Financial Section

THE JAPAN STEEL WORKS, LTD.

Six-Year Summary

Years ended March 31

Consolidated	Millions of Yen					
	2010	2009	2008	2007	2006	2005
Net sales	**¥201,680**	¥227,113	¥220,851	¥207,138	¥173,353	¥158,274
Net income	**17,528**	16,034	17,484	12,515	6,586	3,284
Total assets	**322,986**	296,909	262,453	232,444	196,656	184,683
Total net assets	**111,149**	90,125	85,231	75,621	66,039	58,075
Amounts per share (yen):						
Net income	**¥47.22**	¥43.19	¥47.10	¥33.71	¥17.57	¥8.70

Non-Consolidated	Millions of Yen					
	2010	2009	2008	2007	2006	2005
Net sales	**¥175,333**	¥196,030	¥189,318	¥177,493	¥145,555	¥129,948
Net income	**16,665**	15,449	15,878	12,233	6,026	2,429
Total assets	**298,783**	277,301	243,433	215,693	180,734	168,808
Total net assets	**101,615**	82,449	77,958	69,907	60,602	52,899
Amounts per share (yen):						
Net income	**¥44.90**	¥41.62	¥42.77	¥32.95	¥16.07	¥6.39
Cash dividends applicable to the year	**¥12.00**	¥12.00	¥12.00	¥9.00	¥5.00	¥3.00

Contents

Financial Performance (Consolidated)

Operating Results

Net Sales

Sales in the Machinery Products Business were sharply down in the reporting period. Net sales were down ¥25,433 million, or 11%, year on year, to ¥201,680 million (US$2,167 million).

Operating Income

Operating income declined ¥4,448 million, or 12%, to ¥32,185 million (US$345 million). This was mainly attributable to aggressive cost-cutting including improved variable costs and further reductions in fixed costs as well as efforts to lower the break-even point. Other factors included efforts to raise production volume and efficiency through large-scale capital investments, strengthening our financial position through more efficient balance between inventory turnover and notes and accounts receivable. Nevertheless, operating income declined in line with lower net sales.

Net Income

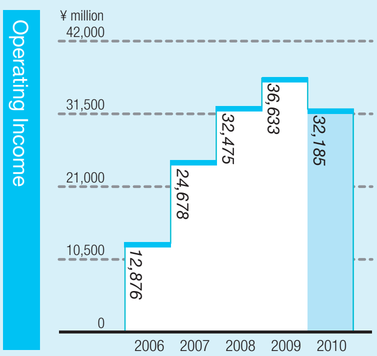
Net income increased ¥1,494 million, or 9%, to ¥17,528 million (US$188 million). The increase was mainly due to a shrinking loss on disposal of tangible and intangible assets associated with capital investments posted in the previous fiscal year and a loss on write-downs of investment securities.

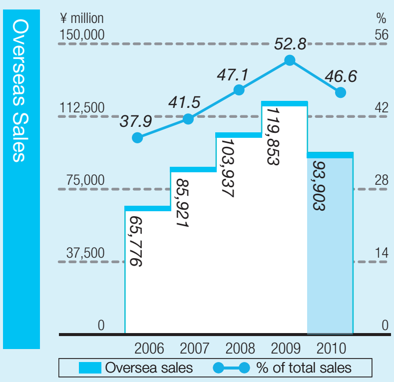
Overseas Sales

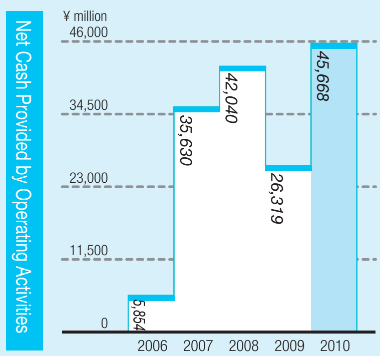
Sales in East Asian markets increased 1.5% from the previous year, to ¥45,013 million (US$483 million). Sales in North America jumped 62.7% to ¥20,256 million (US$217 million), while sales in other regions declined 54.6% to ¥28,633 million (US$307 million). Total overseas sales decreased 21.7% to ¥93,903 million (US$1,009 million), accounting for 46.6% of the Company's net sales on a consolidated basis.

Cash Flows

Cash and cash equivalents stood at ¥45,603 million (US$490 million) at the reporting term-end, up ¥5,698 million year on year after adjusting noncash items. This was attributable to the posting of income before income taxes and minority interests in the amount of ¥29,603 million, compared with ¥27,630 million for the previous term, in addition to proceeds from short-term bank loans. These positive factors more than offset capital investments for the enhancement of production efficiency and expenditures for the purchases of investment securities.







Cash Flow from Operating Activities

Net cash provided by operating activities amounted to ¥45,668 million (US$490 million), compared with ¥26,319 million in the previous term. This was mainly due to the posting of ¥29,603 million in income before income taxes and minority interests, as well as depreciation expenses in the amount of ¥14,422 million, which was not a physical cash outflow, and a decrease in working capital due to advances received and other factors.

Cash Flow from Investing Activities

Net cash used in investing activities amounted to ¥37,287 million (US$400 million), up from ¥33,148 million for the previous term. This was due mainly to an investment of ¥35,892 million in tangible assets for the purpose of raising production efficiency.

Cash Flow from Financing Activities

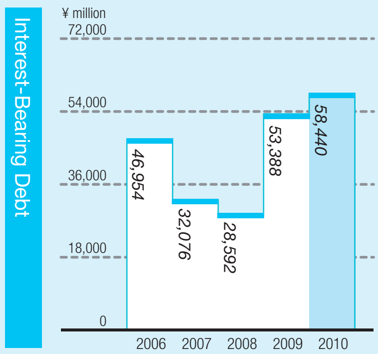
Net cash used in financing activities amounted to ¥2,687 million (US$28 million) compared with a net cash inflow of ¥10,614 million for the previous term. This net cash outflow resulted from an outflow of ¥4,454 million in dividend payments, and repayment of long-term bank loans, which more than exceeded the inflow of ¥5,467 million from short-term bank loans.

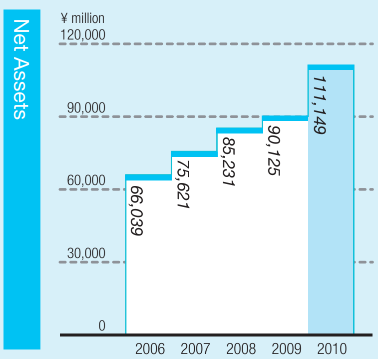
Financial Position

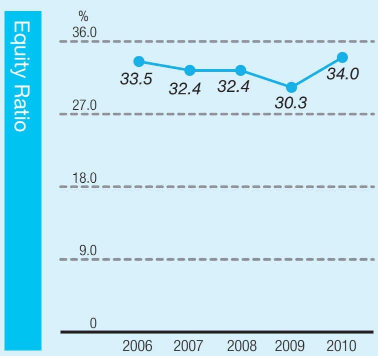
Total assets as of the end of March 2010 stood at ¥322,986 million (US$3,471 million), up ¥26,077 million, or 8.8%, from the previous term-end. This was due to an increase in property, plant and equipment from the acquisition of such tangible fixed assets as machinery and transport equipment as a result of capital expenditures, mainly in the Steel Products Business, despite a decrease in current assets owing to a decline in notes and accounts receivable.

