THE JAPAN STEEL WORKS, LTD.

ANNUAL REPORT 2020

for the year ended March 31, 2020

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 and natural gas. 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.

Contents

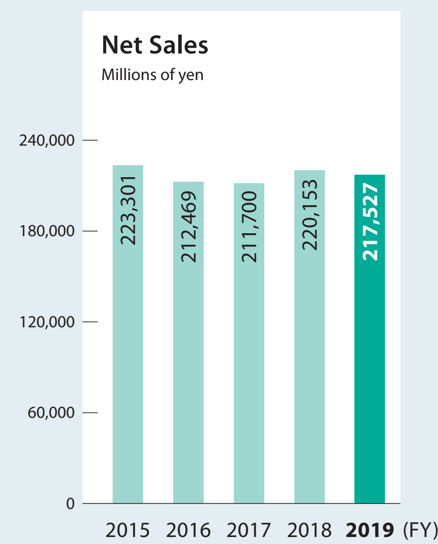
Forward-looking statements
The performance forecasts included in this report are judgments based on the information that was available to the JSW Group at the time this report was prepared and the actual results may differ significantly from these forecasts due to a variety of factors.

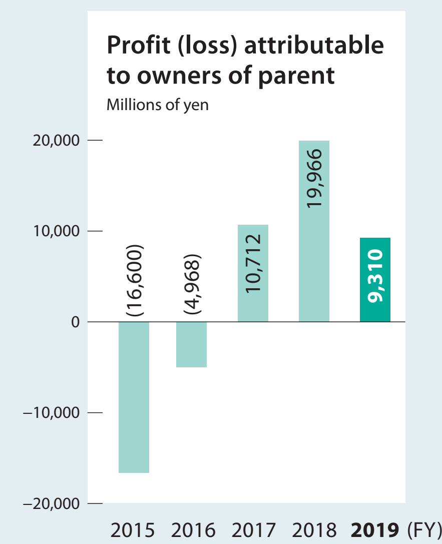
Financial Highlights (Consolidated)

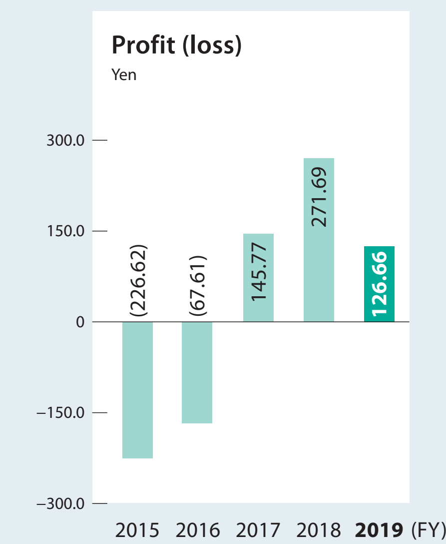
The Japan Steel Works, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018, 2019, and 2020

			Millions of yen	Thousands of U.S. dollars
	FY2017	FY2018	**FY2019**	**FY2019**
For the year				
Net sales	¥211,700	¥220,153	**¥217,527**	**$1,998,778**
Operating income	20,578	24,290	**18,709**	**171,910**
Profit (loss) attributable to owners of parent	10,712	19,966	**9,310**	**85,546**
At year-end				
Total assets	297,365	305,471	**297,173**	**2,730,617**
Total net assets	118,600	129,827	**132,492**	**1,217,422**
Ratios				
ROE	9.6%	16.3%	**7.2%**	
Equity ratio	39.4%	42.0%	**44.0%**	
Amounts per share (yen and U.S. dollars)				
Profit (loss)	¥145.77	¥271.69	**¥126.66**	**$1.16**
Cash dividends applicable to the year	37.50	55.00	**45.00**	**0.41**

Note : Amounts in U.S. dollars are presented solely for convenience and based on the rate of ¥108.83 = US$1.00, the rate of exchange on March 31, 2020.







