



ANNUAL REPORT

for the year ended March 31, 2014

JSW
THE JAPAN STEEL WORKS, LTD.



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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.

Profile

In 1907, the Japanese government launched a joint venture for the purpose of domestic weapons production in Muroran, 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, shipbuilding, 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.

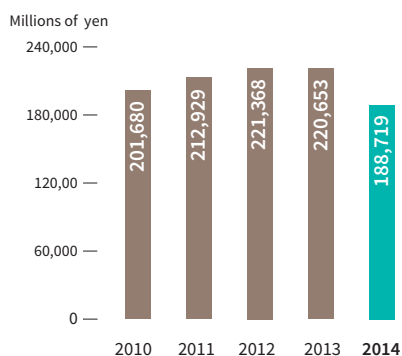
Financial Highlights (Consolidated)

The Japan Steel Works, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014, 2013 and 2012

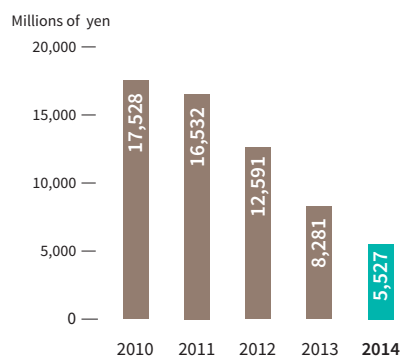
| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|----------|----------|------------------------------|
| | 2014 | 2013 | 2012 | 2014 |
| For the year | | | | |
| Net sales | ¥188,719 | ¥220,653 | ¥221,368 | \$1,833,647 |
| Operating income | 8,864 | 16,680 | 23,911 | 86,125 |
| Net income | 5,527 | 8,281 | 12,591 | 53,702 |
| At year-end | | | | |
| Total assets | 293,139 | 303,970 | 325,653 | 2,848,222 |
| Total net assets | 139,268 | 134,368 | 128,613 | 1,353,168 |
| Ratios | | | | |
| ROE | 4.1% | 6.3% | 10.2% | |
| Equity ratio | 47.1% | 43.8% | 39.2% | |
| Amounts per share (yen and U.S. dollars) | | | | |
| Net income | ¥14.92 | ¥22.33 | ¥33.93 | \$0.14 |
| Cash dividends applicable to the year | 5.00 | 10.00 | 10.00 | 0.05 |

Note: Amounts in U.S. dollars are presented solely for convenience and based on the rate of ¥102.92 = US\$1.00, the rate of exchange on March 31, 2014.

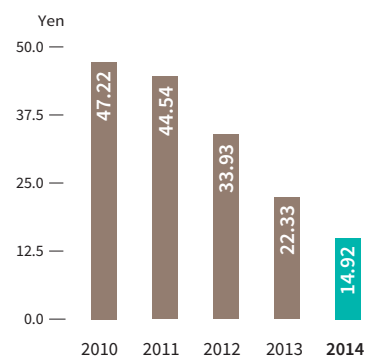
Net Sales



Net Income



Net Income per Share



Message from the President

Overview of Fiscal 2013

Business performance

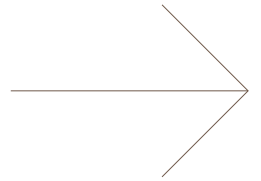
In fiscal 2013, ended March 31, 2014, the U.S. economy continued its gradual recovery, while Europe showed signs of picking up. At the same time, growth remained stagnant in China and other emerging nations. Japan's economy recovered modestly, reflecting the impacts of the government's fiscal policies and the Bank of Japan's monetary

policies, as well as a surge in demand ahead of a consumption tax hike.

Operating conditions were mixed for the JSW Group. In the Industrial Machinery Products Business, the export climate improved for plastic production and processing machinery owing to such factors as a weaker yen. In contrast, the situation was again adverse in the Steel and Energy Products Business, as demand recoveries were weaker than anticipated in electric and nuclear power products and in wind turbine system equipment.



Ikuo Sato
Representative Director &
President



In May 2012, we embarked on JGP2014, a medium-term management plan covering three years through fiscal 2014. Under this initiative, we seek to become the world's leading manufacturing (*monozukuri*) group, underpinned by a stable earnings structure and strong financial position. We are deploying a four-step basic policy to achieve these goals. The first is to cultivate our products to become global market leaders. The second is to expand into growth markets and fields. The third is to create worldwide manufacturing alliances, and the fourth is to reinforce our business platform. In what is a challenging business climate, we accorded top priority to securing solid orders for electric and nuclear power products while expanding orders for clad steel plates and pipes, plastic production and processing machinery, injection molding machinery, and other offerings for which demand is robust.

Orders thus rose 1.0% from the previous fiscal year, to ¥186,574 million (US\$1,812 million). This reflected a gain in the Industrial Machinery Products Business, which offset a drop in the Steel and Energy Products Business. Consolidated net sales fell 14.5%, to ¥188,719 million (US\$1,833 million), a key factor being declines in both the Industrial Machinery Products and Steel and Energy Products businesses. Operating income declined 46.9%, to ¥8,864 million (US\$86 million). Ordinary income was down 43.3%, to ¥9,704 million (US\$94 million), and net income decreased 33.3%, to ¥5,527 million (US\$53 million).



Future Initiatives

Although we expect the global economy to continue recovering moderately, the scaling back of quantitative easing in the United States and slower growth in emerging nations are concerns. The outlook for Japan remains unclear. A reaction to the consumption tax hike could derail a gradual recovery stemming from improvements in the export environment owing to a weaker yen and the impact of the government's economic and fiscal policies.

So, in fiscal 2014, the final year of JGP2014, we will address our challenges while enhancing results. In the Steel and Energy Products Business, demand should recover somewhat for electric power products. We will strive to secure orders for

these offerings and nuclear power products. Demand is robust in the Industrial Machinery Products Business, while a weaker yen should contribute to our competitiveness—so we will endeavor to boost orders for these offerings. We will formulate a new medium-term management plan (JGP2017) based on these initiatives. We aim to further expand our operation as a “top corporate group that serves a special niche.”

June 2014



Ikuo Sato
Representative Director & President



1

Electric and Nuclear Power Product Initiatives

Medium-term demand trends for nuclear power products

There are numerous plans worldwide to construct nuclear power stations. Progress with projects already underway suggests that full-fledged demand for our products should emerge from around 2018.

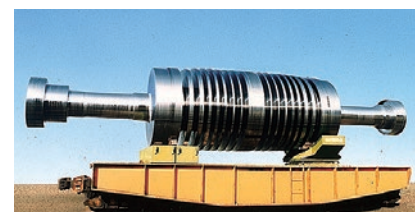
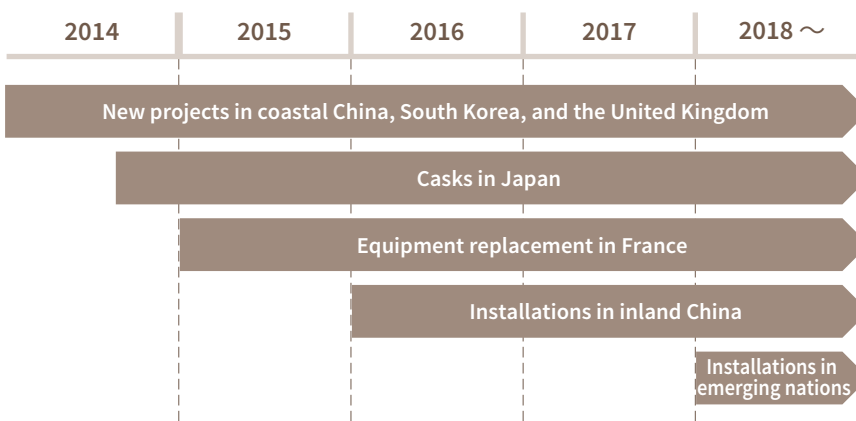
In the near term, we will provide high-value-added offerings for new projects in China, South Korea, the United Kingdom, and other countries while attracting orders for spent fuel rod casks that will be needed when nuclear power facilities in Japan return to service.

Robust thermal power products

In fiscal 2013, orders rose for high-efficiency thermal power plant materials, mainly in China and emerging nations.

Plans are in place to construct and upgrade thermal generating facilities in Japan, so demand should remain brisk. We aim to attract more demand for large generator rotor shafts, in which we are the global market leader, and peripheral equipment.

■ Potential major projects



Generator rotor shaft

2

Attaining Record Orders for Pelletizers

Cultivating new markets and expanding orders

We have been expanding our pivotal pelletizer business, particularly in Asia. In fiscal 2013, we increased orders in Russia and other countries in the Commonwealth of Independent States (CIS), enabling us to post record orders.

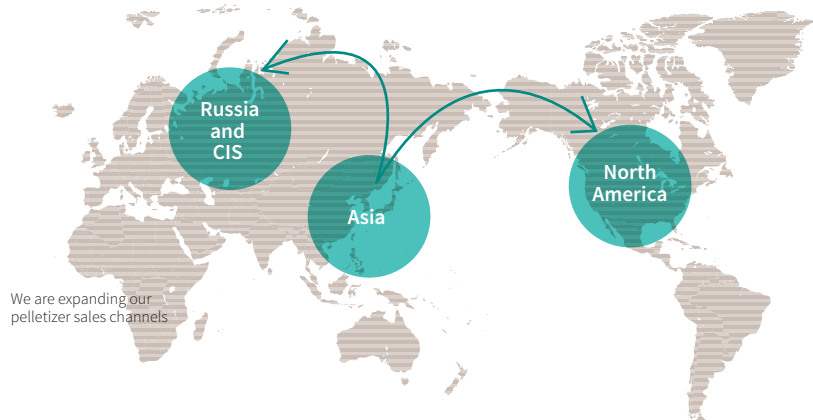
Companies are planning world-wide to construct petrochemical plants, which need pelletizers, and we will cultivate demand in Russia and other countries in the CIS as well as in North America, where there are several large projects.

Reinforcing Services and Solutions Business

We will reinforce our highly profitable Services and Solutions Business by setting up specialized new units and concluding business alliances with European corporations.



Large pelletizer



3

Pursuing Further Growth in the Global Molding Machinery Market

Concluding an alliance with Toyo Machinery & Metal in March 2014

We offer a complete lineup of all-electric injection molding machines, and are particularly strong in mid-sized and large models.

We aim to increase our competitiveness in an expanding global market. To that end, we are drawing

on a capital and business alliance with Toyo Machinery & Metal Co., Ltd., which is particularly strong in small models, to shorten product development lead times and bolster price competitiveness. Initiatives will include jointly developing small injection molding machines, sharing the supply chain, and engaging in joint purchasing.



A JSW injection molding machine plant

We intend to solidify our presence as a leading manufacturer of injection molding machines.

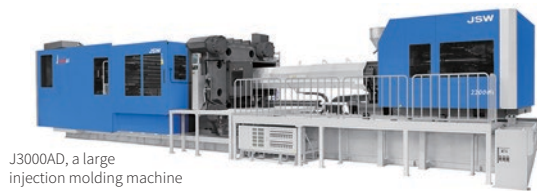
3

Overview of capital and business alliances

- Jointly developing small injection molding machines
- Sharing the supply chain
- Outsourcing injection molding machine production
- Sales and service for injection molding machines
- Collaboration for overseas production

Anticipated benefits

- Cutting costs by using common parts
- Complementing strengths and weaknesses
- A full, economical lineup
- Global market leadership



J3000AD, a large injection molding machine



J350AD, a mid-sized injection molding machine

4

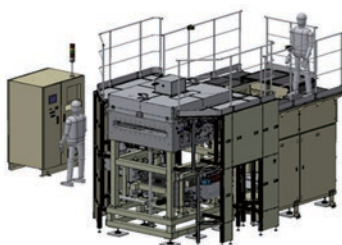
Expanding Information Equipment Business

Cultivating the plasma deposition systems business

We are pushing into the plasma deposition systems business to generate more growth in such promising information technology equipment areas as smartphones, tablets, PCs, large high-definition TVs, and vehicle displays.



Excimer laser annealing system



Atomic layer deposition system

Establishing a new company to manufacture, sell, and service plasma deposition systems

In February 2014, we established JSW AFTY Corporation in Hachioji, Tokyo, to manufacture, sell, and service plasma deposition systems.



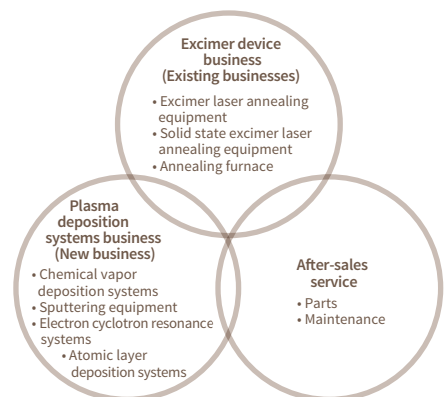
JSW AFTY Corporation premises

Outlook for information equipment business

We will draw on synergies from our excimer device business, centered on our popular excimer laser

annealing systems, the plasma deposition systems business that we recently entered, and from after-sales service operations to more than double information equipment business sales, to more than ¥20 billion.

Information equipment business



Our Business Domains

The JSW Group comprises 53 subsidiaries (of which 34 are consolidated) and five 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.

We maintain the Muroran, Hiroshima, and Yokohama plants. Our integrated lineup ranges from steel manufacturing to machinery.

