ANNUAL REPORT

for the year ended March 31, 2015

THE JAPAN STEEL WORKS, LTD.

Contents

Profile

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

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

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

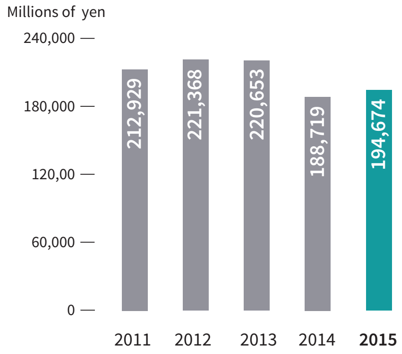
Financial Highlights (Consolidated)

The Japan Steel Works, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015, 2014 and 2013

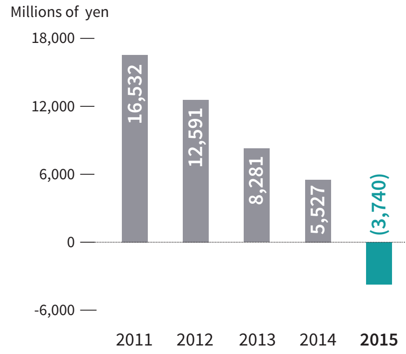
			Millions of yen	Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
For the year				
Net sales	¥220,653	¥188,719	**¥194,674**	**$1,619,988**
Operating income	16,680	8,864	**8,217**	**68,378**
Net income (loss)	8,281	5,527	**(3,740)**	**(31,123)**
At year-end				
Total assets	303,970	293,139	**321,083**	**2,671,906**
Total net assets	134,368	139,268	**139,821**	**1,163,527**
Ratios				
ROE	6.3%	4.1%	**(-2.7)%**	
Equity ratio	43.8%	47.1%	**43.0 %**	
Amounts per share (yen and U.S. dollars)				
Net income (loss)	¥22.33	¥14.92	**¥(10.10)**	**$(0.08)**
Cash dividends applicable to the year	10.00	5.00	**4.00**	**0.03**

Note: Amounts in U.S. dollars are presented solely for convenience and based on the rate of ¥120.17 = US$1.00, the rate of exchange on March 31, 2015.

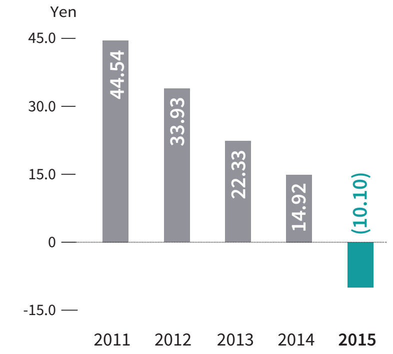
Net Sales



Net Income (Loss)



Net Income (Loss) per Share



Message from the President

Overview of Fiscal 2014

Business performance

In fiscal 2014, ended March 31, 2015, the world economy overall continued on a moderate recovery. In Asia, there were signs of an economic slowdown in China as well as in some other emerging nations. Meanwhile, the U.S. economy recovered modestly thanks to healthy personal consumption, and the European economy continued showing indications of a turnaround. The Japanese economy as well recovered moderately on the back of higher corporate earnings, coupled with improved employment and worker income conditions, despite signs of weak personal consumption owing to a pullback in demand in the wake of the consumption tax hike.

The operating environment for the JSW Group remained challenging. Despite improving export conditions thanks to yen depreciation, as well as an expanding market for molding machinery related to automobiles and IT equipment, the Group faced intensifying global competition driven by manufacturers in emerging nations, along with a delayed recovery in the market for nuclear power products.

Under these circumstances, the Group advanced its business activities with the aims of “improving profits and efficiency while pursuing revenue scale” and “enhancing asset efficiency and profitability.” For the year, total orders amounted to ¥205,906 million (US$1,713 million), up 10.4% from the previous fiscal year. This improvement was due to increased orders generated by both the Steel and Energy Products Business and the Industrial Machinery Products Business segments. Net sales rose 3.2%, to ¥194,674 million (US$1,619 million), owing to higher sales in the Industrial Machinery Products Business. Operating income declined 7.3%, to ¥8,217 million (US$68 million). However, we reported a net loss of ¥3,740 million (US$31 million), compared with net income of ¥5,527 million (US$45 million) in the previous fiscal year. This was due to provision for loss on wind power business, booked as an extraordinary loss.

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

and other industrialized economies, and the Japanese economy is also forecast to continue its modest recovery. However, the economies of China and emerging nations, as well as Europe, have unstable elements, including downside risk, geopolitical risk, and the effects of low crude oil prices. In summary, therefore, the economic outlook remains uncertain.

Facing these challenges, the JSW Group has formulated a new medium-term management plan, entitled JGP2017, covering the three-year period from April 2015 to March 2018. Under the plan, we will advance our business activities according to three basic policies: "Increase earnings power of existing businesses," "Foster and swiftly mobilize new products and businesses," and "Reinforce Group management and promote alliances."

For fiscal 2015, the first year of the plan, our consolidated forecasts are: orders of ¥210.0 billion (US$1,747 million), net sales of ¥210.0 billion (US$1,747 million), operating income of ¥10.0 billion (US$83 million) and net income attributable to owners of parent of ¥6.7 billion (US$55 million).

June 2015

Ikuo Sato
Representative Director & President

New Medium-Term Management Plan: JGP2017 (JSW Group Growth Plan FY2015-2017)

1 Corporate Vision and Numerical Targets

"Advancing toward Top Global & Niche Corporate Group"

Aiming to achieve top share at key points in customer value chains

JGP2017

(Billions of yen)

JSW Group (Consolidated)	FY2014 (Actual)	FY2017 (Plan)	FY2020 (Goal)
Net sales	¥194.6	**More than ¥220.0**	More than ¥250.0
Operating income (ratio)	¥8.2 (4.2%)	**More than ¥13.0 (6%)**	More than ¥20.0 (8%)
ROA	–1.2%	**Above 3%**	Above 4%
ROE	–2.7%	**Above 5%**	Above 8% (*)

(*) Increase earnings power and improve asset efficiency to swiftly achieve ROE of higher than 8% after JGP2017

2 Basic Policies for JGP2017

Policy 1

Increase profitability of existing businesses

- Pursue product & service differentiation
- Strengthen total-cost competitiveness
- Develop service & solution businesses
- Reinforce initiatives in growth markets

Policy 2

Foster new products & businesses and make them competitive as soon as possible

- Promote businesses based on core management resources
- Optimize timeframe and systems for promoting new products & businesses

Policy 3

Reinforce Group management and promote alliances

Strict management control based on Action Plan (implement PDCA)

3 Business Strategies by Segment

Steel and Energy Products Segment

Defensive management

Achieve steady growth and prepare for renewed growth after JGP2017

Muroran Plant Restructuring Project
- Improve asset efficiency and productivity
- Review and selectively strengthen product lineup

Reduce investment → Review business domains → Maintain profitability

(Billions of yen)

FY2014	
Net sales	¥66.2
Operating loss	¥(3.2)
FY2017	
Net sales	¥66.0
Operating income	¥1.0

Industrial Machinery Products Segment

Offensive management

Identify growth opportunities and accelerate business expansion

- Restructure production lines in Hiroshima and Yokohama plants to improve productivity
- Actively promote and utilize alliances

Pursue strategic investment → Expand business domains → Achieve and expand stable profits

(Billions of yen)

FY2014	
Net sales	¥126.3
Operating income	¥11.3
FY2017	
Net sales	¥152.0
Operating income	¥13.0

4 Financial Strategies

Increase shareholder value by strengthening cash generation and effective cash use

Set, measure, and control KPIs (key performance indicators) for each segment to improve ROA (PDCA)

Improve ROE

Improve ROA

FY2017
ROE ≥ 5%
ROA ≥ 3%

Increase operating income
Profit-to-sales ratio target (FY2017) ≥ 6%
- Improve gross profit
- Enhance productivity
- Cut costs

Improve asset efficiency
- Improve CCC (cash conversion cycle)
- Reduce working capital
- Effectively utilize assets

Financial leverage control

Strengthen cash generating capacity for systematic and steady investment in growth; regularly examine investment impact (PDCA)

Cash flow from operating activities

Procurement of other funds (Including review and disposal of assets)

Returns to shareholders
- Implement stable dividends (30% payout ratio)

*Consider total return ratio in balance with growth investment

Investment in growth

Capital investment
- Renewal/maintenance of existing facilities
- Boost production capacity for current products
- New facilities for new products

Alliances
- M&As, capital tie-up

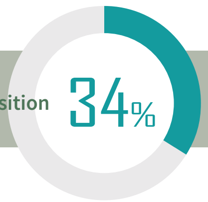
Create new revenue sources

Our Business Domains

The JSW Group comprises 48 subsidiaries (of which 31 are consolidated) and three affiliates (of which one is an equity-method affiliate). Our operating domains are the Steel and Energy Products Business, the Industrial Machinery Products Business, and the Real Estate and Other Businesses.

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

Steel and Energy Products Business



■ Steel Products

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

Business Lines

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

■ Steel Plates and Structures

At the Muroran Plant, which has one of Japan's largest 4-thick plate reversing rolling mills, we can roll high-quality, extremely thick, wide, and long steel plates (maximum thickness: 350 millimeters, maximum width: 4.8 meters, maximum length: 20 meters). Using advanced manufacturing technology we now mainly produce high-quality clad steel plates and clad steel pipes using clad steel plates. All of our products are used in a wide range of industrial applications in Japan and overseas, giving this business a unique profile. In addition, the Muroran Plant integrates the various forged steel products it manufactures and leverages the Company's state-of-the-art welding technologies and facilities to produce very large welded structures, such as pressure vessels for oil refineries and petrochemical plants, in an integrated process extending from raw materials to finished products. As a result, we are meeting demand both in Japan and overseas.

Business Lines

Production and sale of products for oil refining, petrochemical, general chemical, and chemical machinery, as well as a wide range of pressure vessels, clad steel plates, clad steel pipes, extra-thick steel plates, and other areas

■ Wind Turbines

The JSW Group entered the wind turbine system business in 2000. Leveraging state-of-the-art technologies, including permanent magnet synchronous generators, we make low-noise wind turbine system equipment that excels in terms of function, performance, and reliability and is also environment-friendly.

Business Lines

Production, sale and maintenance of wind turbine system equipment

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

Industrial Machinery Products Business

Sales Composition 65%

■ Plastics Machinery

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

Business Lines

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

■ Other Machinery

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

Business Lines

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

Review of Operations

Steel and Energy Products Business

Steel Products Sector ■

Steel Plates and Structures Sector ■

Wind Turbines Sector ■

Performance in Fiscal 2014

Total orders in the Steel and Energy Products Business amounted to ¥68,418 million (US$569 million), up 19.8% from the previous fiscal year, reflecting positive customer evaluation of our clad steel pipes, which attracted large-scale orders.

Sales in this segment declined 2.1%, to ¥66,215 million (US$551 million), due to lower sales of clad steel pipes, which more than offset higher sales of electric and nuclear power products and clad steel plates.

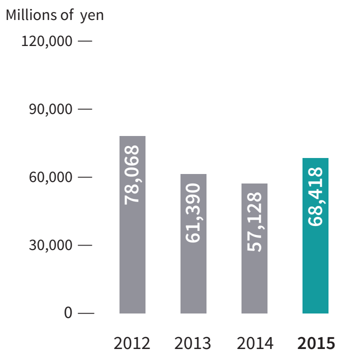
The segment posted a ¥3,200 million (US$26 million) operating loss, an improvement from a ¥3,606 million (US$35 million) operating loss in the previous fiscal year. Efforts to cut basic costs helped reduce the magnitude of losses for the year.

Shell flange used for pressure chamber for nuclear power plant

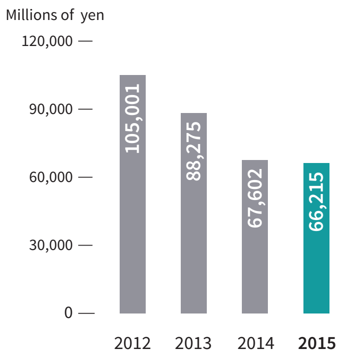
Clad steel plate

J82-2.0D wind turbines system

Orders Received



Sales



Industrial Machinery Products Business

Plastics Machinery Sector ■

Other Machinery Sector ■

Performance in Fiscal 2014

Total orders in the Industrial Machinery Products Business grew 6.9%, to ¥135,389 million (US$1,126 million), thanks mainly to increased orders for molding machines, particularly from the automobile sector, as well as healthy orders for laser annealing equipment.

