Annual Report 2012

for the year ended March 31, 2012

JSW

THE JAPAN STEEL WORKS, LTD.

Profile

Founded in 1907 in Muroran, Hokkaido — the center of steel production in Japan — The Japan Steel Works, Ltd. began as a joint venture with Britain's Sir W.G. Armstrong, Whitworth & Co., Ltd., and Vickers Sons and Maxim, Ltd. with the goal of domestic weapons production in Japan.

After World War II, the Company turned its sophisticated technologies and considerable experience to the task of meeting peacetime needs. From steel manufacturing and machinery development, to new business fields such as automobiles, electrical equipment, information equipment, as well as heavy industries such as electricity, steel, shipbuilding, and petrochemicals, the Company widened its business horizons, and began to earn a worldwide reputation as **an integrated producer of steel materials and manufacturer of machinery**.

At present, meeting the needs of IT-related industries, such as information and communication, JSW's global activities stretch beyond its existing fields to encompass the development of such cutting-edge technologies as new energy, natural energy, new materials, optics, and electronics. The Company is also active in new fields such as environmental businesses as **a comprehensive material provider and manufacturer of mechatronic products.** Always ahead of trends in society and industry, JSW is preparing for sustained and vigorous growth in a wide number of emerging areas to satisfy the demands of its customers, shareholders and employees. In this way JSW aims to enhance its enterprise value.

Contents

1 Financial Highlights (Consolidated)
2 Message from the President
5 JGP2014 – the JSW Group's New Medium-Term Management Plan
8 Our Business Domains
10 Review of Operations
13 Research and Development
14 Corporate Governance
18 The Environment
20 Board of Directors, Corporate Auditors and Executive Officers
21 Financial Section
22 Financial Performance (Consolidated)
46 Corporate Directory
47 Offices & Plants

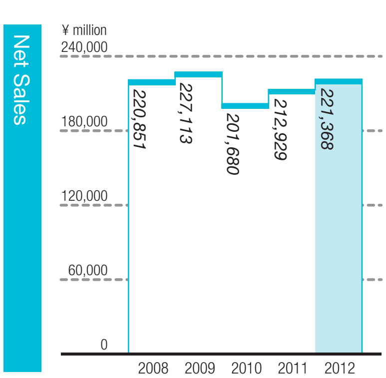
Forward-Looking Statements
The forward-looking statements in this annual report reflect judgments based on information available at the present time. Actual results may differ widely due to various factors.

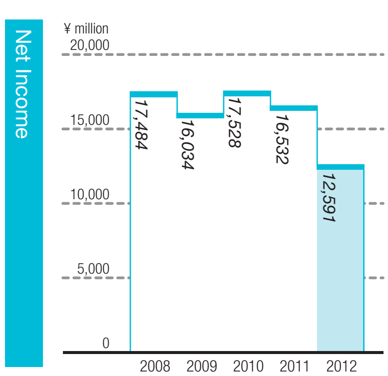
Financial Highlights (Consolidated)

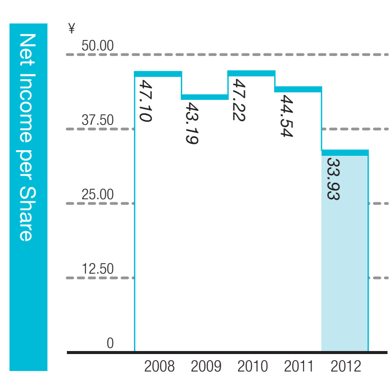
THE JAPAN STEEL WORKS, LTD. AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 2012, 2011 and 2010

	Millions of Yen			Thousands of U.S. Dollars
	2012	2011	2010	**2012**
For the year:				
Net sales	**¥221,368**	¥212,929	¥201,680	**$2,693,369**
Operating income	**23,911**	28,495	32,185	**290,923**
Net income	**12,591**	16,532	17,528	**153,194**
At year-end:				
Total assets	**325,653**	339,263	322,986	**3,962,197**
Total net assets	**128,613**	120,820	111,149	**1,564,825**
Ratios:				
ROE	**10.2%**	14.4%	17.6%	
Equity ratio	**39.2%**	35.3%	34.0%	
Amounts per share (yen and U.S. dollars):				
Net income	**¥33.93**	¥44.54	¥47.22	**$0.41**
Cash dividends applicable to the year	**10.00**	12.00	12.00	**0.14**

Note: Amounts in U.S. dollars are presented solely for convenience and based on the rate of ¥82.19 = US$1.00, the rate of exchange on March 30, 2012, the date of the Company's most recent balance sheet.







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.

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.

June 2012

Ikuo Sato
Representative Director & President

JGP2014 – the JSW Group's New Medium-Term Management Plan

We have drawn up a new medium-term management plan, under the name of JGP2014, covering the three-year period from April 2012 to March 2015. Our twin goals under this plan are to become **"the No.1 global *monozukuri* (manufacturing) company"** and **"a corporate group with a stable earnings structure and strong financial position."**

Overview of JGP2014 Medium-Term Management Plan

We aim to regain the growth path by building the Group's products into the leading presence in the global market, and to marshal the total strength of all JSW Group companies – including new business alliances – to expand our business operations into new growth markets and business fields.

1. Overview

JGP2014: JSW Group Growth Plan FY2012-2014

Our goal:
- To become the No.1 global *monozukuri* (manufacturing) corporate group
  — To provide the world's best products and services and become a group fully capable of competing in the global marketplace
- A corporate group with a stable earnings structure and strong financial position

2. Numerical targets

	FY2012	FY2014
Sales	¥225 billion	**¥250 billion**
Operating Income	¥15.2 billion	**¥27 billion**
(Operating income margin)	6.8%	**10% or higher**
ROE	7%	**10% or higher**
Capital Ratio	43%	**48% or higher**

- Plan recovery in steel products segment and sustained growth in industrial machinery segment
- Strengthen our business base following the end of the current medium-term plan

Basic Management Policies

1. Grow our products into global market leaders

- Steps to strengthen the competitiveness of our products to be undertaken as Groupwide project (under name of Global No.1 Project), leveraging comprehensive strength of entire Group and involving prioritized allocation of management resources

2. Strengthen expansion of business operations into growth markets and growth fields

- Growth markets = Asia, emerging nations
- Growth fields = energy/environment, electronics/information & telecommunications, motor vehicles: →expand technological fields, scope of business, and customer base through fusion with materials technology and mechatronics

Scale of business in growth markets (orders)

	FY2011	FY2014 (current medium-term plan)
Emerging nations	¥40 billion	¥60 billion
(of which, China)	(¥20 billion)	(¥35 billion)

3. Creating global network of *monozukuri* alliances

- To cope with changes in the business environment, particularly in our main markets and in the competitive structure, we must abandon the go-it-alone approach and form alliances toward specific targets, and must also speed up the development of our operations
- Selection as appropriate from various methods, including M&As, capital tie-ups, business alliances, licensing agreements, and so on

4. Strengthen business base

- Reinforce control over affiliated companies and reorganize Group structure to strengthen the Group's management
- Invest in the training of human resources and globalization
- Implement strategic investments

Capital investment	¥6 billion/year
R&D expenditure	¥5 billion/year
Other strategic investments	¥10 billion+α/3 years

- Strengthen financial position through more efficient employment of working capital and strict management of strategic investments
  ➡ aiming at numerical targets of ROE 10% or higher and capital ratio of 48% or higher by FY2014

Projected Development of Overall Business Performance and Indicators During JGP2014 Plan Period

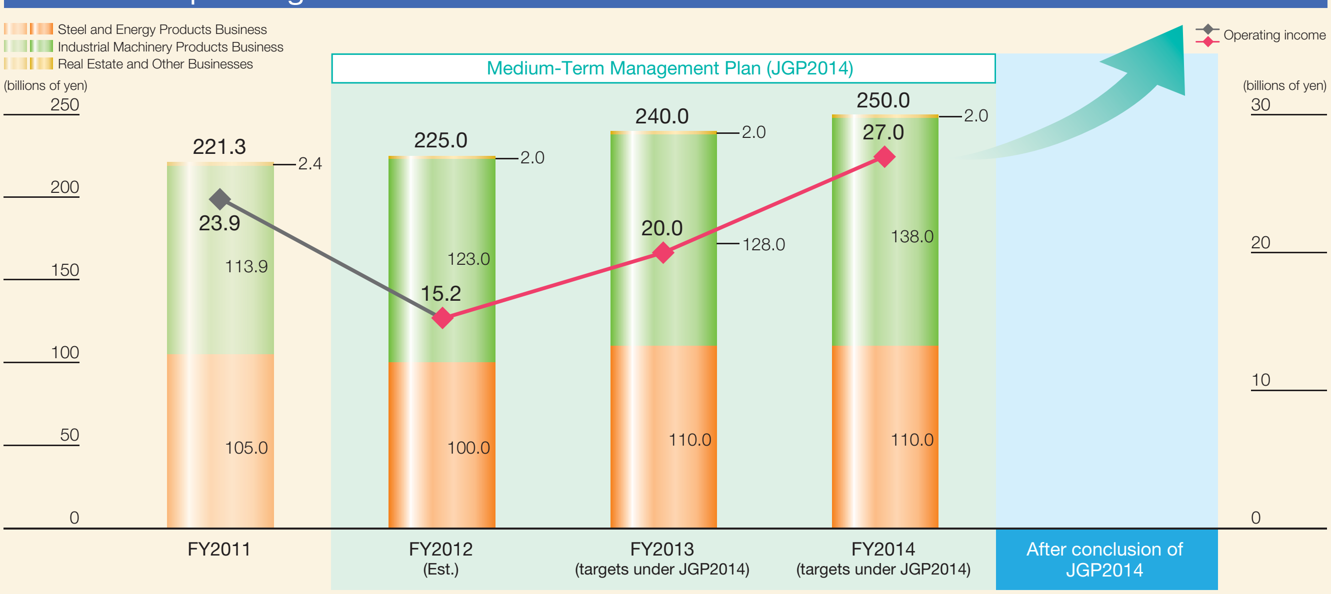
Regaining the growth path by realizing our goals under JGP2014

Laying the groundwork for attainment of ¥300 billion annual sales after end of JGP2014

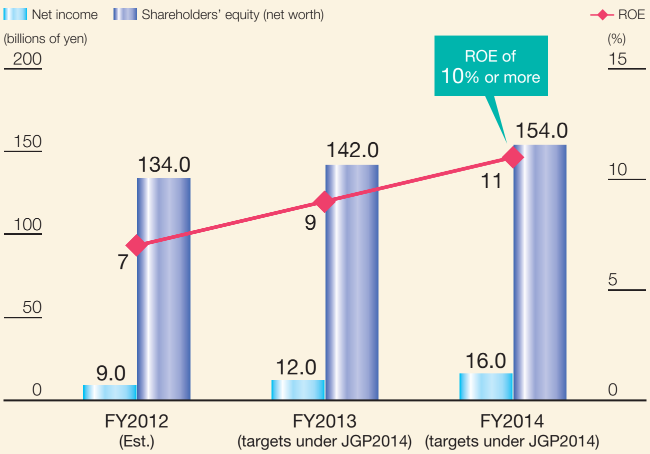
Steel and Energy Products Business	Expand lineup of energy-related products and construct production and marketing system to meet needs of emerging nations
Industrial Machinery Products Business	Expand earnings by strengthening technology to create superior products and by launching new products, to expand operations in growth markets and growth fields

Examine and implement a variety of alliances to enhance the Group's manufacturing capabilities in pursuit of these objectives

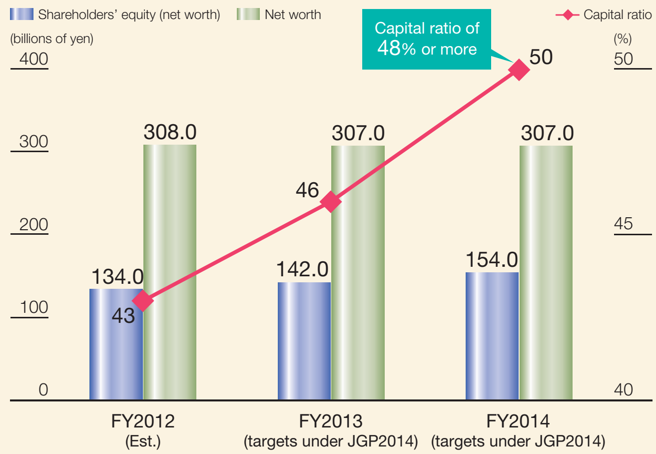
Sales and Operating Income



Return on Equity (ROE)