Steel and Energy Products Business

Sales Composition

36%

■ Steel 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 650 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 refinery, 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 products for power generation, steel-making, chemical machinery, nuclear power-related equipment, die materials, and other areas

■ Steel Plates and Structures



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. In addition, 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 products for oil refining, petrochemical, general chemical, and power generation industries, as well as a wide range of pressure vessels, clad steel plates, clad steel pipes, extra-thick steel plates, and other areas

■ Wind Turbines



This sector deals with the entire wind turbine power generation system business, designing its own towers, blades and equipment required by wind power generator businesses. Among these businesses, higher power generation efficiency and reliability as well as ease of maintenance have been achieved for power generators (J82) through the use of permanent magnet synchronous generators and the elimination of step-up gears.

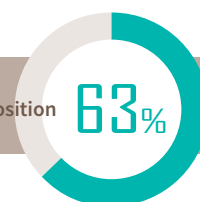
Business Lines

Production, sale and maintenance of wind turbine system equipment

Production encompasses steel casting and forging products (Muroran), steel plate and steel structures (Muroran), wind turbines (Muroran), plastics machinery (Hiroshima and Yokohama), and other machinery (Muroran, Hiroshima, and Yokohama). We have responded to changes in the industrial structure by diversifying our businesses and launching environmental businesses.

Industrial Machinery Products Business

Sales Composition



■ Plastics Machinery



At the Hiroshima Plant, we produce injection molding machines, pelletizers, twin-screw extruders, and film and sheet manufacturing equipment. At the Yokohama Plant, we produce blow molding machines and spinning extruders. In injection molding machines, we offer a lineup of electrically driven machines, all of which feature both improved productivity and energy-saving standards along with enhanced basic performance and molding precision. We also have leveraged power regeneration technology already in place while creating more advanced temperature controls, thereby conserving even more energy. To respond to diversifying needs in these product markets, we have established a Technology Development Center within the Hiroshima Plant and engage in wide-ranging consultation with product users, enabling us to put in place an integrated development system to cope with changing demand, from plastic manufacturing to processing machinery.

Business Lines

Production and sale of plastic injection molding machines, plastic production and processing machinery (including pelletizers, compound extruders, film and sheet manufacturing equipment, etc.), and blow molding machines

■ Other Machinery



Supported by proprietary technologies and facilities at the Hiroshima, Yokohama, and Muroran plants, JSW produces industrial machinery for a wide range of demand, including defense equipment, power plant equipment, magnesium alloy injection molding machines, aluminum die-casting machines, laser annealing systems, rolling stock parts, and environmental facilities.

Business Lines

Production, sale and maintenance of fluid machinery, hydraulic machines, machinery for the production of electronic components and displays (laser annealing systems, etc.), magnesium alloy injection molding machines, aluminum die-casting machines, tightlock couplers and dampers, and defense equipment

Review of Operations

Steel and Energy Products Business

- Steel Products Sector ■
- Steel Plates and Structures Sector ■
- Wind Turbines Sector ■

Performance in Fiscal 2013

Orders decreased 6.9% from the previous fiscal year, to ¥57,128 million (US\$555 million). This was the result of weak recoveries in demand for electric and nuclear power products and a decline in demand for clad steel pipes and wind turbine system equipment, which overshadowed gains in clad steel plates and pressure vessels for oil refineries.

Segment sales dropped 23.4%, to ¥67,602 million (US\$656 million). This reflected a downturn in demand for electric and nuclear power products and a drop in sales of clad steel pipes after major sales in the previous fiscal year.

The operating loss was ¥3,606 million (US\$35 million), from ¥534 million a year earlier, owing to lower sales and delays in restoring operations.



Shell flange used for pressure chamber for nuclear power plant

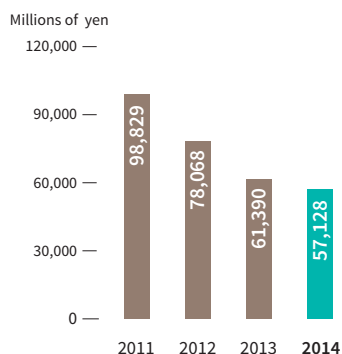


Clad steel plate

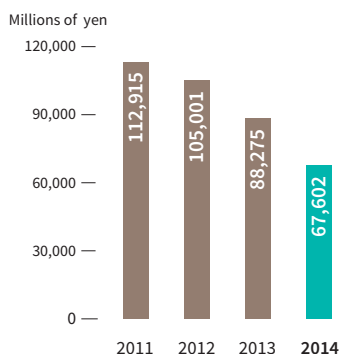


J82 wind turbine system

Orders Received



Sales



Industrial Machinery Products Business

- Plastics Machinery Sector ■
- Other Machinery Sector ■

Performance in Fiscal 2013

Orders increased 4.7% from the previous fiscal year, to ¥126,699 million (US\$1,231 million). This was despite orders for laser annealing equipment being brought forward to the previous fiscal year, and reflected gains in plastic production and processing machinery, injection molding machines, and compressors.

Sales decreased 9.0%, to ¥118,385 million (US\$1,150 million). This was the result of declines in orders in the previous fiscal year for plastic production and processing machinery offsetting gains in laser annealing equipment and injection molding machines.

Operating income fell 27.4%, to ¥12,185 million (US\$118 million), reflecting lower sales.



Polyolefin extruder/pelletizer

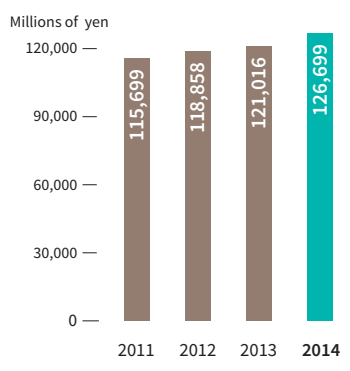


Large-size all-electric injection molding machine

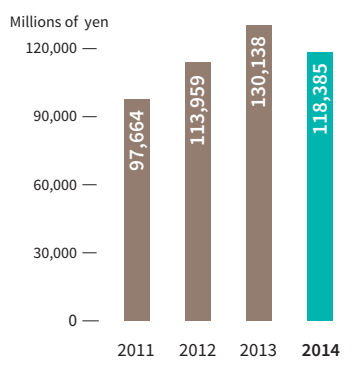


Magnesium alloy injection molding machine

Orders Received



Sales



Research and Development



Murooran Research Laboratory



Hiroshima Research Laboratory



Yokohama Research Laboratory

Research and development activities were almost entirely funded by the Company during fiscal 2013. Combined spending on research and development for the Steel and Energy Products Business and the Industrial Machinery Products Business amounted to ¥3,836 million (US\$37 million).

As a materials and mechatronics company, we strive to innovate products and production techniques while also engaging in diverse technical alliances and joint development to deploy new offerings as quickly as possible.

Our Research and Development Headquarters collaborates with business divisions to 1) improve the capabilities, performance, and reliability of core products; and 2) develop offerings in new business fields based on core and differentiated technologies.

The Research and Development Headquarters is based at our head office, and the Murooran, Hiroshima, and Yokohama research laboratories are located at the Murooran, Hiroshima, and Yokohama plants, respectively. (The Yokohama Research Laboratory commenced operations on April 1, 2014, upon the closure of the Yokohama Research & Development Center.)

Basic Research and Development Policy

We develop new products and businesses by focusing on new energy and energy savings, information and telecommunications, nanotechnology and materials, and new production technologies, which relate directly to existing businesses. We have increased collaboration between the Research and Development Headquarters and business divisions, and aim to cultivate existing business by expanding and upgrading core technologies.

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.

In Steel Products, we emphasize advances in energy and creating even more industry-leading offerings while commercializing new areas. 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 and acquisitions and alliances.

Activities by Business Segment

Steel and Energy Products Business

Product development centers on materials, notably for clad steel pipes for natural gas transportation, large steel castings, and forgings and high alloys for high-efficiency thermal power generation, forged steel products for advanced nuclear power plants, and high-performance nonferrous alloys, as well as manufacturing process technology development. We improve materials and component technologies for existing products. In the renewables arena,

we develop material and component technologies to create lighter and more reliable pressure accumulators for hydrogen fueling stations. We create analytical technologies and enhance component technologies to improve the reliability of wind power plants.

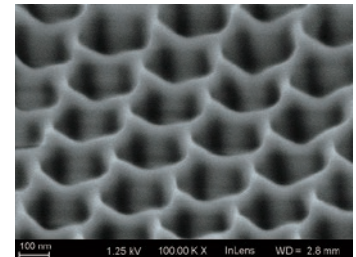
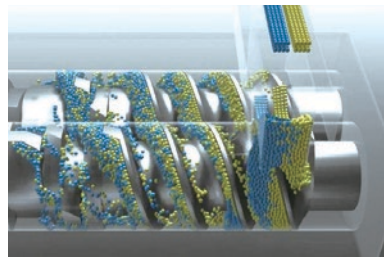
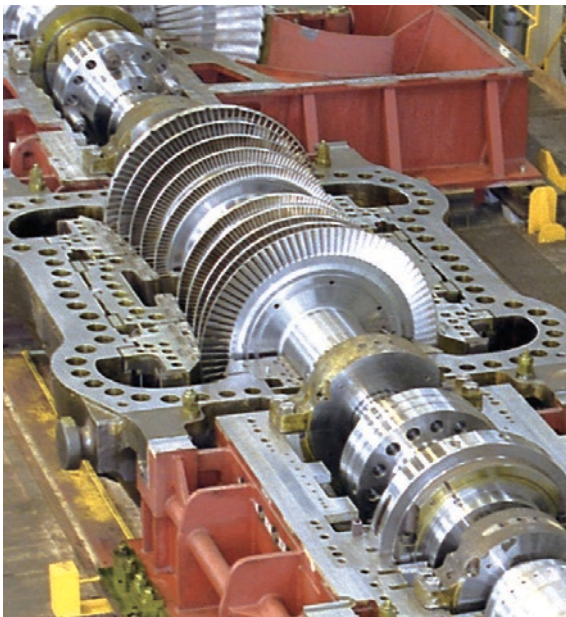
Segment R&D spending totaled ¥1,360 million (US\$13 million) in fiscal 2013.

Industrial Machinery Products Business

We develop low-cost production technologies for high-performance magnesium alloy injection molding machines. We develop dampers

complying with European specifications and improve technologies for plastic extruders and injection molding machines. We develop advanced micro-nano melt transcription molding machines and create advanced compressors and equipment for film-making machines. We also develop laser annealing systems for thin-film transistor liquid crystal display production and other applications for laser devices. Our work also encompasses chemical vapor deposition and plasma systems.

R&D spending in this segment was ¥2,476 million (US\$24 million) in fiscal 2013.





Corporate Governance Structure

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.

Overview of Corporate Governance Structure

We employ a statutory auditor system comprising eight directors, one of whom is independent, and four statutory auditors (hereafter, “corporate auditors”), two of whom are external.

The term of office of directors is one year. We maintain a corporate officer system and separate decision-making and oversight from the executive functions of corporate 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 important management issues, including basic operational policies and legally stipulated matters. Senior executive officers and above attend these meetings, positioning the Board as a vehicle for

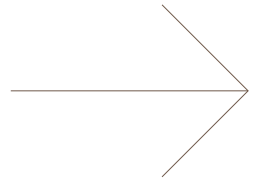
mutual oversight of directors and corporate officers.

An Executive Board of three representative directors and other president-designated directors meets once weekly. The other attendees are one outside director and one corporate auditor (chosen by rotation). This gathering is to deliberate and decide on matters that are important for management or the performances of directors and corporate officers. Another function is to discuss, report, and monitor overall operational matters.

Our Management Council also convenes once monthly, in principle. Members include directors, corporate auditors, divisional heads, plant general 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 Board of Corporate Auditors comprises four corporate auditors, two of whom are external (one serves full time). These auditors 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 auditors receive divisional reports as necessary and exchange opinions with directors and key employees. Based on these efforts, the auditors express their views to management from an objective and neutral perspective, and exercise strict oversight with regard to the execution of directors’ duties.



Internal Control and Risk Management Systems

An effective internal control system is vital for business performance. We are therefore improving internal controls in line with our Basic Policy on Internal Control Systems, which the Board of Directors adopted, and our Regulations Regarding the Promotion of Internal Control Activities. We will address social changes and streamline our setup of internal controls by reviewing our issues and responses.

The points below delineate management's basic stance on internal controls.

1. Implementation structure

The Internal Control Committee sets up a specialist unit, which meets as necessary, to supervise internal controls with the aim of streamlining our internal control system.

2. Adhering to laws and regulations and the Articles of Incorporation

At JSW, compliance extends beyond preventing fraud and adhering to

laws and regulations and in-house rules to encompass diverse rules for fulfilling broad social responsibilities. Our efforts center on directors and corporate officers taking the lead in practicing integrity and in raising employee awareness of compliance issues through education and training.

We established the Internal Audit Division to ensure that operations observe all laws and regulations and in-house rules. The division conducts scheduled and spot audits. It submits reports on the results to the president and relevant parties. They may include the Board of Directors, the Executive Board, the Management Council, and corporate auditors.

We created internal and external channels for reporting and discussing compliance violations, and guarantee anonymity and protection from reprisals.

The Corporate Code of Conduct opposes criminal behavior. We maintain an office to share relevant information and manage counter-measures to help eliminate criminal elements.

3. Safeguarding information

The Company appoints a director or corporate officer to oversee information safeguards. In keeping with document and information management rules and regulations, the Company stores and manages important information relating to the work of directors and corporate officers as printed or digital records. This information includes the minutes of important meetings, written requests for management approvals, and other important information. Further, directors and corporate auditors may view or copy this information as needed.

The Company properly discloses financial and important management information.



4. Risk management

Directors, corporate 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.

We maintain 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 controls set up committees and create and administer rules for containing such risks throughout the Company. A risk management director or corporate officer monitors progress in collaboration with the Internal Audit Division and reports to the Board of Directors or the Executive Board.

Risk managers at all divisional headquarters, business units, and plants evaluate measures and identify daily risks. A crisis management headquarters tackles emergency situations.