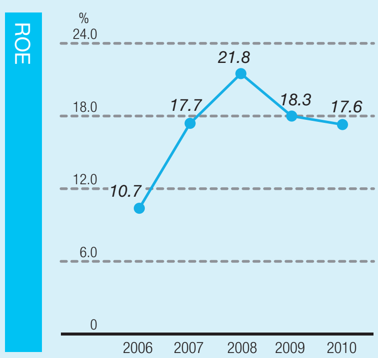
Liabilities at the reporting term-end stood at ¥211,837 million (US$2,276 million), up ¥5,054 million, or 2.4%, over the previous term-end. This was largely attributable to an increase in short-term bank loans. Interest-bearing debt stood at ¥58,440 million (US$628 million), up ¥5,052 million from the previous fiscal year.

Net assets at the reporting term-end totaled ¥111,149 million (US$1,194 million), for an increase of ¥21,023 million, or 23.3%, over the previous term-end.









THE JAPAN STEEL WORKS, LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2010 and 2009

ASSETS	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars (Note 3) 2010
Current assets:			
Cash on hand and in banks (Notes 8, 11 and 20)	**¥ 45,646**	¥ 39,957	**$ 490,606**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**708**	903	**7,610**
Trade (Notes 8 and 20)	**41,734**	48,622	**448,560**
Other	**1,228**	143	**13,199**
Less allowance for doubtful accounts	**(281)**	(278)	**(3,020)**
Inventories (Note 4)	**69,627**	72,586	**748,356**
Deferred tax assets (Note 12)	**4,206**	3,499	**45,206**
Other current assets	**8,648**	8,823	**92,949**
Total current assets	**171,518**	174,258	**1,843,487**
Property, plant and equipment, at cost (Notes 5, 6 and 8)**:**			
Land	**11,448**	9,642	**123,044**
Buildings and structures	**84,634**	71,428	**909,652**
Machinery and equipment	**119,904**	95,302	**1,288,736**
Leased assets	**8,551**	8,075	**91,907**
Construction in progress	**11,564**	15,546	**124,291**
	236,102	199,996	**2,537,640**
Less accumulated depreciation	**(124,936)**	(108,669)	**(1,342,820)**
Property, plant and equipment, net	**111,166**	91,327	**1,194,819**
Intangible assets	**1,236**	1,318	**13,285**
Investments, long-term loans and other assets:			
Investments in unconsolidated subsidiaries and affiliates	**737**	691	**7,921**
Investment securities (Notes 15 and 20)	**31,710**	21,450	**340,821**
Other long-term loans receivable	**61**	61	**656**
Deferred tax assets (Note 12)	**1,934**	2,017	**20,787**
Other assets	**5,036**	6,011	**54,127**
Less allowance for doubtful accounts	**(415)**	(226)	**(4,460)**
Total investments, long-term loans and other assets	**39,064**	30,004	**419,862**
Total assets	**¥322,986**	¥296,909	**$3,471,475**

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2010	2009	Thousands of U.S. Dollars (Note 3) 2010
Current liabilities:			
Short-term borrowings (Notes 8 and 20)	**¥ 13,722**	¥ 6,198	**$ 147,485**
Current portion of long-term debt (Notes 8 and 20)	**12,694**	4,447	**136,436**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	**34**	95	**365**
Trade (Note 20)	**36,197**	42,457	**389,048**
Other	**7,556**	10,033	**81,212**
Advances received for products	**42,131**	44,068	**452,827**
Accrued income taxes (Note 12)	**6,436**	4,038	**69,175**
Other current liabilities (Note 8)	**23,965**	23,526	**257,577**
Total current liabilities	**142,738**	134,866	**1,534,157**
Long-term liabilities:			
Long-term debt (Notes 8 and 20)	**32,025**	42,742	**344,207**
Accrued retirement benefits (Note 14):			
For employees	**8,520**	6,303	**91,574**
For directors and corporate auditors	**161**	185	**1,730**
Deferred tax liabilities (Note 12)	**2,661**	5	**28,601**
Other long-term liabilities (Note 8)	**25,730**	22,680	**276,548**
Total long-term liabilities	**69,098**	71,917	**742,670**
Net assets:			
Shareholders' equity (Note 17)**:**			
Common stock:			
Authorized — 1,000,000,000 shares			
Issued — 371,463,036 shares	**19,694**	19,694	**211,672**
Capital surplus	**5,425**	5,424	**58,308**
Retained earnings	**82,701**	69,627	**888,876**
Treasury stock, at cost (261,340 shares in 2010 and 234,126 shares in 2009)	**(213)**	(182)	**(2,289)**
Total shareholders' equity	**107,607**	94,563	**1,156,567**
Valuation, translation adjustments and other:			
Net unrealized gain (loss) on investment securities	**2,949**	(3,868)	**31,696**
Net deferred loss on hedges	**(213)**	(379)	**(2,289)**
Translation adjustments	**(425)**	(435)	**(4,568)**
Total valuation, translation adjustments and other	**2,310**	(4,683)	**24,828**
Minority interests	**1,231**	246	**13,231**
Total net assets	**111,149**	90,125	**1,194,637**
Total liabilities and net assets	**¥322,986**	¥296,909	**$3,471,475**

