Message from the President

Regaining the growth path by realizing our goals under the JGP2014 new medium-term management plan

Ikuo Sato
Representative Director & President

Business performance

The growth of the overall global economy slowed down during fiscal 2010 against the background of the fiscal and monetary crises in Europe, which led to the stagnation of the European economies and consequent widening ripple effects. Other factors hampering the global economy included growing inflationary pressures, even in emerging countries, notably in Asia, which are expected to post good growth on the back of rising domestic demand, and higher crude oil prices.

Meanwhile, the Japanese economy faced extremely severe conditions early in the reporting term, as a result of the Great East Japan Earthquake of March 11, which sundered supply chains and forced constraints on the supply of electric power, leading to continued stagnation in both demand for goods and production activity. The economy was also hurt by a decline in Japanese firms' export competitiveness, owing to the ongoing appreciation of the yen on the foreign exchange market. Toward the end of the term, however, the economy staged a rally thanks to a partial correction of the exchange rate and the impact of various government stimulation measures.

Amid these conditions, the JSW Group carried out business activities in pursuit of the goals of its three-year medium-term management plan, which commenced in fiscal 2010.

These goals are to “become the No.1 global monozukuri (manufacturing) company,” and to “raise our earnings through competitiveness in individual products and by leveraging our comprehensive strength.” However, as a result of the earthquake and tsunami of March 11, 2011, and the resultant Fukushima Daiichi nuclear disaster, during the reporting period we were forced to wrestle with difficult and unclear conditions, including a worldwide reexamination of nuclear power strategies. We took steps to minimize the adverse impact of this situation on our nuclear power-related products, and have positioned efforts to increase orders for our existing products as a management priority.

As a result of the above, net sales for fiscal 2011 on a consolidated basis increased 4.0% over the previous year, to ¥221,368 million (US$2,693 million), despite a severe worsening of the external environment, thanks to growth by our Industrial Machinery Products Business, which offset a decline by our Steel and Energy Products Business.

At the profit level, we had hoped that the growth in sales by the Industrial Machinery Products Business would compensate for the decline in earnings by the Steel and Energy Products Business, but the strong performance of the Industrial Machinery Products Business was insufficient to offset the poor profitably of individual products manufactured by the Steel and Energy Products Business due to an increase in the proportion of low-profitability items and a decline in orders received. As a result, operating income fell by 16.1% year on year, to ¥23,911 million (US$290 million), ordinary income dropped 19.9% to ¥23,360 million (US$284 million), and net income was down 23.8% at ¥12,591 million (US$153 million), which includes the effect of a loss on valuation of investments in securities.

Orders received by the Industrial Machinery Products Business held firm at a high level, orders received by the Steel and Energy Products Business were sluggish due to the government’s reconsideration of its electric power and nuclear energy policies, and restructuring being undertaken by these industries. We made efforts to acquire orders by these divisions for products requiring quick delivery as an alternative to our conventional mainline products, but total orders received were down by 8.1% from the previous year, at ¥199,316 million (US$2,425 million).

Regarding the appropriation of profits, the Company remains committed to bolstering its internal reserves in order to fund the capital expenditure and expenditure on technological development required to ensure long-term and stable business operations, as well as to strengthen its financial position. At the same time, the Company follows a basic policy of paying stable and sustained dividends to its shareholders. The Company has decided to pay an annual dividend of ¥10 per share for the fiscal year under review.

Message from the President

Forecasts for fiscal 2012

Looking ahead, although the risk of a sudden deterioration in the global economy appears to have receded in the wake of monetary easing measures taken by various governments, crude oil prices remain high, the European sovereign debt crisis seems to have flared up again, and the specter of slowdown or even stagnation continues to hover over the emerging economies. In view of these factors, any growth or recovery by the global economy is likely to be gradual. In Japan, further time is required to dispel deflationary pressure, and the yen is expected likely to remain strong for quite some time to come. Although investment in post-disaster reconstruction should continue helping to shore up the economy, little likelihood is seen of economic expansion or a real recovery.

The majority of the JSW Group's principal products require long production and delivery times, and therefore orders received in fiscal 2011 will have a major effect on sales and earnings for the following term (fiscal 2012). In particular, for our Steel and Energy Products Business, which suffered a sharp decline in orders during the reporting period, the middle of fiscal 2012 should see a bottoming out for electric power generation (including nuclear power) products, and we project a recovery in the second half of the term. The majority of countries around the world, with the exception of Japan, are expected to finalize their revised electric power and nuclear power policies from the mid-point of fiscal 2012 into the second half of the term, and projects are likely to commence subsequent to this. We will carefully examine developments in this field and respond appropriately.

With respect to our Industrial Machinery Products Business, sales and earnings are projected to remain robust, but no firm predictions can be made in view of the unpredictable nature of the Group's business environment. We plan to focus our efforts on achieving further cost improvements and on expanding our operations in the field of high-value added products, which will be less susceptible to changes in the operating environment.

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Ikuo Sato
Representative Director & President