Sales in this segment rose 6.7%, to ¥126,363 million (US$1,051 million), thanks to sales growth for plastic production and processing machinery and molding machines, despite lower sales of laser annealing equipment, which generated very strong sales in the previous fiscal year.

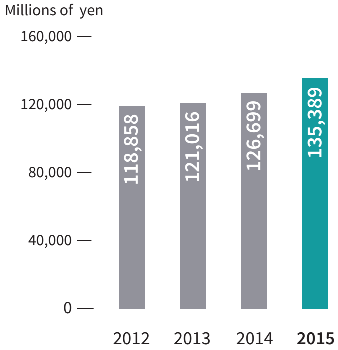
Operating income declined 6.7%, to ¥11,370 million (US$94 million), due to changes in the segment's product breakdown.

Polyolefin extruder/pelletizer

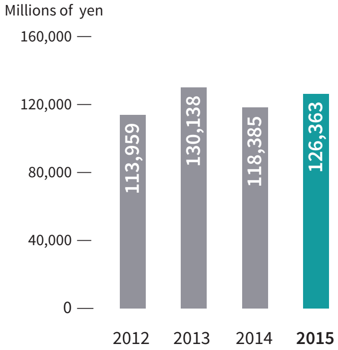
Large-size all-electric injection molding machine

Magnesium alloy injection molding machine

Orders Received



Sales

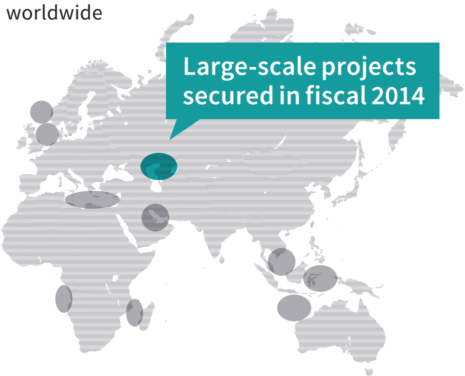


1 Clad Steel Pipes

Large-scale projects secured; record-high orders reported

Clad steel pipes, a mainstay product category of the Group, are corrosion-resistant, composite steel pipes that are used mainly in natural gas fields for natural gas transportation. In fiscal 2014, we reported record-high orders, attracting around ¥35.0 billion in orders from natural gas development projects in Central Asia. Moreover, we expect that demand for clad steel pipes will remain firm over the short and medium terms. The JSW Group is an integrated manufacturer, handling everything from materials to production. Drawing on our high-level expertise in materials and welding technologies, as well as our reliability—based on a 70% world market share and abundant track record—we will strive to further increase orders.

•Natural gas development projects planned worldwide



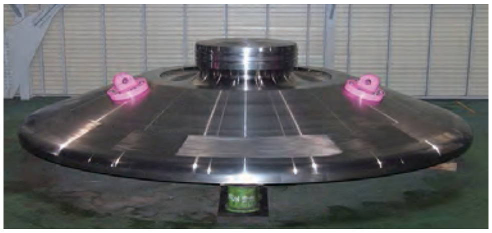
•Structure of clad steel pipe

2 New Products for Energy Infrastructure

Steel pressure vessel for hydrogen storage

Incorporating high-level technologies, our low-cost, highly durable steel pressure vessels are being adopted in the "Hydrogen Leader City Project" in the city of Fukuoka and elsewhere.

Steel pressure vessel for hydrogen storage



Pile-driving hammer anvil for offshore wind power

New products for offshore wind power generation

The offshore wind power generation industry is vibrant in Europe. Here, our large forged products are used as hammers for foundation pile-driving when the embedding method is employed to install offshore wind power generation equipment. Massive 600-ton steel ingots are used to forge the largest pile-driving hammer anvils in the world.

3 Hiroshima Plant

Expansion of assembly facility in preparation for increased orders

At the Hiroshima Plant, the main production base for our Industrial Machinery Products Business, we are significantly realigning our assembly line while undertaking factory rebuilding and extension work. This project, scheduled for completion in March 2016, will raise our production capacity for plastics manufacturing and processing machines by 10% and molding machinery by 30%. We are enjoying healthy demand for those products and will respond accordingly to meet the anticipated growth in demand.

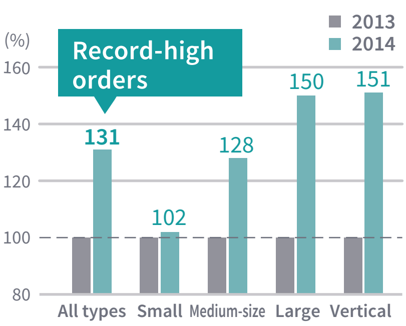
Rendering of completed facility

4 Injection Molding Machines

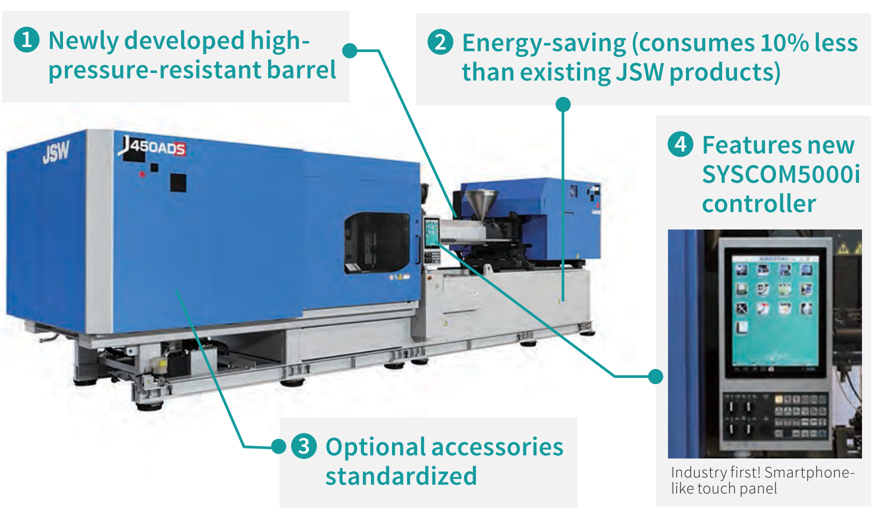
Record-high orders achieved; new products launched

In fiscal 2014, we reported record-high orders for injection molding machines, having increased orders from Japan, China, and North America, especially for medium-size and large machines for the automobile sector. In March 2015, we started selling the J-ADS Series of newly developed medium-size electric servo drive injection molding machines. The new products are the first in the industry to feature a touch panel, which allows smartphone-like operation and saves energy, while also being easy to use and requiring lower running costs. We will work to expand sales not only to the automotive sector but also the fields of electric appliances, OA equipment, and luxury goods.

■ Orders by Machine Type



■ New J-ADS Series of medium-size electric servo drive injection molding machines launched in March!



Industry first! Smartphone-like touch panel

5 Film and Sheet Manufacturing Equipment

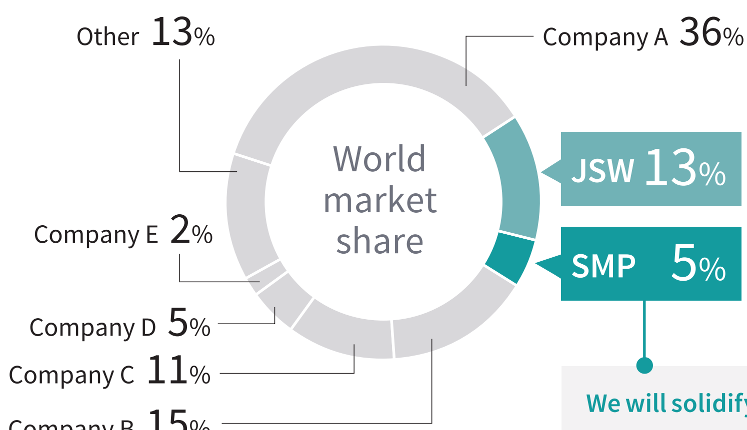
Product lineup upgraded to reinforce competitiveness

The JSW Group is one of the world's few companies to make and sell film and sheet manufacturing equipment for multiple applications, such as packaging materials and optical components. Recently, we acquired the simultaneous biaxial stretching machine business of Hitachi, Ltd., enabling us to broaden the scope of compatible manufacturing methods. We now have the fullest lineup in the industry. Exploiting this advantage, we will make proactive, multifaceted proposals to customers aimed at expanding orders. Through mutual augmentation with existing technologies, meanwhile, we will accelerate technical development and explore new applications for special film.

6 Compounding Twin Screw Extruder

No. 2 world market share through M&As

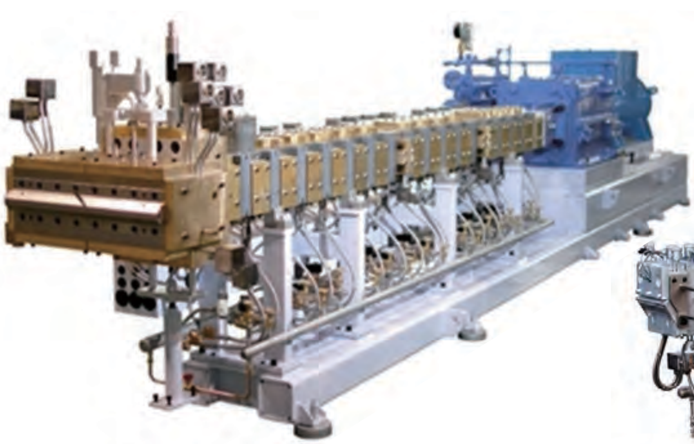
The last few years have seen a continuous increase in applications for plastics and increasing demand worldwide for compounds. Recently, SM PLATEK CO., LTD. (SMP), South Korea's largest maker of compounding twin screw extruders, became a subsidiary of JSW. Accordingly, the JSW Group is now the world's second-largest maker of such machines, with a market share of around 20%. We will step up our responses to leading-edge fields, such as high-function compounds, with our TEX Series. In the volume zone of general-purpose compounds, we will position and expand SMP's TEK Series as the Group's global-standard models, with the aim of seizing the top world market share.



We will solidify the No. 2 combined world market share (around 20%) of both companies and target the No. 1 position.

What is a compounding twin screw extruder?

A machine that kneads various additives into plastic materials to raise overall added value.



TEX Series
(high-spec machines made by JSW)

TEK Series
(world-standard machines made by SMP)

Research and Development

Muroran Research Laboratory

Hiroshima Research Laboratory

Yokohama Research Laboratory

Research and development activities were almost entirely funded by the Company during fiscal 2014 Combined spending on research and development for the Steel and Energy Products Business and the Industrial Machinery Products Business amounted to ¥4,104 million (US$34 million).

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

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

The Research and Development Headquarters is based at our head office, and the Muroran, Hiroshima, and Yokohama research laboratories are located at the Muroran, Hiroshima, and Yokohama plants, respectively.

Basic Research and Development Policy

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

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

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

Activities by Business Segment

Steel and Energy Products Business

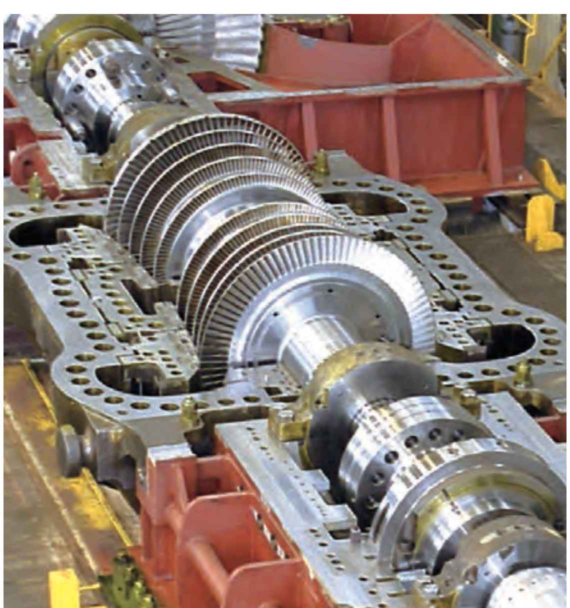
Product development centers on materials, notably for clad steel pipes for natural gas transportation, large steel castings, and forgings and high alloys for high-efficiency thermal power generation, forged steel products for advanced nuclear power plants, and high-performance nonferrous alloys, as well as manufacturing process technology development. We improve materials and component technologies for existing products. In the renewable arena, we develop material and component technologies to create lighter and more reliable pressure accumulators for hydrogen fueling stations. We create analytical technologies and enhance component technologies to improve the reliability of wind power plants.

