new products and production techniques using our proprietary technologies. To bring these products and techniques to market as soon as possible, we actively promote multidisciplinary and technological tie-ups and joint development.

Our Research and Development Headquarters collaborates with business divisions and Group companies to 1) improve the capabilities, performance, and reliability of core products; 2) develop and nurture offerings in new business fields based on core and differentiated technologies; and 3) promote the development and commercialization of new products through synergies with Group companies.

In order to facilitate R&D across the Group as well as further accelerate the R&D of existing products and the commercialization of products in new business fields, JSW implemented a partial reorganization of the Research and Development Headquarters. Details are as follows:

- (1) The Technological Strategy Office, which was tasked with the planning of R&D-related themes and the commercialization of new business as well as the survey of market and technological trends, has been integrated into the New Business Promotion Headquarters with its functions transferred.
- (2) Each research laboratory has been placed under the authority of the individual plants, and the research laboratories in Hiroshima and Yokohama have been reorganized into the Technological Development Department.

### Basic Research and Development Policy

In terms of the promotion and commercialization of new businesses, the New Business Promotion Headquarters collaborates with each business division and prioritizes R&D on new energy and energy savings, information and telecommunications, nanotechnology and materials, and new production technologies, all of which are related directly to JSW's businesses. Through these efforts, we aim to focus on expanding and upgrading core technologies while cultivating and growing existing businesses.



Murooran Research Laboratory



Hiroshima Plant  
Technical Development Department



Yokohama Plant  
Technical Development Department

We engage in basic research for future technologies and contemporary social needs and in researching component technologies for existing products. We will build on these efforts to undertake R&D projects that create new products and businesses and pursue innovations for existing products.

The focuses in Machinery Products are to enhance plastics machinery, IT equipment, and other industrial machinery. We will allocate significant resources to such machinery by clarifying that our commercialization framework is open to mergers, acquisitions, and alliances. In Steel Products, we emphasize advances in energy and creating even more industry-leading offerings while commercializing new areas.

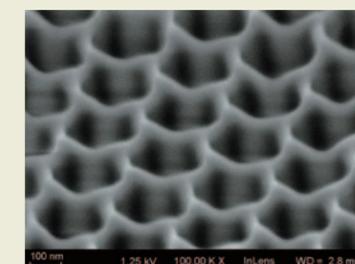
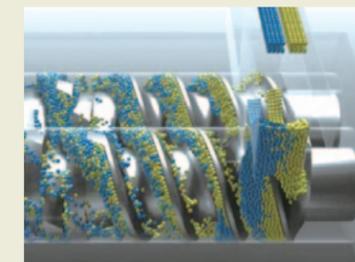
### Activities by Business Segment

#### Industrial Machinery Products Business

In machine-related product development, we are working to develop advanced processing technology for plastic molding machines; enhance the performance of plastic extruders; improve the functionality and performance of film molding equipment; enhance the performance and lower the cost of magnesium injection molding equipment and compressors; and develop manufacturing equipment for fiber-reinforced plastic composite components. We are also incorporating advanced technologies and systems to develop laser annealing equipment and other laser application equipment as well as chemical vapor deposition (CVD) and plasma application equipment. R&D spending in this segment was ¥3,041 million (US\$28 million) in fiscal 2017.

#### Steel and Energy Products Business

Product development centers on materials, notably for clad steel pipes for natural gas transportation pipelines, large steel castings and high alloys for high-efficiency thermal power generation, and forged steel products for advanced nuclear power plants, as well as manufacturing process technology development. Our technological development focuses on improving materials and element technologies for existing products. In the area of renewable energy, we develop material and element technologies to create lighter and more reliable pressure accumulators for hydrogen fueling stations. Segment R&D spending totaled ¥1,328 million (US\$12 million) in fiscal 2017.



## Corporate Governance

JSW recognizes that it must earn the trust of shareholders, customers, employees, and other stakeholders to aim to enhance enterprise value and thereby contribute to the economy and society as a whole.

We therefore created a corporate governance setup that encompasses a management organization and framework to implement essential measures and pursues fair disclosure to ensure business transparency.

On November 18, 2015, we formulated “Corporate Governance Policy of The Japan Steel Works, Ltd.” based on a resolution of the Board of Directors. The aim of the Policy is to clarify our basic stance, initiatives, and approach with respect to corporate governance. The Policy can be found at the following website: <http://www.jsw.co.jp/en/guide/governance.html>

### Overview of Corporate Governance Structure

We employ a audit & supervisor board member system comprising nine directors, two of whom are independent, and four audit & supervisory board members, two of whom are external.

The term of office of directors is one year. We maintain an executive officer system: separate decision-making and oversight from the executive functions of executive officers. The goal is to accelerate decision-making and enhance oversight and execution.

In principle, the Board of Directors convenes once monthly to decide and report on basic operational policies, legally stipulated matters, and other important management issues. Managing executive officers and above attend these meetings, positioning the Board as a vehicle for mutual oversight of directors and executive officers.

The Executive Board—consisting of two representative directors and other directors with executive responsibilities nominated by the president, two outside directors, and an audit & supervisory board member (chosen by rotation)—meets once a week to deliberate and decide on important management matters and important business execution decisions made by directors and executive officers. The Strategy Council also discusses, reports on, and monitors overall operational matters.

Our Management Council also convenes once monthly, in principle. Members include directors, audit & supervisory board members, divisional heads, general plant managers, headquarters managers, and others with executive responsibilities. This body’s tasks include assessing the business environment and monitoring the

progress of the Company’s business plan. Its goals are to share such knowledge throughout management and reflect it in their decisions as well as to ensure risk management and compliance.

The Audit & Supervisory Board comprises four audit & supervisory board members, two of whom are external as part-time. These members attend meetings of the Board of Directors, the Executive Board, the Management Council, and other important gatherings. In principle, they visit the Company’s plants and offices and major subsidiaries once every six months. The members receive divisional reports as necessary and exchange opinions with directors and key employees. Based on these efforts, the members express their views to management from an objective and neutral perspective, and exercise strict oversight with regard to the execution of directors’ duties.

Seeking to ensure fairness and transparency of decision-making processes related to executive nomination and remuneration, the Company established the Nomination Advisory Committee and the Remuneration Advisory Committee. Consisting of five members, including several outside executives, the committees serve as advisory bodies to the Board of Directors.

### Status of Internal Control

The Company recognizes the importance of its management responsibilities with respect to establishing and properly managing the necessary systems to ensure appropriate business operations. Based on this recognition, it has set up a specialist unit to supervise internal controls, and its Internal Control Committee also meets

as necessary. The Company is working to improve its internal control system in line with its Basic Policy on Internal Control Systems, adopted by the Board of Directors, as described below.

#### 1. Adhering to laws and regulations and the Articles of Incorporation relating to the execution of duties by directors and employees

- At the Company, compliance extends beyond preventing fraud and adhering to laws and regulations and in-house rules. It also encompasses the fulfillment of broad social responsibilities and establishment of various compliance-related rules. The essence of its compliance activities centers on directors and executive officers taking the lead and practicing integrity and raising employee awareness of compliance issues through education and training.
- The Company established the Internal Auditors Offices to ensure that all of its corporate operations comply with all laws and regulations and in-house rules. The Division conducts regular and spot audits and submits the results of its audits to the president and to other relevant parties as appropriate, including the Board of Directors, the Executive Board, the Management Council, and audit & supervisory board members.
- The Company has created multiple ways, including internal and external channels, for reporting and discussing compliance-related problems uncovered by employees, based on a guarantee of protection for whistleblowers.
- The Company clearly stipulates in its Corporate code of behavior the thorough enforcement of organizational crisis management against anti-social forces, and firmly rejects unwarranted demands from them in accordance with the law and in collaboration with relevant authorities.

#### 2. Safeguarding and managing information relating to the execution of duties by directors

- The Company appoints a director or an executive officer as the person responsible for safeguarding and managing information. Adhering to document and

information management rules and regulations, the Company stores and manages important information relating to the execution of duties by directors and executive officers as printed or digital records. This information includes the minutes of important meetings and written requests for approvals. Further, directors and audit & supervisory board members may review or copy this information as needed.

- The Company discloses financial and important management information in an appropriate and timely manner.

#### 3. Rules on managing risk of losses

- Directors, executive officers, and employees concurrently serving as general managers identify and evaluate risks arising in the course of business. They address these risks in keeping with regulations and the management approval system. The Board of Directors and the Executive Board deliberate on key risks.
- The Company maintains risk management rules and a Companywide risk management system. Divisions overseeing risks in such areas as safety and hygiene, environmental management, information security, and export safety controls set up committees and create and administer rules for properly managing such risks throughout the Company. The Company also appoints a director or an executive officer as the person responsible for risk management. In collaboration with the Internal Audit Division, that person monitors the progress of risk management and reports to the Board of Directors or the Executive Board as appropriate.
- At all divisional headquarters, business units, and plants, the Company has risk managers who evaluate measures and identify daily risks. It also has a crisis management headquarters to handle critical situations. Accordingly, the Company is prepared for both ordinary and emergency situations.

**4. Ensuring the efficient execution of duties by directors**

- The Company ensures rapid decision-making and flexible and efficient business execution by having the president act as chief executive officer, with directors overseeing key headquarters divisions and business units. Under this command and management structure, executive officers appointed by the Board of Directors perform the duties assigned to them. Directors and executive officers deliberate, decide, and report on important matters in meetings of the Board of Directors and the Executive Board.
- The Board of Directors formulates the medium-term management plan and annual business plans as Companywide objectives for directors, executive officers, and employees. Directors and executive officers plan and implement specific policies for reaching goals, segregating tasks in line with in-house rules. They also evaluate the results, review progress, and submit periodic and spot reports to the Board of Directors, the Executive Board, and the Management Council.

**5. Ensuring appropriate conduct at Group companies**

- The Company encourages Group subsidiaries to work to establish and build Companywide internal controls according to JSW's Vision, Management Philosophy, and Corporate code of behavior. The Company also supports Group subsidiaries to strive for efficient business execution and autonomous management by ensuring proper division of duties and clarification of decision-making authority based on their own in-house rules.
- The Company has formulated operational and management rules for subsidiaries and defined the related management responsibilities and leadership structures. The Company maintains a system for reporting, notifying, and gathering information about subsidiary decisions on important matters and important facts.
- In addition to dispatching directors and audit & supervisory board members to Group subsidiaries,

the Company ensures that subsidiaries comply with all laws and regulations and in-house rules by mandating periodic and spot internal audits through relevant departments or the Internal Audit Division. It also audits operations directly and instructs subsidiaries on internal control improvements.

- The Company supports the efforts of Group subsidiaries to establish systems to identify and evaluate risks according to division of duties determined independently based on rules concerning risk management.

**6. Appointing audit & supervisory board member assistants, securing their independence from directors, and ensuring the effectiveness of instructions given to them**

- On request from audit & supervisory board members, the Company offers employees as assistants. The Company seeks the opinions and consent of these members for appointments, dismissals, evaluations, and other personnel treatment regarding these assistants to secure their independence from directors and executive officers.
- The Company ensures that employees assigned as assistants can perform their duties according to the directions and instructions of audit & supervisory board members.

**7. Reporting to audit & supervisory board members by directors and employees and preventing unfavorable treatment based on its content**

- Audit & supervisory board members are guaranteed the opportunity to attend meetings of the Board of Directors, the Executive Board, the Management Council, and other managerial meetings that deliberate, decide, and report on important matters.
- Based on its management approval system, the Company presents approval records to audit & supervisory board members. Audit & supervisory board members can at any time request reports from directors, executive officers, and employees of the Company and Group subsidiaries. Also, persons who have received reports

from directors, executive officers, and employees of the Company and Group subsidiaries can convey such reports to audit & supervisory board members.

- The Company guarantees that persons making reports to audit & supervisory board members are not subject to unfavorable treatment based on the content of such reports.

**8. Policies on advance payment and compensation pertaining to costs and obligations incurred in the execution of duties by audit & supervisory board members**

- The Company assumes responsibility for any necessary costs incurred in the execution of duties by audit & supervisory board members.