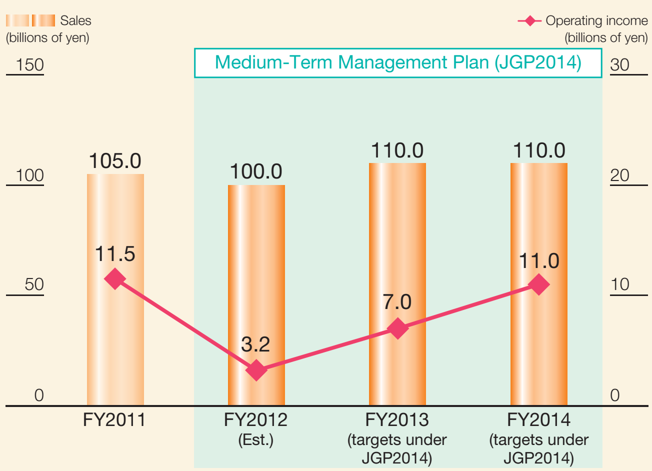


Capital Ratio



Basic Strategies, Sales, and Operating Income by Segment

Steel and Energy Products Business

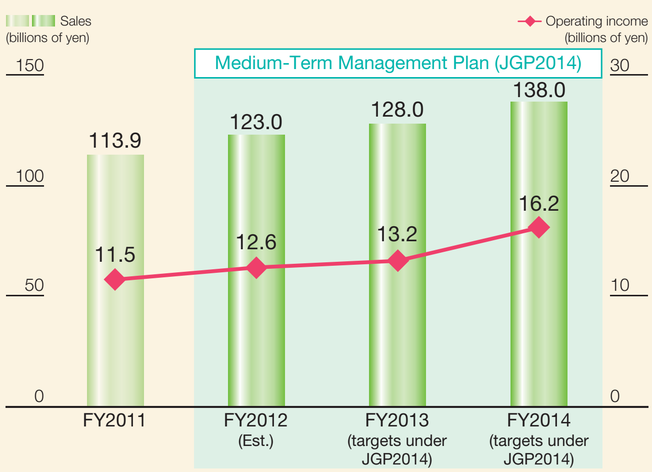


Basic Strategies

- Maintain scale of sale of nuclear power products through marketing initiatives in countries newly developing their nuclear power sectors (¥45-50 bn)
- Expand sales of clad steel plates & pipes and wind turbine systems by taking advantage of demand trends
- Reinforce price-competitiveness through construction of global alliances
- Raise capacity utilization rate to make full use of state-of-the-art production equipment
- Develop products in new fields, as well as new businesses

Sales to Recover from a Bottom in FY2012

Industrial Machinery Products Business



Basic Strategies

- Raise the Group's global profile through product differentiation
- Improve and reinforce organizational structure to expand service operations
- Improve processing technology to expand sales of plant equipment
- Strengthen price-competitiveness to win orders in emerging markets
- Develop new products in new business fields through integration of platform technologies

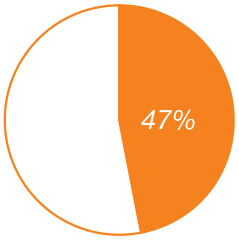
Maintain Growth beyond FY2012

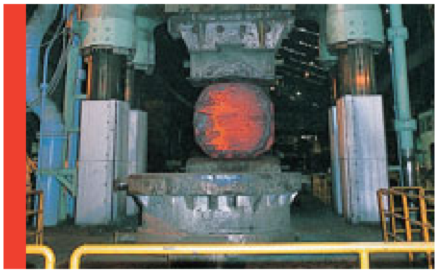
Our Business Domains

JSW and the JSW Group carry out a wide range of business activities in a variety of fields. In the Steel and Energy Products Business, these activities include the production and sale of steel castings and forgings, steel plates and structures, as well as wind turbine system equipment, which is a business area developed in recent years. In the Industrial Machinery Products Business, these activities include the production and sale of plastics machinery and other machinery, magnesium alloy injection molding machines and molded products, and IT equipment. In addition, as part of our program of business diversification, we are active in regional development, information systems and other areas in the Real Estate and Other Businesses.

Steel and Energy Products Business

Sales Composition





Steel Products

Making 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 forged products are used in the electric power generation industry (fossil fuel, hydroelectric and nuclear), and the steel-making, oil refinery and industrial machinery sectors. In addition to being a leading global supplier of extra large forged products, our plant produce a wide range of high-quality small- and medium-sized steel cast and forged products.

Main Business Lines

Production and sale of products for power generation, steel-making, chemical machinery, nuclear power-related machinery and equipment, die materials, and other areas

Steel Plates and Structures

With 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. In addition, by integrating various forged steel products and leveraging our state-of-the-art welding technologies and facilities, we produce a range of pressure vessels for very large welded structures such as oil refineries and petrochemical plants, in an integrated process from raw materials to finished products. All of our products are used in a wide range of industrial applications in Japan and overseas, giving this business a unique profile.

Main 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

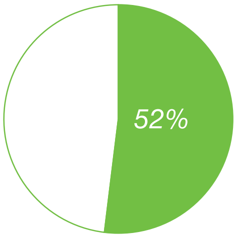
This sector deals with the entire wind turbine power generation system business, designing its own towers, blades and equipment for power generators used in large windmills (2,000kW). Higher power generation efficiency and ease of maintenance have been achieved for power generators through the use of permanent magnet synchronous generators and the elimination of step-up gears. This sector provides windmills of superior reliability, which are needed for Japan's unstable wind conditions.

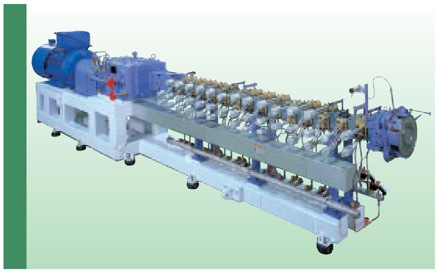
Main Business Lines

Production, sale and maintenance of wind turbine system equipment

Industrial Machinery Products Business

Sales Composition





Plastics Machinery

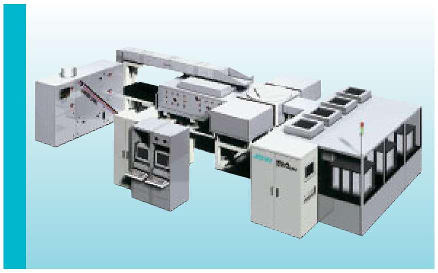
Having established a microcellular foam processing technology for greater weight reduction and heat retention, we lead the competition in developing products that address the growing sophistication and diversity of plastics materials. We have built up a solid position as a comprehensive plastics machinery manufacturer involved in everything from pelletizers to processing machinery.

In injection molding machines, we are meeting current market demand for greater molding precision, productivity and environment-friendliness by upgrading basic performance of existing injection molding systems and developing energy-saving, electrically-driven injection molding machines.

To respond to diversifying needs in these product markets, we have established a Technology Development Center 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 manufacturing to processing machinery.

Main Business Lines

Production and sale of plastic injection molding machines, plastics production and processing machinery (including pelletizers, compound extruders, films and sheet manufacturing equipment, and others) and blow-molding machines



Other Machinery

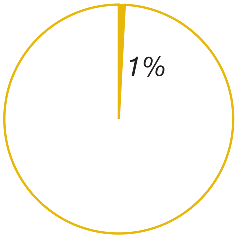
Supported by a proprietary technologies and facilities, JSW produces industrial machinery for a wide range of demand, including defense equipment, power plant equipment, magnesium alloy injection molding machines, aluminum die-casting machines, laser annealing systems, rolling stock parts, and environmental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

Main 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 machine, JSW-type automatic tightlock couplers/W-type vehicle shock absorbers, and defense equipment

Real Estate and Other Businesses

Sales Composition



Regional Development

Centered on the construction of office buildings, commercial facilities, and rental condominiums on Company-owned land, we engage in regional development operations with the objective of ensuring stable earnings through the utilization of idle assets. Our goal is to raise our earnings and revitalize local communities through a more effective application of our assets, based on the reserves of expertise we have accumulated in our business operations.

Main Business Lines

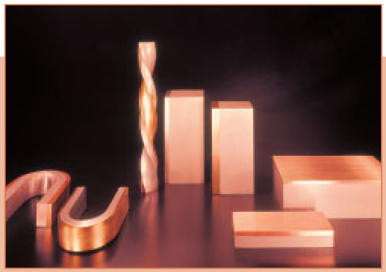
Rental of property, and development/subdivision for sale

Review of Operations

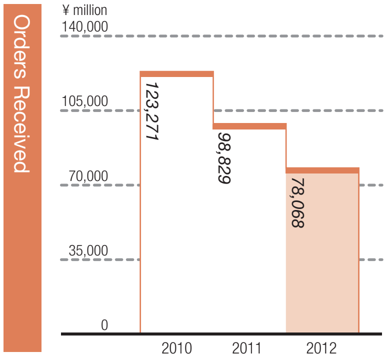
Steel and Energy Products Business

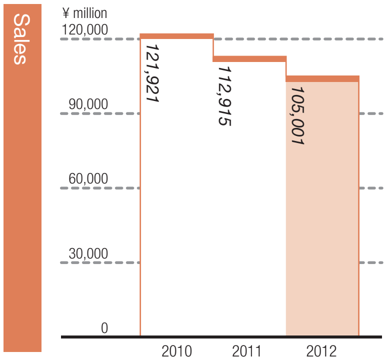
Steel Products Sector/Steel Plates and Structures Sector/ Wind Turbines Sector


Shell Flange Used for Pressure Chamber for Nuclear Power Plant


Clad Steel Plate

J82 Wind Turbine System





Performance in fiscal 2011

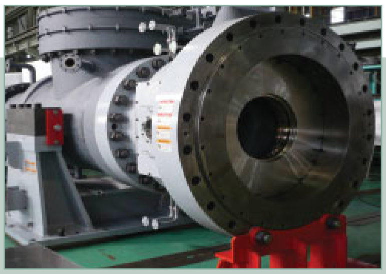
Orders came to ¥78,068 million (US$949 million), a year-on-year decrease of 21.0%. Orders for products for use in the electrical power generation industry (including nuclear power) decreased sharply against the background of a worldwide reassessment of nuclear power policy, while orders for clad steel plates and pipes recorded a decline on a year-on-year comparison owing to the large-scale orders received in fiscal 2010. Orders for pressure vessels for oil refineries, and for wind turbine system equipment, also fell short of expectations.

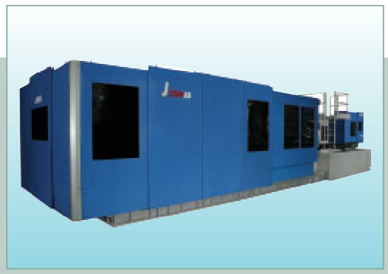
Sales came to ¥105,001 million (US$1,277 million), a year-on-year decrease of 7.0%. Although sales of clad steel plates and pipes benefited from the posting of sales of large-scale orders received in the previous year, and sales of products for the electrical power generation industry (including nuclear power) included those from orders received in previous years, these factors were more than offset by a decline in sales of pressure vessels for oil refineries, and of wind turbine system equipment.

Operating income came to ¥11,517 million (US$140 million), a year-on-year decrease of 54.0%. Despite implementing a range of cost-cutting measures, we were unable to counteract the adverse effects of a number of factors, including a lower capacity utilization rate due to the decrease in orders received, intensifying export competition caused by the yen's high exchange rate and a decline in the average selling price, and a deterioration in the Company's profitability owing to a change in the product structure.

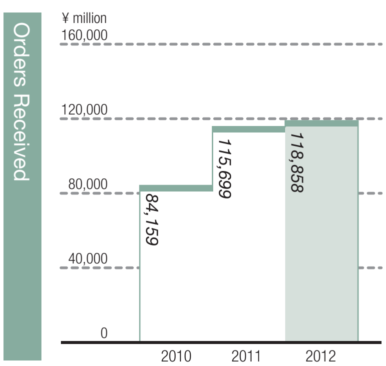
Industrial Machinery Products Business

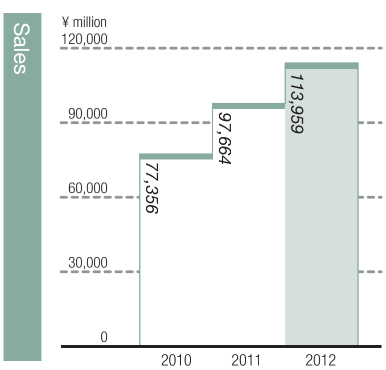
Plastics Machinery Sector/Other Machinery Sector


Polyolefin Extruder/Pelletizer


Large-Size All-Electric Injection Molding Machine (24600kN)


Magnesium Alloy Injection Molding Machine (280t)





Performance in fiscal 2011

Orders rose 2.7% year on year, to ¥118,858 million (US$1,446 million). Although orders for laser annealing equipment declined due to the fact that ordering negotiations were prolonged into the following term, as well as other factors, growth was recorded in orders for plastic production and processing machinery, notably film-forming equipment, and orders for plastic injection molding machines and other machinery held firm.

Sales increased 16.7% to ¥113,959 million (US$1,386 million). Growth was seen in sales of plastic production and processing machinery such as pelletizers and twin-screw extruders, as well as ancillary components and conversion work, and in sales of laser annealing equipment, while sales of plastic injection molding machines held firm.

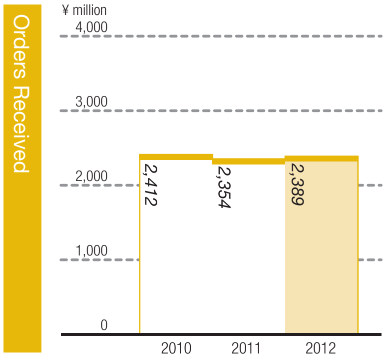
Operating income posted a sharp rise of 254.8%, to ¥11,542 million (US$140 million). This is attributable to increased sales, radical cost-cutting measures, and to steps taken by the Company to enhance its lineup of high-value-added products born out of a level of technological expertise that differentiates the Company from its rivals. These steps were all the more necessary as a result of increasingly fierce price competition caused by the strong yen.

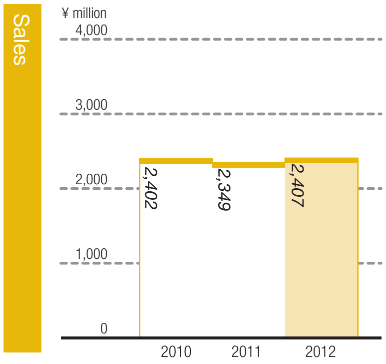
Real Estate and Other Businesses

Regional Development

Business Office Development
(Fuchu Intelligent Park)

JSW Apartment Building Development
(Fuchu, Tokyo)





Performance in fiscal 2011

Orders totaled ¥2,389 million (US$29 million), sales came to ¥2,407 million (US$29 million) and operating income amounted to ¥776 million (US$9 million).