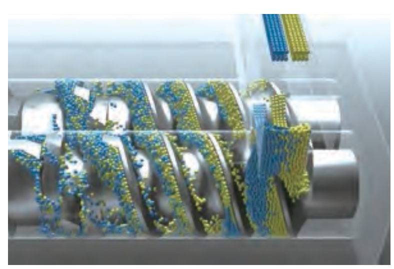
Segment R&D spending totaled ¥1,343 million (US$11 million) in fiscal 2014.

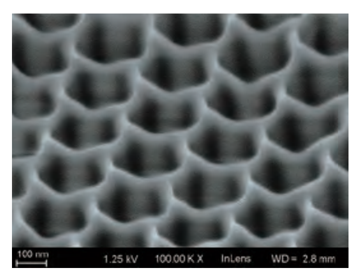
Industrial Machinery Products Business

In this segment, our product development activities encompass developing advanced processing technologies for plastic molding machines, enhancing the performance of plastic extruders, developing advanced micro-nano melt transcription molding machines, enhancing the functions and performance of film molding machines, developing technologies to enhance the performance and lower the costs of magnesium alloy injection molding machines, developing dampers that comply with European specifications, and enhancing the efficiency and functions of compressors. Using the latest technologies and systems, we also develop laser annealing systems for thin-film transistor liquid crystal display (TFT LCD) production and devices for other laser applications, as well as chemical vapor deposition (CVD) and plasma devices.

R&D spending in this segment was ¥2,760 million (US$22 million) in fiscal 2014.







Corporate Governance Structure

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

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

Overview of Corporate Governance Structure

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

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

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

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

Our Management Council also convenes once monthly, in principle. Members include directors, corporate auditors, divisional heads, plant general managers, headquarters managers, and others with executive responsibilities. This body's tasks include assessing the business environment and monitoring the progress of the Company's business plan. Its goals are to share such knowledge throughout management and reflect it in their decisions as well as to ensure risk management and compliance.

The Board of Corporate Auditors comprises four corporate auditors, two of whom are external (one serves full time). These auditors attend meetings of the Board of Directors, the Executive Board, the Management Council, and other important gatherings. In principle, they visit the Company's plants and offices and major subsidiaries once every six months. The auditors receive divisional reports as necessary and exchange opinions with directors and key employees. Based on these efforts, the auditors express their views to management from an objective and neutral perspective, and exercise strict oversight with regard to the execution of directors' duties.

Internal Control and Risk Management Systems

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

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

1. Implementation structure

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

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

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

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

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

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

3. Safeguarding information

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

The Company properly discloses financial and important management information.

4. Risk management

Directors, corporate officers, and employees concurrently serving as general managers identify and evaluate risks arising in the course of business. They address these risks in keeping with regulations and the management approval system. The Board of Directors and the Executive Board deliberate on key risks.

We maintain risk management rules and a

Companywide risk management system. Divisions overseeing risks in such areas as safety and hygiene, environmental management, information security, and export controls set up committees and create and administer rules for containing such risks throughout the Company. A risk management director or corporate officer monitors progress in collaboration with the Internal Audit Division and reports to the Board of Directors or the Executive Board.

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

5. Ensuring efficiency

We ensure rapid decision-making and flexible and efficient management by having the president act as chief executive officer, with directors overseeing key headquarters divisions and business units. The Board of Directors appoints and supervises corporate officers. Directors and corporate officers discuss, decide, and report on important matters in meetings of the Board of Directors and the Executive Board.

The Board of Directors formulates the medium-term management plan and annual business plans as Companywide objectives for directors, corporate officers, and employees. Directors and corporate officers produce and implement specific policies for reaching goals, segregating tasks in line with in-house regulations. They also review progress and submit periodic and spot reports to the Board of Directors, the Executive Board, and the Management Council.

6. Ensuring appropriate conduct at Group companies

Group subsidiaries work to establish and build Companywide internal control systems according to JSW's Vision, Corporate Philosophy, and Corporate Code of Conduct. Group companies also strive for efficient business execution and autonomous management by ensuring proper division of duties and clarification of decision-making authority based on their own in-house regulations. The Company supports these efforts of Group companies.

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

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

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

7. Appointing corporate auditor assistants and ensuring their independence

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

The Company ensures that employees assigned as assistants can perform their duties according to the directions and instructions of corporate auditors.

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

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

Based on its management approval system, the Company presents approval records to corporate auditors. Corporate auditors can at any time request reports from directors and employees of the Company and its subsidiaries. Also, persons who have received reports from directors and employees of the Company and its subsidiaries can convey such reports to corporate auditors.

The Company guarantees that persons making reports to corporate auditors are not subject to unfavorable treatment based on the content of such reports.

9. Ensuring corporate auditor effectiveness

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

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

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

10. Ensuring reliable financial reporting

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

Policy Regarding Large-Scale Purchase of Company Shares

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

Environmental Management

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

Action Plan

1. We aim to carry out environmental tasks in an organized way, and to implement environmental preservation activities continuously.
2. We will set appropriate objectives and targets for reducing the burden our activities impose on the environment with conserving biodiversity.
3. We aim to provide society with products and services that contribute to the preservation of the environment.

(1) We endeavor to increase the social value of our products in terms of environmental protection, safety and hygiene.

(2) We will provide products and services that reduce environmental loads by obtaining a clear grasp of environmental needs and developing technologies.

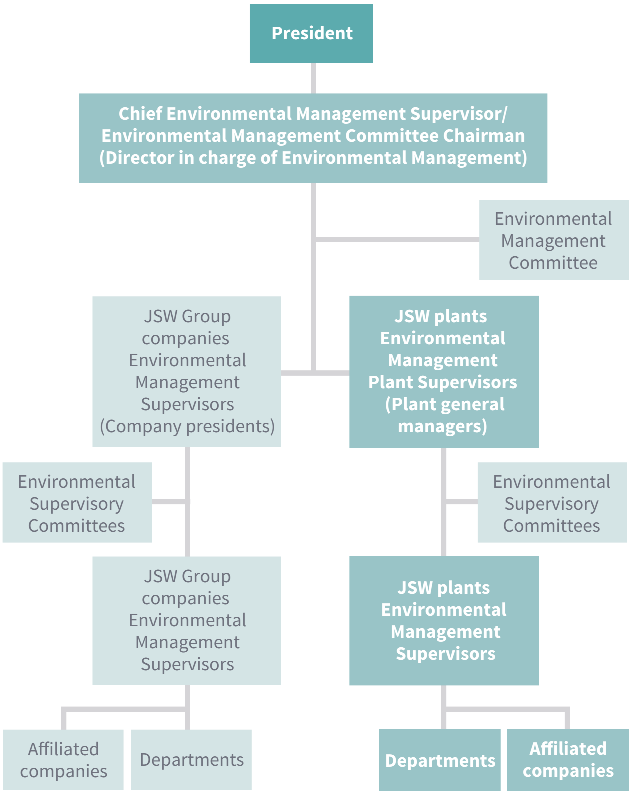
Common Policy for Business Facilities

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

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

Environmental Management Structure

The Environmental Management Committee, headed by the director in charge of environmental management, determines matters such as annual environmental management policies and programs of environmental activities for the whole company. Each plant has its own Environmental Supervisory Committee, which promotes environmental management activities and works hand in hand with other Group companies including affiliates to reduce the environmental impact of the Company's activities.



ISO 14001 Certification Progress

The Muroran, Hiroshima, and Yokohama plants and Group companies Meiki Co., Ltd. and Fine Crystal Precision (S.Z.) Co., Ltd. have obtained certification under ISO 14001, an international standard for environmental management systems.

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

The Company and Group companies have adhered strictly to laws and ordinances, and there were again no violations in fiscal 2014.

ISO 14001 Certifications of Business Sites

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



Social Initiatives

Activities as a corporate citizen

Seeking harmonious coexistence with local communities, each of our manufacturing plants gives notifications about specific equipment related to pollution while measuring and analyzing waste on a regular basis. With respect to environmental standards determined by the Basic Environment Act, we notify government agencies of our measurement findings and conduct on-the-spot and voluntary inspections to confirm that the appropriate standards are in place.

Neighborhood cleanup activities

Since 2003, the Hiroshima Plant has conducted cleanup operations of local surroundings twice a year, in spring and autumn. We have now completed 22 such operations over the past 12 years. In 2015, the 13th year of the cleanup campaign, we are targeting environmental protection activities as a member of the local community.

Meanwhile, the Yokohama Plant, under its social contribution efforts, includes beautification of local streets as part of its education program for new employees. Twice a year, all Yokohama Plant employees also engage in beautification activities inside and outside the facility. In addition to collecting waste outside the premises, we combat weeds and otherwise emphasize proper greenery maintenance within the plant grounds. Collected waste is separated and appropriately discarded. We will continue these activities in the future.

Topics

Yokohama Plant's Environmental Activities Introduced in Report

The environmental activities of the JSW Group's Yokohama Plant are introduced in the "Member Company Environmental Protection Activities" section of the fiscal 2014 edition of "Environmental Activity Report," published by the Environmental Committee of the Japan Society of Industrial Machinery Manufacturers (JSIM).

Board of Directors, Corporate Auditors and Executive Officers

Board of Directors and Corporate Auditors

As of September 30, 2015

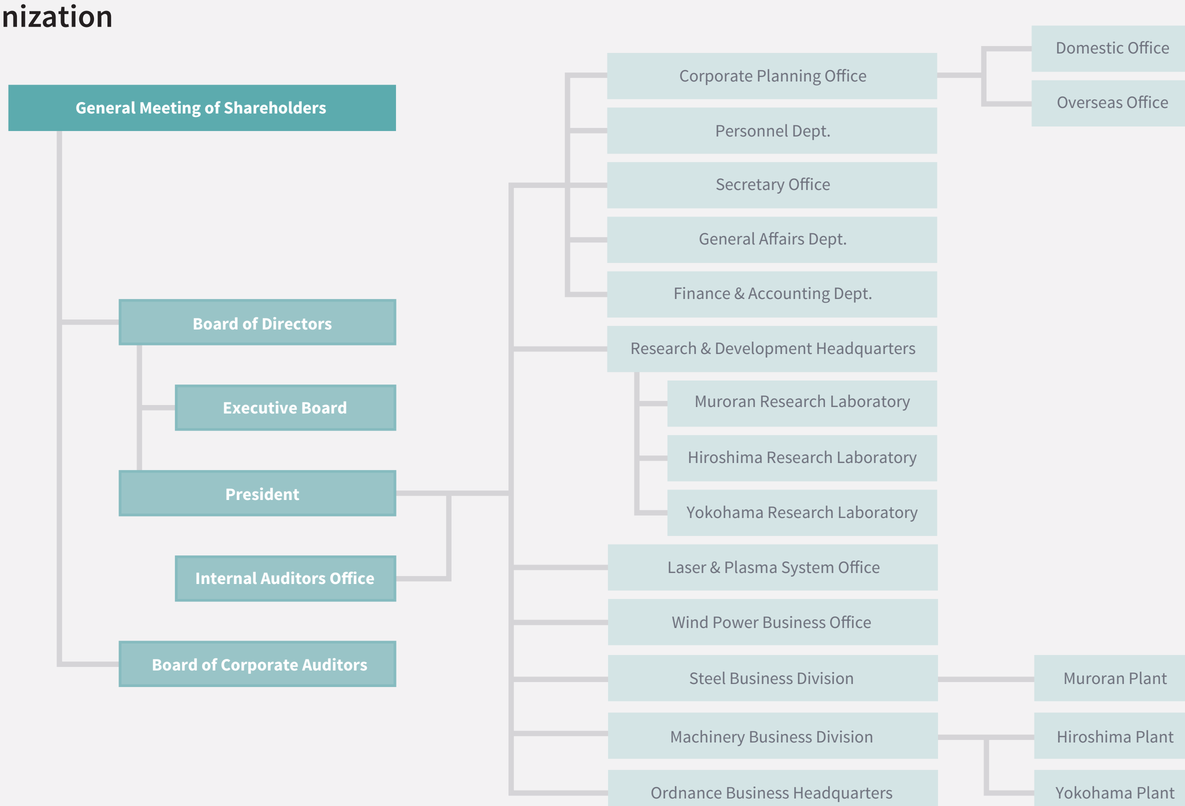
Representative Director & President	Ikuo Sato
Representative Director & Executive Vice President	Yoshitomo Tanaka
Directors and Senior Managing Executive Officers	Akira Kadota Nobuaki Shimizu
Directors and managing Executive Officers	Kenji Watanabe Yutaka Higashiizumi
Director	Motonobu Sato *(Outside)*
Corporate Auditors	Hisao Iwashita Yutaka Mizutani Mamoru Kawakami *(Outside)* Kazuya Jono *(Outside)*

Executive Officers

As of September 30, 2015

Senior Managing Executive Officer	Kazuo Kitamura
Managing Executive Officers	Hiroshi Hamao Yoshinao Ishibashi Hiroshi Fujimura Shin-ichi Ono Naotaka Miyauchi Takashi Shibata
Senior Executive Officers	Makoto Shimizu Katsutoshi Orita
Executive Officers	Masao Ooshita Hiroshi Murakami Toyohiko Kagawa Junichiro Deguchi

Organization



The Japan Steel Works, Ltd.