THE JAPAN STEEL WORKS, LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

For the years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2010	2009	**2010**
Net sales	**¥201,680**	¥227,113	**$2,167,670**
Cost of sales (Note 13)	**143,708**	161,560	**1,544,583**
Gross profit	**57,971**	65,552	**623,076**
Selling, general and administrative expenses (Note 13)	**25,786**	28,919	**277,150**
Operating income	**32,185**	36,633	**345,926**
Other income (expenses):			
Interest and dividend income	**445**	695	**4,783**
Interest expense	**(694)**	(440)	**(7,459)**
Other, net (Note 9)	**(2,333)**	(9,259)	**(25,075)**
	(2,582)	(9,003)	**(27,752)**
Income before income taxes and minority interests	**29,603**	27,630	**318,175**
Income taxes (Note 12)**:**			
Current	**12,142**	11,612	**130,503**
Deferred	**(89)**	(39)	**(957)**
Minority interests in net income of consolidated subsidiaries	**22**	23	**236**
Net income (Note 19)	**¥ 17,528**	¥ 16,034	**$ 188,392**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2010	2009	**2010**
Common stock:			
Balance at beginning of year	**¥ 19,694**	¥19,694	**$ 211,672**
Balance at end of year	**¥ 19,694**	¥19,694	**$ 211,672**
Capital surplus:			
Balance at beginning of year	**¥ 5,424**	¥ 5,422	**$ 58,298**
Disposal of treasury stock	**1**	1	**11**
Balance at end of year	**¥ 5,425**	¥ 5,424	**$ 58,308**
Retained earnings:			
Balance at beginning of year	**¥ 69,627**	¥58,492	**$ 748,356**
Change in the scope of consolidation	**—**	111	**—**
Net income	**17,528**	16,034	**188,392**
Cash dividends paid	**(4,454)**	(5,011)	**(47,872)**
Balance at end of year	**¥ 82,701**	¥69,627	**$ 888,876**
Treasury stock, at cost:			
Balance at beginning of year	**¥ (182)**	¥ (137)	**$ (1,956)**
Purchases of treasury stock	**(32)**	(47)	**(344)**
Disposal of treasury stock	**1**	2	**11**
Balance at end of year	**¥ (213)**	¥ (182)	**$ (2,289)**
Total shareholders' equity:			
Balance at beginning of year	**¥ 94,563**	¥83,472	**$1,016,369**
Net income	**17,528**	16,034	**188,392**
Cash dividends paid	**(4,454)**	(5,011)	**(47,872)**
Purchases of treasury stock	**(32)**	(47)	**(344)**
Change in the scope of consolidation	**—**	111	**—**
Disposal of treasury stock	**3**	4	**32**
Balance at end of year	**¥107,607**	¥94,563	**$1,156,567**
Net unrealized gain (loss) on investment securities:			
Balance at beginning of year	**¥ (3,868)**	¥ 1,930	**$ (41,574)**
Net changes in items other than those in shareholders' equity	**6,818**	(5,798)	**73,280**
Balance at end of year	**¥ 2,949**	¥ (3,868)	**$ 31,696**

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2010	2009	**2010**
Deferred loss on hedges:			
Balance at beginning of year	**¥ (379)**	¥ (254)	**$ (4,074)**
Net changes in items other than those in shareholders' equity	**165**	(124)	**1,773**
Balance at end of year	**¥ (213)**	¥ (379)	**$ (2,289)**
Translation adjustments:			
Balance at beginning of year	**¥ (435)**	¥ (160)	**$ (4,675)**
Net changes in items other than those in shareholders' equity	**9**	(275)	**97**
Balance at end of year	**¥ (425)**	¥ (435)	**$ (4,568)**
Total valuation, translation adjustments and other:			
Balance at beginning of year	**¥ (4,683)**	¥ 1,514	**$ (50,333)**
Net changes in items other than those in shareholders' equity	**6,994**	(6,198)	**75,172**
Balance at end of year	**¥ 2,310**	¥ (4,683)	**$ 24,828**
Minority interests:			
Balance at beginning of year	**¥ 246**	¥ 244	**$ 2,644**
Net changes in items other than those in shareholders' equity	**984**	2	**10,576**
Balance at end of year	**¥ 1,231**	¥ 246	**$ 13,231**
Total net assets:			
Balance at beginning of year	**¥ 90,125**	¥85,231	**$ 968,669**
Net income	**17,528**	16,034	**188,392**
Cash dividends paid	**(4,454)**	(5,011)	**(47,872)**
Purchases of treasury stock	**(32)**	(47)	**(344)**
Change in the scope of consolidation	**—**	111	**—**
Disposal of treasury stock	**3**	4	**32**
Net changes in items other than those in shareholders' equity	**7,979**	(6,196)	**85,759**
Balance at end of year	**¥111,149**	¥90,125	**$1,194,637**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2010	2009	**2010**
Operating activities:			
Income before income taxes and minority interests	**¥29,603**	¥27,630	**$318,175**
Depreciation and amortization	**14,512**	11,963	**155,976**
Loss on impairment of goodwill	**—**	2	**—**
Interest and dividend income	**(445)**	(695)	**(4,783)**
Interest expense	**693**	440	**7,448**
Equity in (earnings) losses of affiliates	**(1)**	—	**(11)**
Loss on abandonment of investments	**680**	—	**7,309**
Loss on write-downs of investment securities	**105**	6,067	**1,129**
Amortization of net retirement benefit obligation at transition	**765**	765	**8,222**
Loss on disposal of tangible and intangible assets	**847**	2,109	**9,104**
Gain and loss on sales of property, plant and equipment	**(11)**	(11)	**(118)**
Changes in operating assets and liabilities:			
Trade assets (Note 20)	**8,672**	7,734	**93,207**
Trade liabilities	**(7,708)**	(7,058)	**(82,846)**
Inventories (Note 4)	**4,957**	(5,771)	**53,278**
Other	**3,012**	533	**32,373**
Subtotal	**55,683**	43,707	**598,485**
Interest and dividends received	**447**	696	**4,804**
Interest paid	**(698)**	(434)	**(7,502)**
Income taxes paid	**(9,763)**	(17,650)	**(104,933)**
Net cash provided by operating activities	**45,668**	26,319	**490,843**
Investing activities:			
Increase in tangible and intangible assets	**(35,892)**	(22,200)	**(385,770)**
Decrease in tangible and intangible assets	**20**	133	**215**
Purchases of investment securities	**(1,673)**	(10,411)	**(17,982)**
Proceeds from sales of investment securities	**19**	4	**204**
Reimbursement of long-term deposits on contracts	**(436)**	(426)	**(4,686)**
(Increase) decrease in short-term loans receivable	**(1)**	300	**(11)**
Collection of long-term loans receivable	**—**	152	**—**
Purchase of investment of unconsolidated subsidiaries	**(35)**	(50)	**(376)**
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	**754**	—	**8,104**
Purchases of common stock of affiliates	**(3)**	(363)	**(32)**
Other	**(38)**	(287)	**(408)**
Net cash used in investing activities	**(37,287)**	(33,148)	**(400,763)**
Financing activities (Notes 8 and 20)**:**			
Increase in short-term borrowings	**5,467**	—	**58,760**
Decrease in short-term borrowings	**—**	(20)	**—**
Increase in long-term dept	**900**	20,000	**9,673**
Decrease in long-term dept	**(2,322)**	(2,105)	**(24,957)**
Redemption of bonds and debentures	**—**	(30)	**—**
Cash dividend paid	**(4,454)**	(5,011)	**(47,872)**
Acquisition of treasury stock	**(32)**	(47)	**(344)**
Proceeds from sales of treasury stock	**3**	4	**32**
Repayments of finance lease obligations	**(2,241)**	(2,172)	**(24,086)**
Other	**(6)**	(2)	**(64)**
Net cash provided by (used in) financing activities	**(2,687)**	10,614	**(28,880)**
Effect of exchange rate changes on cash and cash equivalents	**5**	(114)	**54**
Increase in cash and cash equivalents	**5,698**	3,672	**61,242**
Cash and cash equivalents at beginning of the year	**39,904**	36,133	**428,891**
Increase due to inclusion in consolidation	**—**	99	**—**
Cash and cash equivalents at end of the year (Notes 11 and 20)	**¥45,603**	¥39,904	**$490,144**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Fiscal year 2009 (Year ended March 31, 2010)

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.

Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18). In accordance with PITF No. 18, the accompanying consolidated financial statements for the year ended March 31, 2009 have been prepared by using, the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

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, 2010, the numbers of consolidated subsidiaries, and subsidiaries and affiliates accounted for by the equity method were 37 and 1 (36 and 1 in 2009), respectively. Effective March 31, 2010, Meiki Co., Ltd has been in the scope of consolidation, because the Company's ownership increased to 50.96%.

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

Investments in subsidiaries and affiliates which are neither consolidated nor accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written them down.

Differences, 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 straight-line method over the next 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 minority interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Differences arising from the translation are presented as translation adjustments and minority interests in its 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 for sale, finished products and work in process are stated at cost determined principally by the specific identification method. Raw materials are stated at cost determined principally by the moving average method.

On July 5, 2006, the Accounting Standards Board of Japan issued Statement No. 9, "Accounting Standard for Measurement of Inventories." The standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted this accounting standard. As a result, operating income decreased by ¥919 million and income before income taxes and minority interests decreased by ¥1,038 million compared with the corresponding amounts which would have been recorded under the previous method.

(e) Short-term investments and investment securities

Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with 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 future possible claims.

(h) Provision for losses on orders received
The Company provides a provision for losses on orders received, but which had not been delivered by the fiscal year end, in the estimated amount of total losses anticipated in the following fiscal year and thereafter for losses deemed certain to be incurred and whose amounts can be reasonably estimated.

(i) Property, plant and equipment and depreciation
Property, plant and equipment is stated on the basis of cost. Depreciation of property, plant and equipment is determined by the declining-balance method over the estimated useful lives of the respective assets, except that the straight-line method is applied to buildings. With regard to the depreciation method of leased assets, the straight-line method is applied where the lease period is taken as the estimated useful life and the residual value is zero.

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

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

(k) Leases
Effective the year ended March 31, 2009, the Company and its domestic subsidiaries adopted the "Accounting Standard for Lease Transactions" (Corporate Accounting Standards No. 13 (June 17, 1993 (First Committee of the Business Accounting Council), revised on March 30, 2007)) and the "Implementation Guidance of Accounting Standards for Lease Transactions" (Implementation Guidance of Corporate Accounting Standards, No. 16 (January 18, 1994 (Accounting System Committee of the Japanese Institute of Certified Public Accountants), revised on March 30, 2007)), and finance lease transactions which do not stipulate the transfer of ownership of the leased assets to the lessee are accounted for as normal course of sales and purchase transactions.

The effects of this change on operating income, income before income taxes and minority interests were not material for the year ended March 31, 2009.

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

Accrued retirement benefits for employees at March 31, 2010 and 2009 have been provided primarily at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for the unrecognized net retirement benefit obligation at transition, prior service cost and unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. The net retirement benefit obligation at transition is being amortized principally over a period of ten years by the straight-line 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.

Effective the year ended March 31, 2010, the Company and its domestic subsidiaries adopted the "Partial Amendments to Accounting Standards for Retirement Benefits (Part 3)" (Corporate Accounting Standards No. 19 July 31, 2008).

The effects of this change on operating income, income before income taxes and minority interests were not material for the year ended March 31, 2010.

(m) Income taxes
Deferred tax assets and liabilities have been recognized in the consolidated balance sheets at March 31, 2010 and 2009 with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

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

(o) Revenue recognition
Revenues generally are recognized on sales of products at the time of shipment. For construction contracts effective the year ended March 31, 2010, the Company and its domestic subsidiaries adopted the "Accounting Standards for Construction Contracts" (Corporate Accounting Standards No. 15 December 27, 2007) and the "Implementation Guidance of Accounting Standards for Construction Contracts" (Implementation Guidance of Corporate Accounting Standards, No. 18 December 27, 2007), the construction recognized product of certainty which are recognized by the percentage-of-completion method, and except for those construction which are recognized by the completed-contract basis.

The effects of this change on operating income, income before income taxes and minority interests were not material for the year ended March 31, 2010.

(p) Derivatives financial instruments
Derivatives 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 if certain conditions are met. In addition, the related interest differential paid or received under interest-rate swaps utilized as hedging instruments is recognized over the terms of the swap agreements as an adjustment to the interest expense of the underlying hedged items if certain conditions are met.

(q) Consumption tax
Accounting treatment of consumption tax is tax excluded method.

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 ¥93.04 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2010. 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, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Real estate for sale	**¥ 33**	¥ 43	**$ 355**
Finished products	**1,370**	1,577	**14,725**
Work in process	**62,187**	65,137	**668,390**
Raw materials and supplies	**6,036**	5,829	**64,875**
Total	**¥69,627**	¥72,586	**$748,356**

The work in process which have likelihood of loss by the construction contracts was offset with Provision for losses on order received of ¥353 million ($3,794 thousand) at March 31, 2010.

5. Depreciation

Depreciation expense on property, plant and equipment for the years ended March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Depreciation expense	**¥14,422**	¥11,460	**$155,009**

6. Advanced Depreciation

Accumulated advanced depreciation related to government grants received has been deducted directly from the acquisition costs of certain tangible fixed assets (plant, machinery and equipment). Such accumulated depreciation at March 31,2010 and 2009 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Accumulated advanced depreciation expense	**¥951**	¥308	**$10,221**

7. Contingent Liabilities

Contingent liabilities at March 31, 2010 and 2009 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
As endorsers of trade notes receivable:			
Endorsed to other	**¥ 72**	¥ 81	**$ 774**
As guarantors of loans:			
Muroran Environmental Plant Service Co., Ltd.	**591**	616	**6,352**
Gotsu Wind Power Co., Ltd.	**1,881**	—	**20,217**
Meiko Co., Ltd.	**4**	—	**43**
Contingent liabilities for uncollected receivables in leasing company	**64**	—	**688**
Medical Corporation Bokoi	**1,500**	2,000	**16,122**
Employees and other	**633**	781	**6,804**
Total	**¥4,746**	¥3,480	**$51,010**

8. Short-Term Borrowings and Long-Term Debt

All short-term borrowings, with interest at annual rates ranging from 0.63% to 4.625% at March 31, 2010 and 0.84% to 1.895% at March 31, 2009, were unsecured.