5. Ensuring efficiency

We ensure rapid decision-making and flexible and efficient management by having the president act as chief executive officer, with directors overseeing key headquarters divisions and business units. The Board of Directors appoints and supervises corporate officers. Directors and corporate officers discuss, 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, corporate officers, and employees. Directors and corporate officers produce and implement specific policies for reaching goals, segregating tasks in line with in-house regulations. They also review progress and submit periodic and spot reports to the Board of Directors, the Executive Board, and the Management Council.

6. Ensuring appropriate conduct at Group companies

We encourage subsidiaries to employ our Vision, Management Philosophy and Corporate Code of Conduct, and to create their own internal controls in keeping with our respect for their autonomy.

We drafted operational and management rules for subsidiaries and defined the related management responsibilities and leadership structures. We maintain a system for reporting, notifying, and gathering data about subsidiary decisions on important matters. At the same time, we ensure that listed subsidiaries retain a degree of management autonomy.

We dispatch officers and employees as directors and corporate auditors of Group subsidiaries. We ensure that subsidiaries comply with all laws and regulations and in-house rules by mandating scheduled and spot internal audits through relevant departments or the Internal Audit Division. We also audit operations directly and instruct subsidiaries on internal control improvements.

7. Appointing corporate auditor assistants and ensuring their independence

On request from corporate auditors, we offer employees as assistants. We seek the opinions and consent of these auditors for appointments, dismissals, evaluations, and other personnel treatment regarding these assistants to secure their independence from directors and corporate officers.

8. System for directors and employees to submit reports to corporate auditors

As is their right, corporate auditors attend meetings of the Board of Directors, the Executive Board, the Management Council, and other managerial meetings that discuss, determine, and report on important matters.

These auditors receive management decision approval records, and may request reports from directors, corporate officers, or employees whenever necessary.

9. Ensuring corporate auditor effectiveness

We encourage directors, corporate officers, and employees to value corporate auditors and to accord them their fullest cooperation. These auditors can seek assistance from the Internal Audit Division, other headquarters divisions, and all other divisions for auditing tasks.

We enable corporate auditors to collaborate closely with the accounting auditor and the Internal Audit Division.

Corporate auditors have the discretion to employ the services of legal advisors and other outside experts.

10. Ensuring reliable financial reporting

We evaluate the effectiveness of internal controls for financial reports in keeping with basic policies. The Board of Directors and the Executive Board discuss the findings.

Policy Regarding Large-Scale Purchase of Company Shares

On May 7, 2014, the Board of Directors resolved to amend Measures against Large-Scale Share Acquisitions (takeover defense measures), a set of rules and procedures for parties seeking to purchase our shares (namely, holders of Company-issued shares seeking to increase their stakes to more than 20% through purchases, or those making a tender offer to boost their combined shareholding ratio with the inclusion of the holdings of special parties to more than 20% through a tender offer). The amendment was approved at the 88th Regular General Meeting of Shareholders on June 25, 2014.

Environmental Policy

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

Action Plan

1. We aim to carry out environmental tasks in an organized way, and to implement environmental preservation activities continuously.
2. We will set appropriate objectives and targets for reducing the burden our activities impose on the environment 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.

Common Policy for Business Facilities

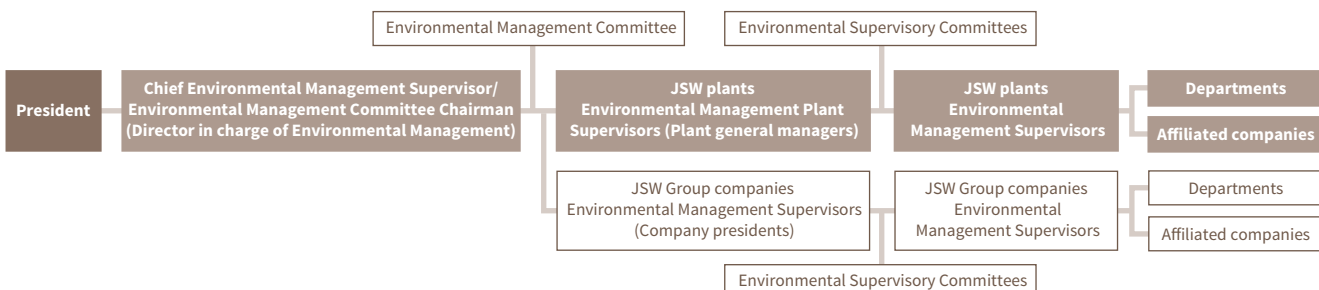
Taking into consideration respective business activities, local communities and the surrounding environments, each plant operates by setting out its own environmental policy, objectives and targets, drawing on methods compliant with international standards. Toward such ends, JSW plants continually strive:

1. To respect laws and regulations and agreements we have concluded with external parties
2. To prevent pollution and reduce and appropriately treat waste, and to conserve the ecosystem
3. To improve “resource productivity” through implementation of energy efficiency, resource efficiency, and recycling
4. To inform employees and other companies residing within our

facilities of our policies and require their cooperation

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 Muroran, Hiroshima, and Yokohama plants and Group companies Meiki Co., Ltd. and Fine Crystal Precision (S.Z.) Co., Ltd. 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 2013.

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 |



Launching Operations at Upgraded PCB Waste Treatment Facilities

In 2006, the Company established Muroran Environmental Plant Services Co., Ltd. with Nippon Steel & Sumikin Engineering Co., Ltd. and Kobelco Eco-Solutions Co., Ltd., to run a polychlorinated biphenyl (PCB) waste treatment operation for a

facility that the Japan Environmental Safety Corporation (JESCO) launched in Hokkaido for such treatment. The initial Hokkaido facility has operated continuously since 2008, with a treatment capacity of up to 1.8 metric tons daily of PCB oil from transformers, capacitors, and other equipment. In September 2013, operations commenced at upgraded facilities that have a treatment

capacity of up to 4.8 metric tons daily and employ plasma melting decomposition to neutralize PCB pollutants from ballast, small electrical equipment, and other sources. As a result, there are PCB treatment facilities in 16 prefectures, including Hokkaido, and in the Tohoku, north Kanto, Koshinetsu, and Hokuriku regions.

Objects Treated



High-voltage transformers (at initial facility)



High-voltage capacitors (at initial facility)



Ballast (at upgraded facilities)



JESCO Hokkaido business site



Plasma Melting Decomposition

This treatment process uses synergies from plasma heated to more than 15,000°C through electrical energy and a molten slag bath to maintain high temperatures within a furnace, employing that heat source to neutralize PCBs.

Board of Directors, Corporate Auditors and Executive Officers

Board of Directors and Corporate Auditors

As of June 25, 2014

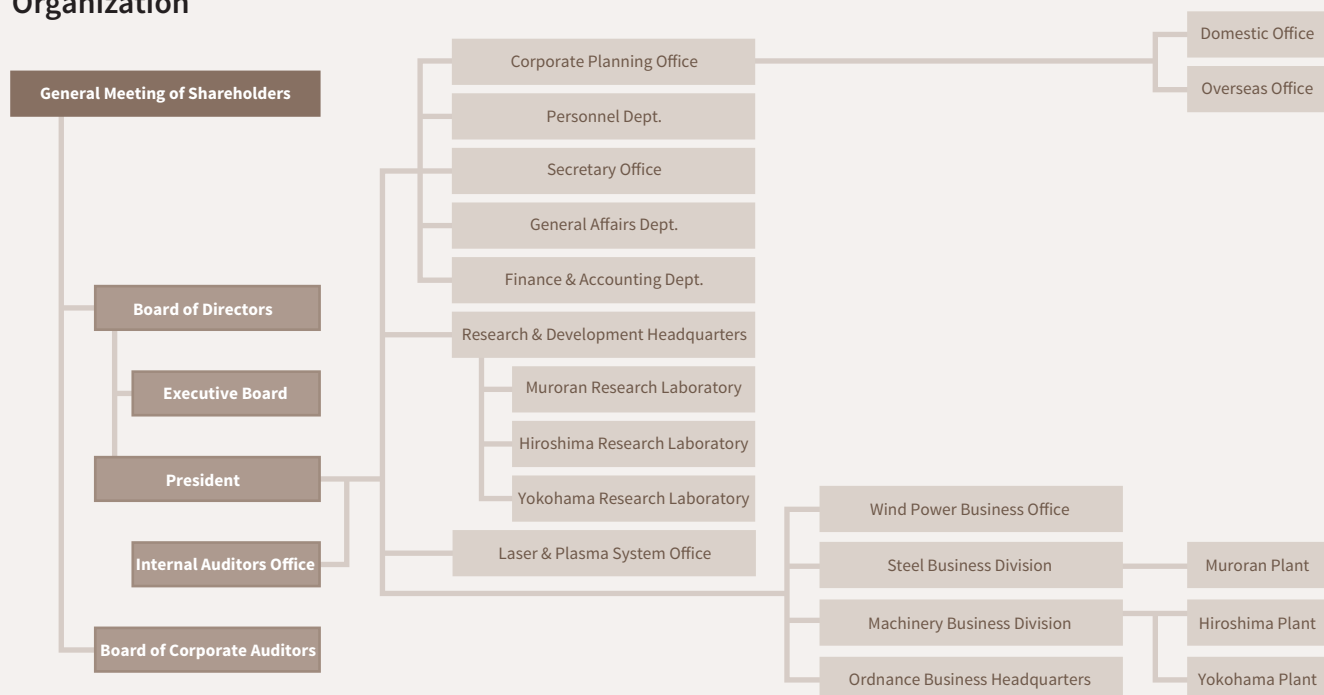
| | |
|---|---|
| Representative Director & President | Ikuo Sato |
| Representative Director & Executive Vice President | Yoshitomo Tanaka |
| Representative Director & Senior Managing Executive Officer | Yutaka Mizutani |
| Directors and Managing Executive Officers | Akira Kadota Nobuaki Shimizu |
| Directors and Senior Executive Officers | Kenji Watanabe Yutaka Higashiizumi |
| Director | Motonobu Sato (<i>Outside</i>) |
| Corporate Auditors | Hisao Iwashita Takao Ishido Mamoru Kawakami (<i>Outside</i>) Akira Sato (<i>Outside</i>) |

Executive Officers

As of June 25, 2014

| | |
|-----------------------------|---|
| Managing Executive Officers | Hiroshi Hamao Nobuhisa Kobayashi Shin-ichi Ono Kazuo Kitamura |
| Senior Executive Officers | Hirohisa Matsuo Yoshinao Ishibashi Hiroshi Fujimura |
| Executive Officers | Hiroo Akabane Naotaka Miyauchi Takashi Shibata Makoto Shimizu Katsutoshi Orita Masao Ooshita Hiroshi Murakami |

Organization



The Japan Steel Works, Ltd.

Six-Year Summary

Years ended March 31

| | Millions of yen | | | | | |
|---------------------------------------|-----------------|----------|----------|----------|----------|----------|
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Consolidated | | | | | | |
| Net sales | ¥188,719 | ¥220,653 | ¥221,368 | ¥212,929 | ¥201,680 | ¥227,113 |
| Net income | 5,527 | 8,281 | 12,591 | 16,532 | 17,528 | 16,034 |
| Total assets | 293,139 | 303,970 | 325,653 | 339,263 | 322,986 | 296,909 |
| Total net assets | 139,268 | 134,368 | 128,613 | 120,820 | 111,149 | 90,125 |
| Amounts per share (yen): | | | | | | |
| Net income | ¥ 14.92 | ¥ 22.33 | ¥ 33.93 | ¥ 44.54 | ¥ 47.22 | ¥ 43.19 |
| Non-Consolidated | | | | | | |
| Net sales | ¥155,211 | ¥184,312 | ¥189,329 | ¥179,325 | ¥175,333 | ¥196,030 |
| Net income | 6,645 | 7,519 | 11,257 | 14,527 | 16,665 | 15,449 |
| Total assets | 267,241 | 277,086 | 302,550 | 316,176 | 298,783 | 277,301 |
| Total net assets | 127,416 | 120,866 | 116,255 | 109,734 | 101,615 | 82,449 |
| Amounts per share (yen): | | | | | | |
| Net income | ¥ 17.93 | ¥ 20.28 | ¥ 30.33 | ¥ 39.14 | ¥ 44.90 | ¥ 41.62 |
| Cash dividends applicable to the year | ¥ 5.00 | ¥ 10.00 | ¥ 10.00 | ¥ 12.00 | ¥ 12.00 | ¥ 12.00 |

Contents → → →

| | |
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| 30 | Notes to Consolidated Financial Statements |
| 45 | Independent Auditor's Report |

Operating Results

Net Sales

Net sales decreased ¥31,933 million, or 14.5% year on year, to ¥188,719 million (US\$1,833 million), owing to declines in the Steel and Energy Products Business and the Industrial Machinery Products Business.

Operating Income

Operating income declined ¥7,816 million, or 46.9%, to ¥8,864 million (US\$86 million). The operating income margin stood at 4.7%, a 2.9 percentage-point decline compared with the previous year.

Net Income

Net income decreased ¥2,754 million, or 33.3%, to ¥5,527 million (US\$53 million). This equates to net income of ¥14.92 for the period on a per-share basis.

Sales by Region

The Japanese market accounted for sales of ¥95,966 million (US\$932 million), the Chinese market for ¥27,159 million (US\$263 million), with all other markets accounting for ¥65,593 million (US\$637 million).

Cash Flows

At year-end, cash and cash equivalents stood at ¥42,297 million (US\$410 million), down ¥8,675 million from a year earlier.