Capital Expenditures

Capital expenditures for the reporting period totaled ¥8,256 million (US$100 million), with the majority spent on installation, improvement and maintenance work on a variety of production facilities.

Details of capital expenditure by individual business segment are as follows.

In the Steel and Energy Products Business, capital expenditures totaled ¥6,238 million (US$75 million). This expenditure consisted largely of investments in the construction of new buildings and equipment for the Special Melting and Heat Treatment facilities, as well as in the upgrading of equipment at the Designing Center at the Muroran Plant.

In the Industrial Machinery Products Business, capital expenditures came to ¥1,896 million (US$23 million), primary as a result of investments in higher machine processing efficiency at our Hiroshima Plant.

In the Real Estate and Other Businesses, capital expenditure consisted primarily of the upgrading of facilities on real estate for rental purposes, totaling ¥78 million (US$0.9 million).

Capital expenditures unallocable to individual segments came to ¥42 million (US$0.5 million).

Research and Development

Muroran Research Laboratory

Hiroshima Research Laboratory

Research and development activities were almost entirely funded by the Company (The Japan Steel Works, Ltd.). Combined spending on research and development for the Steel and Energy Products Business and the Industrial Machinery Products Business amounted to ¥4,626 million (US$56 million).

As a materials and mechatronics company, we strive to develop new products and production techniques using our own technology, while also actively promoting widespread technical alliances and joint development in an effort to put new products and technologies into effect as quickly as possible.

In terms of the direction of research and development, our Research and Development Headquarters continues to promote cooperation with individual business divisions in order to: (1) improve the capabilities, performance and reliability of our core products and (2) develop products in new business fields based on our core and differentiated technologies.

Our Research and Development Headquarters encompasses our headquarters (located at Head Office), the Muroran Research Laboratory (situated on the premises of the Muroran Plant), and the Hiroshima Research Laboratory (located at the Hiroshima Plant).

Our basic research and development policy is as follows.

1. Promoting the development of new products and businesses by focusing on the technological fields of new energy & energy savings, information & telecommunications, nanotechnology & materials, and new production technologies, which are directly related to our current business activities. We aim to develop our existing business by focusing on increasing and upgrading our core technologies while pursuing increased collaboration between the Research and Development Headquarters and our business divisions.
2. Promoting not only basic research aimed at future technologies and the needs of 21st century society but also research on component technologies used in existing products, we will develop these into research and development projects that will translate into new products and businesses in the future as well as into innovations and new possibilities for existing products.
3. In product development for Steel Products, we are focusing on energy fields and on further expanding the number of our many No.1 products while at the same time commercializing products in new fields.

In Machinery Products, we are aggressively promoting the expansion and upgrade of industrial machinery including plastics machinery and IT equipment. We will prioritize investments in business resources by defining a framework for commercialization with an eye toward mergers and acquisitions and the forging of alliances.

Overview of R&D activities by business segment

▷▷▷ Steel and Energy Products Business

In terms of the development of steel products centered on materials, we have been carrying out materials development in such areas as clad steel pipes for natural gas transportation, large steel castings and forgings and high alloy materials for high-efficiency thermal power generation, forged steel products for next-generation nuclear power plants, and high-performance nonferrous alloys, as well as manufacturing process technology development. We have also been pursuing technological development to create more advanced materials and component technologies for existing products. In the field of new energy, we have set out to design wind turbine blades for use at wind power generation plants, establish various reliability-related analytical technologies and develop more advanced component technologies for power generators.

For fiscal 2011, spending on steel and energy products' research and development totaled ¥1,887 million (US$22 million).

▷▷▷ Industrial Machinery Products Business

In the field of machinery-related products, we have been developing low-cost production technologies for high performance magnesium alloy injection molding machines, the commercialization of aluminum die-casting devices, tightlock couplers and shock absorbers tailored to European specifications, high-precision molding technology for plastic extruder and injection molding machinery, and micro-nano melt transcription molding process equipment. We have also been developing higher performance compressors and equipment for making film, as well as laser applications, including systems for cutting-edge laser annealing equipment used in the production of TFT (thin-film transistor) liquid crystal displays, and other applications for laser devices.

Research and development expenses for the reporting term came to ¥2,738 million (US$33 million).

Corporate Governance

Basic Stance on Corporate Governance

At JSW, we believe we must earn the trust of all our stakeholders, including our shareholders and employees, not merely to raise our enterprise value, which comprises both the Company's economic value and its value to society in the broader sense, but to make possible our very existence.

We have, therefore, designed a set of management structures to ensure an effective system of corporate governance, and have taken all necessary measures to facilitate the appropriate disclosure of corporate information so as to achieve the level of management transparency demanded by investors today.

An Outline of Our Corporate Governance System

The Company employs the traditional statutory auditor system, comprising seven directors (one of whom is an outside director) and four statutory auditors (hereafter, "corporate auditors"), of whom two are outside auditors.

The term of office of directors is one year, and we have adopted the corporate officer system and separated the decision-making and oversight functions from the executive functions performed by the corporate officers. In this way, we have taken steps to speed up management decision-making and enhance the performance of both oversight and executive functions.

In principle, the Board of Directors' meeting is convened once a month. At the meeting, decisions and reports are made on matters of importance to the management of the Company, including basic management policies and matters stipulated by legal statute. Meetings are also attended by senior corporate officers and those of higher rank. The Board of Directors is also positioned as an oversight body with respect to the performance of their duties by the directors and corporate officers.

In addition, a Strategy Council composed of three representative directors and other officers designated by the President, including one outside director and one auditor (chosen by rotation) meets once each week to discuss and make decisions on matters of management importance and other matters of importance to the performance of their duties by the directors and corporate officers, as well as to discuss, report, and monitor matters relating to overall management of the Company.

In addition to these bodies, the Management Council, consisting of directors, auditors, the heads of operating divisions, plant general managers and managers at corporate headquarters, and other persons with executive responsibility, convenes once a month in principle. The Management Council analyzes the business environment, monitors the progress of business plans, and ensures that knowledge is widely shared among the Company's management and is reflected in their decisions and that risk management and compliance are rigorously observed.

The Board of Corporate Auditors consists of four corporate auditors, of which two are outside corporate auditors with one serving full-time. The Company's corporate auditors attend meetings of the Board of Directors, the Executive Board, the Management Council and other important meetings. They also pay regular inspection visits to all the Company's plants and offices and to Group subsidiaries once during each half of the fiscal year, as a general rule. They exercise strict oversight with regard to the execution of Company directors' duties, such as by receiving important reports when needed from the aforementioned divisions and exchanging views with directors and key employees. Based on this, they express their views to management from an objective and neutral point of view.

Our Internal Control and Risk Management System

JSW regards it as a management issue of crucial importance to have an effective internal control system in place to ensure the correct performance of business operations. We are, therefore, working to improve our system of internal control in line with our Basic Policy on Internal Control Systems resolved at the meetings of the Board of Directors, in addition to the Regulations Regarding the Promotion of Internal Control Activities (one of the Company's internal regulations). In addition, we will respond to social changes and work to achieve a more appropriate and efficient system by properly reviewing internal control issues and responses. The points below delineate the fundamental stance adopted by the management of JSW toward the issue of internal control, and the progress achieved thus far in strengthening the Company's internal control system.

1. Improving the internal control system

In addition to setting up a specialist unit dedicated to supervising the Company's internal control system, the Internal Control Committee holds meetings on an ad hoc basis, as deemed necessary.

2. Observance of legal regulations and the Company's Articles of Incorporation

JSW does not limit compliance to the prevention of illegal acts and the observance of legal regulations and the Company's Articles of Incorporation. It views compliance in the broader context of general social responsibilities and the upholding of a wide variety of rules and regulations. The key to success for compliance activities lies in having directors and corporate officers take the initiative in setting an example and practicing truthfulness, while raising employee awareness on compliance issues through education and training and promoting this in an integrated manner with risk management.

JSW has established a department responsible for internal audits to ensure that the Company's overall operations observe all laws and regulations, as well as in-house rules. In addition to periodic audits, this department conducts spot audits, as deemed necessary. The results of these audits are reported to the president and relevant parties including, as appropriate, the Board of Directors, the Executive Board, the Management Council and the Board of Corporate Auditors.

We have also created a system of internal and external routes for reporting and discussing compliance violations when discovered. The person filing the report is guaranteed anonymity. Violators, regardless of whether they are directors, corporate officers or staff, will be punished accordingly, and measures will be taken swiftly to prevent any recurrence.

The Company has clarified in its Corporate Code of Conduct its policy of strict opposition to the activities of criminal organizations or individuals and it takes firm action to eliminate these anti-social forces through the establishment of a single dedicated office for the communication of relevant information and the management of countermeasures.

3. Safeguarding and management of information

The Company appoints a director or corporate officer to be the chief information security officer (CISO) to ensure the safeguarding and management of information. In accordance with rules and regulations governing the management of documents and information, the Company stores and manages important information related to the execution of directors' and corporate officers' duties including the minutes of important meetings and written requests for management decision approval (*ringisho*), and other important documents as written documents or as electronic records held in safekeeping. Further, directors and corporate auditors are able to access and view or copy this information as needed.

The Company also discloses financial and important management information in a timely and appropriate manner.

4. Risk management

At JSW, directors, who concurrently serve as the managers at corporate headquarters, corporate officers, and employees understand and evaluate the risks involved in carrying out their duties in their divisions, and within the scope of their authority, as stipulated by regulations and the system for management decision approval (*ringisho*), they ensure that they execute their duties efficiently and respond to risks in an integrated manner. Important matters pertaining to risk management are discussed at meetings of the Board of Directors or of the Executive Board.

The Company has established regulations for risk management and defined a Companywide risk management system. With respect to risk based on functions such as safety and hygiene, environmental management, information security, and security export controls, the relevant division in charge of those risks sets up committees or creates regulations for managing each of those risks across division boundaries and then appropriately manages them. A director or corporate officer of the Company has been placed in charge of CSR and risk management who monitors these risk management conditions in collaboration with the department responsible for internal audits and reports to the Board of Directors or the Executive Board.

Risk managers are assigned within each division at the headquarters, within each business unit, and at each plant. These risk managers ascertain the appropriateness of existing measures and work to eliminate everyday risks. In the case of critical risk situations, a crisis management headquarters is established to provide the appropriate response. In this way, we are responding to risks under both ordinary and extraordinary circumstances.

5. Ensuring efficient performance of duties

To ensure rapid decision-making and the flexible and efficient performance of management duties, the president has been made the chief executive officer, and directors have been put in charge of the performance of duties in key departments within headquarters and business units. Under their leadership and supervision, the corporate officers appointed by the Board of Directors perform the duties delegated to them. Moreover, the directors and corporate officers perform their duties integrated with risk management and also discuss, decide and report on important matters at the Board of Directors' meeting and the Executive Board.

At JSW, Companywide goals that are to be shared by directors, corporate officers and employees are established at the Board of Directors' meeting, which are incorporated in the Company's Medium-Term Management Plan and the business plans for each business unit. Each director and corporate officer develops specific measures for achieving these goals. A division of duties is undertaken in line with in-house regulations, and the specific measures are planned and implemented. Each director and corporate officer conducts a review of the results and provides periodic progress reports, as well as impromptu reports at meetings of the Board of Directors, the Executive Board and the Management Council. All members of the JSW management are working to ensure impartial personnel evaluations.

6. Ensuring appropriate management conduct at Group companies

The Company encourages its subsidiaries to follow its Vision, Management Philosophy and Corporate Code of Conduct, and also create their own systems of internal controls. In addition, the Company supports the autonomy of their management.

The Company has drafted regulations concerning the operation and management of its subsidiaries and has clarified the system of management responsibility and leadership for them. At the same time, the Company is creating a system whereby reports and notifications can be made regarding subsidiaries' decisions on important issues and other matters of concern, and data can be collected. However, as listed subsidiaries, the Company is careful to ensure a certain amount of management independence.

At JSW, directors and corporate auditors are assigned to JSW subsidiaries. Also, to ensure our subsidiaries' strict adherence to all laws and regulations, as well as in-house company regulations, we request that these companies conduct in-house audits, both periodic and spot audits, through the departments in charge of each subsidiary, and also by a department responsible for the internal auditing of subsidiaries. We will also directly audit operations and provide guidance for improving internal controls of subsidiaries.

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

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

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

At JSW, corporate auditors attend the Board of Directors, the Executive Board, the Management Council, and other managerial meetings where important matters are discussed, decided and reported. Corporate auditors are guaranteed these opportunities.

In keeping with the ringi system, corporate auditors are also shown the records of management decision approval (*ringisho*) for their perusal. Moreover, the auditors may request reports from directors, corporate officers or employees at any time as they deem this necessary. The timing of these reports and the method to be used are agreed beforehand through discussions between the auditors and the directors, corporate officers or employees.

9. Ensuring effective performance of audits by the corporate auditors

We provide an environment in which directors, corporate officers and employees of the Company can recognize the importance and benefits of audits performed by corporate auditors, and can give the highest priority to cooperating with auditors in their duties as far as possible. The corporate auditors can request the collaboration and cooperation of the Company's Internal Audit Division, other head office divisions, and all other divisions of the Company in the performance of audits.

We provide an environment that ensures corporate auditors collaborate closely with accounting auditors and the Internal Audit Division.

We also provide an environment that allows corporate auditors to employ the services of legal advisors and other outside experts at their own discretion.

10. System for ensuring the reliability of financial reports

The Company follows basic internal control policies for financial reports and evaluates the effectiveness of internal controls for financial reports. The Board of Directors and the Executive Board discuss and report on the results of those evaluations.