Long-term debt at March 31, 2010 and 2009 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Loans from banks and insurance companies with interest at annual rates ranging from 1.0% to 2.26%	**¥28,837**	¥30,239	**$309,942**
Less those maturing within one year	**(667)**	(2,322)	**(7,169)**
Lease obligations	**5,882**	6,951	**63,220**
Less those maturing within one year	**(2,026)**	(2,125)	**(21,776)**
0.92% straight bonds, due 2010	**10,000**	10,000	**107,481**
Less those maturing within one year	**(10,000)**	—	**(107,481)**
Long-term indebtedness reflected in the consolidated balance sheets	**¥32,025**	¥42,742	**$344,207**

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2010 are summarized below:

	Long-term debt		Lease obligations	
Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
2011	¥10,667	$114,650	¥2,026	$21,776
2012	635	6,825	1,674	17,992
2013	13,670	146,926	1,258	13,521
2014	10,370	111,457	525	5,643
2015	2,550	27,408	247	2,655
2016 and thereafter	945	10,157	149	1,601

The assets pledged as collateral for long-term debt at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Cash on hand and in banks	**¥ 206**	¥ —	**$ 2,214**
Notes receivable-trade	**102**	—	**1,096**
Property, plant and equipment, at net book value	**4,533**	9,723	**48,721**

9. Other Income (Expenses) — Other, Net

The details of "Other, net" in "Other income (expenses)" for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Loss on sales or disposal of property, plant and equipment	**¥ (847)**	¥(2,112)	**$ (9,104)**
Gain on sales of property, plant and equipment	**12**	14	**129**
Gain on sales of raw materials and supplies	**214**	225	**2,300**
Amortization of net retirement benefit obligation at transition	**(693)**	(693)	**(7,448)**
Provision for warranties for completed construction	**(338)**	(93)	**(3,633)**
Loss on write-downs of investment securities	**(105)**	(6,067)	**(1,129)**
Impairment loss	**—**	(2)	**—**
Loss on abandonment of investments	**(680)**	—	**(7,309)**
Other, net	**105**	(529)	**1,129**
Total	**¥(2,333)**	¥(9,259)	**$(25,075)**

10. Leases

Year ended March 31, 2010

Future minimum lease payments subsequent to March 31, 2010 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2011	**¥1,027**	**$11,038**
2012 and thereafter	**2,138**	**22,979**
Total	**¥3,166**	**$34,028**

Year ended March 31, 2009

Future minimum lease payments subsequent to March 31, 2009 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of Yen
2010	¥ 765
2011 and thereafter	1,485
Total	¥2,251

11. 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, 2010 and 2009 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Cash on hand and in banks in the consolidated balance sheets	**¥45,646**	¥39,957	**$490,606**
Investment with a maturity of three months or less from the date of acquisition	**50**	137	**537**
Time deposits with maturities of more than three months	**(93)**	(190)	**(1,000)**
Cash and cash equivalents in the consolidated statements of cash flow	**¥45,603**	¥39,904	**$490,144**

(b) Significant transactions without cash flow

Regarding finance lease transactions, assets and liabilities that have been capitalized by the Company and its domestic consolidated subsidiaries amounted to ¥1,088 million ($11,694 thousand) and ¥1,145 million ($12,307 thousand) for the year ended March 31, 2010 and ¥6,933 million and ¥6,951 million for the year ended March 31, 2009.

(c) Summary of assets acquired and liabilities assumed through the acquisition of shares of Meiki Co., Ltd. For the year ended March 31, 2010, relating acquisition costs and net disbursement

	Millions of Yen	Thousands of U.S. Dollars
Current assets	**¥4,364**	**$46,905**
Noncurrent assets	**2,175**	**23,377**
Current liabilities	**(3,223)**	**(34,641)**
Noncurrent liabilities	**(1,340)**	**(14,402)**
Negative Goodwill	**(358)**	**(3,848)**
Minority interests	**(968)**	**(10,404)**
Company's interest at the date of acquisition	**(122)**	**(1,311)**
Acquisition costs of Meiki Co., Ltd.	**527**	**5,664**
Cash and cash equivalents (Meiki Co., Ltd.)	**(1,281)**	**(13,768)**
Net proceeds from acquisition of Meiki Co., Ltd.	**¥ 754**	**$ 8,104**

12. Income Taxes

The Company has omitted reconciliation between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2010 and 2009 because the difference between these rates was less than 5%.

The significant components of the Company's deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 506**	¥ 326	**$ 5,439**
Accrued bonuses	**1,402**	1,430	**15,069**
Unrealized gain on intercompany transactions	**677**	639	**7,276**
Accrued retirement benefits for employees	**4,032**	3,934	**43,336**
Accrued retirement benefits for directors and corporate auditors	**128**	179	**1,376**
Loss on revaluation of inventory items	**501**	423	**5,385**
Loss on revaluation of financial instruments	**289**	1,004	**3,106**
Depreciation	**1,144**	1,213	**12,296**
Amortization of deferred assets	**211**	—	**2,268**
Provision for warranties for completed construction	**502**	369	**5,396**
Provision for losses on orders received	**737**	149	**7,921**
PCB disposal expenses	**162**	164	**1,741**
Tax loss carry forwards	**2,306**	305	**24,785**
Deferred loss on hedges	**199**	418	**2,139**
Unrealized loss on investment securities	**505**	2,322	**5,428**
Other	**319**	469	**3,429**
Gross deferred tax assets	**13,626**	13,350	**146,453**
Valuation allowance	**(3,363)**	(3,197)	**(36,146)**
Total deferred tax assets	**10,262**	10,153	**110,297**
Deferred tax liabilities:			
Reserve for advanced depreciation	**2,411**	2,526	**25,914**
Reserve for special depreciation	**1,480**	161	**15,907**
Prepaid pension cost	**246**	945	**2,644**
Unrealized gain on investment securities	**2,514**	757	**27,021**
Deferred gain on hedges	**54**	160	**580**
Reversal of allowance for doubtful accounts	**48**	61	**516**
Other	**29**	30	**312**
Total deferred tax liabilities	**6,784**	4,643	**72,915**
Net deferred tax assets	**¥ 3,478**	¥ 5,510	**$ 37,382**

13. Research and Development Expenses

Research and development expenses included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Research and development expenses	**¥4,141**	¥4,178	**$44,508**

14. Employees' Retirement Benefit Plans

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2010 and 2009 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Retirement benefit obligation	**¥(28,685)**	¥(27,596)	**$(308,308)**
Plan assets at fair value	**15,332**	13,081	**164,789**
Unfunded retirement benefit obligation	**(13,352)**	(14,515)	**(143,508)**
Unrecognized net retirement benefit obligation at transition	**—**	765	**—**
Unrecognized actuarial loss	**6,219**	8,961	**66,842**
Unrecognized prior service cost	**694**	819	**7,459**
Net retirement benefit obligation	**(6,438)**	(3,968)	**(69,196)**
Accrued retirement benefits	**¥ (8,520)**	¥ (6,303)	**$ (91,574)**
Prepaid pension cost	**¥ 2,082**	¥ 2,334	**$ 22,377**

The components of retirement benefit expenses for the years ended March 31, 2010 and 2009 are outlined as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Service cost	**¥1,653**	¥1,785	**$17,767**
Interest cost	**319**	434	**3,429**
Expected return on plan assets	**(190)**	(329)	**(2,042)**
Amortization of net retirement benefit obligation at transition	**765**	765	**8,222**
Amortization of actuarial loss	**1,479**	974	**15,896**
Amortization of prior service cost	**140**	155	**1,505**
Retirement benefit expenses	**¥4,166**	¥3,784	**$44,776**

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

	2010	2009
Discount rate	**1.50%**	2.00%
Expected rate of return on plan assets	**1.50%**	2.00%

15. Securities

Securities are judged to be "substantially declined" when their fair values have declined 30% or more. When their fair values have declined 50% or more, the impairment losses are recorded on those securities. When their fair values have declined between 30% and 50%, the impairment losses are recorded on those securities unless such values are considered to be recoverable individually.