**9. Ensuring the effectiveness of audits conducted by audit & supervisory board members**

- The Company encourages directors, executive officers, and employees to recognize the importance and value of audits conducted by audit & supervisory board members and to accord them their fullest cooperation. These members can request assistance from the Internal Audit Division, other headquarters divisions, and all other divisions for auditing tasks.
- The Company enables audit & supervisory board members to collaborate closely with the accounting auditor and the Internal Audit Division.
- Audit & supervisory board members have the discretion to employ the services of legal advisors and other outside experts.

**10. Ensuring reliable financial reporting**

- The Company evaluates the effectiveness of internal controls for financial reports in keeping with basic policies for such controls. The Board of Directors and the Executive Board deliberate and report on the findings of such evaluations.

**Policy Regarding Large-Scale Purchase of Company Shares**

At the meeting of the Board of Directors held on May 15, 2017, the Company decided to update the "Measures against Large-Scale Share Acquisitions (takeover defense measures), which was then approved at the 91st Annual General Meeting of Shareholders on June 27, 2017.

# Environmental Management

As a responsible member of society, JSW regards operating in harmony with the environment as an important corporate responsibility. In our pursuit of production activities and environmental technologies that respect environmental integrity, we engage in business activities that contribute to the ecologically sustainable development of society.

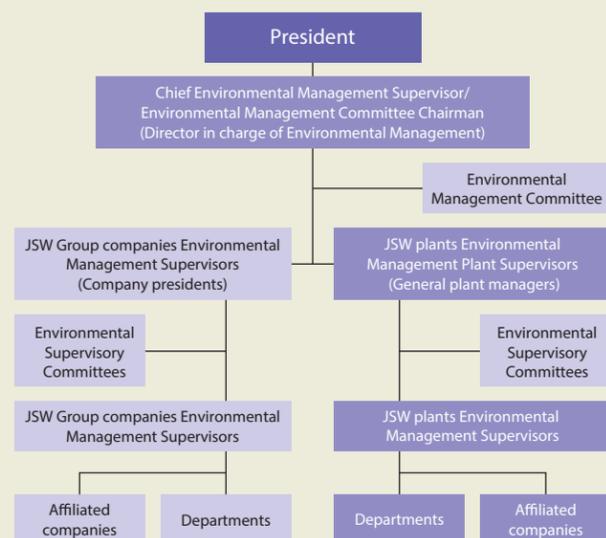
Ever since we formulated a medium-term environmental plan in fiscal 2001 for the first time, we have been proactively promoting environmental management activities throughout the company. With the Fourth Medium-Term Environmental Plan (fiscal 2013 to fiscal 2017) completed, in fiscal 2018 we formulated the Fifth Medium-Term Environmental Plan and widened the scope of environmental activities to include the entire JSW Group. Accordingly, we are engaged in activities to achieve the goals set out in the plan.

## Action Plan

1. We aim to carry out environmental tasks in an organized way, and to implement environmental preservation activities continuously.
2. We will set appropriate objectives and targets for reducing the burden our activities impose on the environment with conserving biodiversity.
3. We aim to provide society with products and services that contribute to the preservation of the environment.
  - (1) We endeavor to increase the social value of our products in terms of environmental protection, safety and hygiene.
  - (2) We will provide products and services that reduce environmental loads by obtaining a clear grasp of environmental needs and developing technologies.

## Environmental Management Structure

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 including affiliates to reduce the environmental impact of the Company's activities.



## ISO 14001 Certification Progress

The Company's Muroran, Hiroshima, and Yokohama plants and its Group companies, Meiki Co., Ltd., Fine Crystal Precision (S.Z.) Co., Ltd., and NIKKO-YPK SHOJI CO., LTD. (Head Office, Saitama Office, Kansai Branch, Kansai Sales District Office, Chubu Branch, Sendai Sales District Office, Nagano Sales District Office, Toyama Sales District Office, Kyushu Sales District Office), have obtained certification under ISO 14001, an international standard for environmental management systems.

We leverage third-party certification bodies and internal inspections to conduct checks at least once annually to ensure that ISO 14001-certified business sites are endeavoring to maintain and improve their environmental management systems.

The Company and Group companies have adhered strictly to laws and ordinances, and there were again no violations in fiscal 2017.

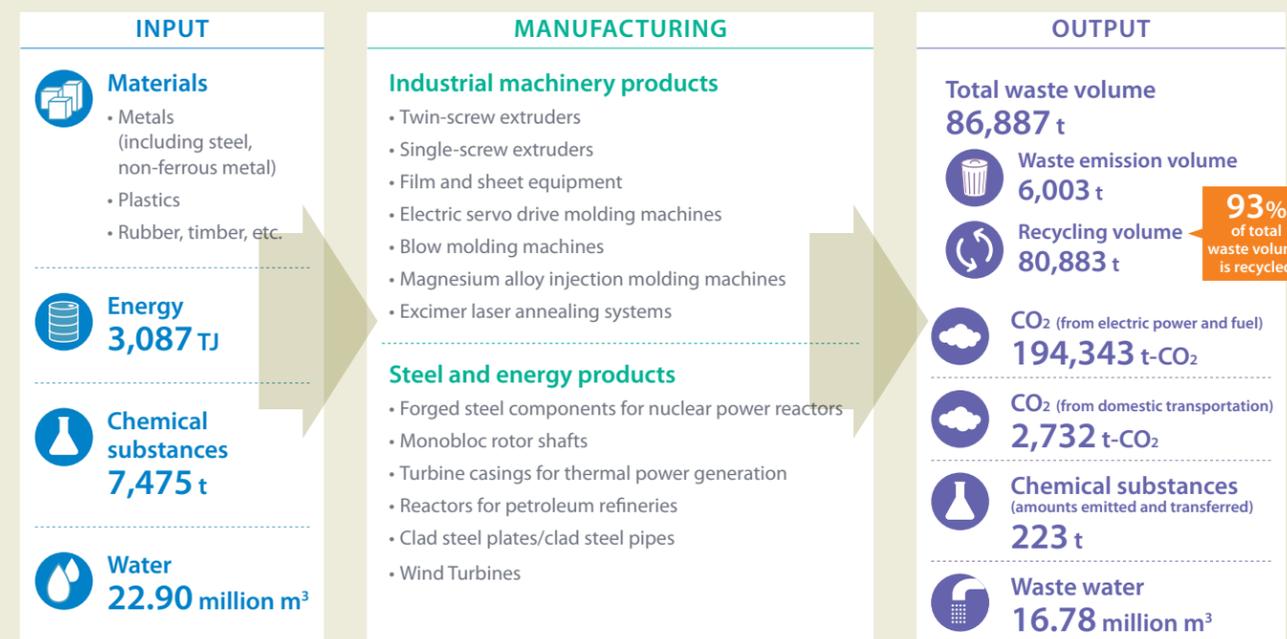
## ISO 14001 Certifications of Business Sites

Business Site	Certification Date	Current Certification Body
Muroran Plant	December 18, 1998	Lloyd's Register Quality Assurance
Hiroshima Plant	December 18, 1998	Japan Quality Assurance Organization
Yokohama Plant	September 4, 2006	Lloyd's Register Quality Assurance
Meiki Co., Ltd.	March 4, 2005	ASR International Corporation
Fine Crystal Precision (S.Z.) Co., Ltd.	March 7, 2007	Intertek
NIKKO-YPK SHOJI CO., LTD.	February 7, 2005	Japan Value-Added Certification Co., Ltd.

## Business activities and environmental impact

In the process of manufacturing activities related to our core business sectors, steel and energy products business and industrial machinery products business, the environmental impact status is shown below.

We measure both inputs (consumption of energy, water, and the like) and outputs (such as waste, carbon dioxide, and water resulting from manufacturing processes), and use the data in our environmental improvement activities.



## ECO Steel pressure vessel for hydrogen stations (eco-car-related)

Fuel cells that generate electricity by causing hydrogen and oxygen to react chemically are attracting attention as an environmentally friendly energy source. Vehicles equipped with fuel cells allow significant reductions in carbon dioxide and harmful gas emissions, making the ultimate "eco car," the vehicle leveraging environmentally friendly energy. Since sales of fuel cell vehicles to the general public began in 2014, we have seen the establishment of hydrogen stations, which supply hydrogen for fuel cell vehicles, in various locations. With a history of hydrogen-related research and development covering more than 40 years, we have developed a steel pressure vessel for hydrogen storage, which plays a central role in the operation of hydrogen stations.

### What is a steel pressure vessel?

Hydrogen to be stored in fuel cell vehicles must be supplied at high pressure to enable long-distance trips with one filling. Therefore, in order to completely fill the tank with hydrogen in a short time period, the hydrogen station must use a steel pressure vessel to store hydrogen at high pressure beforehand. Deploying our technological expertise related to steel, we developed a highly durable and reliable steel pressure vessel for hydrogen storage. It can be used safely for long time periods, and even permits highly accurate safety inspections during operation.



# Board of Directors, Audit & Supervisory Board Members, and Executive Officers

## Board of Directors and Audit & Supervisory Board Members

As of September 1, 2018

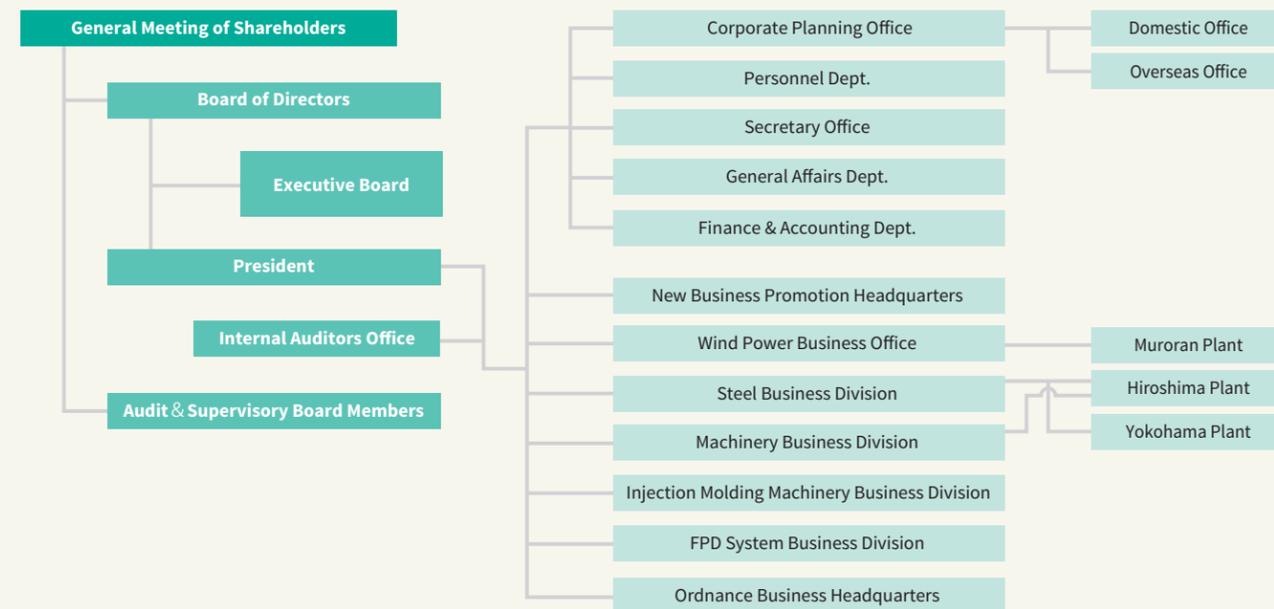
<b>Representative Director &amp; President</b>	Naotaka Miyauchi
<b>Representative Director &amp; Executive Vice President</b>	Yutaka Higashiizumi
<b>Directors, Managing Executive Officers</b>	Takashi Shibata Masao Oshita Toshio Matsuo
<b>Directors, Executive Officers</b>	Junichiro Deguchi Takashi Iwamoto
<b>Directors</b>	Nobuo Mochida (Outside) Sadao Degawa (Outside)
<b>Audit &amp; Supervisory Board Members</b>	Yoshitomo Tanaka Kenji Watanabe Kazuya Jono (Outside) Itaru Masuda (Outside)

## Executive Officers

As of September 1, 2018

<b>Managing Executive Officer</b>	Toyohiko Kagawa
<b>Executive Officers</b>	Kenji Kikukawa Yoshitaka Sato Toru Nishiyama Shingo Mito Hiroki Kikuchi Shigeki Inoue

## Organization



# Financial Section

The Japan Steel Works, Ltd.