Policy Regarding Large-Scale Purchases of Company Shares

By resolution of a meeting of the Board of Directors of The Japan Steel Works, Ltd. held on September 10, 2007, the Company instituted a set of rules to be obeyed and procedures to be followed by any party seeking to make a tender offer for the purchase of the shares issued and outstanding of the Company. These rules and procedures were adopted under the name of Measures against Large-Scale Share Acquisitions (Measures to Prevent Takeover). Subsequent to this resolution, a partial amendment of these measures was presented at the Company's 82nd Regular General Meeting of Shareholders held on June 27, 2008, and the agenda item was approved and updated. After that, necessary amendments were made and then approved by shareholders at the Company's 85th Regular General Meeting of Shareholders held on June 24, 2011.

The Environment

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 the sustainable development of society in harmony with the ecosystem through production activities that respect environmental integrity, and by developing environmental preservation technologies.

In recognition of the importance of activities in promoting environmental management, we obtained ISO14001 certification for Muroran and Hiroshima Plants in 1998 and Yokohama plant in 2006. We have maintained the certification to this day.

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 our product's social value to in terms of environmental protection, safety and hygiene.
   (2) We provide products and services to reduce environmental loads by obtaining a clear grasp of environmental needs and technical development.

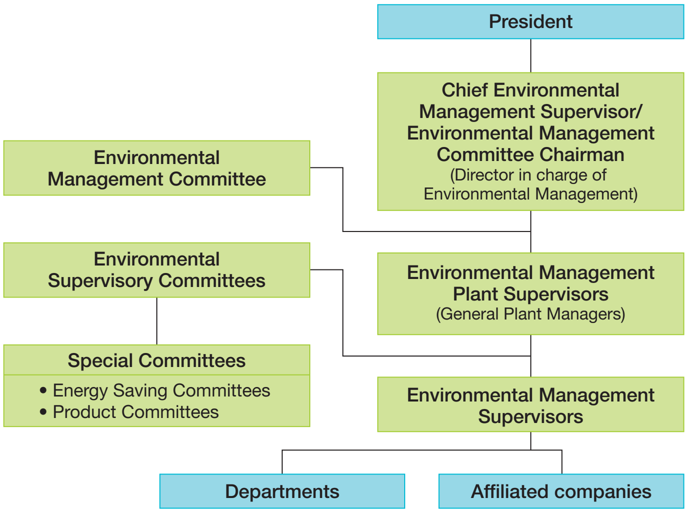
Common policy for business facilities

Taking into consideration its business activities, the local community and the surrounding environment, each plant operates by setting out its own environmental policy, objectives and targets using methods compliant with international standards.

1. Respect laws and regulations and agreements we have concluded with external parties.
2. Prevent pollution and reduce and appropriately treat waste, to conserve the ecosystem.
3. Improve "resource productivity" through implementation of energy efficiency, resource efficiency, and recycling.
4. Inform employees and other companies residing within our facilities of our policies and require their cooperation.

Environmental Management Structure

The Environmental Management Committee was formed as a decision-making organization regarding environmental management. The Chief Environmental Officer serves as the chairman of this committee, which holds meetings twice a year. Various issues are examined at these meetings, such as proposals concerning environmental management, policy for the environment, and an action plan. Each plants has its own Environmental Committee, which promotes environmental activities and deals with other group companies.



Medium-Term Action Plan for Environmental Management Activities (Fiscal 2009–2012)

We are promoting environmental management activities at our Muroran, Hiroshima and Yokohama plants. Social awareness has changed greatly regarding the need to deal with such issues as the mitigation of climate change and efficient use of resources.

We are working to attain the targets in our medium-term plan for environmental management activities covering the period from fiscal 2009 to 2012. In 2011, measures were taken at each plant to meet these targets.

With regard to the observance of laws and regulations, we implement environmental patrols at environmental-related facilities, plants, and other sites in the vicinity. We confirm that all environmental preservation-related laws and regulations are being observed, and that the environmental management system is functioning properly. To effectively communicate the results of the environmental patrols, we carry out employee training programs for affiliates and collaborating companies, as well as at our headquarters.

Environmental Preservation Activities

The following section introduces some of JSW's wide range of environmental preservation activities.

Reducing atmospheric emission of nickel compounds

After guideline values for nickel compounds were established by the government in September 2003 to reduce health risks, we installed new equipment at our Muroran Plant in each relevant division including the copper and forging division, beginning with the installation of gas cutting equipment on the plant docks in 2004. In conjunction with this, we have taken steps to improve work, processes, and equipment, and have nearly completed the installation of a series of equipment to improve the workplace environment of the scrap cutting plant (started up in 2010) during cutting operation. Thus far, the plant has operated below the established limit values.

Working together with the local municipal government since 2005, we have created our own voluntary controls and taken action. We have taken steps to reduce the amount of dust generated in the plant by installing dust collectors designed to create a better environment for the new equipment.

Safety and disaster prevention activities

We regularly implement environmental patrols at each plant to verify management status and audit data relating to specific air- and water-related facilities, pretreatment facilities, oil-water separation tanks and other facilities.

Community contributions

As part of our social contribution activities, we conduct a cleanup campaign along the main streets in the vicinity of our Yokohama Plant in April each year.

The cleanup campaign is conducted along roads between a nearest Station and our Yokohama Plant's main gate. Employees collect empty cans and pick up plastic bottles and cigarette butts. The trash is then separated and disposed of. We intend this to be an ongoing activity.

Board of Directors, Corporate Auditors and Executive Officers

(as of June 26, 2012)

Board of Directors and Corporate Auditors

Representative Director & President
Ikuo Sato

Representative Director & Executive Vice President
Hisao Iwashita

Representative Director & Senior Managing Executive Officer
Atsushi Igarashi

Director, Senior Managing Executive Officers
Yoshitomo Tanaka
Etsuo Murai
Takao Ishido

Director
Hiroo Suto (*Outside*)

Corporate Auditors
Seiichi Uehara
Yasunori Tanita
Mamoru Kawakami (*Outside*)
Akira Sato (*Outside*)

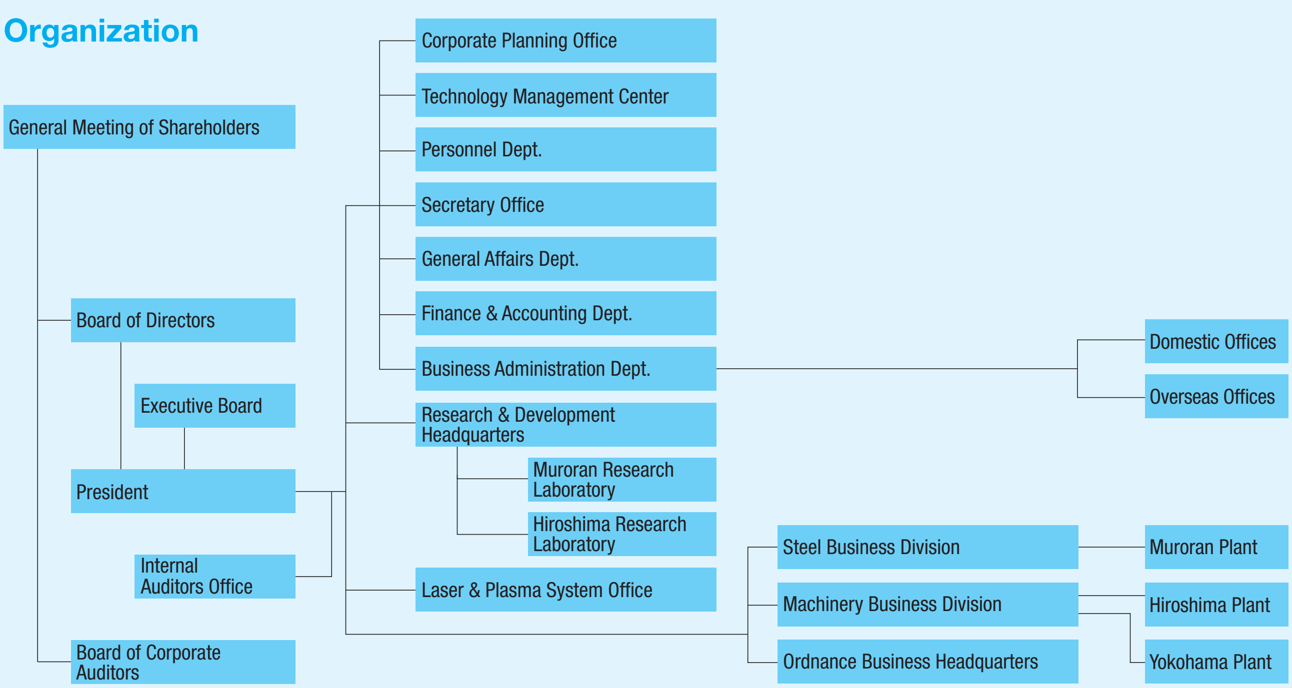
Executive Officers

Managing Executive Officers
Tamotsu Hayakawa
Yutaka Mizutani
Akira Kadota
Nobuaki Shimizu

Senior Executive Officers
Hiroshi Hamao
Nobuhisa Kobayashi

Executive Officers
Hiroyuki Tokushige
Shin-ichi Ono
Yasuaki Nishiyama
Hirohisa Matsuo
Kazuo Kitamura
Hiroo Akabane
Yoshinao Ishibashi
Hiroshi Fujimura
Kenji Watanabe
Yutaka Higashiizumi

Organization



Financial Section

THE JAPAN STEEL WORKS, LTD.

Six-Year Summary

Years ended March 31

Consolidated	Millions of Yen					
	2012	2011	2010	2009	2008	2007
Net sales	**¥221,368**	¥212,929	¥201,680	¥227,113	¥220,851	¥207,138
Net income	**12,591**	16,532	17,528	16,034	17,484	12,515
Total assets	**325,653**	339,263	322,986	296,909	262,453	232,444
Total net assets	**128,613**	120,820	111,149	90,125	85,231	75,621
Amounts per share (yen):						
Net income	**¥33.93**	¥44.54	¥47.22	¥43.19	¥47.10	¥33.71

Non-Consolidated	Millions of Yen					
	2012	2011	2010	2009	2008	2007
Net sales	**¥189,329**	¥179,325	¥175,333	¥196,030	¥189,318	¥177,493
Net income	**11,257**	14,527	16,665	15,449	15,878	12,233
Total assets	**302,550**	316,176	298,783	277,301	243,433	215,693
Total net assets	**116,255**	109,734	101,615	82,449	77,958	69,907
Amounts per share (yen):						
Net income	**¥30.33**	¥39.14	¥44.90	¥41.62	¥42.77	¥32.95
Cash dividends applicable to the year	**¥10.00**	¥12.00	¥12.00	¥12.00	¥12.00	¥9.00

Contents

21 Six-Year Summary
22 Financial Performance (Consolidated)
24 Consolidated Balance Sheets
26 Consolidated Statements of Income
27 Consolidated Statements of Comprehensive Income
28 Consolidated Statements of Changes in Net Assets
29 Consolidated Statements of Cash Flows
30 Notes to Consolidated Financial Statements
45 Independent Auditor’s Report

Financial Performance (Consolidated)

Operating Results

Net Sales

Net sales increased ¥8,439 million, or 4.0%, year on year, to ¥221,368 million (US$2,693 million) in the reporting period.

The decline in sales of the Steel and Energy Products Business was more than offset by growth in sales of the Industrial Machinery Products Business.

Operating Income

Operating income declined ¥4,584 million, or 16.1%, to ¥23,911 million (US$290 million). This decrease was mainly attributable to a more efficient balance between inventory turnover and notes and accounts receivable as a measure to strengthen our financial position, as well as to aggressive cost-cutting including improved variable costs and further reductions in fixed costs as efforts to lower the break-even point, both of which were more than offset by the appreciation of the yen, lower product price as a result of intensified competition, as well as increased depreciation and amortization.

Net Income

Net income decreased ¥3,941 million, or 23.8%, to ¥12,591 million (US$153 million).

Geographical Information

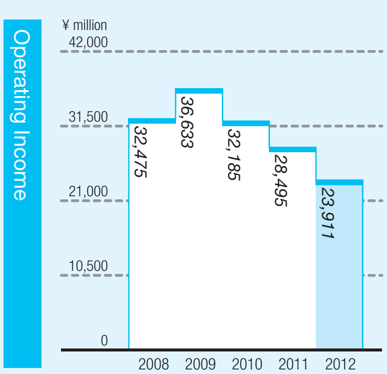
The Japanese market accounted for sales of ¥111,156 million (US$1,352 million) and the Chinese market for ¥32,038 million (US$389 million), with all other markets accounting for ¥78,173 million (US$951 million).

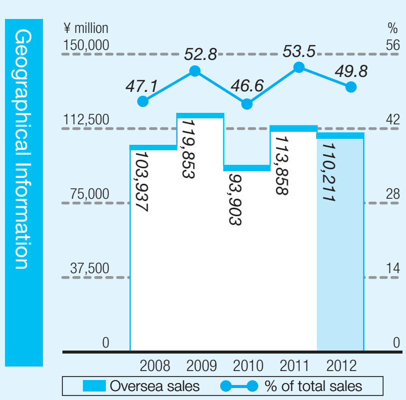
Cash Flows

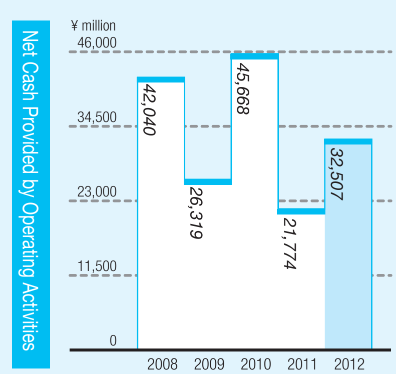
Cash and cash equivalents stood at ¥48,107 million (US$585 million) at the reporting term-end, up ¥6,990 million year on year after adjusting noncash items. This was the result of a decline in working capital as well as the non-performance of significant fund procurement on a consolidated accounts basis during the reporting term.