Message from the President

Naotaka Miyauchi
Representative Director & President

Overview of Fiscal 2019

Business performance

In fiscal 2019, ended March 31, 2020, the trend toward the deceleration of overseas economies continued to grow amid Brexit and heightened geopolitical risks in the Middle East in addition to a stagnation of the U.S. manufacturing sector and a slowing Chinese economy, both of which arose mainly due to the impact of U.S.-China trade frictions. The Japanese economy was also anemic, with weak exports due to the deceleration of overseas economies coupled with stagnant demand caused by the consumption tax hike. Moreover, in the fourth quarter, the global COVID-19 pandemic put the brake on economic activities, forced the manufacturing sector to suspend operations, stagnated logistics, and restricted overseas travels, precipitating a drastic economic downturn worldwide.

With respect to the JSW Group's operating environment, in the Industrial Machinery Products Business segment, demand for plastic products for the automobile sector slowed while demand for materials for automobile-use lithium-ion batteries remained stagnant in China. The Steel and Energy Products Business segment continued to face difficult operating circumstances due to an intensified price competition for clad steel plates and pipes, for which a recovery was expected on the back of expanding demand for natural gas, in addition to a contraction in the market for large cast and forged steel products.

Despite these conditions, the JSW Group formulated a banner of "'Growth' in Industrial Machinery Products Business, 'Rebirth' in Steel and Energy Products Business" and promoted its business activities centered around three basic policies in accordance with the medium-term management plan entitled JGP2020, which was formulated in May 2018 to lay out strategies for the three years until the fiscal year ending March 31, 2021. These three basic policies are: 1) optimization of management resources and strengthening of alliances; 2) strengthening after-sales services (stock-based business); and 3) acceleration in exploration and development of new businesses.

For fiscal 2019, total orders amounted to ¥211,571 million (US$1,944 million), down 2.1% from the previous year, due to a decrease in orders in the Industrial Machinery Products Business segment offsetting an increase in the Steel and Energy Products Business segment*. Net sales fell 1.2% to ¥217,527 million (US$1,999 million), with both the Industrial Machinery Products Business and Steel and Energy Products Business segments securing sales on par with the previous fiscal year. With regard to profits, the JSW Group posted operating income of ¥18,709 million (US$172 million), down 23.0%, and ordinary income of ¥19,907 million (US$183 million), down 28.7%. In the previous fiscal year, we posted an extraordinary gain arising from sales of property, plant and equipment while posting a valuation loss on investment securities caused by a drop in stock prices throughout the securities market. We also recorded an extraordinary loss of provision for business restructuring as an additional cost in the maintenance and repair business for wind turbines during fiscal 2019. As a result, profit attributable to owners of parent was down 53.4% to ¥9,310 million (US$86 million).

*Effective from April 1, 2020, the Steel and Energy Products Business was renamed the Material and Engineering Business.

For the fiscal year ended March 31, 2020, we paid a year-end dividend of ¥17.50 per share. Coupled with an interim dividend of ¥27.50 per share, the total dividends per share were ¥45.00.

Looking ahead, the world economy is expected to decelerate for the foreseeable future, as the COVID-19 pandemic has left economic activities in suspension. Certain countries, including China, the United States and Europe, have restarted economic activities; however, with no end in sight to the pandemic, both the overseas and Japanese economies continue to remain in a state of uncertainty.

As for the JSW Group's operating environment, although the Industrial Machinery Products Business segment is expected to witness sluggish demand for plastic products for automobiles as well as anemic market conditions for materials for automobile-use lithium-ion batteries for the short term, we aim to strengthen product competitiveness by further reducing costs and developing new products. We expect a difficult business environment to continue in the Steel and Energy Products Business segment due to a contraction in the market for large cast and forged steel products and intensifying competition for clad steel plates and pipes. Nevertheless, we plan to steadily reinforce the business foundation with Japan Steel Works M&E, Inc., which was established in April 2020, taking the lead.

To minimize the impact of the COVID-19 pandemic on our business, we will carry out various measures such as appropriately managing funds, monitoring production and inventory, and securing the supply chain. At the same time, in anticipation of the post-COVID-19 market trend, we will continue to push forward with initiatives in accordance with the basic policies laid out in the medium-term management plan (JGP2020).