March 31, 2010

(a) Held-to-maturity securities:

	Millions of Yen		
	Fair value	Carrying amount	Unrealized gain (loss)
Fair value does not exceed carrying amount:			
Other	**¥50**	**¥50**	**¥—**
Total	**¥50**	**¥50**	**¥—**

	Thousands of U.S. Dollars		
	Fair value	Carrying amount	Unrealized gain (loss)
Fair value does not exceed carrying amount:			
Other	**$537**	**$537**	**$—**
Total	**$537**	**$537**	**$—**

(b) Other securities:

	Millions of Yen		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Stocks	**¥15,699**	**¥21,910**	**¥6,211**
Carrying amount does not exceed acquisition cost:			
Stocks	**8,832**	**7,582**	**1,250**
Total	**¥24,532**	**¥29,492**	**¥4,960**

	Thousands of U.S. Dollars		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Stocks	**$168,734**	**$235,490**	**$66,756**
Carrying amount does not exceed acquisition cost:			
Stocks	**94,927**	**81,492**	**13,435**
Total	**$263,672**	**$316,982**	**$53,310**

March 31, 2009

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

	Millions of Yen		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Stocks	¥ 3,174	¥ 5,045	¥ 1,870
Carrying amount does not exceed acquisition cost:			
Stocks	26,378	14,573	(11,805)
Total	¥29,553	¥19,618	¥ (9,934)

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

	Millions of Yen
Unlisted securities	¥1,831

16. Liquidation of Accounts Receivable

Accounts receivable transferred to other for liquidation at March 31, 2010 and 2009 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Accounts receivable	**¥5,933**	¥6,011	**$63,768**

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

Year ended March 31, 2010

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

	Number of shares			
	End of March 31, 2009	Increase during the year	Decrease during the year	End of March 31, 2010
Shares issued:				
Common stock	**371,463,036**	**—**	**—**	**371,463,036**
Treasury stock:				
Common stock (Notes 1 and 2)	**261,340**	**28,868**	**2,500**	**287,708**

Notes 1: The increase in Treasury stock-Common stock of 28,868 was due to the acquisition of fractional shares of less than one unit.

2: The decrease in Treasury stock-Common stock of 2,500 was due to sales of fractional shares of less than one unit.

(b) Dividends

(1) Dividends paid to shareholders

(i) Resolution:	Annual general meeting of shareholders held on June 29, 2009
Type of shares:	Common stock
Total amount of dividends:	¥2,227 million ($23,936 thousand)
Dividends per share:	¥6 ($0.064)
Cut-off date:	March 31, 2009
Effective date:	June 30, 2009
(ii) Resolution:	Meeting of Board of Directors held on November 2, 2009
Type of shares:	Common stock
Total amount of dividends:	¥2,227 million ($23,936 thousand)
Dividends per share:	¥6 ($0.064)
Cut-off date:	September 30, 2009
Effective date:	December 7, 2009

(2) Dividends whose cut-off date was in the year ended March 31, 2010, but whose effective date is in the following fiscal year

Resolution:	Annual general meeting of shareholders held on June 25, 2010
Type of shares:	Common stock
Total amount of dividends:	¥2,227 million ($23,936 thousand)
Dividends per share:	¥6 ($0.064)
Cut-off date:	March 31, 2010
Effective date:	June 28, 2010
Source of dividends:	Retained earnings

Year ended March 31, 2009

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

	Number of shares			
	End of March 31, 2008	Increase during the year	Decrease during the year	End of March 31, 2009
Shares issued:				
Common stock	371,463,036	—	—	371,463,036
Treasury stock:				
Common stock (Notes 1 and 2).....	234,126	30,687	3,473	261,340

Notes 1: The increase in Treasury stock-Common stock of 30,687 was due to the acquisition of fractional shares of less than one unit.
2: The decrease in Treasury stock-Common stock of 3,473 was due to sales of fractional shares of less than one unit.

(1) Dividends paid to shareholders

(i) Resolution: Annual general meeting of shareholders held on June 27, 2008
Type of shares: Common stock
Total amount of dividends: ¥2,784 million
Dividends per share: ¥7.5
Cut-off date: March 31, 2008
Effective date: June 30, 2008

(ii) Resolution: Meeting of Board of Directors held on November 4, 2008
Type of shares: Common stock
Total amount of dividends: ¥2,227 million
Dividends per share: ¥6
Cut-off date: September 30, 2008
Effective date: December 8, 2008

(2) Dividends whose cut-off date was in the year ended March 31, 2009, but whose effective date is in the following fiscal year

Resolution: Annual general meeting of shareholders held on June 29, 2009
Type of shares: Common stock
Total amount of dividends: ¥2,227 million
Dividends per share: ¥6
Cut-off date: March 31, 2009
Effective date: June 30, 2009
Source of dividends: Retained earnings

18. 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.

19. Amounts per Share

Net income per share is calculated based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Net assets per share are calculated based on the number of shares of common stock outstanding at the year end. Amounts per share at March 31, 2010 and 2009 and for the years then ended were as follows:

	Yen		U.S. Dollars
	Year ended March 31,		Year ended March 31,
	2010	2009	**2010**
Net income..............................	**¥ 47.22**	¥ 43.19	**$0.51**
Net assets	**296.13**	242.13	**3.18**

20. Financial Instrument

Overview

Year ended March 31, 2010

(a) Policy for financial instruments

In consideration of plans for capital investment, the Company and its consolidated subsidiaries invests funds provided by operating cash flows. 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 risk and does not enter into derivatives 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. Those securities are composed of mainly the shares of common stock of other companies with which the Company has business relationships.

Trade payables — trade notes and accounts payable — have payment due dates within one year. Although 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 payables and bonds are raised mainly in connection with capital investments. The repayment dates of the long-term debt extend up to five years from the balance sheet date. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Company utilizes interest rate swap transactions as a hedging instrument.

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 to reduce fluctuation risk deriving from interest payable for long-term debt bearing interest at 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 manners.

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.