Six-Year Summary

Years ended March 31

Millions of yen

	2010	2011	2012	2013	2014	**2015**
Consolidated						
Net sales	¥201,680	¥212,929	¥221,368	¥220,653	¥188,719	**¥194,674**
Net income (loss)	17,528	16,532	12,591	8,281	5,527	**(3,740)**
Total assets	322,986	339,263	325,653	303,970	293,139	**321,083**
Total net assets	111,149	120,820	128,613	134,368	139,268	**139,821**
Amounts per share (yen):						
Net income (loss)	¥ 47.22	¥ 44.54	¥ 33.93	¥ 22.33	¥ 14.92	**¥ (10.10)**
Non-Consolidated						
Net sales	¥175,333	¥179,325	¥189,329	¥184,312	¥155,211	**¥153,455**
Net income (loss)	16,665	14,527	11,257	7,519	6,645	**(4,778)**
Total assets	298,783	316,176	302,550	277,086	267,241	**292,673**
Total net assets	101,615	109,734	116,255	120,866	127,416	**125,261**
Amounts per share (yen):						
Net income (loss)	¥ 44.90	¥ 39.14	¥ 30.33	¥ 20.28	¥ 17.93	**¥ (12.91)**
Cash dividends applicable to the year	¥ 12.00	¥ 12.00	¥ 10.00	¥ 10.00	¥ 5.00	**¥ 4.00**

Contents

Financial Performance (Consolidated)

Operating Results

Net Sales

Net sales increased ¥5,955 million, or 3.2% year on year, to ¥194,674 million (US$1.619 million), owing to increase in the Industrial Machinery Products Business.

Operating Income

Operating income declined ¥647 million, or 7.3%, to ¥8,217 million (US$68 million). The operating income margin stood at 4.2%, a 0.5 percentage-point decline compared with the previous year.

Net Income

As a result, the Group posted a net loss of ¥3,740 million (US$31 million), compared with net income of ¥5,527 million (US$45 million) in the previous fiscal year. This equates to net loss of ¥10.10 for the period on a per-share basis.

Sales by Region

The Japanese market accounted for sales of ¥100,417 million (US$835 million), the Chinese market for ¥29,131 million (US$242 million), with all other markets accounting for ¥65,125 million (US$541 million).

Cash Flows

At year-end, cash and cash equivalents stood at ¥49,152 million (US$409 million), increase ¥6,854 million from a year earlier.

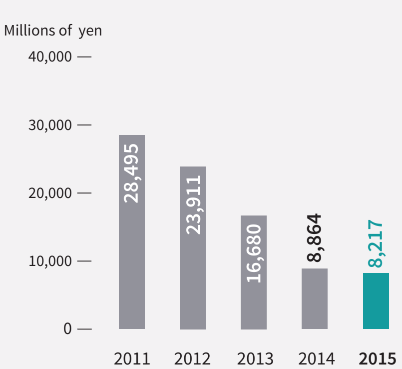
Cash Flow from Operating Activities

Net cash provided by operating activities was ¥11,580 million (US$96 million), compared with ¥11,549 million in the previous year. Primary factors included a year-on-year decrease in income before income taxes. This contrasted with provision for loss on wind power business, which did not involve cash outflows.

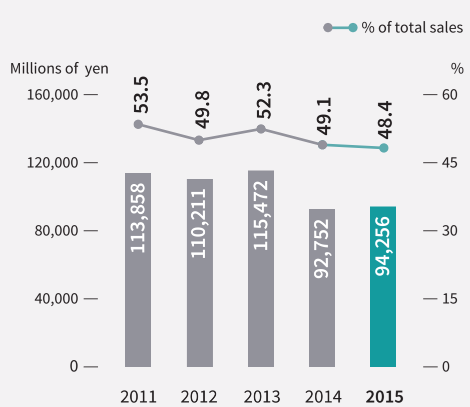
Cash Flow from Investing Activities

Net cash used in investing activities was ¥2,675 million (US$22 million), compared with ¥5,719 million a year earlier. The main factor was proceeds from sale of investment securities.

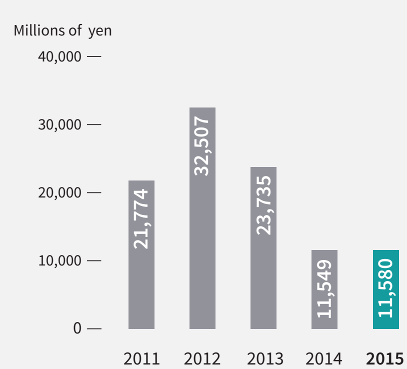
Operating Income



Overseas Sales



Net Cash Provided by Operating Activities



Cash Flow from Financing Activities

Net cash used in financing activities was ¥2,964 million (US$24 million), compared with ¥15,007 million a year earlier. The main factor was syndicated loan repayments made in the previous fiscal year.

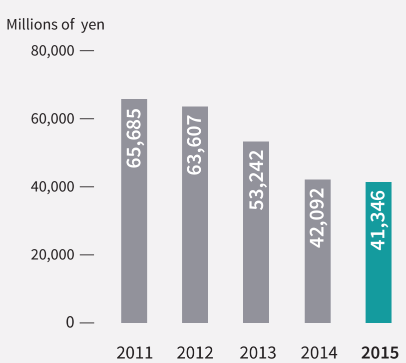
Financial Position

Total assets at March 31, 2015, stood at ¥321,083 million (US$2,671 million), increase ¥27,944 million, or 9.5%, from the close of the previous year. This was due to an increase in current assets stemming mainly from rises in cash and cash equivalents, notes and accounts receivable, and deferred tax assets.

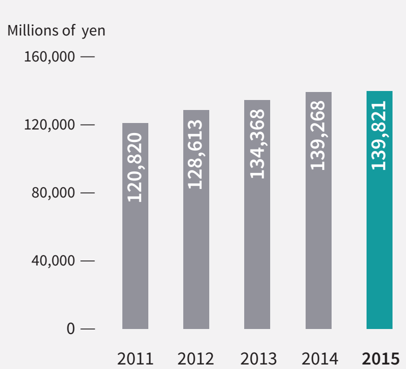
Total liabilities were ¥181,261 million (US$1,508 million) at year-end, increase ¥27,391 million, or 17.8%, from the close of the previous year. This was due to an increase in current liabilities caused mainly by a rise in prepaid expenses and provision for loss on wind power business. Interest-bearing debt was ¥41,346 million (US$344 million), increase ¥745 million.

Net assets stood at ¥139,821 million (US$1,163 million), up ¥552 million, or 0.4%, from the previous year. This was due mainly to an increase in unrealized holding gain on securities, which contrasted with a decrease in retained earnings stemming from the net loss.

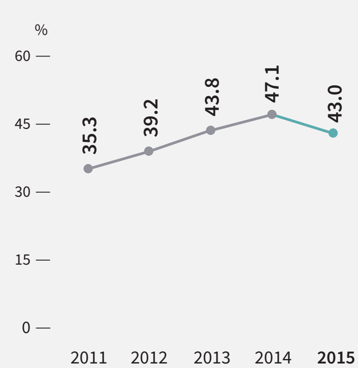
Interest-Bearing Debt



Net Assets



Equity Ratio



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The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2015 and 2014

Assets	Millions of yen 2014	Millions of yen 2015	Thousands of U.S. dollars (Note 4) 2015
Current assets:			
Cash on hand and in banks (Notes 14 and 16)	¥ 42,329	**¥ 49,176**	**$ 409,220**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	376	**204**	**1,698**
Trade (Note 16)	48,520	**56,482**	**470,017**
Other	540	**179**	**1,490**
Less allowance for doubtful accounts	(310)	**(157)**	**(1,306)**
Inventories (Note 5)	65,488	**68,856**	**572,988**
Deferred tax assets (Note 20)	5,374	**9,252**	**76,991**
Other current assets	5,155	**7,529**	**62,653**
Total current assets	167,476	**191,523**	**1,593,767**
Property, plant and equipment, at cost (Notes 6 and 7):			
Land	10,509	**10,897**	**90,680**
Buildings and structures	96,456	**98,195**	**817,134**
Machinery and equipment	141,603	**142,705**	**1,187,526**
Leased assets	3,799	**3,843**	**31,980**
Construction in progress	559	**1,404**	**11,683**
	252,928	**257,046**	**2,139,020**
Less accumulated depreciation	(167,255)	**(174,270)**	**(1,450,196)**
Property, plant and equipment, net	85,672	**82,775**	**688,816**
Intangible assets	855	**718**	**5,975**
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates	1,009	**1,003**	**8,347**
Investment securities (Notes 16 and 17)	32,444	**38,731**	**322,302**
Long-term loans receivable	88	**74**	**616**
Retirement benefit asset (Note 19)	2,427	**3,063**	**25,489**
Deferred tax assets (Note 20)	1,249	**1,065**	**8,862**
Other assets	2,487	**2,714**	**22,585**
Less allowance for doubtful accounts	(572)	**(588)**	**(4,893)**
Total investments and other assets	39,134	**46,065**	**383,332**
Total assets	¥293,139	**¥321,083**	**$2,671,906**

Liabilities and Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2015	2015
Current liabilities:			
Short-term borrowings (Notes 9 and 16)	¥ 12,292	¥ 12,255	$ 101,981
Current portion of long-term debt (Notes 9 and 16)	3,454	21,768	181,143
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	70	80	666
Trade (Note 16)	42,268	42,167	350,895
Other	1,059	2,563	21,328
Advances received for products	22,048	34,697	288,733
Accrued income taxes (Note 20)	1,802	1,171	9,745
Provision for loss on wind power generator business (Note 3)	—	13,203	109,869
Other current liabilities	15,852	17,439	145,119
Total current liabilities	98,848	145,349	1,209,528
Long-term liabilities:			
Long-term debt (Notes 9 and 16)	26,345	7,322	60,930
Accrued retirement benefits (Note 19)			
For directors and corporate auditors	115	109	907
Retirement benefit liability (Note 19)	10,405	10,857	90,347
Deferred tax liabilities (Note 20)	1,391	3,064	25,497
Other long-term liabilities	16,761	14,559	121,153
Total long-term liabilities	55,021	35,912	298,843
Net assets:			
Shareholders' equity (Note 13)			
Common stock:			
Authorized—1,000,000,000 shares			
Issued—371,463,036 shares	19,694	19,694	163,884
Capital surplus	5,425	5,425	45,144
Retained earnings	110,635	104,916	873,063
Treasury stock, at cost (1,192,297 shares in 2015 and 1,189,350 shares in 2014)	(730)	(731)	(6,083)
Total shareholders' equity	135,026	129,305	1,076,017
Accumulated other comprehensive income:			
Unrealized holding gain (loss) on securities	4,293	9,195	76,517
Unrealized gain (loss) from hedging instruments	(130)	(194)	(1,614)
Translation adjustments	(96)	239	1,989
Remeasurement of retirement benefit plans	(1,042)	(399)	(3,320)
Total accumulated other comprehensive income	3,024	8,839	73,554
Minority interests	1,218	1,676	13,947
Total net assets	139,268	139,821	1,163,527
Total liabilities and net assets	¥293,139	¥321,083	$2,671,906