October 2020

Value Creation Model of JSW, "Yompo-Yoshi (Benefits in all 4 stakeholders)"

Social Issues

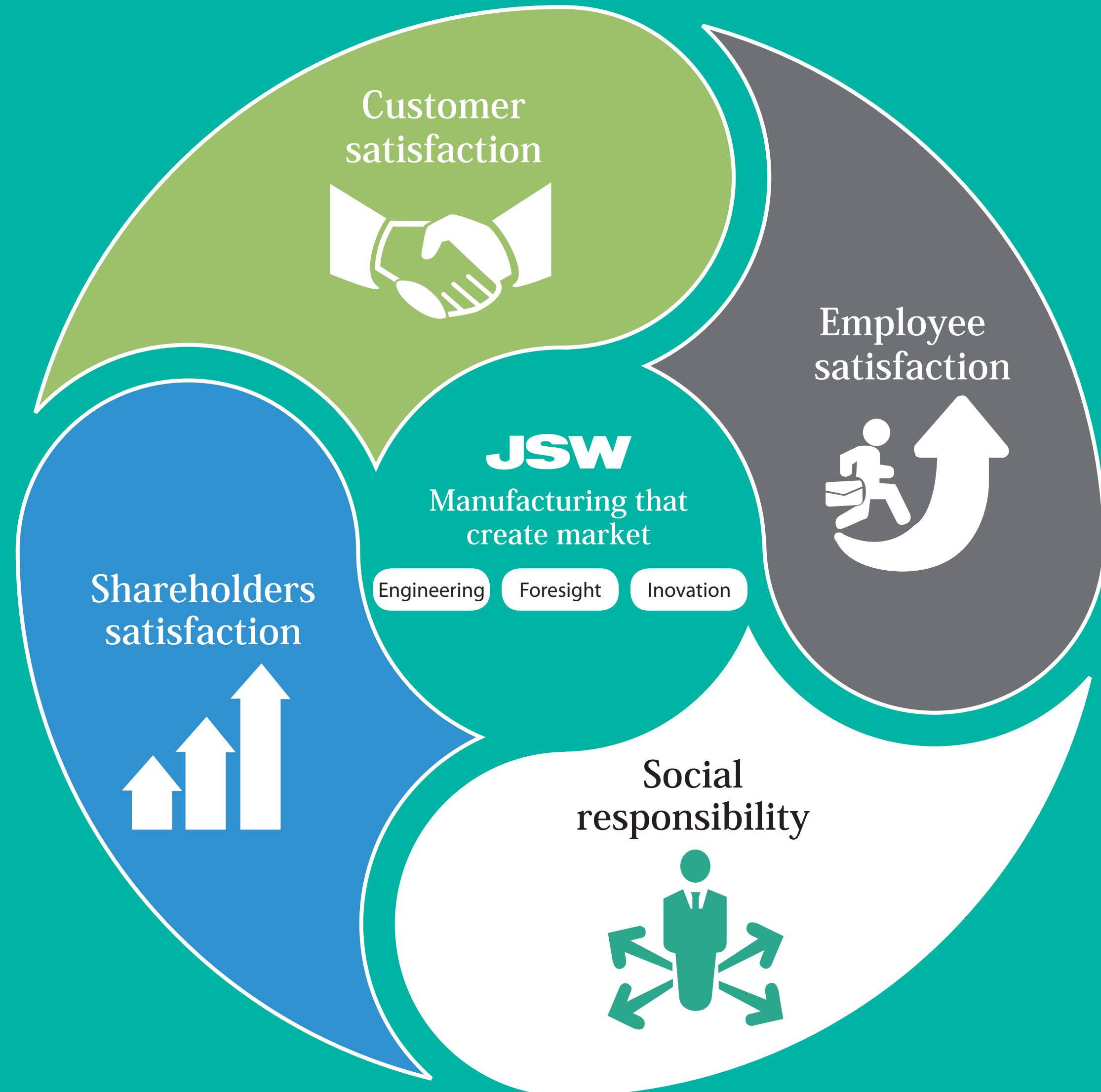
Climate change,
Environment load issue,
Destruction of nature

Corporate ethics

Energy-saving measures,
Resource Depletion,
Nuclear power issue

Work-life balance,
Aging and shrinking population,
Work style reforms

"Yompo-Yoshi (Benefits in 4 stakeholders)"



Steel and energy

Plastic production and processing

Molding machines

Defense equipment

FPD equipment

Stock Business | New Business

Effective corporate governance and appropriate information disclosure system

Value offered to society

13 CLIMATE ACTION

Social responsibility

Customer satisfaction

Products that contribute for reduction of CO_2

- Injection Molding Machines (Promotion of light-weight vehicle)
- Clad Steel Pipes (Spread of natural gas)