## Six-Year Summary

Years ended March 31

	2013	2014	2015	2016	2017	2018
Millions of yen						
<b>Consolidated</b>						
Net sales	¥220,653	¥188,719	¥194,674	¥223,301	¥212,469	<b>¥212,957</b>
Profit (loss) attributable to owners of parent	8,281	5,527	(5,327)	(16,600)	(4,968)	<b>10,712</b>
Total assets	303,970	293,139	319,667	293,138	275,315	<b>297,433</b>
Total net assets	134,368	139,268	138,234	111,340	107,587	<b>118,600</b>
Amounts per share (yen):						
Profit (loss)	¥111.66	¥74.58	¥(71.94)	¥(226.62)	¥(67.61)	<b>¥145.77</b>
<b>Non-Consolidated</b>						
Net sales	¥184,312	¥155,211	¥153,455	¥176,116	¥166,722	<b>¥162,043</b>
Profit (loss)	7,519	6,645	(5,658)	(18,719)	(8,260)	<b>8,559</b>
Total assets	277,086	267,241	291,793	263,112	242,353	<b>259,342</b>
Total net assets	120,866	127,416	124,381	97,107	88,837	<b>96,596</b>
Amounts per share (yen):						
Profit (loss)	¥101.39	¥89.67	¥(76.41)	¥(255.55)	¥(112.40)	<b>¥116.48</b>
Cash dividends applicable to the year	¥10.00	¥5.00	¥4.00	¥5.00	¥15.00	<b>¥37.50</b>

Note: The Company conducted a 1-for-5 reverse common stock split effective on October 1, 2016. For the sake of simplicity, the profit (loss) per share in the table above are calculated using the number of shares after the reverse stock split.

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<b>23</b> Six-Year Summary	<b>29</b> Consolidated Statement of Changes in Net Assets
<b>24</b> Financial Performance (Consolidated)	<b>30</b> Consolidated Statement of Cash Flows
<b>26</b> Consolidated Balance Sheet	<b>31</b> Notes to Consolidated Financial Statements
<b>28</b> Consolidated Statement of Income Consolidated Statement of Comprehensive Income	<b>51</b> Independent Auditor's Report

## Financial Performance (Consolidated)

### Operating Results

#### Net Sales

Net sales totaled ¥212,957 million (US\$2,004 million), up ¥487 million, or 0.2%, year on year. This was due to higher sales in the Industrial Machinery Products Business, offsetting lower sales in the Steel and Energy Products Business.

#### Operating Income

Operating income increased ¥8,977 million, or 72.8%, to ¥21,318 million (US\$200 million), and the operating income margin increased 4.2 percentage points to 10.0%.

#### Profit Attributable to Owners of Parent

Profit attributable to owners of parent was ¥10,712 million (US\$100 million), compared with a loss attributable to owners of parent of ¥4,968 million in the previous fiscal year. This equates to profit per share of ¥145.77 for the year.

#### Sales by Region

The Japanese market accounted for sales of ¥104,757 million (US\$986 million), the Chinese market for ¥48,043 million (US\$452 million), with all other markets accounting for ¥60,156 million (US\$566 million).

#### Cash Flow

At year-end, cash and cash equivalents stood at ¥77,879 million (US\$733 million), an increase of ¥19,208 million from a year earlier.

#### Cash Flow from Operating Activities

Net cash provided by operating activities amounted to ¥26,712 million (US\$251 million), compared with ¥12,023 million in the previous fiscal year, due mainly to profit before income taxes and provision for business restructuring.

#### Cash Flow from Investing Activities

Net cash used in investing activities totaled ¥5,077 million (US\$47 million), compared with ¥13,580 million in the previous fiscal year. This was due mainly to an increase in tangible and intangible assets.

#### Cash Flow from Financing Activities

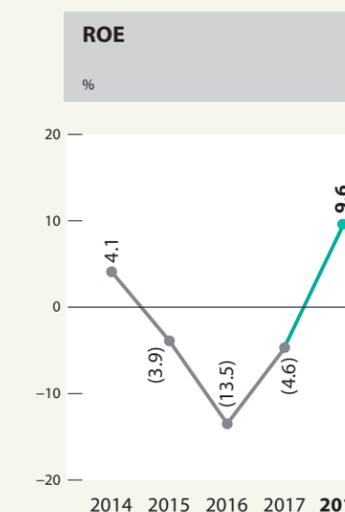
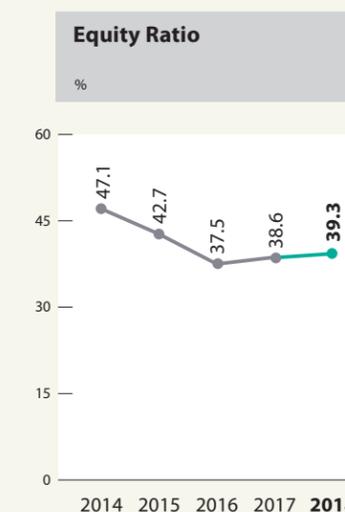
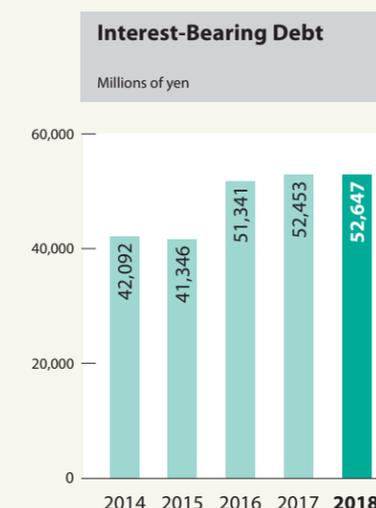
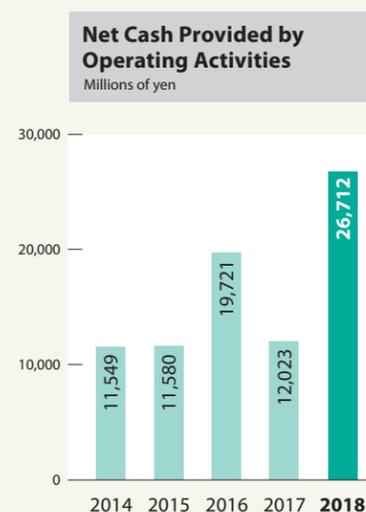
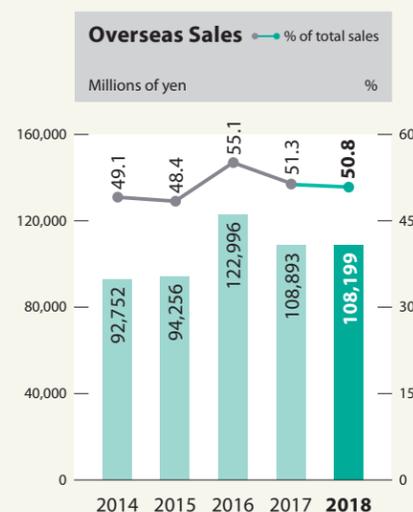
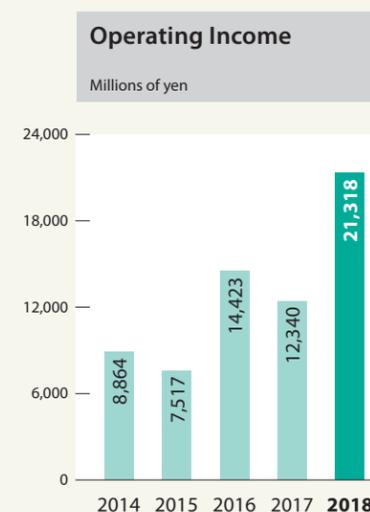
Net cash used in financing activities was ¥2,457 million (US\$23 million), attributable primarily to cash dividends paid, compared with net cash used in financing activities of ¥1,203 million in the previous fiscal year.

### Financial Position

As of March 31, 2018, total assets amounted to ¥297,433 million (US\$2,799 million), up ¥22,118 million from a year earlier. This was due primarily to an increase in cash on hand and in banks, notes and accounts receivable, and other current assets.

Total liabilities stood at ¥178,833 million (US\$1,683 million), up ¥11,105 million from a year earlier. This was due mainly to an increase in current liabilities, including advances received for products and provision for business restructuring. Interest-bearing debt was ¥52,647 million (US\$495 million), up ¥193 million from a year earlier.

Net assets amounted to ¥118,600 million (US\$1,116 million), up ¥11,013 million, due mainly to an increase in retained earnings.



The Japan Steel Works, Ltd. and Consolidated Subsidiaries

**Consolidated Balance Sheet**

March 31, 2017 and 2018

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2018	2018
<b>Current assets:</b>			
Cash on hand and in banks (Notes 5, 15 and 18)	¥ 59,801	¥ 79,032	\$ 743,901
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	237	485	4,565
Trade (Note 18)	49,194	54,061	508,857
Other	292	757	7,125
Less allowance for doubtful accounts	(140)	(142)	(1,337)
Inventories (Note 4)	66,152	62,160	585,090
Deferred tax assets (Note 22)	6,473	7,376	69,428
Other current assets	4,555	4,947	46,564
<b>Total current assets</b>	186,565	208,679	1,964,223
<b>Property, plant and equipment, at cost (Notes 7 and 9):</b>			
Land	9,721	10,059	94,682
Buildings and structures	71,132	71,536	673,343
Machinery and equipment	133,623	134,319	1,264,298
Leased assets	2,863	2,701	25,424
Construction in progress	235	288	2,711
	217,577	218,905	2,060,476
Less accumulated depreciation	(185,343)	(185,865)	(1,749,482)
<b>Property, plant and equipment, net</b>	32,233	33,040	310,994
<b>Intangible assets</b>	1,655	1,774	16,698
<b>Investments and other assets:</b>			
Investments in unconsolidated subsidiaries and affiliates	1,002	1,144	10,768
Investment securities (Notes 18 and 19)	33,941	34,129	321,244
Long-term loans receivable	53	293	2,758
Retirement benefit asset (Note 21)	2,472	2,736	25,753
Deferred tax assets (Note 22)	15,041	12,907	121,489
Other assets	2,805	3,131	29,471
Less allowance for doubtful accounts	(455)	(402)	(3,784)
<b>Total investments and other assets</b>	54,860	53,939	507,709
<b>Total assets</b>	¥ 275,315	¥ 297,433	\$ 2,799,633

**Liabilities and net assets**

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2018	2018
<b>Current liabilities:</b>			
Short-term borrowings (Notes 11 and 18)	¥ 11,908	¥ 12,004	\$ 112,989
Current portion of long-term debt (Notes 11 and 18)	4,789	625	5,883
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	153	137	1,290
Trade (Note 18)	47,590	54,819	515,992
Other	1,348	1,184	11,145
Advances received for products	17,004	18,863	177,551
Accrued income taxes (Note 22)	866	2,296	21,611
Provision for loss on wind power generator business	4,655	9,754	91,811
Provision for business restructuring	—	6,389	60,137
Other current liabilities	20,072	9,342	87,933
<b>Total current liabilities</b>	108,390	115,418	1,086,389
<b>Long-term liabilities:</b>			
Long-term debt (Notes 11 and 18)	35,755	40,016	376,657
Accrued retirement benefits			
For directors and corporate auditors	115	75	706
Retirement benefit liability (Note 21)	10,620	10,046	94,559
Deferred tax liabilities (Note 22)	175	168	1,581
Other long-term liabilities	12,671	13,107	123,372
<b>Total long-term liabilities</b>	59,337	63,414	596,894
<b>Net assets:</b>			
<b>Shareholders' equity (Note 15)</b>			
Common stock:			
Authorized — 200,000,000 shares			
Issued — 74,292,607 shares	19,694	19,694	185,373
Capital surplus	5,467	5,467	51,459
Retained earnings	77,748	86,256	811,898
Treasury stock, at cost			
(802,503 shares in 2018 and 801,480 shares in 2017)	(2,308)	(2,310)	(21,743)
<b>Total shareholders' equity</b>	100,601	109,107	1,026,986
<b>Accumulated other comprehensive income:</b>			
Unrealized holding gain (loss) on securities	6,381	7,269	68,421
Unrealized gain (loss) from hedging instruments	(301)	305	2,871
Translation adjustments	(170)	(21)	(197)
Remeasurement of retirement benefit plans	(211)	370	3,483
<b>Total accumulated other comprehensive income</b>	5,698	7,923	74,576
<b>Non-controlling interests</b>	1,287	1,569	14,768
<b>Total net assets</b>	107,587	118,600	1,116,340
<b>Total liabilities and net assets</b>	¥ 275,315	¥ 297,433	\$ 2,799,633