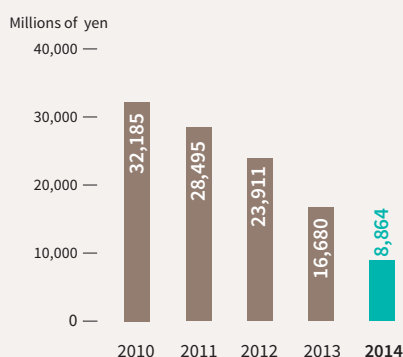
Cash Flow from Operating Activities

Net cash provided by operating activities was ¥11,549 million (US\$112 million), compared with ¥23,735 million in the previous year. The principal factors contributing to this change were ¥9,504 million in net income before taxes and minority interests, from ¥14,802 million a year earlier, as well as the posting of such non-cash items as depreciation and amortization and an increase in working capital.

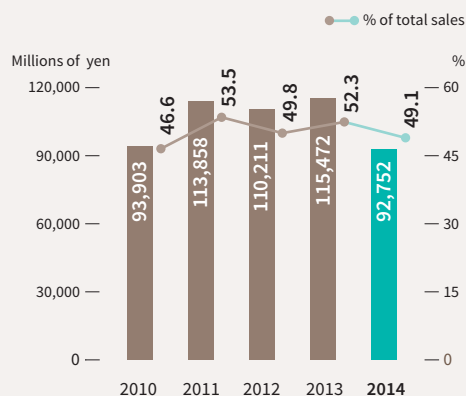
Cash Flow from Investing Activities

Net cash used in investing activities was ¥5,719 million (US\$55 million), compared with ¥5,832 million a year earlier, owing mainly to an increase in tangible assets.

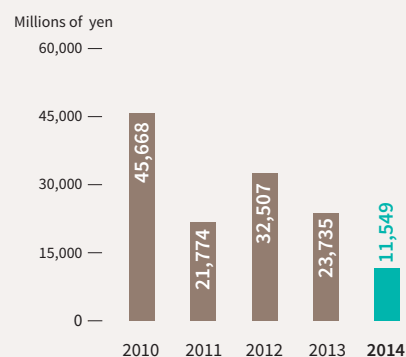
Operating Income



Overseas Sales



Net Cash Provided by Operating Activities



Financial Position

Cash Flow from Financing Activities

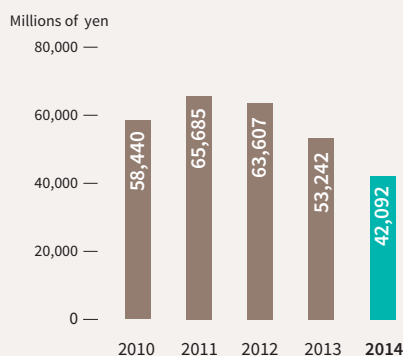
Net cash used in financing activities was ¥15,007 million (US\$145 million), compared with ¥15,259 million a year earlier. This change was due mainly to repayments of syndicated loans and other long-term borrowings and to payments of dividends.

Total assets at March 31, 2014, stood at ¥293,139 million (US\$2,848 million), down ¥10,831 million, or 3.6%, from the close of the previous year. This change was due largely to decreases in cash and cash equivalents, notes and accounts receivable, and property, plant and equipment, which offset increases in work in process and in investment securities owing to higher share prices.

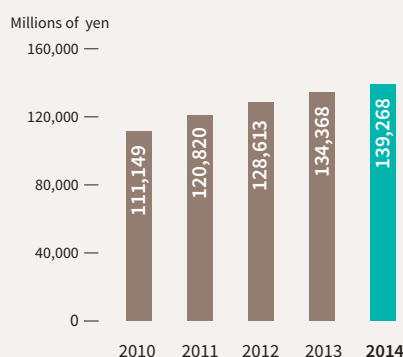
Total liabilities were ¥153,870 million (US\$1,495 million) at year-end, down ¥15,731 million, or 9.3%, from the close of the previous year. This was attributable mainly to decreases in current portion of long-term debt and long-term debt. Interest-bearing debt was ¥42,092 million (US\$408 million), down ¥11,150 million.

Net assets stood at ¥139,268 million (US\$1,353 million), up ¥4,900 million, or 3.6%, from the previous year. The main factors contributing to this change were increases in retained earnings and in an unrealized holding gain on securities.

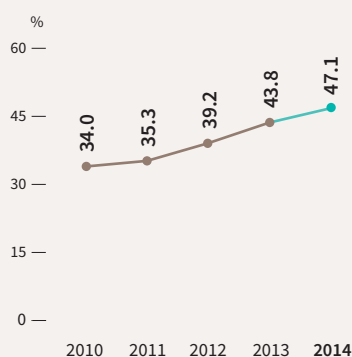
Interest-Bearing Debt



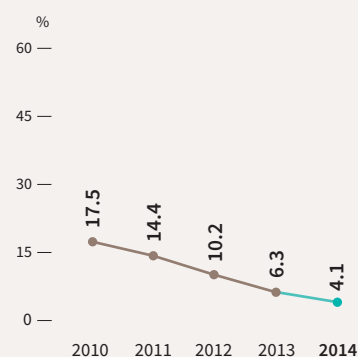
Net Assets



Equity Ratio



ROE



Consolidated Balance Sheet

March 31, 2014 and 2013

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|-----------------|--|
| Assets | 2014 | 2013 | 2014 |
| Current assets: | | | |
| Cash on hand and in banks (Notes 13 and 15) | ¥ 42,329 | ¥ 51,005 | \$ 411,281 |
| Notes and accounts receivable: | | | |
| Unconsolidated subsidiaries and affiliates | 376 | 690 | 3,653 |
| Trade (Note 15) | 48,520 | 51,288 | 471,434 |
| Other | 540 | 199 | 5,247 |
| Less allowance for doubtful accounts | (310) | (225) | (3,012) |
| Inventories (Note 4) | 65,488 | 59,516 | 636,300 |
| Deferred tax assets (Note 19) | 5,374 | 6,473 | 52,215 |
| Other current assets | 5,155 | 5,076 | 50,087 |
| Total current assets | 167,476 | 174,024 | 1,627,244 |
| Property, plant and equipment, at cost (Notes 5 and 6): | | | |
| Land | 10,509 | 11,050 | 102,108 |
| Buildings and structures | 96,456 | 96,883 | 937,194 |
| Machinery and equipment | 141,603 | 140,932 | 1,375,855 |
| Leased assets | 3,799 | 6,382 | 36,912 |
| Construction in progress | 559 | 737 | 5,431 |
| | 252,928 | 255,986 | 2,457,530 |
| Less accumulated depreciation | (167,255) | (161,510) | (1,625,097) |
| Property, plant and equipment, net | 85,672 | 94,476 | 832,414 |
| Intangible assets | 855 | 789 | 8,307 |
| Investments and other assets: | | | |
| Investments in unconsolidated subsidiaries and affiliates | 1,009 | 753 | 9,804 |
| Investment securities (Notes 15 and 16) | 32,444 | 27,307 | 315,235 |
| Long-term loans receivable | 88 | 103 | 855 |
| Retirement benefit asset (Note 18) | 2,427 | — | 23,581 |
| Deferred tax assets (Note 19) | 1,249 | 1,310 | 12,136 |
| Other assets | 2,487 | 5,799 | 24,164 |
| Less allowance for doubtful accounts | (572) | (594) | (5,558) |
| Total investments and other assets | 39,134 | 34,680 | 380,237 |
| Total assets | ¥293,139 | ¥303,970 | \$2,848,222 |

The accompanying notes are an integral part of these statements.

| | Millions of yen | Thousands of U.S. dollars (Note 3) | |
|---|-----------------|--|--------------------|
| Liabilities and Net Assets | 2014 | 2013 | 2014 |
| Current liabilities: | | | |
| Short-term borrowings (Notes 8 and 15) | ¥ 12,292 | ¥ 12,703 | \$ 119,433 |
| Current portion of long-term debt (Notes 8 and 15) | 3,454 | 11,404 | 33,560 |
| Notes and accounts payable: | | | |
| Unconsolidated subsidiaries and affiliates | 70 | 37 | 680 |
| Trade (Note 15) | 42,268 | 42,179 | 410,688 |
| Other | 1,059 | 1,498 | 10,290 |
| Advances received for products | 22,048 | 21,389 | 214,225 |
| Accrued income taxes (Note 19) | 1,802 | 2,373 | 17,509 |
| Other current liabilities | 15,852 | 19,710 | 154,023 |
| Total current liabilities | 98,848 | 111,296 | 960,435 |
| Long-term liabilities: | | | |
| Long-term debt (Notes 8 and 15) | 26,345 | 29,134 | 255,976 |
| Accrued retirement benefits (Note 18) | | | |
| For employees | — | 9,419 | — |
| For directors and corporate auditors | 115 | 124 | 1,117 |
| Retirement benefit liability (Note 18) | 10,405 | — | 101,098 |
| Deferred tax liabilities (Note 19) | 1,391 | 1,128 | 13,515 |
| Other long-term liabilities | 16,761 | 18,497 | 162,855 |
| Total long-term liabilities | 55,021 | 58,305 | 534,600 |
| Net assets: | | | |
| Shareholders' equity (Note 12) | | | |
| Common stock: | | | |
| Authorized—1,000,000,000 shares | | | |
| Issued—371,463,036 shares | 19,694 | 19,694 | 191,353 |
| Capital surplus | 5,425 | 5,425 | 52,711 |
| Retained earnings | 110,635 | 107,861 | 1,074,961 |
| Treasury stock, at cost (1,189,350 shares in 2014 and 632,211 shares in 2013) | (730) | (413) | (7,093) |
| Total shareholders' equity | 135,026 | 132,568 | 1,311,951 |
| Accumulated other comprehensive income: | | | |
| Unrealized holding gain (loss) on securities | 4,293 | 1,475 | 41,712 |
| Unrealized gain (loss) from hedging instruments | (130) | (332) | (1,263) |
| Translation adjustments | (96) | (474) | (933) |
| Remeasurement of retirement benefit plans | (1,042) | — | (10,124) |
| Total accumulated other comprehensive income | 3,024 | 668 | 29,382 |
| Minority interests | 1,218 | 1,131 | 11,834 |
| Total net assets | 139,268 | 134,368 | 1,353,168 |
| Total liabilities and net assets | ¥293,139 | ¥303,970 | \$2,848,222 |

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income

For the years ended March 31, 2014 and 2013

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------|--|
| | 2014 | 2013 | 2014 |
| Net sales | ¥188,719 | ¥220,653 | \$1,833,647 |
| Cost of sales (Note 9) | 153,137 | 176,172 | 1,487,923 |
| Gross profit | 35,581 | 44,480 | 345,715 |
| Selling, general and administrative expenses (Note 9) | 26,717 | 27,799 | 259,590 |
| Operating income | 8,864 | 16,680 | 86,125 |
| Other income (expenses): | | | |
| Interest and dividend income | 757 | 537 | 7,355 |
| Interest expense | (424) | (635) | (4,120) |
| Other, net (Note 10) | 307 | (1,780) | 2,983 |
| | 639 | (1,878) | 6,209 |
| Income before income taxes and minority interests | 9,504 | 14,802 | 92,344 |
| Income taxes (Note 19): | | | |
| Current | 3,530 | 6,049 | 34,298 |
| Deferred | 344 | 272 | 3,342 |
| Income before minority interests | 5,629 | 8,479 | 54,693 |
| Minority interests in net income of consolidated subsidiaries | 102 | 198 | 991 |
| Net income (Note 25) | ¥ 5,527 | ¥ 8,281 | \$ 53,702 |

The accompanying notes are an integral part of these statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

For the years ended March 31, 2014 and 2013

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|--------|--|
| | 2014 | 2013 | 2014 |
| Income before minority interests | ¥5,629 | ¥8,479 | \$54,693 |
| Other comprehensive income: | | | |
| Unrealized holding gain (loss) on securities | 2,817 | 1,089 | 27,371 |
| Unrealized gain (loss) from hedging instruments | 202 | (269) | 1,963 |
| Translation adjustments | 390 | 185 | 3,789 |
| Total other comprehensive income (Note 11) | 3,410 | 1,004 | 33,133 |
| Comprehensive income | ¥9,039 | ¥9,484 | \$87,825 |
| Total comprehensive income attributable to: | | | |
| Shareholders of The Japan Steel Works, Ltd. | ¥8,924 | ¥9,277 | \$86,708 |
| Minority interests | ¥ 114 | ¥ 206 | \$ 1,108 |

The accompanying notes are an integral part of these statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