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Social responsibility

Customer satisfaction

Cutting-edge technologies and products that are indispensable for the next generation

- Film and sheet equipment (Separators for automotive batteries)
- FPD equipment (Spread of OLED panels)

7 AFFORDABLE AND CLEAN ENERGY

Social responsibility

Customer satisfaction

Products that help spread clean energy

- Clad steel pipes (Transport pipes for natural gas)
- Hydrogen station (Spread of hydrogen energy)

8 DECENT WORK AND ECONOMIC GROWTH

Employee satisfaction

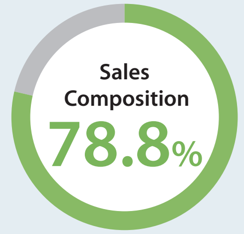
Shareholder satisfaction

Accomplishment of transformation into an attractive firm and increase in stakeholders' satisfaction and corporate value

Our Business Domains

Industrial Machinery Products Business

- Plastic Production and Processing Machinery
- Molding Machines
- Other Machinery



Plastic Production and Processing Machinery

We manufacture and sell a variety of plastic production and processing machinery, which are highly regarded by users around the world, for a wide range of applications and purposes. Our product lineup in this field includes pelletizers that manufacture plastic pellets; twin-screw extruders for compounding, reactive processing, dewatering, and devolatilizing; film and sheet equipment; and spinning extruders for synthetic fibers. With bases in Japan, South Korea, China, Thailand, Singapore, Germany, and the United States, we have established a structure to support customers around the world with our technologies. To respond to a wide range of customer needs as a comprehensive manufacturer of plastic production and processing machinery, our lineup of extruders includes screws of 25 millimeters to 800 millimeters in diameter. By strengthening the planning function in the after-sales services business, we will promote the establishment of a structure oriented toward the "stock-type" business (recurring revenue business model) through concerted efforts between manufacturing and sales departments in the areas of product delivery and regular maintenance services.

Business Lines

Production, sale, and maintenance of plastic production and processing machinery (including pelletizers, compound extruders, film and sheet equipment, etc.)

Molding Machines

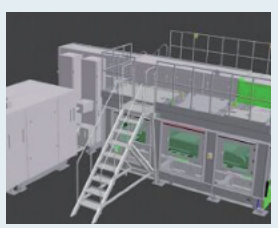
All of our standard plastic injection molding machines are provided as an electric type to improve the basic performance of the machines themselves, offer higher precision, and provide high productivity and energy saving. We also respond to diverse customer needs through proprietary technologies, including the new physical foam injection-molding technology called SOFIT, which ensures higher added value of molded products; the FliP series of sub injection units for multi-color injection; and J-WiSe IoT solutions.

In 2019, we started test operations of remote maintenance services. By remotely accessing the molding machines in customers' factories, we confirm the operational status and perform malfunction diagnosis to support a wide spectrum of maintenance activities spanning from failure restoration to pre-emptive maintenance.

Business Lines

Production, sale, and maintenance of plastic injection molding machines, blow molders, magnesium thixomolding machines

Laser Application Products



We have been designing and manufacturing excimer laser annealing (ELA) systems, which are used for mass production of high-quality liquid crystal displays (LCD), at the Yokohama Plant since 1995. We continuously develop and commercialize machines that accommodate larger and higher definition displays and deliver a number of products to leading display panel manufacturers around the world. In addition, our subsidiary JSW IT Service Co. is expanding its business operations to encompass repair, modification, parts sales, and maintenance services for ELA systems and providing support to ensure the high availability of delivered machines.

We also offer and market laser lift-off (LLO) systems for the production of flexible displays, which are anticipated as promising next-generation displays. Leveraging laser application technology as our core competence, we aim to expand into the fields of FPDs and semiconductors.

Business Lines

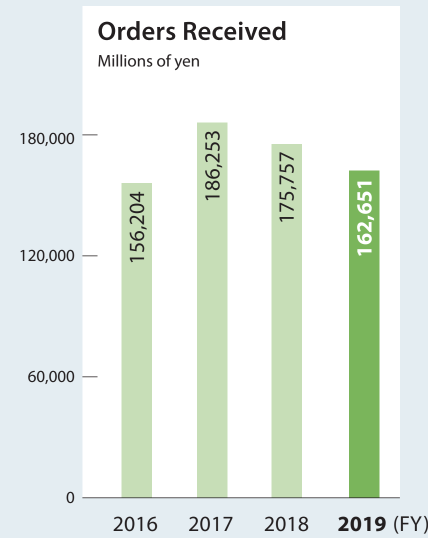
Electronic components and displays (laser annealing systems, thin-film deposition systems, etc.)