The accompanying notes are an integral part of these statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income

For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2015	2015
Net sales	¥188,719	**¥194,674**	**$1,619,988**
Cost of sales (Note 10)	153,137	**158,488**	**1,318,865**
Gross profit	35,581	**36,186**	**301,123**
Selling, general and administrative expenses (Note 10)	26,717	**27,969**	**232,745**
Operating income	8,864	**8,217**	**68,378**
Other income (expenses):			
Interest and dividend income	756	**718**	**5,975**
Interest expense	(424)	**(264)**	**(2,197)**
Provision for loss on wind power generator business	—	**(15,967)**	**(132,870)**
Other, net (Note 11)	308	**3,277**	**27,270**
	639	**(12,235)**	**(101,814)**
Income before income taxes and minority interests	9,504	**(4,017)**	**(33,428)**
Income taxes (Note 20):			
Current	3,530	**3,534**	**29,408**
Deferred	344	**(4,026)**	**(33,503)**
Income before minority interests	5,629	**(3,525)**	**(29,333)**
Minority interests in net income of consolidated subsidiaries	102	**215**	**1,789**
Net income (Note 26)	¥ 5,527	**¥ (3,740)**	**$ (31,123)**

The accompanying notes are an integral part of these statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2015	2015
Income before minority interests	¥5,629	¥(3,525)	$(29,333)
Other comprehensive income:			
Unrealized holding gain (loss) on securities	2,817	4,902	40,792
Unrealized gain (loss) from hedging instruments	202	(64)	(533)
Translation adjustments	390	358	2,979
Retirement benefits plans adjustments	—	617	5,134
Total other comprehensive income (Note 11)	3,410	5,814	48,381
Comprehensive income	¥9,039	¥2,288	$ 19,040
Total comprehensive income attributable to:			
Shareholders of The Japan Steel Works, Ltd.	¥8,924	¥2,074	$ 17,259
Minority interests	¥ 114	¥ 213	$ 1,772

The accompanying notes are an integral part of these statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

For the years ended March 31, 2015 and 2014

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 13)	Total shareholders' equity	Unrealized holding gain (loss) on securities	Unrealized gain (loss) from hedging instruments	Translation adjustments	Retirement benefit liability adjustments (Note 19)	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at April 1, 2013	¥19,694	¥5,425	¥107,861	¥(413)	¥132,568	¥1,475	¥(332)	¥(474)	¥ —	¥ 668	¥1,131	¥134,368
Cumulative effect of change in accounting principle (Note 2)												
Restated balance at April 1 ,2013	19,694	5,425	107,861	(413)	132,568	1,475	(332)	(474)	—	668	1,131	134,368
Changes during the year												
Cash dividends paid			(2,781)		(2,781)							(2,781)
Net income			5,527		5,527							5,527
Purchases of treasury stock				(316)	(316)							(316)
Changes in the scope of consolidation			28		28							28
Net changes in items other than those in shareholders' equity						2,817	202	377	(1,042)	2,355	86	2,422
Total changes during the year	—	—	2,774	(316)	2,457	2,817	202	377	(1,042)	2,355	86	4,900
Balance at March 31, 2014	¥19,694	¥5,425	¥110,635	¥(730)	¥135,026	¥4,293	¥(130)	¥ (96)	¥(1,042)	¥3,024	¥1,218	¥139,268
Balance at April 1, 2014	¥19,694	¥5,425	¥110,635	¥(730)	¥135,026	¥4,293	¥(130)	¥ (96)	¥(1,042)	¥3,024	¥1,218	¥139,268
Cumulative effect of change in accounting principle (Note 2)			(555)		(555)							(555)
Restated balance at April 1 ,2014	19,694	5,425	110,080	(730)	134,471	4,293	(130)	(96)	(1,042)	3,024	1,218	138,713
Changes during the year												
Cash dividends paid			(1,666)		(1,666)							(1,666)
Net loss			(3,740)		(3,740)							(3,740)
Purchases of treasury stock				(1)	(1)							(1)
Disposal of treasury stock		(0)		0	0							0
Changes in the scope of consolidation			242		242							242
Net changes in items other than those in shareholders' equity						4,902	(64)	335	642	5,815	457	6,273
Total changes during the year	—	(0)	(5,164)	(1)	(5,165)	4,902	(64)	335	642	5,815	457	1,107
Balance at March 31, 2015	¥19,694	¥5,425	¥104,916	¥(731)	¥129,305	¥9,195	¥(194)	¥ 239	¥ (399)	¥8,839	¥1,676	¥139,821

Thousands of U.S. dollars (Note 4)

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 13)	Total shareholders' equity	Unrealized holding gain (loss) on securities	Unrealized gain (loss) from hedging instruments	Translation adjustments	Retirement benefit liability adjustments (Note 19)	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at April 1, 2014	$163,884	$45,144	$920,654	$(6,075)	$1,123,625	$35,724	$(1,082)	$ (799)	$(8,671)	$25,164	$10,136	$1,158,925
Cumulative effect of change in accounting principle (Note 2)			(4,618)		(4,618)							(4,618)
Restated balance at April 1 ,2014	163,884	45,144	916,036	(6,075)	1,119,006	35,724	(1,082)	(799)	(8,671)	25,164	10,136	1,154,306
Changes during the year												
Cash dividends paid			(13,864)		(13,864)							(13,864)
Net loss			(31,123)		(31,123)							(31,123)
Purchases of treasury stock				(8)	(8)							(8)
Disposal of treasury stock		(0)		0	0							0
Changes in the scope of consolidation			2,014		2,014							2,014
Net changes in items other than those in shareholders' equity						40,792	(533)	2,788	5,342	48,390	3,803	52,201
Total changes during the year	—	(0)	(42,972)	(8)	(42,981)	40,792	(533)	2,788	5,342	48,390	3,803	9,212
Balance at March 31, 2015	$163,884	$45,144	$873,063	$(6,083)	$1,076,017	$76,517	$(1,614)	$1,989	$(3,320)	$73,554	$13,947	$1,163,527

The accompanying notes are an integral part of these statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2015	2015
Operating activities			
Income before income taxes and minority interests	¥ 9,504	¥ (4,017)	$ (33,428)
Depreciation and amortization	12,878	10,936	91,004
Interest and dividend income	(756)	(718)	(5,975)
Interest expense	424	264	2,197
Equity in (earnings) losses of affiliates	0	0	0
(Gain) loss on sales of investment equipment	(65)	(6)	(50)
Loss on disposal of tangible and intangible assets	147	343	2,854
(Gain) loss on sales of property, plant and securities	(46)	(2,214)	(18,424)
Gain on bargain purchase	—	(218)	(1,814)
Gain on settlement of long-term guarantee deposited	—	(709)	(5,900)
Increase (decrease) in provision for loss on wind power generator business	—	13,203	109,869
Loss on valuation of shares of subsidiaries and associates	44	55	458
Changes in operating assets and liabilities:			
Trade assets (Note 16)	2,827	3,834	31,905
Trade liabilities	(2,219)	(322)	(2,680)
Inventories (Note 5)	(5,772)	(3,243)	(26,987)
Other	(1,643)	(1,860)	(15,478)
Subtotal	15,323	15,325	127,528
Interest and dividends received	754	712	5,925
Interest paid	(435)	(255)	(2,122)
Income taxes paid	(4,093)	(4,201)	(34,959)
Net cash provided by operating activities	11,549	11,580	96,363
Investing activities			
Increase in tangible and intangible assets	(4,610)	(5,392)	(44,870)
Decrease in tangible and intangible assets	138	260	2,164
Proceeds from sale of investment securities	86	2,835	23,592
Purchases of investment securities	(821)	(11)	(92)
Reimbursement of long-term deposits on contracts	(223)	(192)	(1,598)
(Increase) decrease in short-term loans receivable	(17)	215	1,789
Collection of long-term loans receivable	14	13	108
Payments for transfer of business	—	(200)	(1,664)
Purchase of investments in subsidiaries	(79)	(56)	(466)
Proceeds of investments in subsidiaries	—	3	25
Other	(206)	(151)	(1,257)
Net cash used in investing activities	(5,719)	(2,675)	(22,260)
Financing activities (Notes 9 and 16)			
Net decrease in short-term borrowings	(411)	(37)	(308)
Increase in long-term debt	200	2,250	18,723
Decrease in long-term debt	(10,740)	(2,712)	(22,568)
Cash dividends paid	(2,781)	(1,668)	(13,880)
Acquisition of treasury stock	(316)	(1)	(8)
Repayments of finance lease obligations	(955)	(803)	(6,682)
Other	(2)	8	67
Net cash provided by (used in) financing activities	(15,007)	(2,964)	(24,665)
Effect of exchange rate changes on cash and cash equivalents	432	415	3,453
(Decrease) increase in cash and cash equivalents	(8,744)	6,356	52,892
Cash and cash equivalents at beginning of the year	50,972	42,297	351,976
Increase in cash and cash equivalents resulting from merger	69	498	4,144
Cash and cash equivalents at end of the year (Notes 14 and 16)	¥42,297	¥ 49,152	$ 409,021

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, 2015, the numbers of consolidated subsidiaries, and subsidiaries and affiliates accounted for by the equity method were 31 and 1 (34 and 1 in 2014), respectively. MURORAN ENVIRONMENT PLANT SERVICE, CO., LTD. was included in the scope of consolidation due to its increased significance. JSW Plastics Machinery Service CO., LTD. was absorbed by the Company. Nikko Design Co., Ltd. , Nikko Casting Co., Ltd. and JSW Clad Steel Company Co., Ltd. which was consolidated subsidiary in the previous fiscal year was absorbed by Nikko Kouei Co., Ltd. in accordance with the merger. Nikko Kouei Co., Ltd. has changed corporate name to Nikko MEC Co., Ltd.

Certain foreign subsidiaries are consolidated on the basis of fiscal periods ended December 31, which differ from that of the Company. However, the necessary adjustments have been made if the effect of the difference is material.

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

Differences between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in companies accounted for by the equity method have been amortized by the straight-line method over five years after acquisition and are included in selling, general and administrative expenses.

(b) Foreign currency translation

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding minority interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Differences arising from the translation are presented as translation adjustments and minority interests in the consolidated financial statements.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and differences arising from the translation are included in the consolidated statements of income.

(c) Cash equivalents

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

(d) Inventories

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

(e) Investment securities

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

(f) Allowance for doubtful accounts

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

(g) Provision for warranties for completed construction

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

(h) Provision for loss on construction contracts

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

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

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

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

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

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

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

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

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over ten years, which is shorter than the average remaining years of service of the employees participating in the plans.

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

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

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

(o) Revenue and cost recognition
Revenues on sales of products are generally recognized at the time of shipment.

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

(p) Derivative financial instruments
Derivative financial instruments are carried at fair value. Gain or loss on derivatives designated as hedging instruments is deferred as a component of net assets until the loss or gain on the underlying hedged items is recognized. Foreign currency receivables and payables are translated at the applicable forward foreign exchange rates when certain conditions are met. In addition, the related interest differential paid or received under interest-rate swaps utilized as hedging instruments is recognized over the terms of the swap agreements as an adjustment to the interest expense of the underlying hedged items when certain conditions are met.

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

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

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

(t) Accounting changes
The Company and its domestic subsidiaries adopted Section 35 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 of May 17, 2012) and the main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of March 26, 2015) effective from April 1, 2014. As a result, the method for calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed to use a single weighted-average discount rate reflecting the expected timing and amount of benefit payments.

The cumulative effect of changing the method for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Paragraph 37 of Accounting Standard for Retirement Benefits.

As a result, retirement benefit liability increased by ¥712 million ($5,925 thousand), retirement benefit asset decreased by ¥128 million ($1,065 thousand) and retained earnings decreased by ¥555 million ($4,618 thousand) at April 1, 2014. The effect of these changes on consolidated operating income, loss before income taxes and minority interests for the year ended March 31, 2015 was immaterial.

In addition, net assets per share decreased by ¥1.50 ($0.01), while the effect of change on net loss per share was immaterial.