For the years ended March 31, 2014 and 2013

Millions of yen

| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | |
|---|----------------------|-----------------|-------------------|--------------------------|----------------------------|--|---|-------------------------|--|--|--------------------|------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock (Note 12) | Total shareholders' equity | Unrealized holding gain (loss) on securities | Unrealized gain (loss) from hedging instruments | Translation adjustments | Retirement benefit liability adjustments (Note 18) | Total accumulated other comprehensive income | Minority interests | Total net assets |
| Balance at April 1, 2012 | ¥19,694 | ¥5,426 | ¥103,288 | ¥(408) | ¥128,000 | ¥ 385 | ¥ (62) | ¥(650) | ¥ — | ¥ (327) | ¥ 940 | ¥128,613 |
| Changes during the year | | | | | | | | | | | | |
| Cash dividends paid | | | (3,708) | | (3,708) | | | | | | | (3,708) |
| Net income | | | 8,281 | | 8,281 | | | | | | | 8,281 |
| Increase by merger | | | | | | | | | | | | |
| Purchases of treasury stock | | | | (5) | (5) | | | | | | | (5) |
| Disposal of treasury stock | | (0) | | 0 | 0 | | | | | | | 0 |
| Net changes in items other than those in shareholders' equity | | | | | | 1,089 | (269) | 176 | — | 995 | 191 | 1,187 |
| Total changes during the year | — | (0) | 4,752 | (5) | 4,567 | 1,089 | (269) | 176 | — | 995 | 191 | 5,755 |
| Balance at April 1, 2013 | ¥19,694 | ¥5,425 | ¥107,861 | ¥(413) | ¥132,568 | ¥1,475 | ¥(332) | ¥(474) | ¥ — | ¥ 668 | ¥1,131 | ¥134,368 |
| Changes during the year | | | | | | | | | | | | |
| Cash dividends paid | | | (2,781) | | (2,781) | | | | | | | (2,781) |
| Net income | | | 5,527 | | 5,527 | | | | | | | 5,527 |
| Increase by merger | | | 28 | | 28 | | | | | | | 28 |
| Purchases of treasury stock | | | | (316) | (316) | | | | | | | (316) |
| Disposal of treasury stock | | | | | | | | | | | | |
| Net changes in items other than those in shareholders' equity | | | | | | 2,817 | 202 | 377 | (1,042) | 2,355 | 86 | 2,422 |
| Total changes during the year | — | — | 2,774 | (316) | 2,457 | 2,817 | 202 | 377 | (1,042) | 2,355 | 86 | 4,900 |
| Balance at March 31, 2014 | ¥19,694 | ¥5,425 | ¥110,635 | ¥(730) | ¥135,026 | ¥4,293 | ¥(130) | ¥ (96) | ¥(1,042) | ¥3,024 | ¥1,218 | ¥139,268 |

Thousands of U.S. dollars (Note 3)

| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | |
|---|----------------------|-----------------|-------------------|--------------------------|----------------------------|--|---|-------------------------|--|--|--------------------|------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock (Note 12) | Total shareholders' equity | Unrealized holding gain (loss) on securities | Unrealized gain (loss) from hedging instruments | Translation adjustments | Retirement benefit liability adjustments (Note 18) | Total accumulated other comprehensive income | Minority interests | Total net assets |
| Balance at April 1, 2013 | \$191,353 | \$52,771 | \$1,048,008 | \$(4,013) | \$1,288,068 | \$14,332 | \$(3,226) | \$(4,606) | \$ — | \$ 6,490 | \$10,989 | \$1,305,558 |
| Changes during the year | | | | | | | | | | | | |
| Cash dividends paid | | | (27,021) | | (27,021) | | | | | | | (27,021) |
| Net income | | | 53,702 | | 53,702 | | | | | | | 53,702 |
| Increase by merger | | | 272 | | 272 | | | | | | | 272 |
| Purchases of treasury stock | | | | (3,070) | (3,070) | | | | | | | (3,070) |
| Disposal of treasury stock | | | | | | | | | | | | |
| Net changes in items other than those in shareholders' equity | | | | | | 27,371 | 1,963 | 3,663 | (10,124) | 22,882 | 836 | 23,727 |
| Total changes during the year | — | — | 26,953 | (3,070) | 23,872 | 27,371 | 1,963 | 3,663 | (10,124) | 22,882 | 836 | 47,610 |
| Balance at March 31, 2014 | \$191,353 | \$52,771 | \$1,074,961 | \$(7,093) | \$1,311,951 | \$41,712 | \$(1,263) | \$(933) | \$(10,124) | \$29,382 | \$11,834 | \$1,353,168 |

The accompanying notes are an integral part of these statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

For the years ended March 31, 2014 and 2013

| | Millions of yen | Thousands of U.S. dollars (Note 3) | |
|--|-----------------|--|------------------|
| | 2014 | 2013 | 2014 |
| Operating activities | | | |
| Income before income taxes and minority interests | ¥ 9,504 | ¥14,802 | \$ 92,344 |
| Depreciation and amortization | 12,878 | 15,990 | 125,126 |
| Interest and dividend income | (756) | (537) | (7,346) |
| Interest expense | 424 | 635 | 4,120 |
| Equity in (earnings) losses of affiliates | 0 | (0) | 0 |
| (Gain) loss on sales of investment securities | (46) | — | (447) |
| Loss on disposal of tangible and intangible assets | 147 | 1,927 | 1,428 |
| (Gain) loss on sales of property, plant and equipment | (65) | (30) | (632) |
| Loss on valuation of shares of subsidiaries and associates | 44 | — | 427 |
| Increase (decrease) in provision for loss on business of subsidiaries and associates | 116 | — | 1,127 |
| Changes in operating assets and liabilities: | | | |
| Trade assets (Note 15) | 2,827 | (16,333) | 27,468 |
| Trade liabilities | (2,219) | (422) | (21,560) |
| Inventories (Note 4) | (5,772) | 19,840 | (56,082) |
| Other | (1,760) | (4,210) | (17,101) |
| Subtotal | 15,323 | 31,662 | 148,883 |
| Interest and dividends received | 754 | 539 | 7,326 |
| Interest paid | (435) | (643) | (4,226) |
| Income taxes paid | (4,093) | (7,823) | (39,769) |
| Net cash provided by operating activities | 11,549 | 23,735 | 112,213 |
| Investing activities | | | |
| Increase in tangible and intangible assets | (4,610) | (6,209) | (44,792) |
| Decrease in tangible and intangible assets | 138 | 88 | 1,341 |
| Purchases of investment securities | (821) | (10) | (7,977) |
| Proceeds from sale of investment securities | 86 | 1 | 836 |
| Reimbursement of long-term deposits on contracts | (223) | (201) | (2,167) |
| (Increase) decrease in short-term loans receivable | (17) | (68) | (165) |
| Collection of long-term loans receivable | 14 | 35 | 136 |
| Payments for investments in capital of subsidiaries and affiliates | (300) | (107) | (2,915) |
| Purchase of investments in subsidiaries | (79) | (12) | (767) |
| Other | 94 | 653 | 913 |
| Net cash used in investing activities | (5,719) | (5,832) | (55,567) |
| Financing activities (Notes 8 and 15) | | | |
| Net decrease in short-term borrowings | (411) | (281) | (3,993) |
| Increase in long-term debt | 200 | 4,400 | 1,943 |
| Decrease in long-term debt | (10,740) | (13,830) | (104,353) |
| Cash dividends paid | (2,781) | (3,708) | (27,021) |
| Acquisition of treasury stock | (316) | (23) | (3,070) |
| Repayments of finance lease obligations | (955) | (1,814) | (9,279) |
| Other | (2) | (1) | (19) |
| Net cash provided by (used in) financing activities | (15,007) | (15,259) | (145,812) |
| Effect of exchange rate changes on cash and cash equivalents | 432 | 222 | 4,197 |
| (Decrease) increase in cash and cash equivalents | (8,744) | 2,865 | (84,959) |
| Cash and cash equivalents at beginning of the year | 50,972 | 48,107 | 495,258 |
| Increase in cash and cash equivalents resulting from merger | 69 | — | 670 |
| Cash and cash equivalents at end of the year (Notes 13 and 15) | ¥42,297 | ¥50,972 | \$410,970 |

The accompanying notes are an integral part of these statements.

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, 2014, the numbers of consolidated subsidiaries, and subsidiaries and affiliates accounted for by the equity method were 34 and 1 (35 and 1 in 2013), respectively. Effective March 31, 2014, JSW AFTY Co., Ltd. was included in the scope of consolidation as a result of establishment of the company. YPK Co., Ltd. was excluded from the scope of consolidation, after YPK Co., Ltd. was absorbed by Nikko Shoji Co., Ltd. in accordance with the merger. Nikko Shoji Co., Ltd. changed corporate name to Nikko YPK Shoji Co., Ltd. and THE ARM REAL ESTATE CO., LTD. was absorbed by the Company. NIKKO MURORAN MANAGEMENT Service Co., Ltd. which was unconsolidated subsidiary in the previous fiscal year was absorbed by Hokkaido Kosan Co., Ltd. in accordance with the merger. Hokkaido Kosan Co., Ltd. changed corporate name to NIKKOU MURORAN SERVICE Co., Ltd.

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 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 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 business of subsidiaries and affiliates

Provision for loss on business of subsidiaries and affiliates are provided based on the evaluation of individual financial and other conditions of subsidiaries and affiliates.

(j) 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 for buildings to which the straight-line method is applied.

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

(k) 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.

(l) Retirement benefit

The retirement benefit obligation for employees is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

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 adopted a simplified method in the calculation of their retirement benefit obligation.

(m) 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.

(n) Research and development expenses

Research and development expenses are charged to income when incurred.

(o) 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.

(p) 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.

(q) Consumption tax

Accounting treatment of consumption tax is the tax exclusion method.

(r) 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.

(s) Provision for directors' retirement benefits

Provision for directors' retirement benefits is provided based on estimated

amounts determined by internal rules.

(t) Accounting changes

Disclosure for the year ended March 31, 2014

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the fiscal year ended March 31, 2014.

These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as a retirement benefit liability or asset. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as a liability for retirement benefits.

Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in remeasurement of retirement benefits plans through accumulated other comprehensive income.

As a result of this change, retirement benefit liability was recognized in the amount of ¥10,405 million (\$101,098 thousand) and retirement benefit asset was recognized in the amount of ¥2,427 million (\$23,581 thousand). In addition, accumulated other comprehensive income decreased by ¥1,042 million (\$10,124 thousand) as of March 31, 2014.

In addition, net assets per share decreased by ¥2.81 (\$0.03).

(u) Standards issued but not yet effective

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

(1) Overview

The standard provides guidance for the accounting for unrecognized actual differences and unrecognized prior service costs, the calculation methods for retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

(2) Scheduled date of adoption

The revised accounting standard and guidance were adopted as of the end of the fiscal year ended March 31, 2014. However, revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015.

(3) Impact of adopting revised accounting standard and guidance

The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

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 ¥102.92 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2014. 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, 2014 and 2013 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------|-----------------|----------------|---------------------------|
| | 2014 | 2013 | 2014 |
| Real estate held for sale | ¥ 6 | ¥ 18 | \$ 58 |
| Finished products | 1,795 | 1,363 | 17,441 |
| Work in process | 59,477 | 53,428 | 577,895 |
| Raw materials and supplies | 4,208 | 4,705 | 40,886 |
| Total | ¥65,488 | ¥59,516 | \$636,300 |

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 ¥1,291 million (\$12,544 thousand) at March 31, 2014 and ¥2,035 million at March 31, 2013.

5. Depreciation

Depreciation expense on property, plant and equipment for the years ended March 31, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------|-----------------|---------|---------------------------|
| | 2014 | 2013 | 2014 |
| Depreciation expense | ¥12,950 | ¥16,061 | \$125,826 |

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, 2014 and 2013 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|--------|---------------------------|
| | 2014 | 2013 | 2014 |
| Accumulated advanced depreciation expense | ¥1,286 | ¥1,286 | \$12,495 |

7. Contingent Liabilities

Contingent liabilities at March 31, 2014 and 2013 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-------|---------------------------|
| | 2014 | 2013 | 2014 |
| As endorsers of trade notes receivable: | | | |
| Endorsed to other | ¥ 98 | ¥ 70 | \$ 952 |
| As guarantors of loans: | | | |
| Muroran Environmental Plant Service Co., Ltd. | 526 | 588 | 5,111 |
| Gotsu Wind Power Co., Ltd. | 1,385 | 1,509 | 13,457 |
| Uncollected receivables in leasing companies | 6 | 16 | 58 |
| Employees and other | 153 | 238 | 1,487 |

8. Short-Term Borrowings and Long-Term Debt

All short-term borrowings, with interest at annual rates ranging from 0.5118% to 1.975% at March 31, 2014 and 0.57% to 2.1% at March 31, 2013, were unsecured.

Long-term debt at March 31, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2014 | 2013 | 2014 |
| Loans from banks and insurance companies with interest at annual rates ranging from 0.1778% to 1.8863% | ¥17,795 | ¥28,335 | \$172,901 |
| Less those maturing within one year | (2,700) | (10,530) | (26,234) |
| Lease obligations | 2,004 | 2,203 | 19,471 |
| Less those maturing within one year | (754) | (874) | (7,326) |
| 0.48% straight bonds, due 2015 | 10,000 | 10,000 | 97,163 |
| Long-term indebtedness reflected in the consolidated balance sheets | ¥26,345 | ¥29,134 | \$255,976 |

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2014 are summarized as follows:

| Year ending March 31, | Thousands of U.S. dollars | | Thousands of U.S. dollars | |
|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | Millions of yen | Thousands of U.S. dollars | Millions of yen | Thousands of U.S. dollars |
| | Bonds | | Long-term loans | |
| 2015 | ¥ — | \$ — | ¥ 2,700 | \$ 26,234 |
| 2016 | 10,000 | 97,163 | 10,980 | 106,685 |
| 2017 | — | — | 115 | 1,117 |
| 2018 | — | — | 4,000 | 38,865 |
| 2019 | — | — | — | — |
| 2020 and thereafter | — | — | — | — |

| Year ending March 31, | Thousands of U.S. dollars | |
|-----------------------|---------------------------|---------------------------|
| | Millions of yen | Thousands of U.S. dollars |
| | Lease obligations | |
| 2015 | ¥754 | \$7,326 |
| 2016 | 549 | 5,334 |
| 2017 | 372 | 3,614 |
| 2018 | 241 | 2,342 |
| 2019 | 84 | 816 |
| 2020 and thereafter | 1 | 10 |

9. Research and Development Expenses

Research and development expenses included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------|-----------------|--------|---------------------------|
| | 2014 | 2013 | 2014 |
| Research and development expenses | ¥3,836 | ¥4,054 | \$37,272 |