See notes to consolidated financial statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

## Consolidated Statement of Income

For the years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2018	2018
<b>Net sales</b>	¥212,469	<b>¥212,957</b>	<b>\$2,004,490</b>
<b>Cost of sales (Note 12)</b>	170,695	<b>163,455</b>	<b>1,538,545</b>
Gross profit	41,773	<b>49,501</b>	<b>465,936</b>
<b>Selling, general and administrative expenses (Note 12)</b>	29,432	<b>28,182</b>	<b>265,267</b>
Operating income	12,340	<b>21,318</b>	<b>200,659</b>
<b>Other income (expenses):</b>			
Interest and dividend income	653	<b>827</b>	<b>7,784</b>
Interest expense	(273)	<b>(258)</b>	<b>(2,428)</b>
Impairment loss (Note 9)	(17,874)	<b>(1,352)</b>	<b>(12,726)</b>
Other, net (Note 13)	(687)	<b>(5,642)</b>	<b>(53,106)</b>
	(18,181)	<b>(6,426)</b>	<b>(60,486)</b>
<b>Income before income taxes</b>	(5,841)	<b>14,892</b>	<b>140,173</b>
<b>Income taxes (Note 22):</b>			
Current	2,819	<b>3,633</b>	<b>34,196</b>
Deferred	(3,706)	<b>307</b>	<b>2,890</b>
<b>Income (Note 28)</b>	(4,954)	<b>10,951</b>	<b>103,078</b>
<b>Profit attributable to non-controlling interests</b>	14	<b>238</b>	<b>2,240</b>
<b>Income attributable to shareholders of The Japan Steel Works, Ltd.</b>	¥ (4,968)	<b>¥ 10,712</b>	<b>\$ 100,828</b>

See notes to consolidated financial statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

## Consolidated Statement of Changes in Net Assets

For the years ended March 31, 2017 and 2018

	Shareholders' equity					Accumulated other comprehensive income						Millions of yen
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 15)	Total shareholders' equity	Unrealized holding gain (loss) on securities	Unrealized gain (loss) from hedging instruments	Translation adjustments	Remeasurement benefit plans adjustments (Note 21)	Total accumulated other comprehensive income	Non-controlling interest	Total net assets
Balance at April 1, 2016	¥19,694	¥5,467	¥84,554	¥(2,302)	¥107,413	¥3,830	¥ 337	¥ 51	¥(1,609)	¥2,609	¥1,318	¥111,340
Changes during the year												
Cash dividends paid			(1,837)		(1,837)							(1,837)
Loss attributable to shareholders of The Japan Steel Works, Ltd.			(4,968)		(4,968)							(4,968)
Purchases of treasury stock				(5)	(5)							(5)
Disposal of treasury stock		(0)		0	0							0
Transfer of loss on disposal of treasury shares		0	(0)									
Net changes in items other than those in shareholders' equity						2,551	(638)	(222)	1,398	3,089	(31)	3,058
<b>Total changes during the year</b>	<b>—</b>	<b>—</b>	<b>(6,806)</b>	<b>(5)</b>	<b>(6,811)</b>	<b>2,551</b>	<b>(638)</b>	<b>(222)</b>	<b>1,398</b>	<b>3,089</b>	<b>(31)</b>	<b>(3,753)</b>
Balance at March 31, 2017	¥19,694	¥5,467	¥77,748	¥(2,308)	¥100,601	¥6,381	¥(301)	¥(170)	¥ (211)	¥5,698	¥1,287	¥107,587
Balance at April 1, 2017	¥19,694	¥5,467	¥77,748	¥(2,308)	¥100,601	¥6,381	¥(301)	¥(170)	¥ (211)	¥5,698	¥1,287	¥107,587
Changes during the year												
Cash dividends paid			(2,204)		(2,204)							(2,204)
Income attributable to shareholders of The Japan Steel Works, Ltd.			10,712		10,712							10,712
Purchases of treasury stock				(2)	(2)							(2)
Disposal of treasury stock		(0)		0	0							0
Transfer of loss on disposal of treasury shares		0	(0)									
Net changes in items other than those in shareholders' equity						887	606	149	581	2,225	282	2,507
<b>Total changes during the year</b>	<b>—</b>	<b>—</b>	<b>8,508</b>	<b>(2)</b>	<b>8,505</b>	<b>887</b>	<b>606</b>	<b>149</b>	<b>581</b>	<b>2,225</b>	<b>282</b>	<b>11,013</b>
Balance at March 31, 2018	¥19,694	¥5,467	¥86,256	¥(2,310)	¥109,107	¥7,269	¥ 305	¥ (21)	¥ 370	¥7,923	¥1,569	¥118,600

Thousands of U.S. dollars (Note 3)

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

## Consolidated Statement of Comprehensive Income

For the years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2018	2018
<b>Income</b>	¥(4,954)	<b>¥10,951</b>	<b>\$103,078</b>
<b>Other comprehensive income:</b>			
Unrealized holding gain (loss) on securities	2,551	<b>887</b>	<b>8,349</b>
Unrealized gain (loss) from hedging instruments	(638)	<b>606</b>	<b>5,704</b>
Translation adjustments	(251)	<b>203</b>	<b>1,911</b>
Remeasurement of retirement benefit plans	1,398	<b>597</b>	<b>5,619</b>
<b>Total other comprehensive income (Note 14)</b>	<b>3,059</b>	<b>2,295</b>	<b>21,602</b>
<b>Comprehensive income</b>	¥(1,894)	<b>¥13,246</b>	<b>\$124,680</b>
<b>Total comprehensive income attributable to:</b>			
Shareholders of The Japan Steel Works, Ltd.	¥(1,879)	<b>¥12,937</b>	<b>\$121,771</b>
Non-controlling interests	¥ (14)	<b>¥ 308</b>	<b>\$ 2,899</b>

See notes to consolidated financial statements.

	Shareholders' equity					Accumulated other comprehensive income						Thousands of U.S. dollars (Note 3)
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 15)	Total shareholders' equity	Unrealized holding gain (loss) on securities	Unrealized gain (loss) from hedging instruments	Translation adjustments	Remeasurement benefit plans adjustments (Note 21)	Total accumulated other comprehensive income	Non-controlling interest	Total net assets
Balance at April 1, 2017	\$185,373	\$51,459	\$731,815	\$(21,724)	\$ 946,922	\$60,062	\$(2,833)	\$(1,600)	\$(1,986)	\$53,633	\$12,114	\$1,012,679
Changes during the year												
Cash dividends paid			(20,745)		(20,745)							(20,745)
Income attributable to shareholders of The Japan Steel Works, Ltd.			100,828		100,828							100,828
Purchases of treasury stock				(19)	(19)							(19)
Disposal of treasury stock		(0)		0	0							0
Transfer of loss on disposal of treasury shares		0	(0)									
Net changes in items other than those in shareholders' equity						8,349	5,704	1,402	5,469	20,943	2,654	23,598
<b>Total changes during the year</b>	<b>—</b>	<b>—</b>	<b>80,083</b>	<b>(19)</b>	<b>80,055</b>	<b>8,349</b>	<b>5,704</b>	<b>1,402</b>	<b>5,469</b>	<b>20,943</b>	<b>2,654</b>	<b>103,662</b>
Balance at March 31, 2018	\$185,373	\$51,459	\$811,898	\$(21,743)	\$1,026,986	\$68,421	\$ 2,871	\$ (198)	\$ 3,483	\$74,576	\$14,768	\$1,116,340

See notes to consolidated financial statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

**Consolidated Statement of Cash Flows**

For the years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2018	2018
<b>Operating activities</b>			
Income before income taxes	¥ (5,841)	¥14,892	\$140,173
Depreciation and amortization	8,058	4,308	40,550
Impairment loss	17,874	1,352	12,726
Interest and dividend income	(653)	(827)	(7,784)
Interest expense	273	258	2,428
Equity in losses of affiliates	0	0	0
Gain on sales of property, plant and equipment and intangible assets	(78)	(1)	(9)
(Gain) loss on sales of investment securities	—	(789)	(7,427)
Loss on disposal of tangible and intangible assets	150	273	2,570
Gain on sales of investment securities	—	—	—
Increase (decrease) in provision for warranties for completed construction	717	(1,027)	(9,667)
Increase (decrease) in provision for loss on construction contracts	1,699	(2,184)	(20,557)
Decrease in provision for loss on wind power generator business	(4,032)	(1,289)	(12,133)
Increase in provision for business restructuring	—	6,389	60,137
Changes in operating assets and liabilities:			
Trade assets (Note 18)	(122)	(2,848)	(26,807)
Trade liabilities	(2,987)	6,101	57,427
Inventories (Note 4)	1,022	3,994	37,594
Other	(1,023)	(250)	(2,353)
Subtotal	15,056	28,351	266,858
Interest and dividends received	660	827	7,784
Interest paid	(273)	(257)	(2,419)
Income taxes paid	(3,420)	(2,207)	(20,774)
<b>Net cash provided by operating activities</b>	12,023	26,712	251,431
<b>Investing activities</b>			
Investments into time deposits	(1,001)	(607)	(5,713)
Proceeds from withdrawal of time deposits	545	657	6,184
Increase in tangible and intangible assets	(13,348)	(6,549)	(61,643)
Decrease in tangible and intangible assets	131	76	715
Proceeds from sale of investment securities	0	1,869	17,592
Purchases of investment securities	(345)	(12)	(113)
Reimbursement of long-term deposits on contracts	(67)	(89)	(838)
Decrease in short-term loans receivable	0	(1)	(9)
Payments of long-term loans receivable	—	(300)	(2,824)
Collection of long-term loans receivable	10	50	471
Purchase of investments in subsidiaries	—	(147)	(1,384)
Other	494	(22)	(207)
<b>Net cash used in investing activities</b>	(13,580)	(5,077)	(47,788)
<b>Financing activities (Notes 11 and 18)</b>			
Net increase (decrease) in short-term borrowings	(660)	96	904
Increase in long-term debt	2,308	4,500	42,357
Decrease in long-term debt	(320)	(4,215)	(39,674)
Cash dividends paid	(1,837)	(2,204)	(20,745)
Acquisition of treasury stock	(5)	(2)	(19)
Repayments of finance lease obligations	(673)	(621)	(5,845)
Other	(16)	(9)	(85)
<b>Net cash provided by (used in) financing activities</b>	(1,203)	(2,457)	(23,127)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(26)	30	282
<b>(Decrease) increase in cash and cash equivalents</b>	(2,787)	19,208	180,798
<b>Cash and cash equivalents at beginning of the year</b>	61,458	58,671	552,250
<b>Cash and cash equivalents at end of the year (Notes 16 and 18)</b>	¥ 58,671	¥77,879	\$733,048

The accompanying notes are an integral part of these statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

**Notes to Consolidated Financial Statements****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 foreign subsidiaries maintain their books of account in conformity with those of their respective countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRS, 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 of Japan, 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**

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

As of March 31, 2018, the numbers of consolidated subsidiaries, and subsidiaries and affiliates accounted for by the equity method were 31 and 1 (32 and 1 in 2017), respectively.

JSW Plastics Machinery, Inc. was consolidated subsidiary in the previous fiscal year was absorbed by Japan Steel Works America, Inc. in accordance with the merger.

Certain foreign subsidiaries are consolidated on the basis of fiscal periods ended December 31, 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 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 amortized by the straight-line method over five years after acquisition and are included in selling, general and administrative expenses.

**(b) Foreign currency translation**

The balance sheet accounts of the foreign 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 Non-controlling 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. Differences arising from the translation are presented as translation adjustments and Non-controlling interests in the consolidated financial statements.

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 differences arising from the translation are included in the consolidated statements of income.

**(c) Cash equivalents**

Short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value are considered to be cash equivalents.