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to ¥32,507 million (US$395 million), compared with ¥21,774 million in the previous term. This was the result of a decline in working capital and other factors, despite the fact that net income before income taxes and other adjustments came to ¥20,302 million.







Cash Flow from Investing Activities

Net cash used in investing activities amounted to ¥18,601 million (US$226 million), compared with ¥28,238 million for the previous term. This was due mainly to an investment of ¥17,233 million in property, plant and equipment for the purpose of raising production efficiency.

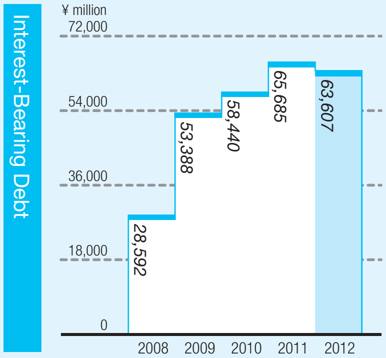
Cash Flow from Financing Activities

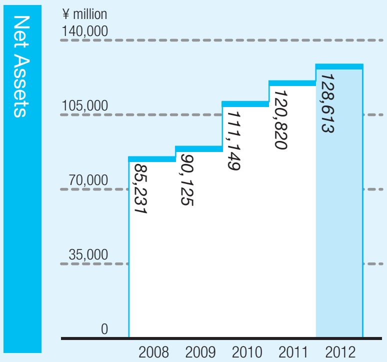
Net cash provided by financing activities amounted to ¥6,846 million (US$83 million) compared with a net cash inflow of ¥2,116 million for the previous term. This was the result of the non-performance of significant fund procurement during the reporting term, on a consolidated accounts basis, as well as an expenditure of ¥4,082 million for the payment of dividends and other factors.

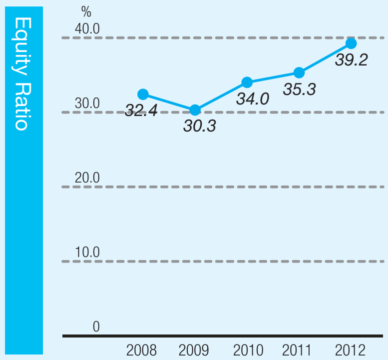
Financial Position

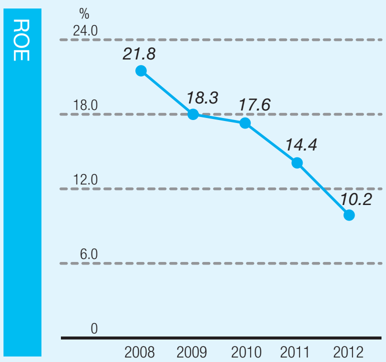
Total assets as of the end of March 2012 stood at ¥325,653 million (US$3,962 million), down ¥13,610 million, or 4.0%, from the previous term-end. This was mainly due to a decrease in non-current assets.

Liabilities at the reporting term-end stood at ¥197,039 million (US$2,397 million), down ¥21,403 million, or 9.8%, over the previous term-end. This was largely attributable to an decrease in long-term debt. Interest-bearing debt stood at ¥63,607 million (US$773 million), down ¥2,079 million from the previous fiscal year. Net assets at the reporting term-end totaled ¥128,613 million (US$1,564 million), for an increase of ¥7,793 million, or 6.5%, over the previous term-end.









THE JAPAN STEEL WORKS, LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2012 and 2011

ASSETS	Millions of Yen 2012	Millions of Yen 2011	Thousands of U.S. Dollars (Note 3) 2012
Current assets:			
Cash on hand and in banks (Notes 16 and 17)	**¥ 48,148**	¥ 41,187	**$ 585,813**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**2,062**	1,251	**25,088**
Trade (Notes 8 and 16)	**44,495**	43,998	**541,368**
Other	**370**	1,608	**4,502**
Less allowance for doubtful accounts	**(314)**	(208)	**(3,820)**
Inventories (Note 4)	**79,348**	82,241	**965,422**
Deferred tax assets (Note 20)	**6,400**	6,852	**77,868**
Other current assets	**4,139**	8,535	**50,359**
Total current assets	**184,652**	185,467	**2,246,648**
Property, plant and equipment, at cost (Notes 5 and 6)**:**			
Land	**11,058**	11,381	**134,542**
Buildings and structures	**96,954**	96,665	**1,179,633**
Machinery and equipment	**144,515**	139,417	**1,758,304**
Leased assets	**8,042**	8,339	**97,846**
Construction in progress	**2,088**	2,631	**25,405**
	262,659	258,434	**3,195,754**
Less accumulated depreciation	**(156,117)**	(140,893)	**(1,899,465)**
Property, plant and equipment, net	**106,541**	117,540	**1,296,277**
Intangible assets	**934**	1,005	**11,364**
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates	**868**	875	**10,561**
Investment securities (Notes 16 and 17)	**25,434**	27,613	**309,454**
Long-term loans receivable	**241**	111	**2,932**
Deferred tax assets (Note 20)	**1,932**	2,075	**23,507**
Other assets (Note 8)	**5,471**	4,772	**66,565**
Less allowance for doubtful accounts	**(423)**	(198)	**(5,147)**
Total investments and other assets	**33,524**	35,249	**407,884**
Total assets	**¥325,653**	¥339,263	**$3,962,197**

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2012	Millions of Yen 2011	Thousands of U.S. Dollars (Note 3) 2012
Current liabilities:			
Short-term borrowings (Notes 8 and 16)	**¥ 12,885**	¥ 13,120	**$ 156,771**
Current portion of long-term debt (Notes 8 and 16)	**15,190**	2,435	**184,816**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	**37**	81	**450**
Trade (Note 16)	**41,634**	44,932	**506,558**
Other	**1,749**	6,384	**21,280**
Advances received for products	**32,615**	31,024	**396,824**
Accrued income taxes (Note 20)	**4,141**	7,979	**50,383**
Other current liabilities	**21,396**	27,600	**260,324**
Total current liabilities	**129,649**	133,558	**1,577,430**
Long-term liabilities:			
Long-term debt (Notes 8 and 16)	**35,532**	50,130	**432,315**
Accrued retirement benefits (Note 19)			
For employees	**9,695**	9,339	**117,958**
For directors and corporate auditors	**195**	199	**2,373**
Deferred tax liabilities (Note 20)	**1,084**	1,720	**13,189**
Other long-term liabilities	**20,881**	23,494	**254,058**
Total long-term liabilities	**67,389**	84,884	**819,917**
Net assets:			
Shareholders' equity (Note 13)			
Common stock:			
Authorized — 1,000,000,000 shares			
Issued — 371,463,036 shares	**19,694**	19,694	**239,616**
Capital surplus	**5,426**	5,426	**66,018**
Retained earnings	**103,288**	94,779	**1,256,698**
Treasury stock, at cost (621,564 shares in 2012 and 299,234 shares in 2011)	**(408)**	(224)	**(4,964)**
Total shareholders' equity	**128,000**	119,676	**1,557,367**
Accumulated other comprehensive income:			
Unrealized holding gain (loss) on securities	**385**	687	**4,684**
Unrealized gain (loss) from hedging instruments	**(62)**	102	**(754)**
Translation adjustments	**(650)**	(586)	**(7,909)**
Total accumulated other comprehensive income	**(327)**	203	**(3,979)**
Minority interests	**940**	940	**11,437**
Total net assets	**128,613**	120,820	**1,564,825**
Total liabilities and net assets	**¥325,653**	¥339,263	**$3,962,197**

Consolidated Statements of Income

For the years ended March 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2012	2011	**2012**
Net sales	**¥221,368**	¥212,929	**$2,693,369**
Cost of sales (Note 10)	**169,733**	155,433	**2,065,130**
Gross profit	**51,634**	57,496	**628,227**
Selling, general and administrative expenses (Note 10)	**27,723**	29,000	**337,304**
Operating income	**23,911**	28,495	**290,923**
Other income (expenses):			
Interest and dividend income	**531**	484	**6,461**
Interest expense	**(664)**	(739)	**(8,079)**
Other, net (Note 11)	**(3,476)**	(316)	**(42,292)**
	(3,609)	(571)	**(43,910)**
Income before income taxes and minority interests	**20,302**	27,923	**247,013**
Income taxes (Note 20):			
Current	**7,373**	14,075	**89,707**
Deferred	**312**	(2,396)	**3,796**
Income before minority interests	**12,616**	16,244	**153,498**
Minority interests in net income (loss) of consolidated subsidiaries	**(25)**	(287)	**(304)**
Net income (Note 26)	**¥ 12,591**	¥ 16,532	**$ 153,194**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2012	2011	**2012**
Income before minority interests	**¥12,616**	¥16,244	**$153,498**
Other comprehensive income:			
Unrealized holding gain (loss) on securities	**(302)**	(2,261)	**(3,674)**
Unrealized gain (loss) from hedging instruments	**(164)**	315	**(1,995)**
Translation adjustments	**(68)**	(161)	**(827)**
Total other comprehensive income (Note 12)	**(535)**	(2,107)	**(6,509)**
Comprehensive income	**¥12,081**	¥14,137	**$146,989**
Total comprehensive income attributable to:			
Shareholders of The Japan Steel Works, Ltd.	**¥12,060**	¥14,426	**$146,733**
Minority interests	**¥ 21**	¥ (288)	**$ 256**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2012	2011	**2012**
Common stock:			
Balance at beginning of year	**¥ 19,694**	¥ 19,694	**$ 239,616**
Balance at end of year	**¥ 19,694**	¥ 19,694	**$ 239,616**
Capital surplus:			
Balance at beginning of year	**¥ 5,426**	¥ 5,425	**$ 66,018**
Disposal of treasury stock	**(0)**	0	**(0)**
Balance at end of year	**¥ 5,426**	¥ 5,426	**$ 66,018**
Retained earnings:			
Balance at beginning of year	**¥ 94,779**	¥ 82,701	**$1,153,169**
Cash dividends paid	**(4,082)**	(4,454)	**(49,665)**
Net income	**12,591**	16,532	**153,194**
Balance at end of year	**¥103,288**	¥ 94,779	**$1,256,698**
Treasury stock, at cost:			
Balance at beginning of year	**¥ (224)**	¥ (213)	**$ (2,725)**
Purchases of treasury stock	**(184)**	(12)	**(2,239)**
Disposal of treasury stock	**0**	2	**0**
Balance at end of year	**¥ (408)**	¥ (224)	**$ (4,964)**
Total shareholders' equity:			
Balance at beginning of year	**¥119,676**	¥107,607	**$1,456,090**
Cash dividends paid	**(4,082)**	(4,454)	**(49,665)**
Net income	**12,591**	16,532	**153,194**
Purchases of treasury stock	**(184)**	(12)	**(2,239)**
Disposal of treasury stock	**0**	3	**0**
Balance at end of year	**¥128,000**	¥119,676	**$1,557,367**
Unrealized holding gain (loss) on securities:			
Balance at beginning of year	**¥ 687**	¥ 2,949	**$ 8,359**
Net changes in items other than those in shareholders' equity	**(302)**	(2,261)	**(3,674)**
Balance at end of year	**¥ 385**	¥ 687	**$ 4,684**

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2012	2011	**2012**
Unrealized gain (loss) from hedging instruments:			
Balance at beginning of year	**¥ 102**	¥ (213)	**$ 1,241**
Net changes in items other than those in shareholders' equity	**(164)**	315	**(1,995)**
Balance at end of year	**¥ (62)**	¥ 102	**$ (754)**
Translation adjustments:			
Balance at beginning of year	**¥ (586)**	¥ (425)	**$ (7,130)**
Net changes in items other than those in shareholders' equity	**(64)**	(160)	**(779)**
Balance at end of year	**¥ (650)**	¥ (586)	**$ (7,909)**
Total accumulated other comprehensive income:			
Balance at beginning of year	**¥ 203**	¥ 2,310	**$ 2,470**
Net changes in items other than those in shareholders' equity	**(531)**	(2,106)	**(6,461)**
Balance at end of year	**¥ (327)**	¥ 203	**$ (3,979)**
Minority interests:			
Balance at beginning of year	**¥ 940**	¥ 1,231	**$ 11,437**
Net changes in items other than those in shareholders' equity	**(0)**	(290)	**(0)**
Balance at end of year	**¥ 940**	¥ 940	**$ 11,437**
Total net assets:			
Balance at beginning of year	**¥120,820**	¥111,149	**$1,470,009**
Cash dividends paid	**(4,082)**	(4,454)	**(49,665)**
Net income	**12,591**	16,532	**153,194**
Purchases of treasury stock	**(184)**	(12)	**(2,239)**
Disposal of treasury stock	**0**	3	**0**
Net changes in items other than those in shareholders' equity	**(531)**	(2,397)	**(6,461)**
Balance at end of year	**¥128,613**	¥120,820	**$1,564,825**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2012	2011	**2012**
Operating activities			
Income before income taxes and minority interests	**¥20,302**	¥27,923	**$247,013**
Depreciation and amortization	**19,244**	20,021	**234,140**
Interest and dividend income	**(531)**	(484)	**(6,461)**
Interest expense	**664**	739	**8,079**
Equity in (earnings) losses of affiliates	**0**	0	**0**
Loss on write-downs of investment securities	**2,303**	340	**28,020**
Loss on disposal of tangible and intangible assets	**379**	481	**4,611**
(Gain) loss on sales of property, plant and equipment	**(53)**	(15)	**(645)**
Loss on sales of investments in subsidiaries and affiliates	**320**	—	**3,893**
Changes in operating assets and liabilities:			
Trade assets (Note 16)	**(1,720)**	(16,489)	**(20,927)**
Trade liabilities	**(3,332)**	11,255	**(40,540)**
Inventories (Note 4)	**2,776**	(12,614)	**33,775**
Other	**3,507**	3,381	**42,669**
Subtotal	**43,859**	34,539	**553,629**
Interest and dividends received	**526**	487	**6,400**
Interest paid	**(667)**	(725)	**(8,115)**
Income taxes paid	**(11,210)**	(12,527)	**(136,391)**
Net cash provided by operating activities	**32,507**	21,774	**395,510**
Investing activities			
Increase in tangible and intangible assets	**(17,233)**	(27,626)	**(209,673)**
Decrease in tangible and intangible assets	**236**	157	**2,871**
Purchases of investment securities	**(682)**	(41)	**(8,298)**
Proceeds from sales of investment securities	**0**	0	**0**
Reimbursement of long-term deposits on contracts	**(739)**	(487)	**(8,991)**
(Increase) decrease in short-term loans receivable	**(205)**	2	**(2,494)**
Long-term loans receivable made	**(30)**	(56)	**(365)**
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	**(117)**	—	**(1,424)**
Other	**170**	(187)	**2,068**
Net cash used in investing activities	**(18,601)**	(28,238)	**(226,317)**
Financing activities (Notes 8 and 16)			
Net decrease in short-term borrowings	**(235)**	(602)	**(2,859)**
Increase in long-term debt	**—**	10,420	**—**
Decrease in long-term debt	**(635)**	(1,087)	**(7,726)**
Cash dividend paid	**(4,082)**	(4,454)	**(49,665)**
Acquisition of treasury stock	**(2)**	(12)	**(24)**
Proceeds from sales of treasury stock	**0**	3	**0**
Repayments of finance lease obligations	**(1,869)**	(2,097)	**(22,740)**
Other	**(21)**	(52)	**(256)**
Net cash provided by (used in) financing activities	**(6,846)**	2,116	**(83,295)**
Effect of exchange rate changes on cash and cash equivalents	**(69)**	(138)	**(840)**
(Decrease) increase in cash and cash equivalents	**6,990**	(4,486)	**85,047**
Cash and cash equivalents at beginning of the year	**41,116**	45,603	**500,256**
Cash and cash equivalents at end of the year (Notes 14 and 16)	**¥48,107**	¥41,116	**$585,315**