10. Other Income (Expenses)—Other, Net

The details of "Other, net" in "Other income (expenses)" for the years ended March 31, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------------|------------------------------|
| | 2014 | 2013 | 2014 |
| Foreign exchange gain | ¥376 | ¥ 132 | \$3,653 |
| Amortization of negative goodwill | 71 | 71 | 690 |
| Equity in losses of affiliates | (0) | — | (0) |
| Gain on adjustment of insurance | 531 | 295 | 5,159 |
| Provision for warranties for completed construction | (818) | (2,393) | (7,948) |
| Gain on sales of property, plant and equipment | 107 | 34 | 1,040 |
| Gain on sales of investment securities | 46 | 0 | 447 |
| Loss on sales or disposal of property, plant and equipment | (189) | (1,931) | (1,836) |
| Loss on valuation of subsidiaries and associates | (44) | — | (428) |
| Provision for loss on business of subsidiaries and associates | (116) | — | (1,127) |
| Other, net | 344 | 2,010 | 3,342 |
| Total | ¥307 | ¥(1,780) | \$2,983 |

11. 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, 2014 and 2013:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------------|------------------------------|
| | 2014 | 2013 | 2014 |
| Unrealized holding gain (loss) on securities: | | | |
| Amount arising during the year | ¥4,401 | ¥1,672 | \$42,761 |
| Reclassification adjustments for gains and losses realized in net income | (46) | 13 | (447) |
| The amount of unrealized holding gain (loss) on securities before tax effect | 4,355 | 1,686 | 42,314 |
| Tax effect | (1,537) | (596) | (14,934) |
| Unrealized holding gain (loss) on securities | 2,817 | 1,089 | 27,371 |
| Unrealized gain (loss) from hedging instruments: | | | |
| Amount arising during the year | 332 | (433) | 3,226 |
| Tax effect | (130) | 163 | (1,263) |
| Unrealized gain (loss) from hedging instruments | 202 | (269) | 1,963 |
| Translation adjustments: | | | |
| Amount arising during the year | 390 | 185 | 3,789 |
| Translation adjustments | 390 | 185 | 3,789 |
| Total other comprehensive income | ¥3,410 | ¥1,004 | \$33,133 |

12. Supplementary Information for Consolidated Statement of Changes in Net Assets

Year ended March 31, 2014

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

| | Number of shares | | | |
|--------------------------------|---------------------------------|--------------------------------|--------------------------------|---------------------------------|
| | Year ended March 31, 2013 | Increase during the year | Decrease during the year | Year ended March 31, 2014 |
| Shares issued: | | | | |
| Common stock | 371,463,036 | — | — | 371,463,036 |
| Treasury stock: | | | | |
| Common stock (Note 1 and 2) | 632,211 | 557,139 | — | 1,189,350 |

Notes: The increase in treasury stock—common stock of 511,000 was due to the acquisition from the dissenting shareholders under the provisions of 797, Paragraph 1 of the Companies Act and common stock of 6,139 was due to the acquisition 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 25, 2013
- Type of shares: Common stock
- Total amount of dividends: ¥1,854 million (\$18,014 thousand)
- Dividends per share: ¥5 (\$0.049)
- Cut-off date: March 31, 2013
- Effective date: June 26, 2013

- ② Resolution: Meeting of Board of Directors held on November 5, 2013
- Type of shares: Common stock
- Total amount of dividends: ¥927 million (\$9,007 thousand)
- Dividends per share: ¥2.5 (\$0.024)
- Cut-off date: September 30, 2013
- Effective date: December 4, 2013

(ii) Dividends of which the cut-off date was in the year ended March 31, 2014, but the effective date is in the following fiscal year

- Resolution: Annual general meeting of shareholders held on June 25, 2014
- Type of shares: Common stock
- Total amount of dividends: ¥925 million (\$8,988 thousand)
- Dividends per share: ¥2.5 (\$0.024)
- Cut-off date: March 31, 2014
- Effective date: June 26, 2014
- Source of dividends: Retained earnings

Year ended March 31, 2013

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

| | Number of shares | | | Year ended March 31, 2013 |
|--------------------------------|---------------------------------|--------------------------------|--------------------------------|---------------------------------|
| | Year ended March 31, 2012 | Increase during the year | Decrease during the year | |
| Shares issued: | | | | |
| Common stock | 371,463,036 | — | — | 371,463,036 |
| Treasury stock: | | | | |
| Common stock (Note 1 and 2) | 621,564 | 11,507 | 860 | 632,211 |

Notes: 1. The increase in treasury stock—common stock of 11,507 was due to the acquisition of fractional shares of less than one unit.

2. The decrease in treasury stock—common stock of 860 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 26, 2012

Type of shares: Common stock

Total amount of

dividends: ¥1,854 million

Dividends per share: ¥5

Cut-off date: March 31, 2012

Effective date: June 27, 2012

- ② Resolution: Meeting of Board of Directors held on October 29, 2012

Type of shares: Common stock

Total amount of

dividends: ¥1,854 million

Dividends per share: ¥5

Cut-off date: September 30, 2012

Effective date: December 3, 2012

(ii) Dividends of which the cut-off date was in the year ended March 31, 2013, but the effective date is in the following fiscal year

Resolution: Annual general meeting of shareholders held on June 25, 2013

Type of shares: Common stock

Total amount of

dividends: ¥1,854 million

Dividends per share: ¥5

Cut-off date: March 31, 2013

Effective date: June 26, 2013

Source of dividends: Retained earnings

13. 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, 2014 and 2013 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|------------------------------|
| | 2014 | 2013 | 2014 |
| Cash on hand and in banks in the consolidated balance sheet | ¥42,329 | ¥51,005 | \$411,281 |
| Time deposits with maturities of more than three months | (32) | (32) | (311) |
| Cash and cash equivalents in the consolidated statement of cash flows | ¥42,297 | ¥50,972 | \$410,970 |

(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, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------|-----------------|------|------------------------------|
| | 2014 | 2013 | 2014 |
| Lease assets | ¥745 | ¥732 | \$7,239 |
| Lease obligations | 772 | 766 | 7,501 |

14. Leases

Year ended March 31, 2014

Future minimum lease payments subsequent to March 31, 2014 under non-cancelable operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|---------------------------|
| 2015 | ¥3,129 | \$30,402 |
| 2016 and thereafter | 4,305 | 41,829 |
| Total | ¥7,434 | \$72,231 |

Year ended March 31, 2013

Future minimum lease payments subsequent to March 31, 2013 under non-cancelable operating leases are summarized as follows:

| Year ending March 31, | Millions of yen |
|-----------------------|-----------------|
| 2014 | ¥2,846 |
| 2015 and thereafter | 5,291 |
| Total | ¥8,138 |

15. 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 and bonds are used to raise funds mainly in connection with capital investments. The repayment dates of the long-term debts extend up to four 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 the interest payments for long-term debt with variable rates, the Company utilizes interest rate swap transactions 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 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.

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 17 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, 2014 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, 2014

| | Millions of yen | | |
|-------------------------------------|-----------------|----------------------|--------------|
| | Carrying amount | Estimated fair value | Difference |
| Assets | | | |
| Cash on hand and in banks | ¥ 42,329 | ¥ 42,329 | ¥ — |
| Trade notes and accounts receivable | 48,869 | 48,866 | (2) |
| Securities: | | | |
| Other securities | 30,866 | 30,866 | — |
| Total assets | ¥122,066 | ¥122,063 | ¥ (2) |
| Liabilities | | | |
| Trade notes and accounts payable | ¥ 42,339 | ¥ 42,339 | ¥ — |
| Short-term borrowings | 12,292 | 12,292 | — |
| Current portion of long-term debt | 2,700 | 2,732 | 32 |
| Bonds | 10,000 | 10,031 | 31 |
| Long-term debt | 15,095 | 15,151 | 56 |
| Total liabilities | ¥ 82,426 | ¥ 82,548 | ¥121 |
| Derivatives (*) | ¥ (201) | ¥ (201) | — |

| | Thousands of U.S. dollars | | |
|-------------------------------------|---------------------------|----------------------|----------------|
| | Carrying amount | Estimated fair value | Difference |
| Assets | | | |
| Cash on hand and in banks | \$ 411,281 | \$ 411,281 | \$ — |
| Trade notes and accounts receivable | 474,825 | 474,796 | (19) |
| Securities: | | | |
| Other securities | 299,903 | 299,903 | — |
| Total assets | \$1,186,028 | \$1,185,999 | \$ (19) |
| Liabilities | | | |
| Trade notes and accounts payable | \$ 411,378 | \$ 411,378 | \$ — |
| Short-term borrowings | 119,433 | 119,433 | — |
| Current portion of long-term debt | 26,234 | 26,545 | 311 |
| Bonds | 97,163 | 97,464 | 301 |
| Long-term debt | 146,667 | 147,211 | 544 |
| Total liabilities | \$ 800,874 | \$ 802,060 | \$1,176 |
| Derivatives (*) | \$ (1,953) | \$ (1,953) | — |

(*) 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, 2013

| | Millions of yen | | |
|-------------------------------------|-----------------|----------------------|--------------|
| | Carrying amount | Estimated fair value | Difference |
| Assets | | | |
| Cash on hand and in banks | ¥ 51,005 | ¥ 51,005 | ¥ — |
| Trade notes and accounts receivable | 51,970 | 51,967 | (3) |
| Securities: | | | |
| Other securities | 25,715 | 25,715 | — |
| Total assets | ¥128,691 | ¥128,687 | ¥ (3) |
| Liabilities | | | |
| Trade notes and accounts payable | ¥ 42,216 | ¥ 42,216 | ¥ — |
| Short-term borrowings | 12,703 | 12,703 | — |
| Current portion of long-term debt | 10,530 | 10,562 | 32 |
| Bonds | 10,000 | 10,034 | 34 |
| Long-term debt | 17,805 | 17,929 | 124 |
| Total liabilities | ¥ 93,255 | ¥ 93,446 | ¥190 |
| Derivatives (*) | ¥ (534) | ¥ (534) | — |

(*) 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, bonds 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 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 17, 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 |
|-----------------|-----------------|--------|---------------------------|
| | 2014 | 2013 | 2014 |
| Unlisted stocks | ¥1,949 | ¥1,949 | \$18,937 |

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, 2014 and 2013.

Year ended March 31, 2014

| | 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 | ¥42,329 | ¥ — | — |
| Trade notes and accounts receivable | 48,244 | 624 | — |
| Total | ¥90,574 | ¥624 | — |

| | 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 | \$411,281 | \$ — | — |
| Trade notes and accounts receivable | 468,752 | 6,063 | — |
| Total | \$880,043 | \$6,063 | — |

Year ended March 31, 2013

| | 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 | ¥ 51,005 | ¥ — | — |
| Trade notes and accounts receivable | 51,275 | 695 | — |
| Total | ¥102,280 | ¥695 | — |

(iv) The redemption schedule for long-term debt

Year ended March 31, 2014

| | Millions of yen | | |
|-----------------------------------|-----------------|-----------------|-------------------|
| | Bonds | Long-term loans | Lease obligations |
| Due in 1 year or less | ¥ — | ¥ 2,700 | ¥754 |
| Due after 1 year through 2 years | 10,000 | 10,980 | 549 |
| Due after 2 years through 3 years | — | 115 | 372 |
| Due after 3 years through 4 years | — | 4,000 | 241 |
| Due after 4 years through 5 years | — | — | 84 |
| Due after 5 years | — | — | 1 |

Thousands of U.S. dollars

| | Bonds | Long-term loans | Lease obligations |
|-----------------------------------|--------|-----------------|-------------------|
| Due in 1 year or less | \$ — | \$ 26,234 | \$7,326 |
| Due after 1 year through 2 years | 97,163 | 106,685 | 5,334 |
| Due after 2 years through 3 years | — | 1,117 | 3,614 |
| Due after 3 years through 4 years | — | 38,865 | 2,342 |
| Due after 4 years through 5 years | — | — | 816 |
| Due after 5 years | — | — | 10 |

Year ended March 31, 2013

Millions of yen

| | Bonds | Long-term loans | Lease obligations |
|-----------------------------------|--------|-----------------|-------------------|
| Due in 1 year or less | ¥ — | ¥10,530 | ¥874 |
| Due after 1 year through 2 years | — | 2,660 | 598 |
| Due after 2 years through 3 years | 10,000 | 10,940 | 389 |
| Due after 3 years through 4 years | — | 175 | 220 |
| Due after 4 years through 5 years | — | 4,030 | 105 |
| Due after 5 years | — | — | 16 |

16. Securities

Other securities:

March 31, 2014

| | Millions of yen | | |
|--|------------------|-----------------|------------------------|
| | Acquisition cost | Carrying amount | Unrealized gain (loss) |
| Carrying amount exceeding the acquisition cost: Stocks | ¥12,704 | ¥20,309 | ¥7,604 |
| Carrying amount not exceeding the acquisition cost: Stocks | 11,150 | 10,185 | (964) |
| Total | ¥23,855 | ¥30,494 | ¥6,639 |

Thousands of U.S. dollars

| | Acquisition cost | Carrying amount | Unrealized gain (loss) |
|--|--|-----------------|------------------------|
| | Carrying amount exceeding the acquisition cost: Stocks | \$123,436 | \$197,328 |
| Carrying amount not exceeding the acquisition cost: Stocks | 108,337 | 98,960 | (9,366) |
| Total | \$231,782 | \$296,288 | \$64,506 |

March 31, 2013

Millions of yen

| | Acquisition cost | Carrying amount | Unrealized gain (loss) |
|--|--|-----------------|------------------------|
| | Carrying amount exceeding the acquisition cost: Stocks | ¥ 5,410 | ¥10,457 |
| Carrying amount not exceeding the acquisition cost: Stocks | 17,663 | 14,900 | (2,763) |
| Total | ¥23,073 | ¥25,357 | ¥2,284 |

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.