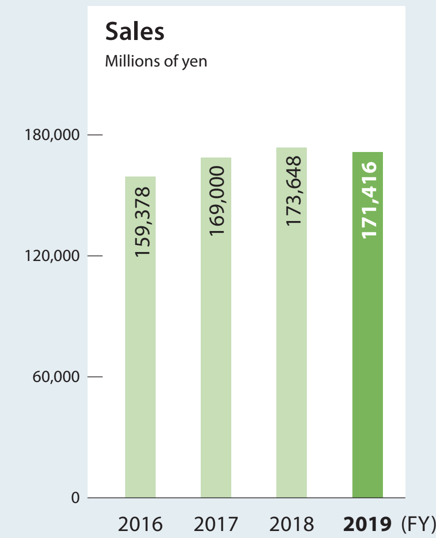
Performance in Fiscal 2019

Orders totaled ¥162,651 million (US$1,495 million), down 7.5% from the previous fiscal year, due mainly to decreases in plastic production and processing machinery as well as molding machines.

Sales fell 1.3% to ¥171,416 million (US$1,575 million). The contributing factor was decreases in sales of molding machines and FPD equipment, which offset increases in sales of plastic production and processing machinery.

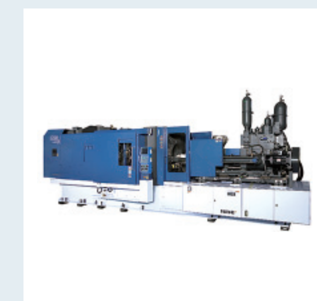
Operating income declined 18.3% to ¥19,272 million (US$177 million) due mainly to a change in product sales composition.





Polyolefin extruder/pelletizer

Large-size all-electric injection molding machine



Magnesium alloy injection molding machine

Topic

Absorption Merger of Meiki Co., Ltd.

As of April 1, 2020, we absorbed Meiki Co., Ltd., which joined the JSW Group in the previous fiscal year, and renamed it as the Meiki Plant. The plant mainly manufactures large injection molding machines for automobile parts. Through the merger, we intend to optimize our production structure for injection molding machines and improve Group-wide profitability.

Meiki Plant

Steel and Energy Products Business

- Steel Casting and Forgings
- Clad Steel Products
- Engineering Services

Electric and Nuclear Power Products

In addition to being a leading global supplier of numerous extra-large cast and forged steel products, the Muroran Plant produces a wide range of high-quality small and medium-sized cast and forged steel products. Steel is manufactured in electric furnaces. In the process of forging ingots, which are the source for cast and forged steel products, we not only have one of the world's largest production capacities of 670 tons but also strive to improve quality by utilizing the vacuum ingot-making method, ladle refinement method, vacuum melting method, and electro slag remelting method, thereby responding to a trend toward high-value-added steel products. In the forging process, after forging steel into specified shapes using two 14,000-ton presses, a 3,000-ton press, and hammers, the products undergo heat treatment, machining, and finishing processes. In this way, we produce a diverse range of products corresponding to the individual and varying needs of customers.

We apply technological capabilities nurtured by meeting stringent specification requirements from customers in thermal, hydroelectric, and nuclear energy fields, and provide cast and forged steel products for a variety of applications not only in the existing energy fields but also in iron and steel, industrial machinery, and electronics industries while making proposals to customers as necessary.

Business Lines

Production and sale of products for power generation; nuclear power-related equipment die materials; general cast and forged steel products such as rolled materials and dies; cast and forged steel materials such as functional materials; pressure vessels and related materials for oil refineries; and other areas

Clad Steel Plates and Pipes

The Muroran Plant possesses Japan's largest quadruple reversible plate rolling machine and produces clad steel products, which are a metallurgically bonded composite material of various alloys.

We mainly produce high-quality clad steel plates and clad steel pipes using clad steel plates, and all of our products are used in a wide range of industrial applications in Japan and overseas, giving this business a unique profile.