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 other than those classified as held-to-maturity 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 in 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 available, 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 22 Derivative Transactions-Supplemental explanation on Quantitative Information 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, 2010 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, 2010

	Millions of Yen		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash on hand and in banks	**¥ 45,646**	**¥ 45,646**	**¥ —**
Trade notes and accounts receivable	**42,431**	**42,424**	**(6)**
Securities			
Other securities with maturity	**50**	**50**	**—**
Other securities	**30,148**	**30,148**	**—**
Total assets	**¥118,276**	**¥118,269**	**¥ (6)**
Liabilities			
Trade notes and account payable	**¥ 36,232**	**¥ 36,232**	**¥ —**
Short-term borrowings	**13,722**	**13,722**	**—**
Current portion of long-term debt	**667**	**669**	**1**
Bonds with maturity within one year	**10,000**	**10,012**	**12**
Long-term debt	**28,170**	**28,609**	**439**
Total liabilities	**¥ 88,792**	**¥ 89,246**	**¥453**
Derivatives (*)	**¥ (358)**	**¥ (358)**	**¥ —**

	Thousands of U.S. Dollars		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash on hand and in banks	**$ 490,606**	**$ 490,606**	**$ —**
Trade notes and accounts receivable	**456,051**	**455,976**	**(64)**
Securities			
Other securities with maturity	**537**	**537**	**—**
Other securities	**324,033**	**324,033**	**—**
Total assets	**$1,271,238**	**$1,271,163**	**$ (64)**
Liabilities			
Trade notes and account payable	**$ 389,424**	**$ 389,424**	**$ —**
Short-term borrowings	**147,485**	**147,485**	**—**
Current portion of long-term debt	**7,169**	**7,190**	**11**
Bonds with maturity within one year	**107,481**	**107,610**	**129**
Long-term debt	**302,773**	**307,491**	**4,718**
Total liabilities	**$ 954,342**	**$ 959,222**	**$4,869**
Derivatives (*)	**$ (3,848)**	**$ (3,848)**	**$ —**

(*) The value of assets and liabilities arising from derivatives is shown at net value, and 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 deposit without maturity, because the fair value approximates the carrying value. The fair value of held-to-maturity in bank is calculated from the percent value of the total principal and interest discounted at a rate supposing newly conducted deposit.

Trade notes and accounts receivables

These fair values are calculated periodically-compartmentalized each receivable from the percent value of the interest discounted at rate adding the period to maturity day and credit risk.

Securities

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

Liabilities

Trade notes and accounts payable and Short-term borrowings

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

Current portion of long-term debt, Bonds with maturity within one year and long-term debt

These fair values are calculated by applying discount rate to the total of principal and interest. That discount rate is based on the assumed interest if similar new bonds issue. Current portion of long-term loans and long-term loans with variable interest rates are intended special treatment of interest rate swap, and calculates by applying discount rate to the total of principal and interest. That discount rate is based on the assumed interest if similar new bonds issue.

Derivatives Transactions

Please refer to Note 22, Derivatives of the notes 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
	2010	
Unlisted stocks	**¥2,217**	**$23,828**

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” of about table.

(iii) Redemption schedule for receivables and securities with maturities at March 31, 2010.

Year ended March 31, 2010

	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	**¥45,646**	**¥ —**	**¥—**
Trade notes and accounts receivable	**41,849**	**582**	**—**
Securities			
Other securities with maturities	**50**	**—**	**—**
Total	**¥87,546**	**¥582**	**¥—**

	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	**$490,606**	**$ —**	**$—**
Trade notes and accounts receivable	**449,796**	**6,255**	**—**
Securities			
Other securities with maturities	**537**	**—**	**—**
Total	**$940,950**	**$6,255**	**$—**

(iv) The redemption schedule for long-term debt

Year ended March 31, 2010

	Millions of Yen		
	Bonds	Long-term loans	Lease obligations
Due in 1 year or less	**¥10,000**	**¥ 667**	**¥2,026**
Due after 1 year through 2 years	**—**	**635**	**1,674**
Due after 2 years through 3 years	**—**	**13,670**	**1,258**
Due after 3 years through 4 years	**—**	**10,370**	**525**
Due after 4 years through 5 years	**—**	**2,550**	**247**
Due after 5 years	**—**	**945**	**149**

	Thousands of U.S. Dollars		
	Bonds	Long-term loans	Lease obligations
Due in 1 year or less	**$107,481**	**$ 7,169**	**$21,776**
Due after 1 year through 2 years	**—**	**6,825**	**17,992**
Due after 2 years through 3 years	**—**	**146,926**	**13,521**
Due after 3 years through 4 years	**—**	**111,457**	**5,643**
Due after 4 years through 5 years	**—**	**27,408**	**2,655**
Due after 5 years	**—**	**10,157**	**1,601**

Effective the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries adopted the “Accounting Standards for Financial Instruments” (Corporate Accounting Standards No. 10 March 10, 2008) and the “Implementation Guidance of Accounting Standards for Financial Instruments” (Implementation Guidance of Corporate Accounting Standards, No. 19 March 10, 2008).

21. Investment and Rental Properties

Year ended March 31, 2010

The Company has omitted Investment and Rental Properties due to the immateriality for the year ended March 31, 2010.

Effective the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries adopted the “Accounting Standards for Investment and Rental Properties” (Corporate Accounting Standards No. 20 November 28, 2008) and the “Implementation Guidance of Accounting Standards for Investment and Rental Properties” (Implementation Guidance of Corporate Accounting Standards, No. 23 November 28, 2008).

22. Derivative Transactions

Year ended March 31, 2010

(a) Derivatives not subject to hedge accounting

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

			Millions of Yen		
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount		Fair value
Allocation method	Foreign exchange forward contracts	Notes and accounts receivable		Over one year	
	Sold options				
	U.S. dollars		**¥6,087**	**¥1,396**	**¥ (41)**
	Euros		**129**	**—**	**5**
	Foreign exchange forward contracts	Notes and accounts payable			
	Purchased options				
	U.S. dollars		**¥ 117**	**¥ —**	**¥ 0**
	Euros		**4,042**	**1**	**(315)**
	Sterling pound		**139**	**—**	**(7)**

			Thousands of U.S. Dollars		
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount		Fair value
Allocation method	Foreign exchange forward contracts	Notes and accounts receivable		Over one year	
	Sold options				
	U.S. dollars		**$65,423**	**$15,004**	**$ (441)**
	Euros		**1,387**	**—**	**54**
	Foreign exchange forward contracts	Notes and accounts payable			
	Purchased options				
	U.S. dollars		**$ 1,258**	**$ —**	**$ 0**
	Euros		**43,444**	**11**	**(3,386)**
	Sterling pound		**1,494**	**—**	**(75)**

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

(ii) Interest-related transactions

			Millions of Yen		
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount		Fair value
Special treatment of interest rate swap	Receive / floating and pay / fixed			Over one year	
		Current portion of long-term borrowings			
		Long-term borrowings	¥23,540	¥23,360	(*)

			Thousands of U.S. Dollars		
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount		Fair value
Special treatment of interest rate swap	Receive / floating and pay / fixed			Over one year	
		Current portion of long-term borrowings			
		Long-term borrowings	$253,009	$251,075	(*)

(*) Since amounts in interest rate swap contracts treated by the Special treatment of interest rate swap are handle together with Long-term borrowings that are subject to hedging, the estimated fair value of such Long-term borrowings is shown as the estimated fair value in the preceding table.

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

Year ended March 31, 2009

(a) Items related to the status of derivative transactions

(1) Description of financial derivatives and objectives in their usage

The Company makes use of forward foreign exchange contracts to reduce risks related to currency exchange fluctuations that may be incurred by the Company in its export and import transactions and capital transactions.

The Company makes use of interest rate swap to reduce risks related to currency exchange fluctuations by rising.

Please note that the Company makes use of such derivative transactions and has adopted hedge accounting principles.

(i) Method of hedge accounting
The Company use deferral hedge accounting.