17. Derivative Transactions

(a) Derivatives not subject to hedge accounting

Year ended March 31, 2014

None applicable

Year ended March 31, 2013

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, 2014

| Hedge accounting method | Type of derivative | Principal items hedged | Millions of yen | | |
|-------------------------|------------------------------------|-------------------------------|-----------------|------------|--------|
| | | | Contract amount | Fair value | |
| Allocation method | Foreign exchange forward contracts | Notes and accounts receivable | Over one year | | |
| | Sell: U.S. dollars | | ¥16,405 | ¥3,294 | ¥(254) |
| | Euros | | 554 | 13 | (3) |
| | Canadian dollars | | — | — | — |
| | Hong Kong dollars | | 13 | — | (0) |
| | Foreign exchange forward contracts | Notes and accounts payable | | | |
| | Buy: U.S. dollars | | ¥ 745 | — | ¥ 6 |
| | Euros | | 1,126 | — | 51 |
| | Sterling pound | | 143 | — | (0) |
| | Hong Kong dollars | | — | — | — |

| Hedge accounting method | Type of derivative | Principal items hedged | Thousands of U.S. dollars | | |
|-------------------------|------------------------------------|-------------------------------|---------------------------|------------|-----------|
| | | | Contract amount | Fair value | |
| Allocation method | Foreign exchange forward contracts | Notes and accounts receivable | Over one year | | |
| | Sell: U.S. dollars | | \$159,396 | \$32,005 | \$(2,468) |
| | Euros | | 5,383 | 126 | (29) |
| | Canadian dollars | | — | — | — |
| | Hong Kong dollars | | 126 | — | (0) |
| | Foreign exchange forward contracts | Notes and accounts payable | | | |
| | Buy: U.S. dollars | | \$ 7,239 | — | \$ 58 |
| | Euros | | 10,941 | — | 496 |
| | Sterling pound | | 1,389 | — | (0) |
| | Hong Kong dollars | | — | — | — |

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

Year ended March 31, 2013

| Hedge accounting method | Type of derivative | Principal items hedged | Millions of yen | | |
|-------------------------|------------------------------------|-------------------------------|-----------------|------------|--------|
| | | | Contract amount | Fair value | |
| Allocation method | Foreign exchange forward contracts | Notes and accounts receivable | Over one year | | |
| | Sell: U.S. dollars | | ¥8,284 | ¥298 | ¥(774) |
| | Euros | | 751 | 84 | (44) |
| | Canadian dollars | Notes and accounts | 22 | — | 0 |
| | Hong Kong dollars | | 12 | — | (1) |
| | Foreign exchange forward contracts | Notes and accounts payable | | | |
| | Buy: U.S. dollars | | ¥5,003 | — | ¥ 229 |
| | Euros | | 521 | — | 48 |
| | Sterling pound | | 120 | — | 8 |
| | Hong Kong dollars | | 7 | — | (0) |

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

(ii) Interest-related transactions
Year ended March 31, 2014

| Hedge accounting method | Type of derivative | Principal items hedged | Millions of yen | | |
|---|--------------------------------|------------------------|-----------------|--------|------------|
| | | | Contract amount | | Fair value |
| Special treatment for interest rate swaps | Receive/floating and pay/fixed | | Over one year | | |
| | | Long-term borrowings | ¥4,000 | ¥4,000 | (*) |

| Hedge accounting method | Type of derivative | Principal items hedged | Thousands of U.S. dollars | | |
|---|--------------------------------|------------------------|---------------------------|----------|------------|
| | | | Contract amount | | Fair value |
| Special treatment for interest rate swaps | Receive/floating and pay/fixed | | Over one year | | |
| | | Long-term borrowings | \$38,865 | \$38,865 | (*) |

(*) Since interest rate swap contracts accounted for by the special treatment for interest rate swaps are treated together with the long-term borrowings subject to hedging, the estimated fair value of such interest rate swap contracts is included in the estimated fair value of the corresponding long-term borrowings.

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

Year ended March 31, 2013

| Hedge accounting method | Type of derivative | Principal items hedged | Millions of yen | | |
|---|--------------------------------|---|-----------------|--------|------------|
| | | | Contract amount | | Fair value |
| Special treatment for interest rate swaps | Receive/floating and pay/fixed | | Over one year | | |
| | | Current portion of long-term borrowings Long-term borrowings | ¥14,100 | ¥4,000 | (*) |

(*) Since interest rate swap contracts accounted for by the special treatment for interest rate swaps are treated together with the long-term borrowings subject to hedging, the estimated fair value of such interest rate swap contracts is included in the estimated fair value of the corresponding long-term borrowings.

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

18. Retirement Benefit Plans

For the year ended March 31, 2014

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 during the year ended March 31, 2014 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Retirement benefit obligation at beginning of year | ¥20,367 | \$197,892 |
| Service cost | 963 | 9,357 |
| Interest cost | 272 | 2,643 |
| Actuarial (gain) or loss | (82) | (797) |
| Retirement benefit paid | (1,701) | (16,527) |
| Retirement benefit obligation at end of year | ¥19,819 | \$192,567 |

The changes in plan assets during the year ended March 31, 2014 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|----------------------------------|-----------------|---------------------------|
| Plan assets at beginning of year | ¥14,968 | \$145,433 |
| Expected return on plan assets | 224 | 2,176 |
| Actuarial (gain) or loss | 901 | 8,754 |
| Contributions by the Company | 459 | 4,460 |
| Retirement benefit paid | (1,030) | (10,008) |
| Plan assets at end of year | ¥15,524 | \$150,836 |

The changes in retirement benefit liability, for which the simplified method was applied, for the year ended March 31, 2014 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Retirement benefit liability at beginning of year | ¥3,804 | \$36,961 |
| Retirement benefit expense | 561 | 5,451 |
| Retirement benefit paid | (467) | (4,538) |
| Contributions by the Company | (197) | (1,914) |
| Other | 28 | 272 |
| Retirement benefit liability at end of year | ¥3,729 | \$36,232 |

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and its consolidated subsidiaries' retirement benefit plans:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Funded retirement benefit obligation | ¥ 19,093 | \$ 185,513 |
| Plan assets at fair value | (16,338) | (158,745) |
| | 2,754 | 26,759 |
| Unfunded retirement benefit obligation | 5,223 | 50,748 |
| Net liability for retirement benefits on the balance sheet | ¥ 7,978 | \$ 77,517 |
| Retirement benefit liability | ¥ 10,405 | \$ 101,098 |
| Retirement benefit asset | (2,427) | (23,581) |
| Net liability for retirement benefits on the balance sheet | ¥ 7,978 | \$ 77,517 |

The components of retirement benefit expense for the year ended March 31, 2014 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Service cost | ¥ 963 | \$ 9,357 |
| Interest cost | 272 | 2,643 |
| Expected return on plan assets | (224) | (2,176) |
| Amortization of actuarial loss | 139 | 1,351 |
| Amortization of prior service cost | 155 | 1,506 |
| Retirement benefit expense, which were calculated by the simple method | 561 | 5,451 |
| Other | 65 | 632 |
| Retirement benefit expense | ¥1,930 | \$18,752 |

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follow:

| | Millions of yen | Thousands of U.S. dollars |
|---------------------------------|-----------------|---------------------------|
| Unrecognized prior service cost | ¥ (180) | \$ (1,749) |
| Unrecognized actuarial loss | (1,442) | (14,011) |
| Total | ¥(1,622) | \$ (15,760) |

The fair value of plan assets by major category, as a percentage of total plan assets as of March 31, 2014, is as follows:

| | March 31, 2014 |
|---------------------------|----------------|
| Bonds | 29% |
| Stocks | 38 |
| Cash on hand and in banks | 0 |
| General account | 16 |
| Other | 16 |
| Total | 100% |

19% of the total plan assets consist of the, retirement benefit trust that were set for the lump-sum and corporate pension plans.

The expected rate of return on plan 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 were as follow:

| | March 31, 2014 |
|---|----------------|
| Discount rates | 1.50% |
| Expected rates of return on plan assets | 1.50% |

The amount of contributions to defined contribution plans by consolidated subsidiaries was ¥32 million (\$311 thousand).

For the year ended March 31, 2013

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, 2013 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

| | Millions of yen |
|--|-----------------|
| Retirement benefit obligation | ¥(25,153) |
| Plan assets at fair value | 16,012 |
| Unfunded retirement benefit obligation | (9,141) |
| Unrecognized actuarial loss | 2,611 |
| Unrecognized prior service cost | 274 |
| Net retirement benefit obligation | (6,254) |
| Prepaid pension cost | 3,164 |
| Liability for retirement benefits | ¥ (9,419) |

The components of retirement benefit expense for the year ended March 31, 2013 are as follows:

| | Millions of yen |
|------------------------------------|-----------------|
| Service cost | ¥1,549 |
| Interest cost | 289 |
| Expected return on plan assets | (204) |
| Amortization of actuarial loss | 440 |
| Amortization of prior service cost | 140 |
| Retirement benefit expenses | ¥2,214 |

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

| | March 31, 2013 |
|---|----------------|
| Discount rates | 1.50% |
| Expected rates of return on plan assets | 1.50% |

19. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2014 | 2013 | 2014 |
| Deferred tax assets: | | | |
| Accrued enterprise taxes | ¥ 180 | ¥ 239 | \$ 1,749 |
| Accrued bonuses | 1,004 | 1,144 | 9,755 |
| Unrealized gain on intercompany transactions | 690 | 592 | 6,704 |
| Retirement benefit liability | 4,612 | — | 44,812 |
| Accrued retirement benefits for employees | — | 4,453 | — |
| Accrued retirement benefits for directors and corporate auditors | 52 | 69 | 505 |
| Loss on revaluation of inventory items | 1,202 | 1,492 | 11,679 |
| Loss on revaluation of financial instruments | 253 | 274 | 2,458 |
| Impairment loss | 84 | 184 | 816 |
| Depreciation | 966 | 1,107 | 9,386 |
| Amortization of long-term prepaid expenses | 115 | 105 | 1,117 |
| Provision for warranties for completed construction | 924 | 1,202 | 8,978 |
| Provision for loss on construction contracts | 700 | 1,351 | 6,801 |
| Less allowance for doubtful accounts | 169 | 145 | 1,642 |
| Asset retirement obligations | 450 | 490 | 4,372 |
| Percentage-of-completion method | 617 | 256 | 5,995 |
| Tax loss carry forwards | 2,412 | 2,085 | 23,436 |
| Deferred loss on hedges | 99 | 319 | 962 |
| Unrealized loss on investment securities | 341 | 974 | 3,313 |
| Other | 379 | 354 | 3,682 |
| Gross deferred tax assets | 15,276 | 16,882 | 148,426 |
| Valuation allowance | (3,706) | (3,676) | (36,009) |
| Total deferred tax assets | 11,569 | 13,205 | 112,408 |
| Deferred tax liabilities: | | | |
| Reserve for advanced depreciation | 1,702 | 1,853 | 16,537 |
| Reserve for special depreciation | 864 | 1,342 | 8,395 |
| Net defined benefit asset | 696 | — | 6,763 |
| Prepaid pension cost | — | 1,120 | — |
| Disposal cost with asset retirement obligations | 283 | 289 | 2,750 |
| Unrealized gain on investment securities | 2,698 | 1,794 | 26,215 |
| Deferred gain on hedges | 28 | 117 | 272 |
| Other | 397 | 390 | 3,857 |
| Total deferred tax liabilities | 6,337 | 6,551 | 61,572 |
| Net deferred tax assets | ¥ 5,231 | ¥ 6,653 | \$ 50,826 |

The reconciliation between the effective tax rates reflected in the consolidated statement of income and the statutory tax rates for the years ended March 31, 2014 and 2013 were as follows:

| | 2014 | 2013 |
|--|-------|-------|
| Statutory tax rates | 37.8% | 37.8% |
| Effect of: | | |
| Permanent differences | 3.0 | 1.3 |
| Tax credit | (2.5) | (1.9) |
| Decrease in deferred tax assets due to tax rate change | 3.0 | — |
| Other | (0.5) | 5.5 |
| Effective tax rates | 40.8% | 42.7% |

Adjustment of deferred tax liabilities and deferred tax assets due to change in the corporate tax rate

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. In addition, the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 4 of 2014) and the "Act for Partial Amendment of the Local Corporate Tax Act, etc." (Act No. 11 of 2014) were promulgated on March 31, 2014, and the Company is subject to the amended Local Corporate Tax effective for fiscal years beginning on or after April 1, 2015.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 37.8 to 35.4% for the temporary differences expected to be realized or settled from fiscal years beginning on April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥292 million (\$2,837 thousand) and deferred tax liabilities after offsetting deferred tax assets by ¥5 million (\$49 thousand), increase deferred income taxes by ¥283 million (\$2,750 thousand), and decrease unrealized gain (loss) from hedging instruments by ¥3 million (\$29 thousand) as of and for the year ended March 31, 2014.

20. Business Combinations

Transaction under common control

(a) Outline of the transaction

Combination between Nikko Shoji Co., Ltd. and YPK Co., Ltd.

- ① Name and business of companies
 Name of surviving company: Nikko Shoji Co., Ltd.
 Business: Sales of injection molding machines, plastics machinery, machine tools, semiconductor manufacturing equipment, general industrial machinery, forging casting machine and import-export operations and lease, etc.
 Name of absorbed company: YPK Co., Ltd.
 Business: Sales of injection molding machines, blow-molding machines, extruders, vacuum forming machines and powder processing machines, etc.
 Installation services and international trading services
- ② Date of business combination
 January 1, 2014
- ③ Legal form of business combination
 Absorption-type merger with Nikko Shoji Co., Ltd. as the surviving company
- ④ Name of company after business combination
 Nikko YPK Shoji Co., Ltd.
- ⑤ Purpose of transaction
 The Company intends to construct an efficient and rational operating structure. In addition, the Company plans to enhance productivity and profitability, the effective use of human resources and support a responsive organization.