**(d) Inventories**

Real estate held for sale, finished products and work in process are stated at the lower of cost or net realizable value determined principally by the specific identification method. Raw materials are stated at the lower of cost or replacement cost determined principally by the moving average method.

**(e) Investment securities**

Marketable securities classified as other securities are carried at fair value with 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 collectability of individual doubtful accounts.

**(g) Provision for warranties for completed construction**

The Company provides a provision for warranties for completed construction by estimating losses on possible future claims.

**(h) Provision for loss on construction contracts**

The Company provides a provision for loss on construction contracts, which has not been delivered by the fiscal year end, by estimating the amount of total losses anticipated in the following fiscal year and thereafter to be incurred, when the amounts can be reasonably estimated.

**(i) Provision for loss on wind power generator business**

The Company provides a provision for loss on wind power generator business by estimating the amount of total losses caused by the defects of certain parts used in wind power generators.

**(j) Provision for business restructuring**

The Company provides a provision for the anticipated losses on wind power generators sold in previous years in order to restructure the wind power generator business.

**(k) Property, plant and equipment and depreciation**

Depreciation of property, plant and equipment is calculated by the declining-balance method based on the estimated useful lives and the residual value determined by the Company, except for certain buildings which are depreciated by the straight-line method.

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to profit. The estimate useful lives of the assets are as follows:

Buildings and structures:	6 to 65 years
Machinery, equipment and vehicles:	3 to 20 years

**(l) Intangible fixed assets**

Amortization of intangible fixed assets is calculated using the straight-line method.

Software products for internal use are amortized mainly over the estimated useful lives of five years.

**(m) Leases and depreciation**

Finance lease transactions which do not stipulate the transfer of ownership of the leased assets to the lessee are accounted for as purchase and sales transactions.

With regard to the depreciation method of leased assets, the straight-line method is applied using the lease period as the estimated useful life and a residual value of zero.

**(n) Retirement benefit**

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Prior service cost is being amortized as incurred by the straight-line method over ten 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 ten years, which is shorter than the average remaining years of service of the employees participating in the plans.

Certain subsidiaries use a simplified method in the calculation of their retirement benefit obligation.

**(o) Income taxes**

Deferred tax assets and liabilities have been recognized in the consolidated balance sheets 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.

**(p) Research and development expenses**

Research and development expenses are charged to income when incurred.

**(q) Revenue and cost recognition**

Revenues on sales of products are generally recognized at the time of shipment.

Revenues and costs, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method is applied to contracts for which the percentage of completion cannot be reliably estimated.

**(r) Derivative financial instruments**

Derivative financial instruments are carried at fair value. Gain or loss on derivatives designated as hedging instruments is deferred as a component of net assets 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 when 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 when certain conditions are met.

**(s) Consumption tax**

Accounting treatment of consumption tax is the tax exclusion method.

**(t) Provision for directors' bonuses**

Provision for directors' bonuses is provided based on estimated amounts to be paid in the subsequent period that are applicable to the current period.

**(u) Provision for directors' retirement benefits**

Provision for directors' retirement benefits is provided based on estimated amounts determined by internal rules.

**(v) Standards issued but not yet effective Accounting Standard and Implementation Guidance on Revenue Recognition**

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

**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 ¥106.24 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2018. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

**4. Inventories**

Inventories at March 31, 2018 and 2017 consisted of the following:

	Thousands of U.S. dollars		
	2017	2018	2018
Real estate held for sale	¥ 278	¥ 277	\$ 2,607
Finished products	2,080	2,027	19,079
Work in process	58,037	54,663	514,524
Raw materials and supplies	5,755	5,191	48,861
Total	¥66,152	¥62,160	\$585,090

Work in process related to construction contracts of which a loss is anticipated to be incurred was offset with a provision for loss on construction contracts of ¥750 million (\$7,059 thousand) at March 31, 2018 and ¥191 million at March 31, 2017.

**5. Assets pledged as collateral**

The assets pledged as collateral for issuance of Performance Bond at March 31, 2018 and 2017 were as follows:

	Thousands of U.S. dollars		
	2017	2018	2018
Time deposit	¥96	¥106	\$998

Note: The assets pledged as collateral have no corresponding obligations at March 31, 2018.

**6. Depreciation**

Depreciation expense on property, plant and equipment for the years ended March 31, 2018 and 2017 were as follows:

	Thousands of U.S. dollars		
	2017	2018	2018
Depreciation expense	¥7,858	¥4,097	\$38,564

**7. 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 accumulated depreciation at March 31, 2018 and 2017 are summarized as follows:

	Thousands of U.S. dollars		
	2017	2018	2018
Accumulated advanced depreciation expense	¥1,298	¥1,306	\$12,293

**8. Notes Receivable and Notes Payable Maturing at Fiscal Year-End**

Although March 31, 2018 was a bank holiday, notes maturing on that date were accounted for as if they were settled on their maturity date. The corresponding amounts of notes receivable and notes payable maturing on March 31, 2018 were as follows:

	Thousands of U.S. dollars		
	2017	2018	2018
Trade notes and accounts receivable	¥—	¥ 293	\$ 2,758
Trade notes and accounts payable	¥—	¥1,592	\$14,985
Other current liabilities	¥—	¥ 242	\$ 2,278
Endorsed trade notes receivable	¥—	¥ 3	\$ 28

**9. Impairment Loss**

**Current fiscal year (From April 1, 2017 to March 31, 2018)**

The Group recorded an impairment loss on the following groups of assets in the current fiscal year:

Use	Asset type	Location
Steel and Energy Products: Business assets	Structures, machinery and equipment, tools, furniture and fixtures, construction in progress, etc.	Muroran, Hokkaido
Steel and Energy Products: Business assets at investee subsidiary	Vehicles, construction in progress, etc.	Muroran, Hokkaido and Guangdong, China

(1) Grouping of assets

The Company and its consolidated subsidiaries (hereinafter collectively known as the "Group") determine whether to recognize an impairment loss and measures the loss by grouping assets based on the smallest units used in management accounting that generate cash flows which are largely independent and whose revenue and expenditures are identified on an ongoing basis.

However, the Group determines whether to recognize impairment and measures the impairment on an individual asset basis if the asset is idle and not expected to be used in the future.

(2) Circumstances that led to the recognition of the impairment loss

Carrying amounts of non-current assets were reduced to recoverable amounts and the reduced amounts were recognized in extraordinary losses as impairment loss because investment amounts were no longer expected to be recovered due to a decrease in profitability.

Breakdown of the impairment loss is as follows:

	¥	\$
Buildings and structures	145 million	1,365 thousand
Machinery, equipment and vehicles	718	6,758
Tools, furniture and fixtures	129	1,214
Construction in progress	174	1,638
Other (intangible assets)	184	1,732
<b>Total</b>	<b>¥1,352</b>	<b>\$12,726</b>

(3) Calculation method for recoverable amounts

Recoverable amounts of the groups of assets are calculated at value in use. It is evaluated by memorandum value.

**Prior fiscal year (From April 1, 2016 to March 31, 2017)**

The Group recorded an impairment loss on the following groups of assets in the current fiscal year:

Use	Asset type	Location
Steel and Energy Products: Business assets	Buildings, structures, machinery and equipment, land, construction in progress, etc.	Muroran, Hokkaido
Steel and Energy Products: Business assets at investee subsidiary	Buildings, structures, machinery and equipment, land, etc.	Muroran, Hokkaido and Guangdong, China

(1) Grouping of assets

The Company and its consolidated subsidiaries (hereinafter collectively known as the "Group") determine whether to recognize an impairment loss and measures the loss by grouping assets based on the smallest units used in management accounting that generate cash flows which are largely independent and whose revenue and expenditures are identified on an ongoing basis.

However, the Group determines whether to recognize impairment and measures the impairment on an individual asset basis if the asset is idle and not expected to be used in the future.

(2) Circumstances that led to the recognition of the impairment loss

Carrying amounts of non-current assets were reduced to recoverable amounts and the reduced amounts were recognized in extraordinary losses as impairment loss because investment amounts were no longer expected to be recovered due to a decrease in profitability.

Breakdown of the impairment loss is as follows:

Buildings and structures	¥ 8,882 million
Machinery, equipment and vehicles	6,761
Tools, furniture and fixtures	352
Land	576
Leased assets (property, plant and equipment)	336
Construction in progress	898
Leased assets (intangible assets)	8
Other (intangible assets)	57
<b>Total</b>	<b>¥17,874</b>

(3) Calculation method for recoverable amounts

Recoverable amounts of the groups of assets are calculated at value in use. It is evaluated by memorandum value.

**10. Contingent Liabilities**

Contingent liabilities at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
As endorsers of trade notes receivable:			
Endorsed to other	¥ 87	¥ 92	\$ 866
As guarantors of loans:			
Muroran Environmental Plant Service Co., Ltd.	358	305	2,871
Obligation to guarantee uncollected receivables of leasing companies	42	8	75
Gotsu Wind Power Co., Ltd	978	849	7,991
Employees and other	25	13	122

**11. Short-Term Borrowings and Long-Term Debt**

All short-term borrowings, with interest at annual rates ranging from 0.2454% to 1.4750% at March 31, 2018 and 0.3073% to 1.4750% at March 31, 2017, were unsecured.

Long-term debt at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Loans from banks and insurance companies with interest at annual rates ranging from 0.1934% to 0.9600%	¥39,116	¥39,401	\$370,868
Less those maturing within one year	(4,215)	(132)	(1,242)
Lease obligations	1,428	1,241	11,681
Less those maturing within one year	(574)	(493)	(4,640)
Long-term indebtedness reflected in the consolidated balance sheets	¥35,755	¥40,016	\$376,657

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2018 are summarized as follows:

Year ending March 31,	Thousands of U.S. dollars		Thousands of U.S. dollars	
	Millions of yen	U.S. dollars	Millions of yen	U.S. dollars
	Long-term loans		Lease obligations	
2019	¥ 132	\$ 1,242	¥493	\$4,640
2020	60	565	366	3,445
2021	5,000	47,063	218	2,052
2022	1,800	16,943	114	1,073
2023	15,700	147,779	43	405
2024 and thereafter	16,708	157,267	4	38

**12. Research and Development Expenses**

Research and development expenses included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Research and development expenses	¥4,237	¥4,369	\$41,124

**13. Other Income (Expenses)—Other, Net**

The details of "Other, net" in "Other income (expenses)" for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Foreign exchange loss	¥ (91)	¥ (115)	\$ (1,082)
Equity in losses of affiliates	(0)	(0)	(0)
Gain on sales of property, plant and equipment	93	30	282
Gain on sales of investment securities	—	791	7,445
Compensation expenses	(272)	(150)	(1,412)
Loss on sales or disposal of property, plant and equipment	(165)	(302)	(2,843)
Provision for business restructuring	—	(6,389)	(60,137)
Other, net	(251)	490	4,612
<b>Total</b>	<b>¥(687)</b>	<b>¥(5,642)</b>	<b>\$ (53,106)</b>

#### 14. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 3,655	¥2,050	\$19,296
Reclassification adjustments for gains and losses realized in net income	—	(793)	(7,464)
The amount of unrealized holding gain (loss) on securities before tax effect	3,655	1,257	11,832
Tax effect	(1,104)	(369)	(3,473)
Unrealized holding gain (loss) on securities	2,551	887	8,349
Unrealized gain (loss) from hedging instruments:			
Amount arising during the year	(921)	874	8,227
Tax effect	282	(267)	(2,513)
Unrealized gain (loss) from hedging instruments	(638)	606	5,704
Translation adjustments:			
Amount arising during the year	(251)	203	1,911
Translation adjustments	(251)	203	1,911
Remeasurement benefits plans adjustments:			
Amount arising during the year	1,023	767	7,220
Reclassification adjustments for gains and losses realized in net income	1,004	95	894
The amount of unrealized holding gain (loss) on securities before tax effect	2,028	863	8,123
Tax effect	(629)	(265)	(2,494)
Remeasurement benefits plans adjustments	1,398	597	5,619
Total other comprehensive income	¥ 3,059	¥2,295	\$21,602

#### 15. Supplementary Information for Consolidated Statement of Changes in Net Assets

Year ended March 31, 2018

##### (a) Information regarding the number and type of shares issued and treasury stock:

	Number of shares			
	Year ended March 31, 2017	Increase during the year	Decrease during the year	Year ended March 31, 2018
Shares issued:				
Common stock	74,292,607	—	—	74,292,607
Treasury stock:				
Common stock (Notes 1 and 2)	801,480	1,055	32	802,503

Notes: 1. The increase in treasury stock – common stock of 1,055 was due to the acquisition of fractional shares of less than one unit.  
2. The decrease in treasury stock – common stock of 32 was due to sales of fractional shares of less than one unit.