(u) Standards issued but not yet effective

Accounting standards for business combinations

On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22), "Revised Accounting Standard for Earnings Per share" (ASBJ Statement No.2) , "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10), and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4).

(1) Overview

Under there revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of net income was amended, the reference to "minority interests" was changed to "non-controlling interests," and transitional provisions for these accounting standards were also defined.

(2) Scheduled date of adoption

The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.

(3) Impact of adopting revised accounting standards and guidance

The Company is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

3. Additional Information

The Company has recorded Provision for loss on wind power generator business, amounting to ¥15,967 million ($132,870 thousand), by estimating the amount of total losses caused by the defects of certain parts used in wind power generators. As a result, loss on wind power generator business, amounting to ¥15,967 million ($132,870 thousand), has been recognized in Other income (expenses).

4. 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 ¥120.17 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2015. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

5. Inventories

Inventories at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Real estate held for sale	¥ 6	¥ 6	$ 50
Finished products	1,795	2,096	17,442
Work in process	59,477	61,517	511,916
Raw materials and supplies	4,208	5,234	43,555
Total	¥65,488	¥68,856	$572,988

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 ¥791 million ($6,582 thousand) at March 31, 2015 and ¥1,291 million at March 31, 2014.

6. Depreciation

Depreciation expense on property, plant and equipment for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Depreciation expense	¥12,950	¥11,008	$91,604

7. Advanced Depreciation

Accumulated advanced depreciation related to government grants received has been deducted directly from the acquisition costs of certain tangible fixed assets (plant, machinery and equipment). Such accumulated depreciation at March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Accumulated advanced depreciation expense	¥1,286	¥1,286	$10,702

8. Contingent Liabilities

Contingent liabilities at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
As endorsers of trade notes receivable:			
Endorsed to other	¥ 98	¥ 68	$ 566
As guarantors of loans:			
Muroran Environmental Plant Service Co., Ltd.	526	473	3,936
Gotsu Wind Power Co., Ltd.	1,385	1,236	10,285
Employees and other	153	95	791

9. Short-Term Borrowings and Long-Term Debt

All short-term borrowings, with interest at annual rates ranging from 0.4218% to 1.5293% at March 31, 2015 and 0.5118% to 1.975% at March 31, 2014, were unsecured.

Long-term debt at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Loans from banks and insurance companies with interest a annual rates ranging from 0.0300% to 1.8863%	¥17,795	**¥17,332**	**$144,229**
Less those maturing within one year	(2,700)	**(11,105)**	**(92,411)**
Lease obligations	2,004	**1,758**	**14,629**
Less those maturing within one year	(754)	**(663)**	**(5,517)**
0.48% straight bonds, due 2015	10,000	**10,000**	**83,215**
Less those maturing within one year	—	**(10,000)**	**(83,215)**
Long-term indebtedness reflected in the consolidated balance sheets	¥26,345	**¥ 7,322**	**$ 60,930**

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2015 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
	Bonds		Long-term loans	
2016	¥ 10,000	$83,215	¥11,105	$92,411
2017	—	—	240	1,997
2018	—	—	4,095	34,077
2019	—	—	52	433
2020	—	—	40	333
2021 and thereafter	—	—	1,800	14,979

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
	Lease obligations	
2016	¥663	$5,517
2017	495	4,119
2018	342	2,846
2019	180	1,498
2020	71	591
2021 and thereafter	5	42

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, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Research and development expenses	¥3,836	**¥4,104**	**$34,152**

11. Other Income (Expenses)—Other, Net

The details of "Other, net" in "Other income (expenses)" for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Foreign exchange gain	¥ 376	**¥357**	**$2,971**
Gain on settlement of long-term guarantee deposited	—	**709**	**5,900**
Amortization of negative goodwill	71	**71**	**591**
Commission fee	—	**(310)**	**(2,580)**
Non-deductible consumption tax	(20)	**(135)**	**(1,123)**
Equity in losses of affiliates	(0)	**(0)**	**(0)**
Gain on sales of property, plant and equipment	107	**6**	**50**
Gain on sales of investment securities	46	**2,214**	**18,424**
Gain on bargain purchase	—	**218**	**1,814**
Loss on sales or disposal of property, plant and equipment	(147)	**(343)**	**(2,854)**
Loss on valuation of subsidiaries and associates	(44)	**(55)**	**(458)**
Loss on business of subsidiaries and associates	—	**(6)**	**(50)**
Other, net	(81)	**551**	**4,585**
Total	¥308	**¥3,277**	**$27,270**

12. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥4,401	¥7,399	$61,571
Reclassification adjustments for gains and losses realized in net income	(46)	(502)	(4,177)
The amount of unrealized holding gain (loss) on securities before tax effect	4,355	6,897	57,394
Tax effect	(1,537)	(1,994)	(16,593)
Unrealized holding gain (loss) on securities	2,817	4,902	40,792
Unrealized gain (loss) from hedging instruments:			
Amount arising during the year	332	(86)	(716)
Tax effect	(130)	21	175
Unrealized gain (loss) from hedging instruments	202	(64)	(533)
Translation adjustments:			
Amount arising during the year	390	358	2,979
Translation adjustments	390	358	2,979
Retirement benefits plans adjustments:			
Amount arising during the year	—	458	3,811
Reclassification adjustments for gains and losses realized in net income	—	545	4,535
The amount of unrealized holding gain (loss) on securities before tax effect	—	1,004	8,355
Tax effect	—	(386)	(3,212)
Retirement benefits plans adjustments	—	617	5,134
Total other comprehensive income	¥3,410	¥5,814	$48,381

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

Year ended March 31, 2015

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

	Number of shares			
	Year ended March 31, 2014	Increase during the year	Decrease during the year	Year ended March 31, 2015
Shares issued:				
Common stock	371,463,036	—	—	371,463,036
Treasury stock:				
Common stock (Note 1 and 2)	1,189,350	3,350	403	1,192,297

Notes: 1. The increase in treasury stock – common stock of 3,350 was due to the acquisition of fractional shares of less than one unit.
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 25, 2014
Type of shares: Common stock
Total amount of dividends: ¥925 million ($7,697 thousand)
Dividends per share: ¥2.5 ($0.021)
Cut-off date: March 31, 2014
Effective date: June 26, 2014

② Resolution: Meeting of Board of Directors held on November 4, 2014
Type of shares: Common stock
Total amount of dividends: ¥740 million ($6,158 thousand)
Dividends per share: ¥2 ($0.017)
Cut-off date: September 30, 2014
Effective date: December 5, 2014

(ii) Dividends of which the cut-off date was in the year ended March 31, 2015, but the effective date is in the following fiscal year

Resolution: Annual general meeting of shareholders held on June 24, 2015
Type of shares: Common stock
Total amount of dividends: ¥740 million ($6,158 thousand)
Dividends per share: ¥2 ($0.017)
Cut-off date: March 31, 2015
Effective date: June 25, 2015
Source of dividends: Retained earnings

Year ended March 31, 2014

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

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

Notes: The increase in treasury stock – common stock of 511,000 was due to the acquisition from the dissenting shareholders under the provisions of 797, Paragraph 1 of the Companies Act and common stock of 6,139 was due to the acquisition of fractional shares of less than one unit.

(b) Dividends

(i) Dividends paid to shareholders

① Resolution: Annual general meeting of shareholders held on June 25, 2013
Type of shares: Common stock
Total amount of dividends: ¥1,854 million
Dividends per share: ¥5
Cut-off date: March 31, 2013
Effective date: June 26, 2013

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

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

Resolution: Annual general meeting of shareholders held on June 25, 2014
Type of shares: Common stock
Total amount of dividends: ¥925 million
Dividends per share: ¥2.5
Cut-off date: March 31, 2014
Effective date: June 26, 2014
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, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Cash on hand and in banks in the consolidated balance sheet	¥42,329	¥49,176	$409,220
Time deposits with maturities of more than three months	(32)	(24)	(200)
Cash and cash equivalents in the consolidated statement of cash flows	¥42,297	¥49,152	$409,021

(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, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Lease assets	¥745	¥485	$4,036
Lease obligations	772	522	4,344

15. Leases

Year ended March 31, 2015

Future minimum lease payments subsequent to March 31, 2015 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥2,348	$19,539
2017 and thereafter	2,328	19,373
Total	¥4,676	$38,912

Year ended March 31, 2014

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

Year ending March 31,	Millions of yen
2015	¥3,129
2016 and thereafter	4,305
Total	¥7,434

16. Financial Instruments

Overview

(a) Policy for financial instruments

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

(b) Types of financial instruments and related risk

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

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

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

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

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

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

(c) Risk management for financial instruments

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

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

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

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

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

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

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

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

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

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

The fair value of financial instruments is based on their quoted market price, if available. When there is no available quoted market price, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 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, 2015 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, 2015

	Millions of yen		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash on hand and in banks	¥ 49,176	¥ 49,176	¥ —
Trade notes and accounts receivable	56,678	56,675	(2)
Securities:			
Other securities	37,408	37,408	—
Total assets	¥143,263	¥143,261	¥ (2)
Liabilities			
Trade notes and accounts payable	¥ 42,248	¥ 42,248	¥ —
Short-term borrowings	12,255	12,255	—
Current portion of long-term debt	11,105	11,118	13
Current portion of bonds	10,000	10,014	14
Long-term debt	6,227	6,301	74
Total liabilities	¥ 81,835	¥ 81,937	¥101
Derivatives (*)	¥ (288)	¥ (288)	—

	Thousands of U.S. dollars		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash on hand and in banks	$ 409,220	$ 409,220	$ —
Trade notes and accounts receivable	471,648	471,624	(17)
Securities:			
Other securities	311,292	311,292	—
Total assets	$1,192,169	$1,192,153	$ (17)
Liabilities			
Trade notes and accounts payable	$ 351,569	$ 351,569	$ —
Short-term borrowings	101,981	101,981	—
Current portion of long-term debt	92,411	92,519	108
Current portion of bonds	83,215	83,332	117
Long-term debt	51,818	52,434	616
Total liabilities	$ 680,994	$ 681,842	$840
Derivatives (*)	$ (2,397)	$ (2,397)	—

(*) 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, 2014

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

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

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

Assets

Cash on hand and in banks

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

Trade notes and accounts receivables

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

Securities

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

Quoted market price is used for other securities.

Liabilities

Trade notes and accounts payable and short-term borrowings

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

Current portion of long-term debt, bonds and long-term debt

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

Derivative Transactions

Please refer to Note 18, Derivative Transactions, of the notes to the consolidated financial statements.

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Unlisted stocks	¥1,949	¥1,722	$14,330

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, 2015 and 2014.