Business Lines

Production and sale of clad steel plates, clad steel pipes, etc.

Total Engineering Services

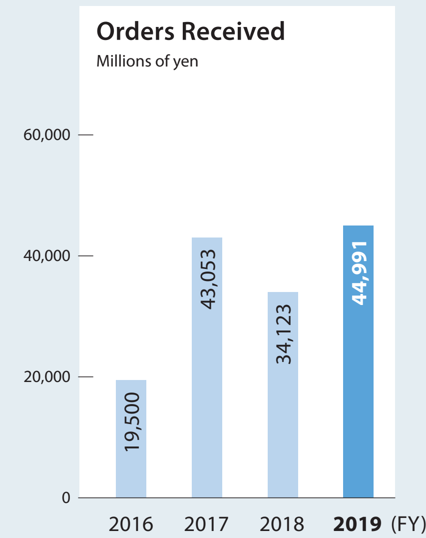
This business provides comprehensive services ranging from civil engineering, construction, and greening works to maintenance of wind power generators in addition to design, production, installation, inspection, repair, and maintenance of steel structures such as pressure vessels as well as forging facilities. We also continuously provide materials for defense equipment, which has been one of JSW's founding businesses. Through these services, we seek to offer solutions to social issues and realize engineering works that create new value.

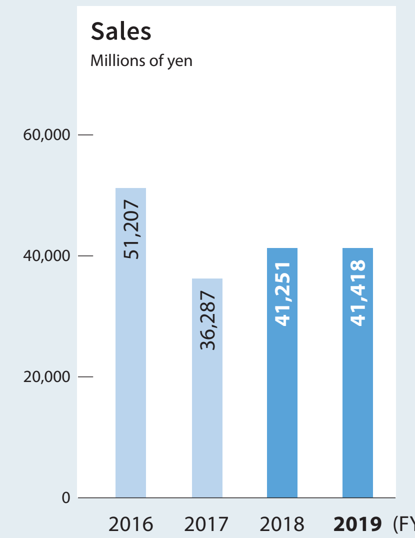
Performance in Fiscal 2019

Orders totaled ¥44,991 million (US$413 million), up 31.8% year on year, due mainly to increases in cast and forged steel products as well as clad steel plates and pipes.

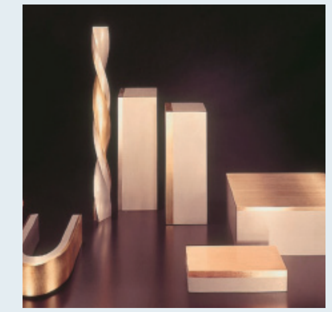
Sales were on par with the previous fiscal year, increasing 0.4% to ¥41,418 million (US$381 million) as cast and forged steel products as well as clad steel plates and pipes achieved almost the same level of sales compared with the previous fiscal year.

Operating income amounted to ¥2,484 million (US$23 million), down 7.1%, due mainly to an increase in depreciation and amortization.





Buck-up Roll for Plate Mill



Clad steel plate

Topic

Establishment of Japan Steel Works M&E, Inc.