##### (b) Dividends

###### (i) Dividends paid to shareholders

① Resolution:	Annual general meeting of shareholders held on June 27, 2017
Type of shares:	Common stock
Total amount of dividends:	¥918 million (\$8,641 thousand)
Dividends per share:	¥12.5 (\$0.118)
Cut-off date:	March 31, 2017
Effective date:	June 28, 2017
② Resolution:	Meeting of Board of Directors held on November 6, 2017
Type of shares:	Common stock
Total amount of dividends:	¥1,286 million (\$12,105 thousand)
Dividends per share:	¥17.5 (\$0.165)
Cut-off date:	September 30, 2017
Effective date:	December 6, 2017

###### (ii) Dividends of which the cut-off date was in the year ended March 31, 2017, but the effective date is in the following fiscal year

Resolution:	Annual general meeting of shareholders held on June 26, 2018
Type of shares:	Common stock
Total amount of dividends:	¥1,469 million (\$13,827 thousand)
Dividends per share:	¥20.0 (\$0.188)
Cut-off date:	March 31, 2018
Effective date:	June 27, 2018
Source of dividends:	Retained earnings

Note: Dividends per share include ¥2.5 (\$0.024) dividend commemorative 110th anniversary dividend.

Year ended March 31, 2017

##### (a) Information regarding the number and type of shares issued and treasury stock:

	Number of shares			
	Year ended March 31, 2016	Increase during the year	Decrease during the year	Year ended March 31, 2017
Shares issued:				
Common stock	371,463,036	—	297,170,429	74,292,607
Treasury stock:				
Common stock (Notes 1 and 2)	3,995,515	5,589	3,199,624	801,480

Notes: 1. Decrease of 297,170,429 ordinary shares held in shares was attributable to carry out the share consolidation at the ratio of 5 shares to 1 share effective, October 1, 2016.  
2. Increase of 5,589 ordinary shares held in treasury was attributable to purchase of less than one share unit.  
3. Decrease of 3,199,508 ordinary shares held in treasury was attributable to carry out the share consolidation at the ratio of 5 shares to 1 share effective, October 1, 2016, and sale of 116 shares resulting from the sale of shares to shareholders at their request.

##### (b) Dividends

###### (i) Dividends paid to shareholders

① Resolution:	Annual general meeting of shareholders held on June 24, 2016
Type of shares:	Common stock
Total amount of dividends:	¥918 million
Dividends per share:	¥2.5
Cut-off date:	March 31, 2016
Effective date:	June 27, 2016
② Resolution:	Meeting of Board of Directors held on November 7, 2016
Type of shares:	Common stock
Total amount of dividends:	¥918 million
Dividends per share:	¥2.5
Cut-off date:	September 30, 2016
Effective date:	December 7, 2016

###### (ii) Dividends of which the cut-off date was in the year ended March 31, 2016, but the effective date is in the following fiscal year

Resolution:	Annual general meeting of shareholders held on June 27, 2017
Type of shares:	Common stock
Total amount of dividends:	¥918 million
Dividends per share:	¥12.5
Cut-off date:	March 31, 2017
Effective date:	June 28, 2017
Source of dividends:	Retained earnings

Note: The Company carried out the share consolidation at the ratio of 5 shares to 1 share effective October 1, 2016. In accordance with this, cash dividends per share of which record date is March 31, 2017 is based on the share consolidation.

#### 16. Cash Flow Information

##### (a) Cash and cash equivalents

The reconciliation between 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, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Cash on hand and in banks in the consolidated balance sheet	¥59,801	¥79,032	\$743,901
Other current assets	189	156	1,468
Time deposits with maturities of more than three months	(1,320)	(1,309)	(12,321)
Cash and cash equivalents in the consolidated statement of cash flows	¥58,671	¥77,879	\$733,048

##### (b) Significant transactions without cash flows

Assets and liabilities corresponding to finance lease transactions that have been recorded by the Company and its domestic consolidated subsidiaries at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Lease assets	¥438	¥402	\$3,784
Lease obligations	465	433	4,076

#### 17. Leases

Year ended March 31, 2018

Future minimum lease payments subsequent to March 31, 2018 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars
	2019	2020 and thereafter	Total
	¥ 72	145	\$ 678
		¥217	\$2,043

## Year ended March 31, 2017

Future minimum lease payments subsequent to March 31, 2017 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen
2018	¥132
2019 and thereafter	195
Total	¥327

## 18. Financial Instruments

## Overview

## (a) Policy for financial instruments

In consideration of plans for operations and capital investment, the Company and its consolidated subsidiaries (collectively, the "Group") utilize funds provided by operating cash flows first. The Group uses bond issuances and bank borrowings in order to raise additional funds, if needed. The Company manages temporary cash surpluses through low-risk financial assets. The Company uses derivatives for the purpose of reducing risks and does not enter into derivative contracts for speculative or trading purposes.

## (b) Types of financial instruments and related risk

Trade receivables – trade notes and accounts receivable – are exposed to credit risk in relation to customers. In addition, the Company is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies. The foreign currency exchange risks deriving from the trade receivables denominated in foreign currencies are hedged by forward foreign exchange contracts, if needed.

Investment securities are exposed to market risk. These securities are mainly composed of the shares of common stock of companies with which the Company has business relationships.

Trade payables – trade notes and accounts payable – have payment due dates within one year. Since the Company is exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies, forward foreign exchange contracts are arranged to reduce the risk, if needed.

Loans payable are used to raise funds mainly in connection with capital investments. The repayment dates of the long-term debts extend up to nine years from the balance sheet date. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk and foreign currency exchange risk. However, to reduce such risk and fix the interest payments for long-term debt with variable rates, the Company utilizes interest rate swap transactions and interest-rate currency swaps as hedging instruments.

Regarding derivatives, the Company enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies. The Company also enters into interest rate swap transactions and interest-rate currency swaps to reduce the fluctuation risk of interest payments for long-term debt with variable rates.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities is found in Note 2 (p).

## (c) Risk management for financial instruments

- (i) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Company for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Company is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties. The consolidated subsidiaries also manage credit risk using the Company's internal policies and methods.

The Company also believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a high credit-rating.

- (ii) Monitoring of market risk (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and payables denominated in foreign currencies, the Company identifies the foreign currency exchange risk for each currency on a monthly basis and enters into forward foreign exchange contracts to hedge such risk. In order to mitigate the interest rate risk for loans payable bearing interest at variable rates, the Company may also enter into interest rate swap transactions and interest-rate currency swaps.

For investment securities, the Company periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Company continuously evaluates whether securities should be maintained taking into account their fair values and relationships with the issuers.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority. Monthly reports including actual transaction data are submitted to top management for their review. The consolidated subsidiaries also conduct derivative transactions using the Company's internal policies.

- (iii) Monitoring of liquidity risk (the risk that the Company may not be able to meet its obligations on scheduled due dates)

Based on the report from each division, the Company prepares and updates its cash flow plans on a timely basis to manage liquidity risk. The consolidated subsidiaries manage the liquidity risk using cash flow plans and report to the Company periodically.

## (d) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no available quoted market price, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 20 Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

## Estimated Fair Value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheet as of March 31, 2018 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note (ii) below).

## Year ended March 31, 2018

	Millions of yen		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash on hand and in banks	¥ 79,032	¥ 79,032	¥ —
Trade notes and accounts receivable	54,542	54,541	(0)
Securities:			
Other securities	32,589	32,589	—
Total assets	¥166,164	¥166,163	¥ (0)
Liabilities			
Trade notes and accounts payable	¥ 54,957	¥ 54,957	¥ —
Short-term borrowings	12,004	12,004	—
Current portion of long-term debt	132	145	12
Long-term debt	39,268	39,860	591
Total liabilities	¥106,362	¥106,967	¥604
Derivatives (*)	¥ 436	¥ 436	—

	Thousands of U.S. dollars		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash on hand and in banks	\$ 743,901	\$ 743,901	\$ —
Trade notes and accounts receivable	513,385	513,375	(0)
Securities:			
Other securities	306,749	306,749	—
Total assets	\$1,564,044	\$1,564,034	\$ (0)
Liabilities			
Trade notes and accounts payable	\$ 517,291	\$ 517,291	\$ —
Short-term borrowings	112,989	112,989	—
Current portion of long-term debt	1,242	1,365	112
Long-term debt	369,616	375,188	5,563
Total liabilities	\$1,001,148	\$1,006,843	\$5,685
Derivatives (*)	\$ 4,104	\$ 4,104	—

(\*) The value of assets and liabilities arising from derivatives is shown at net value, with the amount in parentheses representing net liability position.

## Year ended March 31, 2017

	Millions of yen		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash on hand and in banks	¥ 59,801	¥ 59,801	¥ —
Trade notes and accounts receivable	49,420	49,420	(0)
Securities:			
Other securities	32,389	32,389	—
Total assets	¥141,611	¥141,611	¥ (0)
Liabilities			
Trade notes and accounts payable	¥ 47,744	¥ 47,744	¥ —
Short-term borrowings	11,908	11,908	—
Current portion of long-term debt	4,215	4,235	20
Long-term debt	34,901	35,385	484
Total liabilities	¥ 98,768	¥ 99,274	¥505
Derivatives (*)	¥ (472)	¥ (472)	—

(\*) The value of assets and liabilities arising from derivatives is shown at net value, with the amount in parentheses representing net liability position.

- (i) Method to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

#### Assets

##### Cash on hand and in banks

The carrying amount is used for bank deposits without maturities, because the fair value approximates the carrying value. The fair value of time deposits in banks with maturities is calculated based on the present value of the total principal and interest discounted at a rate supposing a newly made deposit.

##### Trade notes and accounts receivables

The fair value is calculated by categories of the remaining periods of the receivables based on the present value using discount rates determined by the period to maturity and credit risk.

##### Securities

The carrying amount is used for other securities with maturities, because the fair value approximates the carrying amount.

Quoted market price is used for other securities.

#### Liabilities

##### Trade notes and accounts payable and short-term borrowings

The carrying amount is used for these items because the fair value approximates the carrying amount.

##### Current portion of long-term debt and long-term debt

The fair values are calculated by applying a discount rate, based on the assumed interest rate if a similar new debt is issued, to the total of the principal and interest. The current portion of long-term debt and long-term debt with variable interest rates are subject to the special treatment of interest rate swaps or the integral treatment of interest rate currency swaps and is calculated by applying a discount rate, based on the assumed interest rate if a similar new debt is issued, to the total of the principal and interest including that of the interest rate swap.

##### Derivative Transactions

Please refer to Note 20, Derivative Transactions, of the notes to the consolidated financial statements.

- (ii) Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Unlisted stocks	¥1,950	¥2,081	\$19,588

Because the fair values of these financial instruments are extremely difficult to determine, given that they do not have quoted market prices and future cash flows cannot be estimated, they are not included in "Securities" in the preceding table.

- (iii) Redemption schedule for receivables and securities with maturities at March 31, 2018 and 2017.