(ii) Hedging instruments and hedged items
Hedging instruments; Forward foreign exchange contracts and interest rate swap
Hedging items; Foreign currency forecasted transactions and borrowing

(iii) Hedging policy
The Company enters into forward foreign exchange contracts and interest rate swap as hedging instruments within the limit of plan foreign transactions and objective obligation to reduce risk arising from future fluctuations of foreign exchange rates and interest rate.

(iv) Evaluation of hedging effectiveness
The Company evaluates the effectiveness of hedging based on the strong correlation between changes in market rates under hedging coverage, cash flow, and hedging instruments.

(2) Policy for derivative transactions

The Company policy regarding derivatives related to foreign currency and interest rate is to limit usage to those derivative transactions that are needed for the Company's business purposes and not to engage in such transactions for speculative or trading purposes.

(3) Risk inherent in derivative transactions

Because derivative transactions of contract are more-credible domestic bank or business firm, the Company judges few credit risks.

(4) Risk management system for derivative transactions

The Company establish internal rule for the management of derivatives.

Regarding internal rule, it is express transaction of authority and management of rules and regulations.

(b) Market value of derivatives

Because hedge accounting is appropriately applied to all derivative transactions, the market value of derivative is not shown.

23. Segment Information

(a) Business segment information

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

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

As described in Note 2(d), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Measurement of Inventories."

As a result, "Operating expenses" increased in "Steel products" segment by ¥677 million, in "Machinery products" segment by ¥241 million, respectively, and decreased "Operating income" in both segments by the same amounts compared with the corresponding amounts which would have been accounted for under the previous method.

	Millions of Yen					
Year ended March 31, 2010	Steel Products	Machinery Products	Regional Development	Total	Eliminations and Corporate	Consolidated
Sales and operating income:						
Sales to third parties	**¥101,736**	**¥98,164**	**¥ 1,779**	**¥201,680**	**¥ —**	**¥201,680**
Intra-segment sales and transfers	**1,653**	**1,210**	**6**	**2,870**	**(2,870)**	**—**
Net sales	**103,390**	**99,375**	**1,785**	**204,551**	**(2,870)**	**201,680**
Operating expenses	**71,749**	**92,839**	**1,052**	**165,641**	**3,853**	**169,494**
Operating income	**¥ 31,640**	**¥ 6,535**	**¥ 733**	**¥ 38,909**	**¥ (6,723)**	**¥ 32,185**
Total assets, depreciation expense, loss on impairment of goodwill and capital expenditures:						
Total assets	**¥145,635**	**¥85,943**	**¥12,711**	**¥244,290**	**¥78,696**	**¥322,986**
Depreciation expense	**10,564**	**3,329**	**305**	**14,199**	**223**	**14,422**
Loss on impairment of goodwill	**—**	**—**	**—**	**—**	**—**	**—**
Capital expenditures	**30,251**	**1,178**	**42**	**31,472**	**391**	**31,864**

Year ended March 31, 2010	Thousands of U.S. Dollars					
	Steel Products	Machinery Products	Regional Development	Total	Eliminations and Corporate	Consolidated
Sales and operating income:						
Sales to third parties	**$1,093,465**	**$1,055,073**	**$ 19,121**	**$2,167,670**	**$ —**	**$2,167,670**
Intra-segment sales and transfers	**17,767**	**13,005**	**64**	**30,847**	**(30,847)**	**—**
Net sales	**1,111,242**	**1,068,089**	**19,185**	**2,198,528**	**(30,847)**	**2,167,670**
Operating expenses	**771,163**	**997,840**	**11,307**	**1,780,320**	**41,412**	**1,821,733**
Operating income	**$ 340,069**	**$ 70,239**	**$ 7,878**	**$ 418,196**	**$ (72,259)**	**$ 345,926**
Total assets, depreciation expense, loss on impairment of goodwill and capital expenditures:						
Total assets	**$1,565,294**	**$ 923,721**	**$136,619**	**$2,625,645**	**$845,722**	**$3,471,475**
Depreciation expense	**113,543**	**35,780**	**3,278**	**152,612**	**2,397**	**155,009**
Loss on impairment of goodwill	**—**	**—**	**—**	**—**	**—**	**—**
Capital expenditures	**325,140**	**12,661**	**451**	**338,263**	**4,202**	**342,476**

Year ended March 31, 2009	Millions of Yen					
	Steel Products	Machinery Products	Regional Development	Total	Eliminations and Corporate	Consolidated
Sales and operating income:						
Sales to third parties	¥107,883	¥117,462	¥ 1,767	¥227,113	¥ —	¥227,113
Intra-segment sales and transfers	1,956	328	6	2,291	(2,291)	—
Net sales	109,840	117,791	1,773	229,405	(2,291)	227,113
Operating expenses	78,367	106,355	1,029	185,751	4,727	190,479
Operating income	¥ 31,473	¥ 11,435	¥ 743	¥ 43,653	¥ (7,019)	¥ 36,633
Total assets, depreciation expense, loss on impairment of goodwill and capital expenditures:						
Total assets	¥122,832	¥ 94,727	¥13,016	¥230,575	¥66,333	¥296,909
Depreciation expense	7,559	3,755	311	11,625	247	11,873
Loss on impairment of goodwill	1	—	—	1	1	2
Capital expenditures	22,555	3,135	43	25,734	147	25,882

(b) Geographical segment information

The Company has omitted geographical segment information for the year ended March 31, 2010 and 2009 because net sales and total assets in Japan were more than 90% of those of all segments.

(c) Overseas sales information

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries, and sales (other than exports to Japan) of its overseas consolidated subsidiaries, for the years ended March 31, 2010 and 2009 are summarized as follows:

Year ended March 31, 2010	Millions of Yen			
	East Asia	North America	Other	Total
Overseas sales	**¥45,013**	**¥20,256**	**¥28,633**	**¥ 93,903**
Net consolidated sales				**¥201,680**
Overseas sales as a percentage of net consolidated sales (%)	**22.3**	**10.0**	**14.2**	**46.6**

Year ended March 31, 2010	Thousands of U.S. Dollars			
	East Asia	North America	Other	Total
Overseas sales	**$483,803**	**$217,713**	**$307,749**	**$1,009,276**
Net consolidated sales				**$2,167,670**
Overseas sales as a percentage of net consolidated sales (%)	**22.3**	**10.0**	**14.2**	**46.6**

Year ended March 31, 2009	Millions of Yen			
	East Asia	North America	Other	Total
Overseas sales	¥44,343	¥12,443	¥63,065	¥119,853
Net consolidated sales				¥227,113
Overseas sales as a percentage of net consolidated sales (%)	19.5	5.5	27.8	52.8

Report of Independent Auditors

ERNST & YOUNG

Ernst & Young ShinNihon LLC

Report of Independent Auditors

The Board of Directors
The Japan Steel Works, Ltd.

We have audited the accompanying consolidated balance sheets of The Japan Steel Works, Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Japan Steel Works, Ltd. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young
ShinNihon LLC

June 25, 2010

A member firm of Ernst & Young Global Limited