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, 2012, the numbers of consolidated subsidiaries, and subsidiaries and affiliates accounted for by the equity method were 34 and 1 (37 and 1 in 2011), respectively. Effective March 31, 2012, Joyo Engineering Co., Ltd. was excluded from the scope of consolidation as a result of divestiture of shares. Nikko Machinery Co., Ltd. and J·Tech Co., Ltd. were excluded from the scope of consolidation, after Nikko Machinery Co., Ltd. was absorbed by JSW Machine Center Co., Ltd. and J·Tech Co., Ltd. was absorbed by Nikko Techno 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 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) Short-term investments and investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into two categories: held-to-maturity or other securities.

Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(f) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for possible bad debts at an amount estimated based on the historical experience with bad debts on normal receivables plus an additional allowance for specific uncollectible amounts determined by reference to the collectability of individual doubtful accounts.

(g) Provision for warranties for completed construction

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

(h) Provision for 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) Property, plant and equipment and depreciation

Property, plant and equipment is stated on the basis of cost. Depreciation of property, plant and equipment is determined by the declining-balance method over the estimated useful lives of the respective assets, except that the straight-line method is applied to buildings.

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

(j) 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 sales and purchase 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.

(k) Retirement benefits

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

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

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.

(l) 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.

(m) Research and development expenses

Research and development expenses are charged to income when incurred.

(n) Revenue and cost recognition

Revenues are generally recognized on sales of products 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.

(o) 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.

(p) Consumption tax

Accounting treatment of consumption tax is the tax exclusion method.

(q) 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.

(r) Provision for directors' retirement benefits

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

(s) Additional Information

Effective April 1, 2011, the Company adopted the Accounting Standard for Accounting Changes and Error Corrections (Accounting Standards Board of Japan (ASBJ), Statement No. 24 issued on December 4, 2009) and the Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No. 24 issued on December 4, 2009).

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 ¥82.19 = U.S.$1.00, the approximate rate of exchange prevailing on March 30, 2012. 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, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Real estate held for sale	**¥ 18**	¥ 21	**$ 219**
Finished products	**1,431**	1,161	**17,411**
Work in process	**72,706**	75,008	**884,609**
Raw materials and supplies	**5,192**	6,050	**63,171**
Total	**¥79,348**	¥82,241	**$965,422**

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 ¥2,391 million ($29,091 thousand) at March 31, 2012 and ¥1,257 million at March 31, 2011.

5. Depreciation

Depreciation expense on property, plant and equipment for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Depreciation expense	**¥19,252**	¥20,003	**$234,238**

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, 2012 and 2011 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Accumulated advanced depreciation expense	**¥1,287**	¥1,301	**$15,659**

7. Contingent Liabilities

Contingent liabilities at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
As endorsers of trade notes receivable:			
Discounted to banks	**¥ 23**	¥ —	**$ 280**
Endorsed to other	**85**	78	**1,034**
As guarantors of loans:			
Muroran Environmental Plant Service Co., Ltd.	**586**	588	**7,130**
Gotsu Wind Power Co., Ltd.	**1,633**	1,757	**19,869**
Uncollected receivables in leasing companies	**16**	32	**195**
Employees and other	**355**	498	**4,319**

8. Short-Term Borrowings and Long-Term Debt

All short-term borrowings, with interest at annual rates ranging from 0.636% to 1.975% at March 31, 2012 and 0.64% to 1.975% at March 31, 2011, were unsecured.

Long-term debt at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Loans from banks and insurance companies with interest at annual rates ranging from 0.23% to 2.26%	**¥37,535**	¥38,170	**$456,686**
Less those maturing within one year	**(13,670)**	(635)	**(166,322)**
Lease obligations	**3,187**	4,396	**38,776**
Less those maturing within one year	**(1,520)**	(1,800)	**(18,494)**
0.48% straight bonds, due 2015	**10,000**	10,000	**121,669**
Long-term indebtedness reflected in the consolidated balance sheets	**¥35,532**	¥50,130	**$432,315**

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2012 are summarized as follows:

	Bonds		Long-term debt	
Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
2013	¥ —	$ —	¥13,670	$166,322
2014	—	—	10,370	126,171
2015	—	—	2,550	31,026
2016	10,000	121,669	10,830	131,768
2017	—	—	115	1,399
2018 and thereafter	—	—	—	—

	Lease obligations	
Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2013	¥1,520	$18,494
2014	783	9,527
2015	474	5,767
2016	251	3,054
2017	109	1,326
2018 and thereafter	48	584

The assets pledged as collateral for long-term debt at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Investments and other assets (Other assets)	**¥16**	¥ 28	**$195**

9. Liquidation of Accounts Receivable

Accounts receivable transferred to others for liquidation at March 31, 2012 and 2011 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Accounts receivable	**¥7,750**	¥6,017	**$94,294**

10. Research and Development Expenses

Research and development expenses included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Research and development expenses	**¥4,626**	¥4,487	**$56,284**

11. Other Income (Expenses) — Other, Net

The details of “Other, net” in “Other income (expenses)” for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Reversal of provision for warranties for completed construction	**¥ 485**	¥ —	**$ 5,901**
Gain on adjustment of insurance	**262**	222	**3,188**
Amortization of negative goodwill	**71**	71	**864**
Provision for warranties for completed construction	**(1,096)**	(620)	**(13,335)**
Equity in losses of affiliates	**0**	0	**0**
Gain on sales of property, plant and equipment	**85**	16	**1,034**
Loss on sales or disposal of property, plant and equipment	**(411)**	(482)	**(5,001)**
Loss on write-downs of investment securities	**(2,303)**	(340)	**(28,020)**
Loss on sales of investments in subsidiaries and affiliates	**(320)**	—	**(3,893)**
Loss on liquidation of subsidiaries and affiliates	**(92)**	—	**(1,119)**
Loss on valuation of membership	**(12)**	(4)	**(146)**
Loss on sales of membership	**(3)**	(0)	**(37)**
Other, net	**(141)**	820	**(1,716)**
Total	**¥(3,476)**	¥(316)	**$(42,292)**

12. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the year ended March 31, 2012:

Year ended March 31, 2012

	Millions of Yen	Thousands of U.S. Dollars
Unrealized holding gain (loss) on securities:		
Amount arising during the year	**¥(2,571)**	**$(31,281)**
Reclassification adjustments for gains and losses realized in net income	**2,013**	**24,492**
The amount of unrealized holding gain (loss) on securities before tax effect	**(558)**	**(6,789)**
Tax effect	**256**	**3,115**
Unrealized holding gain (loss) on securities	**(302)**	**(3,674)**
Unrealized gain (loss) from hedging instruments:		
Amount arising during the year	**(272)**	**(3,309)**
Tax effect	**107**	**1,302**
Unrealized gain (loss) from hedging instruments	**(164)**	**(1,995)**
Translation adjustments:		
Amount arising during the year	**(68)**	**(827)**
Translation adjustments	**(68)**	**(827)**
Total other comprehensive income	**¥ (535)**	**$ (6,509)**

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

Year ended March 31, 2012

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

	Number of shares			
	Year ended March 31, 2011	Increase during the year	Decrease during the year	Year ended March 31, 2012
Shares issued:				
Common stock	**371,463,036**	**–**	**–**	**371,463,036**
Treasury stock:				
Common stock (Notes 1 and 2)	**299,234**	**322,733**	**403**	**621,564**

Notes 1: The increase in treasury stock — common stock of 4,960 was due to the acquisition of fractional shares of less than one unit and common stock of 317,773 was due to the repurchase of shares held by lost shareholders.

2: The decrease in treasury stock — common stock of 403 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 24, 2011
Type of shares: Common stock
Total amount of dividends: ¥2,226 million ($27,084 thousand)
Dividends per share: ¥6 ($0.073)
Cut-off date: March 31, 2011
Effective date: June 27, 2011

② Resolution: Meeting of Board of Directors held on November 7, 2011
Type of shares: Common stock
Total amount of dividends: ¥1,855 million ($22,570 thousand)
Dividends per share: ¥5 ($0.061)
Cut-off date: September 30, 2011
Effective date: December 5, 2011

(ii) Dividends of which the cut-off date was in the year ended March 31, 2012, but the effective date is in the following fiscal year

Resolution: Annual general meeting of shareholders held on June 26, 2012
Type of shares: Common stock
Total amount of dividends: ¥1,854 million ($22,557 thousand)
Dividends per share: ¥5 ($0.061)
Cut-off date: March 31, 2012
Effective date: June 27, 2012
Source of dividends: Retained earnings

Year ended March 31, 2011

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

	Number of shares			
	Year ended March 31, 2010	Increase during the year	Decrease during the year	Year ended March 31, 2011
Shares issued:				
Common stock	371,463,036	—	—	371,463,036
Treasury stock:				
Common stock (Notes 1 and 2).....	287,708	15,277	3,751	299,234

Notes 1: The increase in treasury stock — common stock of 15,277 was due to the acquisition of fractional shares of less than one unit.

2: The decrease in treasury stock — common stock of 3,751 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 25, 2010
Type of shares:	Common stock
Total amount of dividends:	¥2,227 million
Dividends per share:	¥6
Cut-off date:	March 31, 2010
Effective date:	June 28, 2010

② Resolution:	Meeting of Board of Directors held on November 8, 2010
Type of shares:	Common stock
Total amount of dividends:	¥2,227 million
Dividends per share:	¥6
Cut-off date:	September 30, 2010
Effective date:	December 6, 2010

(ii) Dividends of which the cut-off date was in the year ended March 31, 2011, but the effective date is in the following fiscal year

Resolution:	Annual general meeting of shareholders held on June 24, 2011
Type of shares:	Common stock
Total amount of dividends:	¥2,226 million
Dividends per share:	¥6
Cut-off date:	March 31, 2011
Effective date:	June 27, 2011
Source of dividends:	Retained earnings

14. 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, 2012 and 2011 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Cash on hand and in banks in the consolidated balance sheet	**¥48,148**	¥41,187	**$585,813**
Investments with maturities of three months or less from the date of acquisition	**31**	44	**377**
Time deposits with maturities of more than three months	**(72)**	(116)	**(876)**
Cash and cash equivalents in the consolidated statement of cash flows	**¥48,107**	¥41,116	**$585,315**

(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, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Lease assets	**¥646**	¥590	**$7,860**
Lease obligations.....................	**675**	621	**8,213**

(c) Summary of the reduction in assets and liabilities resulting from the divestiture of shares in Joyo Engineering Co., Ltd. for the year ended March 31, 2012, loss on sale of shares and net disbursement

	Millions of Yen	Thousands of U.S. Dollars
Current assets..	**¥368**	**$4,477**
Noncurrent assets	**307**	**3,735**
Current liabilities	**(265)**	**(3,224)**
Noncurrent liabilities..................................	**(124)**	**(1,509)**
Loss on sale of shares..............................	**(285)**	**(3,468)**
Sale value of Joyo Engineering Co., Ltd. ...	**1**	**12**
Cash and cash equivalents (Joyo Engineering Co., Ltd.)....................	**(118)**	**(1,436)**
Net payments for divestiture of Joyo Engineering Co., Ltd.	**¥117**	**$1,424**

15. Leases

Year ended March 31, 2012

Future minimum lease payments subsequent to March 31, 2012 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2013	**¥ 2,819**	**$ 34,299**
2014 and thereafter	**7,373**	**89,707**
Total	**¥10,193**	**$124,018**

Year ended March 31, 2011

Future minimum lease payments subsequent to March 31, 2011 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of Yen
2012	¥2,403
2013 and thereafter	7,145
Total	¥9,548

16. Financial Instruments

Overview

(a) Policy for financial instruments

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

(b) Types of financial instruments and related risk

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

Investment securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of 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 five years from the balance sheet date. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix the interest payments for long-term debt with variable rates, the Company utilizes interest rate swap transactions as a hedging instrument.