Year ended March 31, 2015

	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	¥ 49,176	¥ —	—
Trade notes and accounts receivable	56,050	628	—
Total	¥105,226	¥628	—

	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	$409,220	$ —	—
Trade notes and accounts receivable	466,423	5,226	—
Total	$875,643	$5,226	—

Year ended March 31, 2014

	Millions of yen		
	Due in one year or less	Due after one year through five years	Due after five years
Cash on hand and in banks	¥42,329	¥ —	—
Trade notes and accounts receivable	48,244	624	—
Total	¥90,574	¥624	—

(iv) The redemption schedule for long-term debt

Year ended March 31, 2015

	Millions of yen		
	Bonds	Long-term loans	Lease obligations
Due in 1 year or less	¥10,000	¥11,105	¥663
Due after 1 year through 2 years	—	240	495
Due after 2 years through 3 years	—	4,095	342
Due after 3 years through 4 years	—	52	180
Due after 4 years through 5 years	—	40	71
Due after 5 years	—	1,800	5

	Thousands of U.S. dollars		
	Bonds	Long-term loans	Lease obligations
Due in 1 year or less	$83,215	$92,411	$5,517
Due after 1 year through 2 years	—	1,997	4,119
Due after 2 years through 3 years	—	34,077	2,846
Due after 3 years through 4 years	—	433	1,498
Due after 4 years through 5 years	—	333	591
Due after 5 years	—	14,979	42

Year ended March 31, 2014

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

17. Securities

Other securities:

March 31, 2015

	Millions of yen		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeding the acquisition cost:			
Stocks	¥16,672	¥30,882	¥14,210
Carrying amount not exceeding the acquisition cost:			
Stocks	6,800	6,126	(674)
Total	¥23,472	¥37,008	¥13,536

	Thousands of U.S. dollars		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Carrying amount exceeding the acquisition cost:			
Stocks	$138,737	$256,986	$118,249
Carrying amount not exceeding the acquisition cost:			
Stocks	56,587	50,978	(5,609)
Total	$195,323	$307,964	$112,640

March 31, 2014

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

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, 2015

None applicable

Year ended March 31, 2014

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, 2015

Millions of yen

Hedge accounting method	Type of derivative	Principal items hedged	Contract amount		Fair value
				Over one year	
Allocation method	Foreign exchange forward contracts	Notes and accounts receivable			
	Sell: U.S. dollars		¥16,857	¥2,764	¥(1,413)
	Euros		1,419	11	54
	Sterling pound		277	—	(8)
	Foreign exchange forward contracts	Notes and accounts payable			
	Buy: U.S. dollars		¥11,815	—	¥ 1,178
	Euros		1,014	—	(96)
	Sterling pound		157	—	(2)
	Swiss franc		13	—	0

Thousands of U.S. dollars

Hedge accounting method	Type of derivative	Principal items hedged	Contract amount		Fair value
				Over one year	
Allocation method	Foreign exchange forward contracts	Notes and accounts receivable			
	Sell: U.S. dollars		$140,276	$23,001	¥(11,758)
	Euros		11,808	92	449
	Sterling pound		2,305	—	(67)
	Foreign exchange forward contracts	Notes and accounts payable			
	Buy: U.S. dollars		$ 98,319	—	¥ 9,803
	Euros		8,438	—	(799)
	Sterling pound		1,306	—	(17)
	Swiss franc		108	—	0

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

Year ended March 31, 2014

Millions of yen

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

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

(ii) Interest-related transactions

Year ended March 31, 2015

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

					Thousands of U.S. dollars
Hedge accounting method	Type of derivative	Principal items hedged	Contract amount		Fair value
				Over one year	
Special treatment for interest rate swaps	Receive/floating and pay/fixed	Long-term borrowings	**$33,286**	**$33,286**	**(*)**

(*) 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, 2014

					Millions of yen
Hedge accounting method	Type of derivative	Principal items hedged	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	¥4,000	¥4,000	(*)

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

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

19. Retirement Benefit Plans

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

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

The changes in the retirement benefit obligation for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Balance at the beginning of the year	¥20,367	**¥19,819**	**$164,925**
Cumulative effect of change in accounting principle	—	**840**	**6,990**
Restated balance at the beginning of the year	20,367	**20,659**	**171,915**
Service cost	963	**972**	**8,089**
Interest cost	272	**244**	**2,030**
Actuarial gain and loss	(82)	**528**	**4,394**
Retirement benefit paid	(1,701)	**(1,915)**	**(15,936)**
Balance at the end of the year	¥19,819	**¥20,489**	**$170,500**

The changes in plan assets for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at the beginning of the year	¥14,968	¥15,524	$129,184
Expected return on plan assets	224	310	2,580
Actuarial gain and loss	901	987	8,213
Contributions by the Company	459	429	3,570
Retirement benefits paid	(1,030)	(1,149)	(9,561)
Balance at the end the year	¥15,524	¥16,101	$133,985

The changes in retirement benefit liability accounted for using the simplified method for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at the beginning of the year	¥3,804	¥3,729	$31,031
Retirement benefit expenses	561	470	3,911
Retirement benefit paid	(467)	(606)	(5,043)
Contributions	(197)	(193)	(1,606)
Other	28	36	300
Balance at the end the year	¥3,729	¥3,436	$28,593

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2015 and 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Funded retirement benefit obligation	¥19,093 (16,338)	¥ 19,668 (17,013)	$ 163,668 (141,574)
Plan assets at the value	2,754	2,655	2,2094
Unfunded retirement benefit obligation	5,223	5,138	42,756
Net liability for retirement benefits in the balance sheet	7,978	7,793	64,850
Retirement benefit liability	10,405	10,857	90,347
Retirement benefit assets	(2,427)	(3,063)	(25,489)
Net liability for retirement benefits in the balance sheet	¥7,978	¥ 7,793	$ 64,850

The components of retirement benefit expense for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Service cost	¥963	¥ 972	$ 8,089
Interest cost	272	244	2,030
Expected return on plan assets	(224)	(310)	(2,580)
Amortization of actuarial gain and loss	139	380	3,162
Amortization of prior service cost	155	180	1,498
Simplified method for retirement benefit expenses	561	470	3,911
Other	65	48	399
Retirement benefit expense	¥1,930	¥1,986	$16,527

The components of retirement benefits plans adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Prior service cost	¥—	¥ 180	$1,498
Actuarial gain and loss	—	823	6,849
Total	¥—	¥1,004	$8,355

The components of retirement benefits plans adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Unrecognized prior service cost	¥ (180)	¥ —	$ —
Unrecognized actuarial gain and loss	(1,442)	(618)	(5,143)
Total	¥(1,622)	¥(618)	$(5,143)

The fair value of plan assets, by major category, as a percentage of total plan as of March 31, 2015 and 2014 as follows:

March 31,	2014	2015
Bonds	29%	28%
Stocks	38	41
Cash on hand and in banks	0	0
General account	16	16
Other	16	15
Total	100%	100%

Retirement benefit trust set for the lump-sum and corporate pension plans accounts for 19% and 19% of the total plan assets, for the years ended March 31, 2015 and 2014, respectively.

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

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

March 31,	2014	2015
Discount rates	1.50%	1.09%
Expected rates of return on plan assets	1.50	2.00

Contributions made to defined contribution plans for the years ended March 31, 2015 and 2014 were ¥32 million ($266 thousand) and ¥32 million, respectively.

20. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Deferred tax assets:			
Accrued enterprise taxes	¥ 180	¥ 142	$ 1,182
Accrued bonuses	1,004	996	8,288
Depreciation	966	913	7,598
Amortization of long-term prepaid expenses	115	111	924
Loss on revaluation of inventory items	1,202	798	6,641
Loss on revaluation of financial instruments	253	214	1,781
Retirement benefit liability	4,612	4,558	37,930
Provision for warranties for completed construction	924	724	6,025
Provision for loss on construction contracts	700	486	4,044
Provision for loss on wind power generator business	—	4,295	35,741
Less allowance for doubtful accounts	169	195	1,623
Asset retirement obligations	450	410	3,412
Percentage-of-completion method	617	948	7,889
Tax loss carry forwards	2,412	2,102	17,492
Unrealized loss on investment securities	341	215	1,789
Deferred loss on hedges	99	506	4,211
Unrealized gain on intercompany transactions	690	688	5,725
Other	534	617	5,134
Gross deferred tax assets	15,276	18,927	157,502
Valuation allowance	(3,706)	(3,456)	(28,759)
Total deferred tax assets	11,569	15,471	128,743
Deferred tax liabilities:			
Reserve for advanced depreciation	1,702	1,479	12,308
Reserve for special depreciation	864	411	3,420
Net defined benefit asset	696	984	8,188
Disposal cost with asset retirement obligations	283	250	2,080
Unrealized gain on investment securities	2,698	4,568	38,013
Deferred gain on hedges	28	413	3,437
Other	64	110	915
Total deferred tax liabilities	6,337	8,217	68,378
Net deferred tax assets	¥ 5,231	¥ 7,254	$ 60,364

The reconciliation between the effective tax rates reflected in the consolidated statement of income and the statutory tax rates for the years ended March 31, 2015 and 2014 were as follows:

	2014	2015
Statutory tax rates	37.8%	No reconciliation items are applicable for the year as the Company recorded net loss before income taxes
Effect of:		
Permanent differences	3.0	
Tax credit	(2.5)	
Decrease in deferred tax assets due to tax rate change	3.0	
Other	(0.5)	
Effective tax rates	40.8%	

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

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No.2 of 2015) were promulgated on March 31, 2015. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 35.4% to 32.9% and 32.1% for the temporary differences expected to be realized or settled in the year beginning April 1, 2015 and the temporary differences expected to be realized or settled from April 1, 2016, respectively.

The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥767 million ($6,383 thousand), deferred tax liabilities after offsetting deferred tax assets by ¥328 million ($2,729 thousand), unrealized gain (loss) from hedging instruments by ¥8 million ($67 thousand), retirement benefits plans adjustments by ¥13 million ($108 thousand) and increase deferred income taxes by ¥864 million ($7,190 thousand) and unrealized gain (loss) on securities by ¥447 million ($3,720 thousand) as of and for the year ended March 31, 2015.

21. Business Combinations

Business combination through acquisition

(a) Outline of business combination

① Name and business of acquired company
Name: MES AFTY Co., Ltd.
Business: Businesses of manufacture, sales and after-sales service of ECR Plasma Deposition Systems, ALD Systems and Aneal Systems

② Main reason for the business combination
Advancing into deposition business

③ Date of business combination
April 1, 2014

④ Legal form of business combination
Business transfer by cash payment

⑤ Name of company after business combination
JSW AFTY Co., Ltd.

(b) Period for which earnings of the acquired company were included in the consolidated financial statements

The earnings of the acquired company for the period from April 1, 2014 through March 31, 2015 are included in the Company's consolidated statement of income for the year ended March 31, 2015.

(c) Acquisition cost and breakdown
Acquisition price: ¥200 million ($1,664 thousand)
Acquisition cost: ¥200 million ($1,664 thousand)

(d) Amount and reason for gain on negative goodwill

① Amount
¥218 million ($1,814 thousand)
② Reason
The negative goodwill was generated because the fair value of the net assets acquired on the date of the business combination exceeded the acquisition cost.

(e) Assets acquired and liabilities assumed at the date of business combination
Current assets: ¥178 million ($1,481 thousand)
Fixed assets: ¥409 million ($3,404 thousand)
Total assets: ¥588 million ($4,893 thousand)
Current liabilities: ¥115 million ($957 thousand)
Long-term liabilities: ¥54 million ($449 thousand)
Total liabilities: ¥170 million ($1,415 thousand)

Transaction under common control
(a) Outline of the transaction
Combination between Nikko Kouei Co., Ltd., Nikko Design Co., Ltd., Nikko Casting Co., Ltd. and JSW Clad Steel Plate Company Co., Ltd.

① Name and business of companies
Name of surviving company: Nikko Kouei Co., Ltd.
Business: General construction contractor
Name of absorbed company: Nikko Design Co., Ltd.
Business: Designing and drafting of various machineries and equipment
Name of surviving company: Nikko Casting Co., Ltd.
Business: Manufacturing and sales of various steel castings, and materials for steel castings manufacturing
Name of surviving company: JSW Clad Steel Plate Company Co., Ltd.
Business: Manufacturing and processing of various steel plates
② Date of business combination
October 1, 2014
③ Legal form of business combination
Absorption-type merger with Nikko Kouei Co., Ltd. as the surviving company
④ Name of company after business combination
Nikko MEC Co., Ltd.
⑤ Purpose of transaction

The Company intends to construct an efficient and rational operating structure. In addition, the Company plans to enhance productivity and profitability, use human resources effectively and build a responsive organization.

(b) Outline of the accounting treatment
The Company treated the transaction as transaction under common control based on Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ), Statement No.21 issued on December 26, 2008) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, issued on December 26, 2008).

22. Asset Retirement Obligations

The following table presents the changes in asset retirement obligations for the years ended March 31, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at beginning of year	¥1,371	**¥1,271**	**$10,577**
Liabilities incurred due to the acquisition of property, plant and equipment	—	**—**	**—**
Accretion expense	20	**20**	**166**
Liabilities settled	—	**(17)**	**(141)**
Other	(120)	**19**	**158**
Balance at end of year	¥1,271	**¥1,295**	**$10,776**

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, 2015 and 2014.