(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 on December 26, 2008) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, issued on December 26, 2008).

21. Asset Retirement Obligations

The following table presents the changes in asset retirement obligations for the years ended March 31, 2014 and 2013:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|--------|---------------------------|
| | 2014 | 2013 | 2014 |
| Balance at beginning of year | ¥1,371 | ¥1,299 | \$13,321 |
| Liabilities incurred due to the acquisition of property, plant and equipment | — | — | — |
| Accretion expense | 20 | 19 | 194 |
| Liabilities settled | — | (47) | — |
| Other | (120) | 100 | (1,166) |
| Balance at end of year | ¥1,271 | ¥1,371 | \$12,349 |

22. Investment and Rental Properties

The Company has omitted the disclosure of investment and rental properties due to immateriality for the years ended March 31, 2014 and 2013.

23. 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, 2014 | 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 | ¥ 67,602 | ¥118,385 | ¥ 2,731 | ¥188,719 | ¥ — | ¥188,719 |
| Intra-segment sales and transfers | 3,167 | 1,766 | 3,190 | 8,123 | (8,123) | — |
| Total sales | 70,769 | 120,152 | 5,921 | 196,842 | (8,123) | 188,719 |
| Operating income | ¥ (3,606) | ¥ 12,185 | ¥ 1,149 | ¥ 9,728 | ¥ (864) | ¥ 8,864 |
| Assets, depreciation, and capital expenditures: | | | | | | |
| Total assets | ¥111,561 | ¥ 99,309 | ¥ 12,984 | ¥223,855 | ¥69,283 | ¥293,139 |
| Depreciation and amortization | 9,897 | 2,649 | 281 | 12,828 | 122 | 12,950 |
| Capital expenditures | 2,216 | 2,793 | 114 | 5,125 | 117 | 5,242 |

Thousands of U.S. dollars

| | Reportable segments | | | Total | Adjustments and Eliminations | Consolidated |
|---|---------------------------|-------------------------------|----------------------------------|--------------|------------------------------|--------------|
| | Steel and Energy Products | Industrial Machinery Products | Real Estate and Other Businesses | | | |
| Year ended March 31, 2014 | | | | | | |
| Sales and operating income: | | | | | | |
| Sales to third parties | \$ 656,840 | \$ 1,150,262 | \$ 26,535 | \$ 1,833,647 | \$ — | \$ 1,833,647 |
| Intra-segment sales and transfers | 30,771 | 17,159 | 30,995 | 78,925 | (78,925) | — |
| Total sales | 687,612 | 1,167,431 | 57,530 | 1,912,573 | (78,925) | 1,833,647 |
| Operating income | \$ (35,037) | \$ 118,393 | \$ 11,164 | \$ 94,520 | \$ (8,395) | \$ 86,125 |
| Assets, depreciation, and capital expenditures: | | | | | | |
| Total assets | \$1,083,958 | \$ 964,914 | \$126,156 | \$2,175,039 | \$673,173 | \$2,848,222 |
| Depreciation and amortization | 96,162 | 25,738 | 2,730 | 124,640 | 1,185 | 125,826 |
| Capital expenditures | 21,531 | 27,138 | 1,108 | 49,796 | 1,137 | 50,933 |

Notes: 1. Adjustments and eliminations for segment profit of ¥864 million (\$8,395 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 ¥69,283 million (\$673,173 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 ¥122 million (\$1,185 thousand) include depreciation and amortization for corporate assets. Adjustments and eliminations for capital expenditures of ¥117 million (\$1,137 thousand) include capital expenditures for corporate assets.

Millions of yen

| | Reportable segments | | | Total | Adjustments and Eliminations | Consolidated |
|---|---------------------------|-------------------------------|----------------------------------|----------|------------------------------|--------------|
| | Steel and Energy Products | Industrial Machinery Products | Real Estate and Other Businesses | | | |
| Year ended March 31, 2013 | | | | | | |
| Sales and operating income: | | | | | | |
| Sales to third parties | ¥ 88,275 | ¥130,138 | ¥ 2,239 | ¥220,653 | ¥ — | ¥220,653 |
| Intra-segment sales and transfers | 4,972 | 2,164 | 3,071 | 10,207 | (10,207) | — |
| Total sales | 93,248 | 132,302 | 5,310 | 230,861 | (10,207) | 220,653 |
| Operating income | ¥ (534) | ¥ 16,784 | ¥ 840 | ¥ 17,090 | ¥ (410) | ¥ 16,680 |
| Assets, depreciation, and capital expenditures: | | | | | | |
| Total assets | ¥120,250 | ¥ 96,895 | ¥13,396 | ¥230,542 | ¥ 73,427 | ¥303,970 |
| Depreciation and amortization | 13,056 | 2,580 | 291 | 15,928 | 133 | 16,061 |
| Capital expenditures | 2,575 | 2,860 | 73 | 5,509 | 60 | 5,570 |

Notes: 1. Adjustments and eliminations for segment profit of ¥410 million 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 ¥73,427 million 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 ¥133 million include depreciation and amortization for corporate assets. Adjustments and eliminations for capital expenditures of ¥60 million include capital expenditures for corporate assets.

(a) Product and service information

| | Millions of yen | | | | | Millions of yen | | | |
|---------------------------|---------------------------|-------------------------------|----------------------------------|----------|---------------------------|---------------------------|-------------------------------|----------------------------------|----------|
| | Steel and Energy Products | Industrial Machinery Products | Real Estate and Other Businesses | Total | | Steel and Energy Products | Industrial Machinery Products | Real Estate and Other Businesses | Total |
| Year ended March 31, 2014 | | | | | Year ended March 31, 2013 | | | | |
| Sales to third parties | ¥67,602 | ¥118,385 | ¥2,731 | ¥188,719 | Sales to third parties | ¥88,275 | ¥130,138 | ¥2,239 | ¥220,653 |

Thousands of U.S. dollars

| | Steel and Energy Products | Industrial Machinery Products | Real Estate and Other Businesses | Total |
|---------------------------|---------------------------|-------------------------------|----------------------------------|-------------|
| Year ended March 31, 2014 | | | | |
| Sales to third parties | \$656,840 | \$1,150,262 | \$26,535 | \$1,833,647 |

(b) Geographical information

(i) Sales

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------|-----------------|-----------------|---------------------------|
| | 2014 | 2013 | 2014 |
| Japan | ¥ 95,966 | ¥105,180 | \$ 932,433 |
| China | 27,159 | 27,131 | 263,885 |
| Others | 65,593 | 88,341 | 637,320 |
| Consolidated | ¥188,719 | ¥220,653 | \$1,833,647 |

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, 2014 and 2013 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, 2014 and 2013 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, 2014 and 2013 are summarized as follows:

Year ended March 31, 2014

None applicable

| Year ended March 31, 2013 | Millions of yen | | | | |
|---------------------------|---------------------------|-------------------------------|----------------------------------|------------------------------|-------|
| | Steel and Energy Products | Industrial Machinery Products | Real Estate and Other Businesses | Adjustments and Eliminations | Total |
| Impairment loss | ¥87 | ¥59 | ¥— | ¥300 | ¥446 |

(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, 2014 and 2013 by reportable segment:

| Year ended March 31, 2014 | Millions of yen | | | | |
|---------------------------|---------------------------|-------------------------------|----------------------------------|------------------------------|-------|
| | Steel and Energy Products | Industrial Machinery Products | Real Estate and Other Businesses | Adjustments and Eliminations | Total |
| Amortization | — | ¥71 | — | — | ¥71 |
| Balance as of March 31 | — | 71 | — | — | 71 |

| Year ended March 31, 2014 | Thousands of U.S. dollars | | | | |
|---------------------------|---------------------------|-------------------------------|----------------------------------|------------------------------|-------|
| | Steel and Energy Products | Industrial Machinery Products | Real Estate and Other Businesses | Adjustments and Eliminations | Total |
| Amortization | — | \$690 | — | — | \$690 |
| Balance as of March 31 | — | 690 | — | — | 690 |

Millions of yen

| Year ended March 31, 2013 | Steel and Energy Products | Industrial Machinery Products | Real Estate and Other Businesses | Adjustments and Eliminations | Total |
|---------------------------|---------------------------|-------------------------------|----------------------------------|------------------------------|-------|
| Amortization | — | ¥ 71 | — | — | ¥ 71 |
| Balance as of March 31 | — | 143 | — | — | 143 |

(f) Information on gain on negative goodwill

Year ended March 31, 2014

None applicable

Year ended March 31, 2013

In the Industrial Machinery Products segment, YPK Co., Ltd. became a consolidated subsidiary as a result of additional acquisition of shares. This resulted in a gain on negative goodwill of ¥55 million in the fiscal year ended March 31, 2013. Furthermore, the Company acquired additional shares of Meiki Co., Ltd., a consolidated subsidiary. This also resulted in a gain on negative goodwill of ¥1 million in the fiscal year ended March 31, 2013.

24. 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.

25. 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 year end. Amounts per share at March 31, 2014 and 2013 and for the years then ended were as follows:

| | Yen | | U.S. dollars |
|------------|---------|---------|--------------|
| | 2014 | 2013 | 2014 |
| Net income | ¥ 14.92 | ¥ 22.33 | \$0.14 |
| Net assets | 372.83 | 359.29 | 3.62 |



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, 2014, 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, 2014, 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.

June 25, 2014
Tokyo, Japan

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited

Stock Information

| | |
|-------------------------------|--|
| Authorized Shares | 1,000,000,000 shares |
| Issued and Outstanding Shares | 371,463,036 shares |
| Shareholders | 30,366 |
| Stock Listings | Tokyo and Nagoya |
| Transfer Agent and Registrar | Sumitomo Mitsui Trust Bank, Ltd. 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan |

Major Shareholders (holding %)

| | |
|--|-------|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 5.96% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 4.72% |
| Mitsui Life Insurance Co., Ltd. | 3.82% |
| Sumitomo Mitsui Banking Corp. | 3.39% |
| Mitsui Sumitomo Insurance Co., Ltd. | 2.38% |
| Sumitomo Mitsui Trust Bank, Ltd. | 2.20% |
| Juniper | 2.18% |
| Nippon Steel & Sumitomo Metal Corp. | 1.76% |
| Hitachi, Ltd. | 1.36% |
| Mitsubishi Heavy Industries, Ltd. | 1.36% |

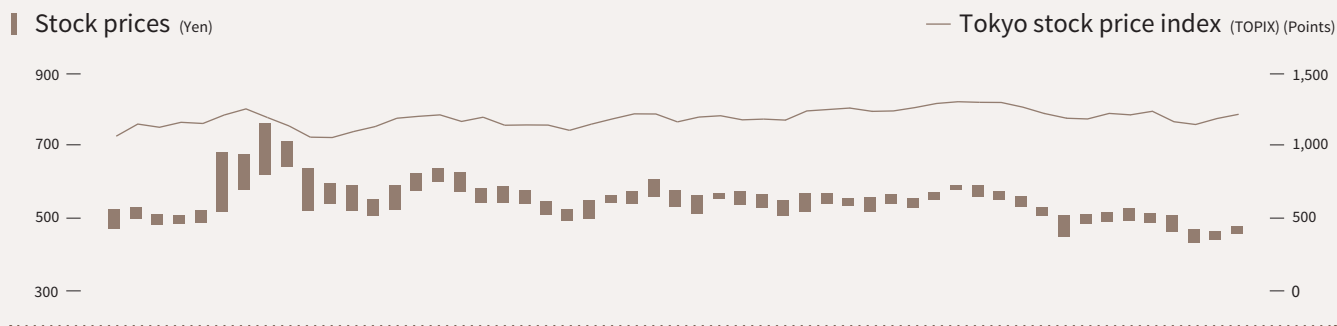
(as of March 31, 2014)

Corporate Data

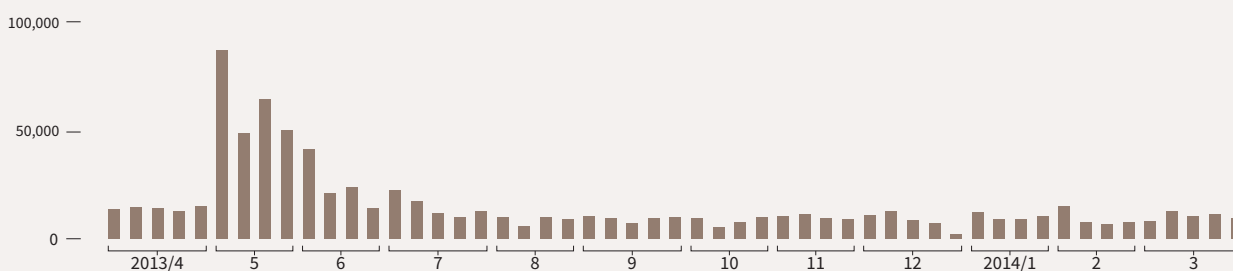
| | |
|-----------------|--|
| Trade Name | The Japan Steel Works, Ltd. |
| Head Office | Gate City Ohsaki-West Tower, 11-1, Osaki 1-chome, Shinagawa-ku, Tokyo, Japan |
| Foundation | November 1, 1907 |
| Paid-in Capital | ¥19,694 million |
| Employees | 2,165 (Consolidated 4,754) |
| Auditor | Ernst & Young ShinNihon LLC Hibiya Kokusai Bldg., 2-3, Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo, Japan |

(as of March 31, 2014)

JSW's Stock Prices



■ Trading volumes (Thousands of shares)





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