Regarding derivatives, the Company enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies. The Company also enters into interest rate swap transactions to reduce 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 (o).

(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 other than those classified as held-to-maturity should be maintained taking into account their fair values and relationships with the issuers.

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

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

Based on the report from each division, the Company prepares and updates its cash flow plans 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 18 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, 2012 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, 2012

	Millions of Yen		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash on hand and in banks	**¥ 48,148**	**¥ 48,148**	**¥ —**
Trade notes and accounts receivable	**46,520**	**46,515**	**(5)**
Securities:			
Other securities with maturities	**31**	**31**	**—**
Other securities	**24,087**	**24,087**	**—**
Total assets	**¥118,788**	**¥118,783**	**¥ (5)**
Liabilities			
Trade notes and accounts payable	**¥ 41,672**	**¥ 41,672**	**¥ —**
Short-term borrowings	**12,885**	**12,885**	**—**
Current portion of long-term debt	**13,670**	**13,679**	**9**
Bonds	**10,000**	**10,027**	**27**
Long-term debt	**23,865**	**24,068**	**203**
Total liabilities	**¥102,092**	**¥102,332**	**¥240**
Derivatives (*)	**¥ (100)**	**¥ (100)**	**—**

	Thousands of U.S. Dollars		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash on hand and in banks	**$ 585,813**	**$ 585,813**	**$ —**
Trade notes and accounts receivable	**566,006**	**565,945**	**(61)**
Securities:			
Other securities with maturities	**377**	**377**	**—**
Other securities	**293,065**	**293,065**	**—**
Total assets	**$1,445,285**	**$1,445,224**	**$ (61)**
Liabilities			
Trade notes and accounts payable	**$ 507,020**	**$ 507,020**	**$ —**
Short-term borrowings	**156,771**	**156,771**	**—**
Current portion of long-term debt	**166,322**	**166,431**	**110**
Bonds	**121,669**	**121,998**	**329**
Long-term debt	**290,364**	**292,834**	**2,470**
Total liabilities	**$1,242,146**	**$1,245,066**	**$2,920**
Derivatives (*)	**$ (1,217)**	**$ (1,217)**	**—**

(*) 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, 2011

	Millions of Yen		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash on hand and in banks	¥ 41,187	¥ 41,187	¥ —
Trade notes and accounts receivable	45,197	45,189	(8)
Securities:			
Other securities with maturities	44	44	—
Other securities	25,977	25,977	—
Total assets	¥112,407	¥112,399	¥ (8)
Liabilities			
Trade notes and accounts payable	¥ 45,013	¥ 45,013	¥ —
Short-term borrowings	13,120	13,120	—
Current portion of long-term debt	635	636	1
Bonds	10,000	9,865	(134)
Long-term debt	37,535	37,515	(19)
Total liabilities	¥106,303	¥106,151	¥(151)
Derivatives (*)	¥ (171)	¥ (171)	—

(*) 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

These fair values are 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

These 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 18, Derivative Transactions, of these 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
	2012	2011	**2012**
Unlisted stocks	**¥1,967**	¥2,257	**$23,932**

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, 2012 and 2011.

Year ended March 31, 2012

	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	**¥48,148**	**¥ —**	**—**
Trade notes and accounts receivable	**45,709**	**811**	**—**
Securities:			
Other securities with maturities	**31**	**—**	**—**
Total	**¥93,889**	**¥811**	**—**

	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	**$ 585,813**	**$ —**	**—**
Trade notes and accounts receivable	**556,138**	**9,867**	**—**
Securities:			
Other securities with maturities	**377**	**—**	**—**
Total	**$1,142,341**	**$9,867**	**—**

Year ended March 31, 2011

	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	¥41,187	¥ —	—
Trade notes and accounts receivable	44,358	839	—
Securities:			
Other securities with maturities	44	—	—
Total	¥85,590	¥839	—

(iv) The redemption schedule for long-term debt

Year ended March 31, 2012

	Millions of Yen		
	Bonds	Long-term loans	Lease obligations
Due in 1 year or less	**¥ —**	**¥13,670**	**¥1,520**
Due after 1 year through 2 years	**—**	**10,370**	**783**
Due after 2 years through 3 years	**—**	**2,550**	**474**
Due after 3 years through 4 years	**10,000**	**10,830**	**251**
Due after 4 years through 5 years	**—**	**115**	**109**
Due after 5 years	**—**	**—**	**48**

	Thousands of U.S. Dollars		
	Bonds	Long-term loans	Lease obligations
Due in 1 year or less	**$ —**	**$166,322**	**$18,494**
Due after 1 year through 2 years	**—**	**126,171**	**9,527**
Due after 2 years through 3 years	**—**	**31,026**	**5,767**
Due after 3 years through 4 years	**121,669**	**131,768**	**3,054**
Due after 4 years through 5 years	**—**	**1,399**	**1,326**
Due after 5 years	**—**	**—**	**584**

Year ended March 31, 2011

	Millions of Yen		
	Bonds	Long-term loans	Lease obligations
Due in 1 year or less	¥ —	¥ 635	¥1,800
Due after 1 year through 2 years	—	13,670	1,384
Due after 2 years through 3 years	—	10,370	645
Due after 3 years through 4 years	—	2,550	345
Due after 4 years through 5 years	10,000	10,830	145
Due after 5 years	—	115	74

17. Securities

(a) Held-to-maturity securities:

March 31, 2012

	Millions of Yen		
	Fair value	Carrying amount	Unrealized gain (loss)
Fair value not exceeding the carrying amount:			
Other	**¥31**	**¥31**	**—**
Total	**¥31**	**¥31**	**—**

	Thousands of U.S. Dollars		
	Fair value	Carrying amount	Unrealized gain (loss)
Fair value not exceeding the carrying amount:			
Other	**$377**	**$377**	**—**
Total	**$377**	**$377**	**—**

March 31, 2011

	Millions of Yen		
	Fair value	Carrying amount	Unrealized gain (loss)
Fair value not exceeding the carrying amount:			
Other	¥44	¥44	—
Total	¥44	¥44	—

(b) Other securities:

March 31, 2012

	Millions of Yen		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeding the acquisition cost:			
Stocks	**¥ 8,475**	**¥11,746**	**¥3,271**
Carrying amount not exceeding the acquisition cost:			
Stocks	**14,393**	**11,720**	**(2,673)**
Total	**¥22,869**	**¥23,466**	**¥ 597**

	Thousands of U.S. Dollars		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeding the acquisition cost:			
Stocks	**$103,115**	**$142,913**	**$39,798**
Carrying amount not exceeding the acquisition cost:			
Stocks	**175,119**	**142,596**	**(32,522)**
Total	**$278,246**	**$285,509**	**$ 7,264**

March 31, 2011

	Millions of Yen		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeding the acquisition cost:			
Stocks	¥10,043	¥14,629	¥4,586
Carrying amount not exceeding the acquisition cost:			
Stocks	14,156	10,726	(3,430)
Total	¥24,199	¥25,356	¥1,156

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.

18. Derivative Transactions

(a) Derivatives not subject to hedge accounting

Year ended March 31, 2012

None applicable

Year ended March 31, 2011

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, 2012

			Millions of Yen		
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount		Fair value
Allocation method	Foreign exchange forward contracts	Notes and accounts receivable		Over one year	
	Sell:				
	U.S. dollars		**¥7,957**	**¥290**	**¥(200)**
	Euros		**275**	**66**	**(8)**
	Foreign exchange forward contracts	Notes and accounts payable			
	Buy:				
	U.S. dollars		**¥2,697**	**¥ 84**	**¥ 69**
	Euros		**954**	**—**	**31**
	Sterling pound		**116**	**—**	**8**

			Thousands of U.S. Dollars		
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount		Fair value
Allocation method	Foreign exchange forward contracts	Notes and accounts receivable		Over one year	
	Sell:				
	U.S. dollars		**$96,812**	**$3,528**	**$(2,433)**
	Euros		**3,346**	**803**	**(97)**
	Foreign exchange forward contracts	Notes and accounts payable			
	Buy:				
	U.S. dollars		**$32,814**	**$1,022**	**$ 840**
	Euros		**11,607**	**—**	**377**
	Sterling pound		**1,411**	**—**	**97**

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

Year ended March 31, 2011

			Millions of Yen		
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount		Fair value
Allocation method	Foreign exchange forward contracts	Notes and accounts receivable		Over one year	
	Sell:				
	U.S. dollars		¥ 3,641	¥197	¥151
	Euros		341	29	(14)
	Foreign exchange forward contracts	Notes and accounts payable			
	Buy:				
	U.S. dollars		¥10,163	¥ 49	¥ (2)
	Euros		1,045	—	29
	Sterling pound		283	—	7

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

(ii) Interest-related transactions

Year ended March 31, 2012

Hedge accounting method	Type of derivative	Principal items hedged	Millions of Yen Contract amount		Fair value
				Over one year	
Special treatment for interest rate swaps	Receive/floating and pay/fixed	Current portion of long-term borrowings Long-term borrowings..............	**¥23,000**	**¥10,000**	(*)

Hedge accounting method	Type of derivative	Principal items hedged	Thousands of U.S. Dollars Contract amount		Fair value
				Over one year	
Special treatment for interest rate swaps	Receive/floating and pay/fixed	Current portion of long-term borrowings Long-term borrowings..............	**$279,839**	**$121,669**	(*)

(*) 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, 2011

Hedge accounting method	Type of derivative	Principal items hedged	Millions of Yen Contract amount		Fair value
				Over one year	
Special treatment for interest rate swaps	Receive/floating and pay/fixed	Current portion of long-term borrowings Long-term borrowings..............	¥23,180	¥23,000	(*)

(*) 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.

19. Employees' Retirement Benefit Plans

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2012 and 2011 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Retirement benefit obligation	**¥(26,300)**	¥(28,507)	**$(319,990)**
Plan assets at fair value	**14,381**	14,902	**174,973**
Unfunded retirement benefit obligation...............................	**(11,918)**	(13,604)	**(145,005)**
Unrecognized actuarial loss	**4,351**	5,980	**52,938**
Unrecognized prior service cost.......................................	**414**	554	**5,037**
Net retirement benefit obligation...............................	**(7,152)**	(7,069)	**(87,018)**
Accrued retirement benefits......	**(9,695)**	(9,339)	**(117,958)**
Prepaid pension cost...............	**¥ 2,543**	¥ 2,270	**$ 30,941**

The components of retirement benefit expenses for the years ended March 31, 2012 and 2011 are outlined as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Service cost............................	**¥1,847**	¥1,759	**$22,472**
Interest cost	**312**	324	**3,796**
Expected return on plan assets	**(206)**	(213)	**(2,506)**
Amortization of actuarial loss	**1,152**	1,425	**14,016**
Amortization of prior service cost	**140**	140	**1,703**
Retirement benefit expenses.....	**¥3,246**	¥3,436	**$39,494**

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

	2012	2011
Discount rate	**1.50%**	1.50%
Expected rate of return on plan assets....	**1.50%**	1.50%

20. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deferred tax assets:			
Accrued enterprise taxes	¥ 326	¥ 610	$ 3,966
Accrued bonuses	1,215	1,410	14,783
Unrealized gain on intercompany transactions	784	816	9,539
Accrued retirement benefits for employees	4,565	4,994	55,542
Accrued retirement benefits for directors and corporate auditors	111	131	1,351
Loss on revaluation of inventory items	1,521	748	18,506
Loss on revaluation of financial instruments	263	282	3,200
Impairment loss	56	138	681
Depreciation	971	1,158	11,814
Amortization of deferred assets	67	151	815
Provision for warranties for completed construction	576	693	7,008
Provision for loss on construction contracts	2,021	2,076	24,589
Less allowance for doubtful accounts	111	51	1,351
Asset retirement obligations	462	555	5,621
The percentage-of-completion method	99	727	1,205
Tax loss carry forwards	1,800	2,640	21,900
Deferred loss on hedges	93	21	1,132
Unrealized loss on investment securities	944	1,386	11,486
Other	278	246	3,382
Gross deferred tax assets	16,272	18,843	197,980
Valuation allowance	(2,661)	(3,747)	(32,376)
Total deferred tax assets	13,611	15,095	165,604
Deferred tax liabilities:			
Reserve for advanced depreciation	1,931	2,299	23,494
Reserve for special depreciation	1,999	2,360	24,322
Prepaid pension cost	900	919	10,950
Disposal cost with asset retirement obligations	297	349	3,614
Unrealized gain on investment securities	1,156	1,855	14,065
Deferred gain on hedges	55	91	669
Other	23	13	280
Total deferred tax liabilities	6,363	7,887	77,418
Net deferred tax assets	¥ 7,248	¥ 7,207	$ 88,186

The reconciliation between the effective tax rate reflected in the consolidated statement of income and the statutory tax rate for the year ended March 31, 2012 was as follows:

	2012
Statutory tax rate	40.5%
Effect of:	
Change in valuation allowance	(5.2)
Reduction of deferred tax assets due to changes of tax rates	2.6
Other	0.0
Effective tax rate	37.9%

The Company has omitted the reconciliation between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2011 because the difference between those rates was less than 5%.

The "Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No.114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No.117 of 2011) were promulgated on December 2, 2011 and the staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective fiscal years beginning on or after April 1, 2012.