#### Year ended March 31, 2018

	Millions of yen		
	Due in one year or less	Due after one year through five years	Due after five years
Cash on hand and in banks	¥ 79,032	¥ —	—
Trade notes and accounts receivable	53,980	561	—
Total	¥133,012	¥561	—

	Thousands of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years
Cash on hand and in banks	\$ 743,901	\$ —	—
Trade notes and accounts receivable	508,095	5,280	—
Total	\$1,251,995	\$5,280	—

#### Year ended March 31, 2017

	Millions of yen		
	Due in one year or less	Due after one year through five years	Due after five years
Cash on hand and in banks	¥ 59,801	¥ —	—
Trade notes and accounts receivable	49,188	232	—
Total	¥108,989	¥232	—

- (iv) The redemption schedule for long-term debt

#### Year ended March 31, 2018

	Millions of yen	
	Long-term loans	Lease obligations
Due in 1 year or less	¥ 132	¥493
Due after 1 year through 2 years	60	366
Due after 2 years through 3 years	5,000	218
Due after 3 years through 4 years	1,800	114
Due after 4 years through 5 years	15,700	43
Due after 5 years	16,708	4

	Thousands of U.S. dollars	
	Long-term loans	Lease obligations
Due in 1 year or less	\$ 1,242	\$4,640
Due after 1 year through 2 years	565	3,445
Due after 2 years through 3 years	47,063	2,052
Due after 3 years through 4 years	16,943	1,073
Due after 4 years through 5 years	147,779	405
Due after 5 years	157,267	38

#### Year ended March 31, 2017

	Millions of yen	
	Long-term loans	Lease obligations
Due in 1 year or less	¥ 4,215	¥574
Due after 1 year through 2 years	132	400
Due after 2 years through 3 years	60	274
Due after 3 years through 4 years	5,000	131
Due after 4 years through 5 years	1,800	40
Due after 5 years	27,908	7

#### 19. Securities

Other securities:

#### March 31, 2018

	Millions of yen		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeding the acquisition cost:			
Stocks	¥13,441	¥25,824	¥12,382
Carrying amount not exceeding the acquisition cost:			
Stocks	8,721	6,765	(1,956)
Total	¥22,163	¥32,589	¥10,425

	Thousands of U.S. dollars		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeding the acquisition cost:			
Stocks	\$126,515	\$243,072	\$116,547
Carrying amount not exceeding the acquisition cost:			
Stocks	82,088	63,677	(18,411)
Total	\$208,613	\$306,749	\$ 98,127

#### March 31, 2017

	Millions of yen		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeding the acquisition cost:			
Stocks	¥13,379	¥24,189	¥10,809
Carrying amount not exceeding the acquisition cost:			
Stocks	9,840	8,199	(1,640)
Total	¥23,220	¥32,389	¥ 9,168

When their fair values have declined by 50% or more, impairment losses are recorded on those securities. When their fair values have declined by 30% up to 50%, impairment losses are recorded on those securities on an individual basis to the values considered to be recoverable.

**20. Derivative Transactions**

**(a) Derivatives not subject to hedge accounting**

Year ended March 31, 2018  
None applicable

Year ended March 31, 2017  
None applicable

**(b) Derivatives subject to hedge accounting**

The contract amounts or the amount corresponding to principal as specified by the contract as of the date of the closing of the consolidated accounts is shown below by type of hedge accounting method.

(i) Currency-related transactions  
Year ended March 31, 2018

Millions of yen					
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount	Over one year	Fair value
Allocation method	Foreign exchange forward contracts	Accounts receivable			
	Sell: U.S. dollars		¥10,853	¥1,258	¥473
	Euros		1,688	185	11
	Canadian dollars		75	—	5
	Thai baht		33	—	(1)
	JPY		31	—	2
	Foreign exchange forward contracts	Accounts payable			
	Buy: U.S. dollars		¥ 617	¥ —	¥ (22)
	Euros		852	—	(5)
	Sterling pound		255	125	(27)

Thousands of U.S. dollars					
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount	Over one year	Fair value
Allocation method	Foreign exchange forward contracts	Accounts receivable			
	Sell: U.S. dollars		\$102,155	\$11,841	\$4,452
	Euros		15,889	1,741	104
	Canadian dollars		706	—	47
	Thai baht		311	—	(9)
	JPY		292	—	19
	Foreign exchange forward contracts	Accounts payable			
	Buy: U.S. dollars		\$ 5,808	\$ —	\$ (207)
	Euros		8,020	—	(47)
	Sterling pound		2,400	1,177	(254)

Note: Calculation of fair value is based on the forward exchange rates.

Year ended March 31, 2017

Millions of yen					
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount	Over one year	Fair value
Allocation method	Foreign exchange forward contracts	Accounts receivable			
	Sell: U.S. dollars		¥13,716	¥1,690	¥(411)
	Euros		689	174	6
	Thai baht		3	—	(0)
	JPY		10	—	(0)
	Foreign exchange forward contracts	Accounts payable			
	Buy: U.S. dollars		¥ 82	¥ 23	¥ 0
	Euros		272	—	0
	Sterling pound		359	236	(68)

Note: Calculation of fair value is based on the forward exchange rates.

(ii) Interest-related transactions

Year ended March 31, 2018

Millions of yen					
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount	Over one year	Fair value
Special treatment for interest rate swaps	Receive/floating and pay/fixed	Long-term borrowings	¥25,000	¥25,000	(*)
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)	Receivable USD and floating rate/ payable JPY and fixed rate	Long-term borrowings	708	708	(*)

Thousands of U.S. dollars					
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount	Over one year	Fair value
Special treatment for interest rate swaps	Receive/floating and pay/fixed	Long-term borrowings	\$235,316	\$235,316	(*)
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)	Receivable USD and floating rate/ payable JPY and fixed rate	Long-term borrowings	6,664	6,664	(*)

(\*) Interest rate swaps subject to the special treatment for interest rate swaps and interest rate currency swaps subject to integral treatment for interest rate currency swaps are accounted for together with the long-term debt, accordingly the fair value of the interest rate swaps is included in the fair value of the corresponding long-term debt.

Note: Calculation of fair value is based on the stated price by financial institutions.

Year ended March 31, 2017

Hedge accounting method	Type of derivative	Principal items hedged	Millions of yen		
			Contract amount	Over one year	Fair value
Special treatment for interest rate swaps	Receive/floating and pay/fixed	Long-term borrowings	¥29,000	¥25,000	(*)
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)	Receivable USD and floating rate/payable JPY and fixed rate	Long-term borrowings	708	708	(*)

(\*) Interest rate swaps subject to the special treatment for interest rate swaps and interest rate currency swaps subject to integral treatment for interest rate currency swaps are accounted for together with the long-term debt, accordingly the fair value of the interest rate swaps is included in the fair value of the corresponding long-term debt.

Note: Calculation of fair value is based on the stated price by financial institutions.

## 21. Retirement Benefit Plans

The Company and its consolidated subsidiaries have either funded or unfunded defined benefit plans and/or defined contribution plans.

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e. lump-sum payment plans, defined benefit plans, welfare pension fund and tax-qualified pension plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The changes in the retirement benefit obligation for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Balance at the beginning of the year	¥21,011	¥20,128	\$189,458
Service cost	1,153	1,119	10,533
Interest cost	109	120	1,130
Actuarial gain and loss	(627)	(237)	(2,231)
Retirement benefits paid	(1,518)	(1,338)	(12,594)
Balance at the end of the year	¥20,128	¥19,792	\$186,295

The changes in plan assets for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Balance at the beginning of the year	¥14,729	¥14,969	\$140,898
Expected return on plan assets	294	299	2,814
Actuarial gain and loss	396	529	4,979
Contributions by the Company	467	479	4,509
Retirement benefits paid	(918)	(760)	(7,154)
Balance at the end of the year	¥14,969	¥15,517	\$146,056

The changes in retirement benefit liability accounted for using the simplified method for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Balance at the beginning of the year	¥3,161	¥2,989	\$28,134
Retirement benefit expenses	646	592	5,572
Retirement benefits paid	(629)	(361)	(3,398)
Contributions	(187)	(185)	(1,741)
Balance at the end of the year	¥2,989	¥3,034	\$28,558

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2018 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Funded retirement benefit obligation	¥ 19,201	¥ 19,587	\$ 184,366
Plan assets at the value	(16,079)	(16,717)	(157,351)
	3,121	2,869	27,005
Unfunded retirement benefit obligation	5,026	4,439	41,783
Net liability for retirement benefits in the balance sheet	8,148	7,309	68,797
Retirement benefit liability	10,620	10,046	94,559
Retirement benefit assets	(2,472)	(2,736)	(25,753)
Net liability for retirement benefits in the balance sheet	¥ 8,148	¥ 7,309	\$ 68,797

The components of retirement benefit expense for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Service cost	¥1,153	¥1,119	\$10,533
Interest cost	109	120	1,130
Expected return on plan assets	(294)	(299)	(2,814)
Amortization of actuarial gain and loss	1,004	95	894
Simplified method for retirement benefit expenses	646	592	5,572
Other	39	45	424
Retirement benefit expense	¥2,658	¥1,674	\$15,757

The components of retirement benefits plans adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Actuarial gain and loss	¥2,028	¥863	\$8,123
Total	¥2,028	¥863	\$8,123

The components of retirement benefits plans adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Unrecognized actuarial gain and loss	¥(331)	¥531	\$4,998
Total	¥(331)	¥531	\$4,998

The fair value of plan assets, by major category, as a percentage of total plan as of March 31, 2018 and 2017 are as follows:

March 31,	2017	2018
Bonds	30%	29%
Stocks	42	44
Cash on hand and in banks	0	0
General account	18	16
Other	10	11
Total	100%	100%

Retirement benefit trust set for the lump-sum and corporate pension plans accounts for 20% and 19% of the total plan assets, for the years ended March 31, 2018 and 2017, respectively.

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

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

March 31,	2017	2018
Discount rates	0.68%	0.62%
Expected rates of return on plan assets	2.00	2.00

Contributions made to defined contribution plans for the years ended March 31, 2018 and 2017 were ¥68 million (\$640 thousand) and ¥59 million, respectively.

## 22. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Deferred tax assets:			
Accrued enterprise taxes	¥ 138	¥ 184	\$ 1,732
Accrued bonuses	912	955	8,989
Depreciation	685	938	8,829
Amortization of long-term prepaid expenses	105	105	988
Loss on revaluation of inventory items	1,036	1,656	15,587
Loss on revaluation of financial instruments	194	189	1,779
Impairment loss	15,350	13,589	127,909
Retirement benefit liability	4,363	4,381	41,237
Provision for warranties for completed construction	884	528	4,970
Provision for loss on construction contracts	911	239	2,250
Provision for loss on wind power generator business	1,429	1,026	9,657
Provision for business restructuring	—	1,948	18,336
Less allowance for doubtful accounts	155	133	1,252
Asset retirement obligations	400	416	3,916
Percentage-of-completion method	483	16	151
Tax loss carry forwards	2,327	2,189	20,604
Unrealized loss on investment securities	500	596	5,610
Deferred loss on hedges	172	26	245
Unrealized gain on intercompany transactions	677	499	4,697
Other	1,423	1,158	10,900
Gross deferred tax assets	32,155	30,782	289,740
Valuation allowance	(4,918)	(4,132)	(38,893)
Total deferred tax assets	27,236	26,650	250,847
Deferred tax liabilities:			
Reserve for advanced depreciation	1,279	1,220	11,483
Reserve for special depreciation	51	—	—
Net defined benefit asset	765	839	7,897
Disposal cost with asset retirement obligations	230	233	2,193
Unrealized gain on investment securities	3,298	3,764	35,429
Deferred gain on hedges	39	160	1,506
Other	232	316	2,974
Total deferred tax liabilities	5,897	6,534	61,502
Net deferred tax assets	¥21,338	¥20,116	\$189,345

Change in deferred tax assets and deferred tax liabilities due to reduction in corporate income tax rate

On December 22, 2017, the Tax Cuts and Jobs Act was enacted in the United States, effectively lowering the federal corporate income tax rate effective for the periods beginning on or after January 1, 2018. Consequently, the federal corporate income tax rate applicable to the Company's consolidated subsidiaries in the U.S. was reduced from 35% to 21%.

The effect of this change in tax rate is minor.

	2017	2018
Statutory tax rates		30.7%
Effect of:		
Permanent differences (Expense)		0.9
Permanent differences (Benefits)		(0.5)
Tax credit		(2.1)
Evaluation reserve amount		(5.3)
Retained earnings of overseas subsidiaries	Since loss before income taxes is recorded,	1.0
Tax effect not recognized on unrealized income	it is not stated.	0.5
Other		1.3
Effective tax rates		26.5%

## 23. Business Combinations

### Transaction under common control

#### (a) Outline of the transaction

Combination between Japan Steel Works America, Inc. and JSW Plastics Machinery, Inc.

##### 1. Name and business of companies

Name of surviving company: Japan Steel Works America, Inc.  
Business: Sales of products, Procurement, Technical service, Market research, Information gathering, etc.