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

Year ended March 31, 2015	Reportable segments: Steel and Energy Products	Reportable segments: Industrial Machinery Products	Reportable segments: Real Estate and Other Businesses	Total	Adjustments and Eliminations	Consolidated
Sales and operating income:						
Sales to third parties	¥ 66,215	¥126,363	¥ 2,095	¥194,674	¥ —	¥194,674
Intra-segment sales and transfers	5,093	1,379	3,446	9,919	(9,919)	—
Total sales	71,308	127,743	5,542	204,593	(9,919)	194,674
Operating income	¥ (3,200)	¥ 11,370	¥ 962	¥ 9,132	¥ (915)	¥ 8,217
Assets, depreciation, and capital expenditures:						
Total assets	¥112,831	¥108,440	¥13,097	¥234,369	¥86,713	¥321,083
Depreciation and amortization	8,043	2,563	291	10,898	109	11,008
Capital expenditures	3,474	4,414	72	7,960	31	7,992

Thousands of U.S. dollars

	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	$551,011	$1,051,535	$ 17,434	$1,619,988	$ —	$1,619,988
Intra-segment sales and transfers	42,382	11,475	28,676	82,541	(82,541)	—
Total sales	593,393	1,063,019	46,118	1,702,530	(82,541)	1,619,988
Operating income	$(26,629)	$ 94,616	$8,005	$75,992	$ (7,614)	$ 68,378
Assets, depreciation, and capital expenditures:						
Total assets	$938,928	$ 902,388	$108,987	$1,950,312	$721,586	$2,671,906
Depreciation and amortization	66,930	21,328	2,422	90,688	907	91,604
Capital expenditures	28,909	36,731	599	66,239	258	66,506

Notes: 1. Adjustments and eliminations for segment profit of ¥915 million ($7,614 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 ¥86,713 million ($721,586 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 ¥109 million ($907 thousand) include depreciation and amortization for corporate assets. Adjustments and eliminations for capital expenditures of ¥31 million ($258 thousand) include capital expenditures for corporate assets.

Millions of yen

Year ended March 31, 2014	Reportable segments: Steel and Energy Products	Reportable segments: Industrial Machinery Products	Reportable segments: Real Estate and Other Businesses	Total	Adjustments and Eliminations	Consolidated
Sales and operating income:						
Sales to third parties	¥ 67,602	¥118,385	¥ 2,731	¥188,719	¥ —	¥188,719
Intra-segment sales and transfers	3,167	1,766	3,190	8,123	(8,123)	—
Total sales	70,769	120,152	5,921	196,842	(8,123)	188,719
Operating income	¥ (3,606)	¥ 12,185	¥ 1,149	¥ 9,728	¥ (864)	¥ 8,864
Assets, depreciation, and capital expenditures:						
Total assets	¥111,561	¥99,309	¥12,984	¥223,855	¥69,283	¥293,139
Depreciation and amortization	9,897	2,649	281	12,828	122	12,950
Capital expenditures	2,216	2,793	114	5,125	117	5,242

Notes: 1. Adjustments and eliminations for segment profit of ¥864 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 ¥69,283 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 ¥122 million include depreciation and amortization for corporate assets. Adjustments and eliminations for capital expenditures of ¥117 million include capital expenditures for corporate assets.

(a) Product and service information

Millions of yen

Year ended March 31, 2015	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Sales to third parties	¥66,215	¥126,363	¥2,095	¥194,674

Thousands of U.S. dollars

Year ended March 31, 2015	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Sales to third parties	$551,011	$1,051,535	$17,434	$1,619,988

Millions of yen

Year ended March 31, 2014	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Total
Sales to third parties	¥67,602	¥118,385	¥2,731	¥188,719

(b) Geographical information

(i) Sales

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Japan	¥ 95,966	¥ 100,417	$ 835,625
China	27,159	29,131	242,415
Others	65,593	65,125	541,941
Consolidated	¥188,719	¥194,674	$1,619,988

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, 2015 and 2014 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, 2015 and 2014 because no individual customer accounted for more than 10% of net sales in the consolidated statement of income.

(d) Information on loss on impairment of fixed assets

Impairment losses on fixed assets by reportable segment for the years ended March 31, 2015 and 2014 are summarized as follows:

Year ended March 31, 2015
None applicable

Year ended March 31, 2014
None applicable

(e) Amortization and balance of goodwill

The following table presents the amortization and balance of negative goodwill arising from business combinations on or prior to March 31, 2010 as of and for the years ended March 31, 2015 and 2014 by reportable segment:

Millions of yen

Year ended March 31, 2015	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and Eliminations	Total
Amortization	—	¥71	—	—	¥71
Balance as of March 31	—	—	—	—	—

Thousands of U.S. dollars

Year ended March 31, 2015	Steel and Energy Products	Industrial Machinery Products	Real Estate and Other Businesses	Adjustments and Eliminations	Total
Amortization	—	$591	—	—	$591
Balance as of March 31	—	—	—	—	—

Millions of yen

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

(f) Information on gain on negative goodwill

Year ended March 31, 2015
In the Industrial Machinery Products segment, JSW AFTY Co., Ltd., a consolidated subsidiary take over retail deposition business from MES AFTY Co., Ltd. This resulted in a gain on negative goodwill of ¥218 million ($1,814 thousand) in the fiscal year ended March 31, 2015.

Year ended March 31, 2014
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, 2015 and 2014 and for the years then ended were as follows:

	Yen		U.S. dollars
	2014	2015	2015
Net income	¥ 14.92	¥ (10.10)	$(0.08)
Net assets	372.83	373.09	3.10

27. Subsequent Events

Transaction under common control

(a) Transfer of business

Based on the resolution at the Board of Directors meeting held on January 26, 2015, the Company took over simultaneous biaxial stretching machine business from Hitachi Plant Mechanics Co., Ltd., effective on April 1, 2015.

① Name of counter party and business
Name: Hitachi Plant Mechanics Co., Ltd.
Business: Simultaneous biaxial stretching machine business
② Assets acquired in business transfer
Current assets: ¥280 million ($2,330 thousand)
Fixed assets: ¥101 million ($840 thousand)
Goodwill: ¥138 million ($1,148 thousand)
Total assets: ¥520 million ($4,327 thousand)
③ The date of transfer
April 1, 2015

(b) Significant borrowings

Based on the resolution at the Board of Directors meeting held on January 26, 2015, the Company entered into a syndicated loan agreement of which Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Ltd. are the arrangers on April 7, 2015.

① Usage of funds
Redemption of bond, repayment of borrowings and investment funds
② Lenders
Sumitomo Mitsui Banking Corporation etc.
③ Aggregate amount of borrowings
¥ 30,000 million ($249,646 thousand)
④ Execution date
April 7, 2015
⑤ Repayment deadline
April 7, 2020: ¥5,000 million ($41,608 thousand)
April 7, 2022: ¥15,000 million ($124,823 thousand)
April 7, 2025: ¥10,000 million ($83,215 thousand)
⑥ Repayment method
Bullet repayment
⑦ Pledged assets
None

(C) Business combination

Based on the resolution at the Board of Directors meeting held on April 21, 2015, the Company entered into a stock purchase agreement with a stockholder of SM PLATEK Co., LTD. on April 22, 2015. The Company acquired the shares of SM PLATEK Co., LTD. on May 8, 2015 and SM PLATEK Co., LTD. has become a subsidiary of the Company.

① The purpose of stock acquisition
Business expansion of Twin Screw Extruder
② Name of acquired company
SM PLATEK Co., LTD.
③ Business of acquired company
Production of Twin Screw Extruder
④ Date of combination
May 8, 2015
⑤ Total acquisition value of shares acquired
8,000 shares
⑥ Acquisition price
¥2,635 million ($21,927 thousand)
⑦ Costs incurred directly in the acquisition
¥114 million ($949 thousand)
⑧ Share of voting rights acquired
80%
⑨ Procurement method of fund for purchase
Funds on hand

(d) Acquisition of treasury stock

Based on the resolution at the Board of Directors meeting held on May 26, 2015, in accordance with Article 156 of the Companies Act applied by replacing the phrases pursuant to Article 165 Paragraph 3, the Company has acquired treasury stocks.

① Reason for acquisition
For the implementation of flexible capital policies in response to changes in the business environment
② Type of stock to be acquired
Common stock of the Company
③ Total number of shares to be acquired
¥5,173,000 shares
④ Total acquisition value of shares to be acquired
¥2,938 million ($24,449 thousand)
⑤ Acquisition date
May 27, 2015
⑥ Acquisition method
Purchase of treasury stock using the off-hours trading system (ToSTNeT-3) of the Tokyo Stock Exchange

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, 2015, 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, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

1. As described in Note 3 to the consolidated financial statements, the Company has recorded Provision for loss on wind power generator business, amounting to ¥15,967 million, by estimating the amount of total losses caused by the defects of certain parts used in wind power generators.
2. As described in Note 27(b) to the consolidated financial statements, the Company made significant borrowings on April 7, 2015.

Our opinion is not qualified in respect of these matters.

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 4.

Ernst & Young ShinNihon LLC

June 24, 2015
Tokyo, Japan

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	27,184
Stock Listings	Tokyo and Nagoya
Transfer Agent and Registrar	Sumitomo Mitsui Trust Bank, Ltd. 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

Major Shareholders (holding %)

The Master Trust Bank of Japan, Ltd. (Trust Account)	5.32%
Japan Trustee Services Bank, Ltd. (Trust Account)	4.30%
Mitsui Life Insurance Co., Ltd.	3.82%
Sumitomo Mitsui Banking Corp.	3.39%
Mitsui Sumitomo Insurance Co., Ltd.	2.38%
Juniper	2.24%
Sumitomo Mitsui Trust Bank, Ltd.	2.20%
NORTHERN TRUST CO. (AVFC) REHSDOO	1.89%
CBNY-ORBIS SICAV	1.82%
Nippon Steel & Sumitomo Metal Corp.	1.76%

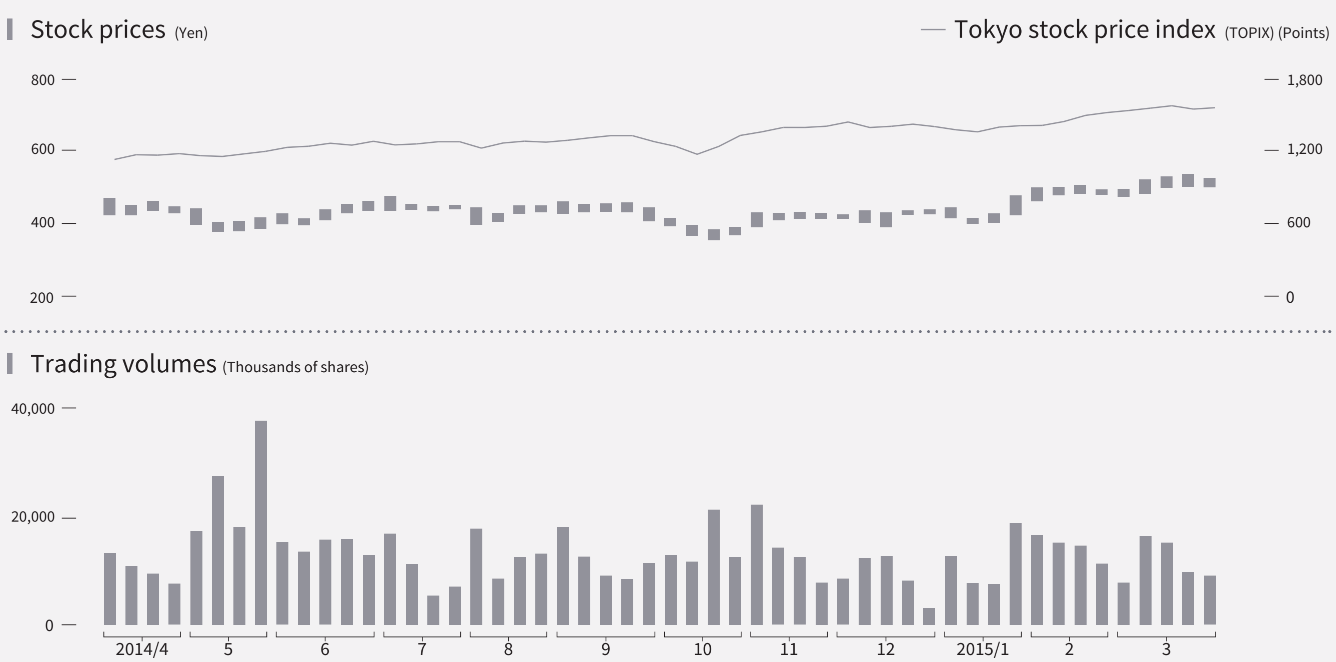
(as of March 31, 2015)

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	2,219 (Consolidated 5,225)
Auditor	Ernst & Young ShinNihon LLC Hibiya Kokusai Bldg., 2-3, Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo, Japan

(as of March 31, 2015)

JSW's Stock Prices



Network

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ANNUAL REPORT 2015

THE JAPAN STEEL WORKS, LTD.