As a result, the effective statutory corporate tax rate used to measure the Company's deferred tax assets and liabilities was changed from 40.5% to 37.8% for the temporary differences expected to be realized or settled in the fiscal years from April 1, 2012 to March 31, 2015 and from 40.5% to 35.4% for temporary differences expected to be realized or settled from fiscal years beginning April 1, 2015. Due to this amendment, the net deferred tax assets decreased by ¥505 million ($6,144 thousand), deferred income tax increased by ¥533 million ($6,485 thousand), unrealized holding gain (loss) on securities increased by ¥30 million ($365 thousand), and unrealized gain (loss) from hedging instruments decreased by ¥2 million ($24 thousand).

21. Business combinations

On July 1, 2011, JSW Machine Center Co., Ltd. merged with Nikko Machinery Co., Ltd., and on October 1, 2011 Nikko Techno Co., Ltd. merged with J·Tech Co., Ltd.

Transactions under common control

(a) Information on companies in business combination

i) Combination between JSW Machine Center Co., Ltd. and Nikko Machinery Co., Ltd.

① Name and business of companies

Name of surviving company: JSW Machine Center Co., Ltd

Business: Machine processing and finish assembling of steel and energy products

Manufacturing, remodeling and repair of industrial machinery products

Name of absorbed company: Nikko Machinery Co., Ltd

Business: Machine processing and assembling of steel and energy products

Maintenance of processing machinery

② Date of business combination

July 1, 2011

③ Legal form of business combination

Absorption-type merger with JSW Machine Center Co., Ltd. as the surviving company

④ Name of company after business combination
JSW Machine Center Co., Ltd.
⑤ Purpose and outline of transactions
The Company intends to reorganize the administrative structure and improve business efficiency. In addition, the Company plans to enhance its business base.

ii) Combination between Nikko Techno Co., Ltd. and J·Tech Co., Ltd.
① Name and business of companies
Name of surviving company: Nikko Techno Co., Ltd.
Business: Machine processing, finishing turning, assembling of iron, nonferrous metals and special alloys
Manufacturing and sales of processed products
Name of absorbed company: J·Tech Co., Ltd.
Business: Processing of machinery parts, plate working, assembling work and maintenance
② Date of business combination
October 1, 2011
③ Legal form of business combination
Absorption-type merger with Nikko Techno Co., Ltd. as the surviving company
④ Name of company after business combination
Nikko Techno Co., Ltd.
⑤ Purpose and outline of transactions
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 accounted for the transactions as transactions under common control based on the 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).

22. Asset Retirement Obligations
The following table presents the changes in asset retirement obligations for the years ended March 31, 2012 and 2011:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Balance at beginning of year	**¥1,371**	¥1,338	**$16,681**
Liabilities incurred due to the acquisition of property, plant and equipment	**—**	14	**—**
Accretion expense	**19**	18	**231**
Liabilities settled	**(78)**	—	**(949)**
Other	**(12)**	—	**(146)**
Balance at end of year	**¥1,299**	¥1,371	**$15,805**

23. Investment and Rental Properties
The Company has omitted the disclosure of Investment and Rental Properties due to immateriality for the years ended March 31, 2012 and 2011.

24. 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.

	Millions of Yen					
	Reportable segments					
Year ended March 31, 2012	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total	Adjustments and eliminations	Consolidated
Sales and operating income:						
Sales to third parties	**¥105,001**	**¥113,959**	**¥ 2,407**	**¥221,368**	**¥ —**	**¥221,368**
Intra-segment sales and transfers	**4,285**	**3,335**	**2,983**	**10,603**	**(10,603)**	**—**
Total sales	**109,286**	**117,294**	**5,390**	**231,972**	**(10,603)**	**221,368**
Operating income	**¥ 11,517**	**¥ 11,542**	**¥ 776**	**¥ 23,837**	**¥ 74**	**¥ 23,911**
Assets, depreciation, and capital expenditures:						
Total assets	**¥147,283**	**¥ 93,133**	**¥13,540**	**¥253,956**	**¥71,696**	**¥325,653**
Depreciation and amortization	**16,083**	**2,706**	**301**	**19,091**	**161**	**19,252**
Capital expenditures	**6,238**	**1,896**	**78**	**8,213**	**42**	**8,256**

Year ended March 31, 2012	Thousands of U.S. Dollars Reportable segments Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total	Adjustments and eliminations	Consolidated
Sales and operating income:						
Sales to third parties	**$1,277,540**	**$1,386,531**	**$ 29,286**	**$2,693,369**	**$ —**	**$2,693,369**
Intra-segment sales and transfers	**52,135**	**40,577**	**36,294**	**129,006**	**(129,006)**	**—**
Total sales	**1,329,675**	**1,427,108**	**65,580**	**2,822,387**	**(129,006)**	**2,693,369**
Operating income	**$ 140,127**	**$ 140,431**	**$ 9,442**	**$ 290,023**	**$ 900**	**$ 290,923**
Assets, depreciation, and capital expenditures:						
Total assets	**$1,791,982**	**$1,133,143**	**$164,740**	**$3,089,865**	**$872,320**	**$3,962,197**
Depreciation and amortization	**195,681**	**32,924**	**3,662**	**232,279**	**1,959**	**234,238**
Capital expenditures	**75,897**	**23,068**	**949**	**99,927**	**511**	**100,450**

Notes 1: Adjustments and eliminations for segment profit of ¥74 million ($900 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 ¥71,696 million ($872,320 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 ¥161 million ($1,959 thousand) include depreciation and amortization for corporate assets.

Adjustments and eliminations for capital expenditures of ¥42 million ($511 thousand) include capital expenditures for corporate assets.

Year ended March 31, 2011	Millions of Yen Reportable segments Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total	Adjustments and eliminations	Consolidated
Sales and operating income:						
Sales to third parties	¥112,915	¥ 97,664	¥ 2,349	¥212,929	¥ —	¥212,929
Intra-segment sales and transfers	2,853	5,331	3,075	11,260	(11,260)	—
Total sales	115,769	102,996	5,425	224,190	(11,260)	212,929
Operating income	¥ 25,059	¥ 3,253	¥ 715	¥ 29,027	¥ (532)	¥ 28,495
Assets, depreciation, and capital expenditures:						
Total assets	¥167,573	¥ 89,477	¥13,610	¥270,661	¥68,602	¥339,263
Depreciation and amortization	16,492	3,042	301	19,837	165	20,003
Capital expenditures	25,217	1,309	73	26,600	121	26,722

Notes 1: Adjustments and eliminations for segment profit of ¥532 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 ¥68,602 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 ¥165 million include depreciation and amortization for corporate assets.

Adjustments and eliminations for capital expenditures of ¥121 million include capital expenditures for corporate assets.

(a) Product and service information

Year ended March 31, 2012	Millions of Yen Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Sales to third parties	**¥105,001**	**¥113,959**	**¥2,407**	**¥221,368**

Year ended March 31, 2012	Thousands of U.S. Dollars Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Sales to third parties	**$1,277,540**	**$1,386,531**	**$29,286**	**$2,693,369**

Year ended March 31, 2011	Millions of Yen Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Sales to third parties	¥112,915	¥97,664	¥2,349	¥212,929

(b) Geographical information

(i) Sales

	Millions of Yen **2012**	2011	Thousands of U.S. Dollars **2012**
Japan	**¥111,156**	¥ 99,070	**$1,352,427**
China	**32,038**	29,836	**389,804**
Others	**78,173**	84,022	**951,125**
Consolidated	**¥221,368**	¥212,929	**$2,693,369**

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, 2012 and 2011 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, 2012 and 2011 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 loss on fixed assets by reportable segment for the years ended March 31, 2012 and 2011 are summarized as follows:

Year ended March 31, 2012
None applicable

Year ended March 31, 2011

	Millions of Yen				
Year ended March 31, 2011	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and eliminations	Total
Impairment loss	¥0	¥101	—	¥95	¥197

(e) Amortization and balance of goodwill

The following table presents the amortization and balance of goodwill as of and for the year ended March 31, 2012 and 2011 by reportable segment:

	Millions of Yen				
Year ended March 31, 2012	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and eliminations	Total
Amortization	**—**	**¥64**	**—**	**—**	**¥64**
Balance as of March 31	**—**	**—**	**—**	**—**	**—**

	Thousands of U.S. Dollars				
Year ended March 31, 2012	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and eliminations	Total
Amortization	**—**	**$779**	**—**	**—**	**$779**
Balance as of March 31	**—**	**—**	**—**	**—**	**—**

	Millions of Yen				
Year ended March 31, 2011	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and eliminations	Total
Amortization	—	¥90	—	—	¥90
Balance as of March 31	—	64	—	—	64

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, 2012 and 2011 by reportable segment:

	Millions of Yen				
Year ended March 31, 2012	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and eliminations	Total
Amortization	**—**	**¥ 71**	**—**	**—**	**¥ 71**
Balance as of March 31	**—**	**214**	**—**	**—**	**214**

	Thousands of U.S. Dollars				
Year ended March 31, 2012	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and eliminations	Total
Amortization	**—**	**$ 864**	**—**	**—**	**$ 864**
Balance as of March 31	**—**	**2,604**	**—**	**—**	**2,604**

	Millions of Yen				
Year ended March 31, 2011	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and eliminations	Total
Amortization	—	¥ 71	—	—	¥ 71
Balance as of March 31	—	286	—	—	286

(f) Information on gain on negative goodwill

Year ended March 31, 2012
None applicable

Year ended March 31, 2011
None applicable

25. 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.

26. 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, 2012 and 2011 and for the years then ended were as follows:

	Yen		U.S. Dollars
	2012	2011	**2012**
Net income..............................	**¥ 33.93**	¥ 44.54	**$0.41**
Net assets	**344.28**	322.98	**4.19**

Independent Auditor's Report

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Independent Auditor's Report

The Board of Directors
The Japan Steel Works, Ltd.

We have audited the accompanying consolidated financial statements of The Japan Steel Works, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, 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, 2012, 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 26, 2012
Tokyo, Japan

Ernst & Young
ShinNihon LLC

A member firm of Ernst & Young Global Limited

Corporate Directory

Stock Information

Authorized Shares
1,000,000,000 shares

Issued and Outstanding Shares
371,463,036 shares

Shareholders
35,071

Stock Listings
Tokyo, Osaka, Nagoya, Fukuoka and Sapporo

Transfer Agent and Registrar
Sumitomo Mitsui Trust Bank, Ltd.
8-4, Izumi 2-chome, Suginami-ku,
Tokyo 168-0063, Japan

Major Shareholders (holding %)

The Master Trust Bank of Japan, Ltd. (Trust Account)	4.67%
Japan Trustee Services Bank, Ltd. (Trust Account)	4.34%
Sumitomo Mitsui Banking Corp.	3.37%
Mitsui Sumitomo Insurance Co., Ltd.	2.37%
Mitsui Life Insurance Co., Ltd.	2.27%
The Chuo Mitsui Trust & Banking Co., Ltd.	2.03%
STATE STREET BANK AND TRUST COMPANY	1.53%
Juniper	1.41%
Hitachi, Ltd.	1.35%
Mitsubishi Heavy Industries, Ltd.	1.35%

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
2,114 (Consolidated 4,867)

Auditor
Ernst & Young ShinNihon LLC
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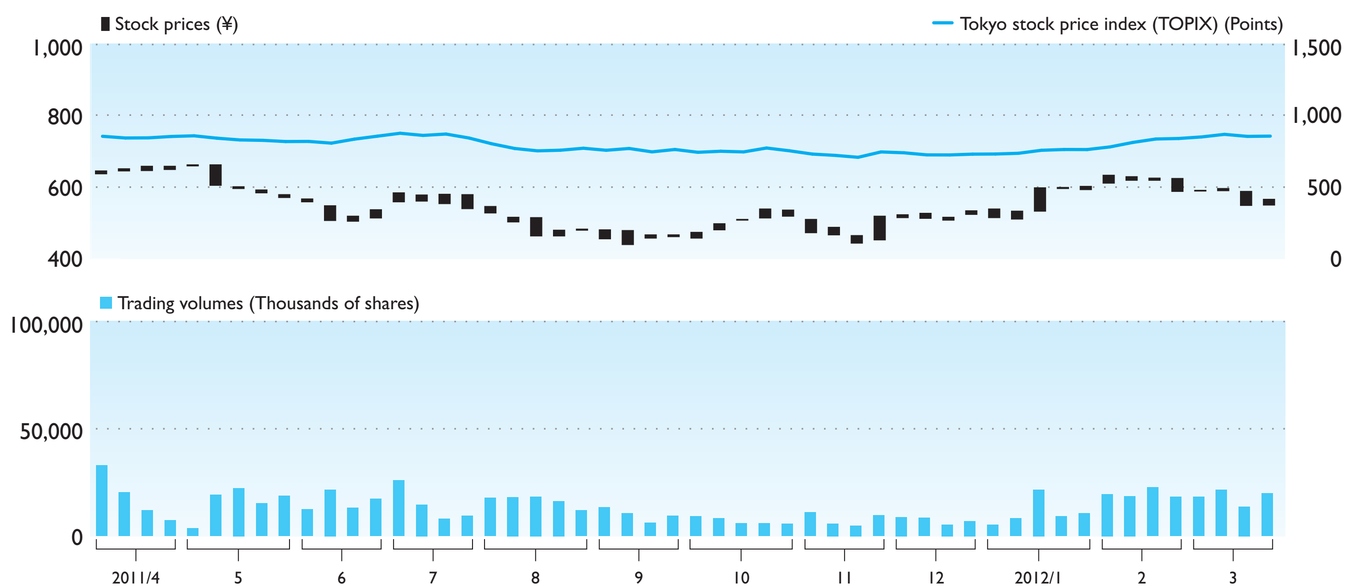
Chiyoda-ku, Tokyo, Japan

(as of March 31, 2012)

JSW's Stock Prices



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JSW

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