Name of absorbed company: JSW Plastics Machinery, Inc.  
Business: Sales of injection molding machines, Parts sales, Technical service

##### 2. Date of business combination

December 31, 2017

##### 3. Legal form of business combination

Absorption-type merger with Japan Steel Works America, Inc. as the surviving company

##### 4. Name of company after business combination

Japan Steel Works America, Inc.

##### 5. Purpose of transaction

The purpose is to merge two US sales subsidiaries, strengthen the sales force of the industrial machinery division, integrate common functions and strengthen the profitability of the group.

#### (b) Outline of the accounting treatment

The Company treated the transaction as transaction under common control based on Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ), Statement No. 21 issued) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, issued).

## 24. Asset Retirement Obligations

The following table presents the changes in asset retirement obligations for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Balance at beginning of year	¥1,307	¥1,320	\$12,425
Liabilities incurred due to the acquisition of property, plant and equipment	16	35	329
Accretion expense	21	22	207
Liabilities settled	(23)	(15)	(141)
Other	(1)	2	19
Balance at end of year	¥1,320	¥1,364	\$12,839

## 25. Investment and Rental Properties

The Company has omitted the disclosure of investment and rental properties due to immateriality for the years ended March 31, 2018 and 2017.

## 26. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Steel and Energy Products segment includes steel castings and forgings, steel plates, pressure vessels and steel structures. The Industrial Machinery Products segment includes injection molding machines, film and sheet machinery, blow molding machines, magnesium injection molding machines, waste treatment equipment and manufacturing equipment for electronic products. The Real Estate and Other Businesses segment includes regional development.

Year ended March 31, 2018	Reportable segments			Total	Adjustments and Eliminations	Consolidated
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses			
Sales and operating income:						
Sales to third parties	¥40,891	¥170,267	¥ 1,797	¥212,957	¥ —	¥212,957
Intra-segment sales and transfers	3,868	1,002	3,702	8,572	(8,572)	—
Total sales	44,759	171,270	5,500	221,530	(8,572)	212,957
Operating income	¥ (1,544)	¥ 23,834	¥ 820	¥ 23,109	¥ (1,790)	¥ 21,318
Assets, depreciation, and capital expenditures						
Total assets	¥40,381	¥128,153	¥11,755	¥180,290	¥117,143	¥297,433
Depreciation and amortization	274	3,493	207	3,976	120	4,097
Capital expenditures	2,992	3,318	55	6,366	69	6,436

Millions of yen

Thousands of U.S. dollars

Year ended March 31, 2018	Reportable segments			Total	Adjustments and Eliminations	Consolidated
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses			
Sales and operating income:						
Sales to third parties	\$384,893	\$1,602,664	\$ 16,915	\$2,004,490	\$ —	\$2,004,490
Intra-segment sales and transfers	36,408	9,431	34,846	80,685	(80,685)	—
Total sales	421,301	1,612,105	51,770	2,085,184	(80,685)	2,004,490
Operating income	\$ (14,533)	\$ 224,341	\$ 7,718	\$ 217,517	\$ (16,849)	\$ 200,659
Assets, depreciation, and capital expenditures						
Total assets	\$380,092	\$1,206,259	\$110,646	\$1,697,007	\$1,102,626	\$2,799,633
Depreciation and amortization	2,579	32,878	1,948	37,425	1,130	38,564
Capital expenditures	28,163	31,231	518	59,921	649	60,580

Notes: 1. Adjustments and eliminations for segment profit of ¥1,790 million (\$16,849 thousand) include elimination of inter-segment profit on inventories and corporate general administration expense which are not allocable to a reportable segment.  
2. Adjustments and eliminations for segment assets of ¥117,143 million (\$1,102,626 thousand) include offset of inter-segment debt and credit, and corporate assets which are not allocable to a reportable segment.  
3. Adjustments and eliminations for depreciation and amortization of ¥120 million (\$1,130 thousand) include depreciation and amortization for corporate assets. Adjustments and eliminations for capital expenditures of ¥69 million (\$649 thousand) include capital expenditures for corporate assets.

Millions of yen

Year ended March 31, 2017	Reportable segments			Total	Adjustments and Eliminations	Consolidated
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses			
Sales and operating income:						
Sales to third parties	¥51,207	¥159,378	¥ 1,883	¥212,469	¥ —	¥212,469
Intra-segment sales and transfers	5,551	858	3,751	10,161	(10,161)	—
Total sales	56,759	160,236	5,635	222,630	(10,161)	212,469
Operating income	¥ (2,794)	¥ 15,183	¥ 959	¥ 13,349	¥ (1,008)	¥ 12,340
Assets, depreciation, and capital expenditures						
Total assets	¥37,561	¥123,743	¥11,878	¥173,183	¥102,131	¥275,315
Depreciation and amortization	4,142	3,418	206	7,767	91	7,858
Capital expenditures	4,574	4,742	44	9,361	140	9,502

Notes: 1. Adjustments and eliminations for segment profit of ¥1,008 million (\$8,985 thousand) include elimination of inter-segment profit on inventories and corporate general administration expense which are not allocable to a reportable segment.  
2. Adjustments and eliminations for segment assets of ¥102,131 million (\$910,340 thousand) include offset of inter-segment debt and credit, and corporate assets which are not allocable to a reportable segment.  
3. Adjustments and eliminations for depreciation and amortization of ¥91 million (\$811 thousand) include depreciation and amortization for corporate assets. Adjustments and eliminations for capital expenditures of ¥140 million (\$1,248 thousand) include capital expenditures for corporate assets.

## (a) Product and service information

Year ended March 31, 2018	Millions of yen			
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Sales to third parties	¥40,891	¥170,267	¥1,797	¥212,957

Year ended March 31, 2018	Thousands of U.S. dollars			
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Sales to third parties	\$384,893	\$1,602,664	\$16,915	\$2,004,490

Year ended March 31, 2017	Millions of yen			
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Sales to third parties	¥51,207	¥159,378	¥1,883	¥212,469

## (b) Geographical information

## (i) Sales

	Thousands of U.S. dollars		
	2017	2018	2018
Japan	¥103,575	¥104,757	\$ 986,041
China	40,852	48,043	452,212
Others	68,041	60,156	566,227
Consolidated	¥212,469	¥212,957	\$2,004,490

Note: Net sales information above is based on customer location.

## (ii) Tangible assets

The Company has omitted the disclosure of tangible assets by country or region as of March 31, 2018 and 2017 because the amount of tangible assets in Japan accounted for more than 90% of the carrying amount in the consolidated balance sheet.

## (c) Significant customer information

The Company has omitted the disclosure of significant customer information for the years ended March 31, 2017 and 2016 because no individual customer accounted for more than 10% of net sales in the consolidated statement of income.

## (d) Information on loss on impairment of fixed assets

Impairment losses on fixed assets by reportable segment for the years ended March 31, 2018 and 2017 are summarized as follows:

Year ended March 31, 2018	Millions of yen			
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Impairment loss	¥1,352	—	—	¥1,352

Year ended March 31, 2018	Thousands of U.S. dollars			
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Impairment loss	\$12,726	—	—	\$12,726

Year ended March 31, 2017	Millions of yen			
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Impairment loss	¥17,874	—	—	¥17,874

## (e) Amortization and balance of goodwill

The following table presents the amortization and balance of negative goodwill arising from business combinations on or prior to March 31, 2010 as of and for the years ended March 31, 2018 and 2017 by reportable segment:

Year ended March 31, 2018	Millions of yen				
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and Eliminations	Total
Amortization	—	¥211	—	—	¥211
Balance as of March 31	—	509	—	—	509

Year ended March 31, 2018	Thousands of U.S. dollars				
	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and Eliminations	Total
Amortization	—	\$1,986	—	—	\$1,986
Balance as of March 31	—	4,791	—	—	4,791

Millions of yen

Year ended March 31, 2017	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and Eliminations	Total
Amortization	—	¥199	—	—	¥199
Balance as of March 31	—	657	—	—	657

**29. Subsequent Events**  
(Significant subsequent events)

None applicable

**(f) Information on gain on negative goodwill**

Year ended March 31, 2018  
None applicable

Year ended March 31, 2017  
None applicable

**27. Shareholders' Equity**

The Corporation Law of Japan 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 meeting of shareholders, or by the Board of Directors if certain conditions are met.

**28. Amounts per Share**

Profit (loss) attributable to owners of parent per share is calculated based on the Profit (loss) attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Net assets per share are calculated based on the number of shares of common stock outstanding at year end. Amounts per share at March 31, 2018 and 2017 and for the years then ended were as follows:

	Yen		U.S. dollars
	2017	2018	2018
Profit (loss) attributable to owners of parent	¥ (67.61)	¥ 145.77	\$ 1.37
Net assets	1,446.44	1,592.47	14.99

Note: The Company carried out the share consolidation at the ratio of 5 shares to 1 share effective October 1, 2016. In accordance with this, net assets per share and profit (loss) attributable to owners of parent per share are calculated based on the assumption that the share consolidation had been carried out at the beginning of fiscal 2016.

## Independent Auditor's Report



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### Independent Auditor's Report

The Board of Directors  
The Japan Steel Works, Ltd.

We have audited the accompanying consolidated financial statements of The Japan Steel Works, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*  
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*  
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*  
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Japan Steel Works, Ltd. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience Translation*  
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

*Ernst & Young ShinNihon LLC*

June 28, 2018  
Tokyo, Japan

A member firm of Ernst & Young Global Limited

# Corporate Directory

## Corporate Data

<b>Trade Name</b>	The Japan Steel Works, Ltd.
<b>Head Office</b>	Gate City Ohsaki-West Tower, 11-1, Osaki 1-chome, Shinagawa-ku, Tokyo, Japan
<b>Foundation</b>	November 1, 1907
<b>Paid-in Capital</b>	¥19,694 million
<b>Employees</b>	2,248 (Consolidated 5,156)
<b>Auditor</b>	Ernst & Young ShinNihon LLC Hibiya Kokusai Bldg., 2-3, Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo, Japan  (as of March 31, 2018)

## Stock Information

<b>Authorized Shares</b>	200,000,000 shares
<b>Issued and Outstanding Shares</b>	74,292,607 shares
<b>Shareholders</b>	20,636
<b>Stock Listings</b>	Tokyo
<b>Transfer Agent and Registrar</b>	Sumitomo Mitsui Trust Bank, Ltd. 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

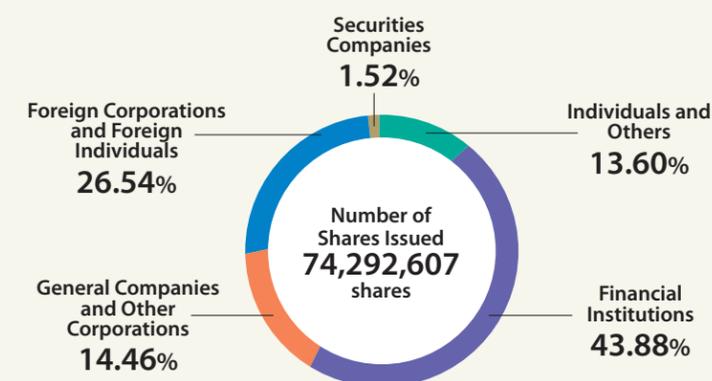
### Major Shareholders (shareholding ratio)

The Master Trust Bank of Japan, Ltd. (Trust Account)	9.93%
Japan Trustee Services Bank, Ltd. (Trust Account)	9.57%
Mitsui Life Insurance Co., Ltd.	3.85%
Sumitomo Mitsui Banking Corp.	2.99%
Sumitomo Mitsui Trust Bank, Ltd.	2.22%
Mitsui Sumitomo Insurance Co., Ltd.	2.13%
Nippon Steel & Sumitomo Metal Corp.	1.78%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1.68%
RBC IST-OMNIBUS 10 LENDING AC - CLIENT ACCOUNT	1.59%
Chase Manhattan Bank GTS Clients Account Escrow	1.55%

(as of March 31, 2018)

Note: The shareholding ratios are calculated after deducting 802,503 treasury shares from the total number of shares issued.

## Classification of Shareholders by Percentage of Shares Held (As of March 31, 2018)



# Network



## Domestic

### Head Office

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