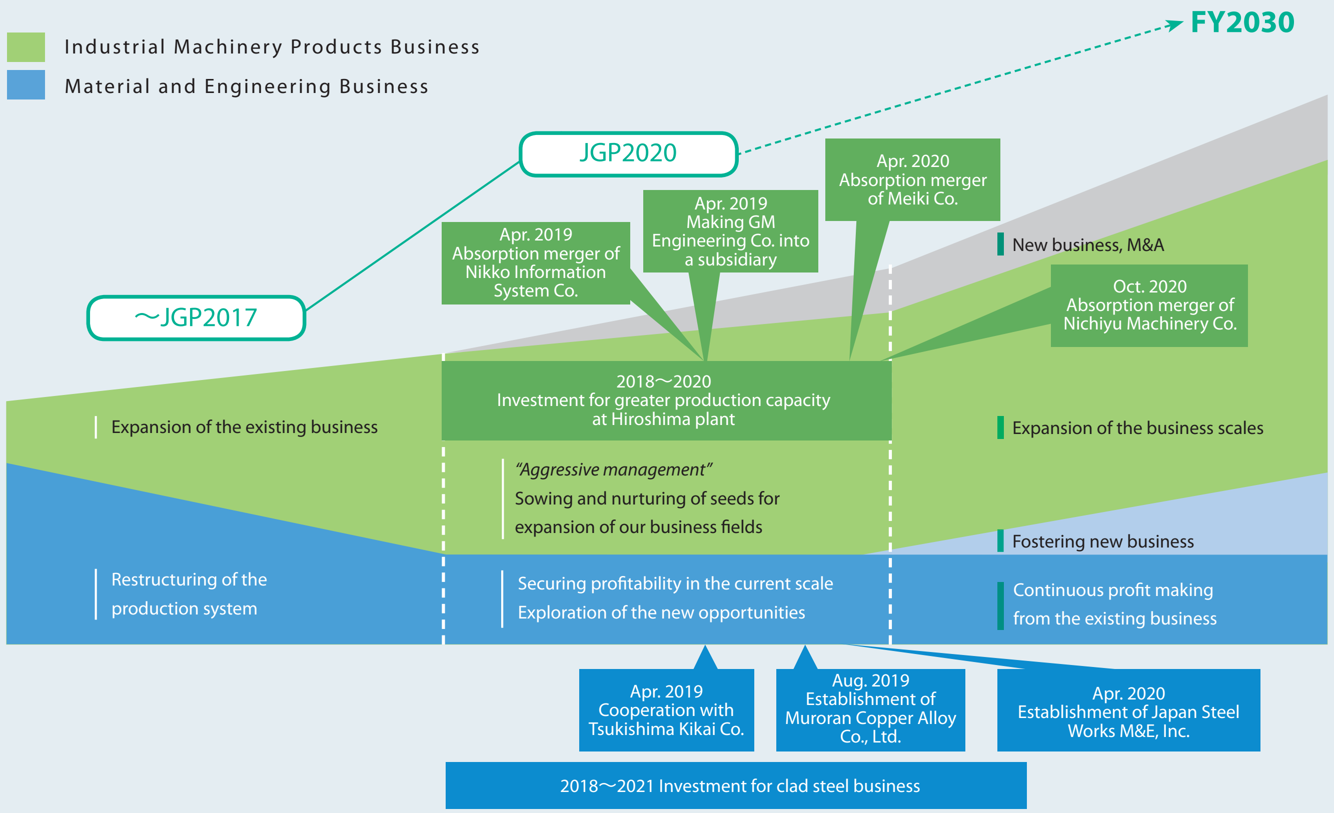
On April 1, 2020, we established Japan Steel Works M&E, Inc. as a core subsidiary of the Material and Engineering Business. The Steel Business Division and Muroran Plant, which were both spun off from JSW, were merged with subsidiaries engaging in the related business. The establishment of the new company is aimed at restructuring the Material and Engineering Business for higher profitability throughout the Group.

Japan Steel Works M&E, Inc.

Progress of Medium-Term Management Plan "JGP2020"

Developing Foundations for Growth

To establish the ground to realize our growth in the "Next 10 Years"



3 Basic Policies (Priority Issues) in "JGP2020"

Growth
Industry Machinery Products Business

Rebirth
Material and Engineering Business

Ⅰ. **Optimization of Management Resources and Strengthening of Alliances**

Optimization through rearrangement of the resources

→ Active investment for industry machinery product business, Rebuild of cost structure in the material and engineering business that suits the current sales scale

Expansion of the businesses through alliance and M&A

→ Breaking free of adherence toward self-sufficient policies

Ⅱ. **Strengthening After-Sales Services (Stock-Based Business)**

Enhancement of service force mainly in industrial machinery

→ Securing stable profitability, improvement of customer satisfaction

Strengthening customer relationship through service business

→ Development of foundations for the next business

Ⅲ. **Acceleration in Exploration and Development of New Businesses**

Exploration of new businesses from the view point of mega trends

Fostering and commercialization in the 4 fields (aircrafts, hydrogen, crystals and thin films) + α

*Effective from April 1, 2020, the Steel and Energy Products Business was renamed the Material and Engineering Business.

Fiscal year ending March 31, 2021: Forecasts for orders received, net sales, and income as well as plan for cash dividends

With restrictions on overseas travel and Japan's declaration of a state of emergency due to COVID-19, we were unable to conduct business negotiations.

Since July, however, we have been steadily receiving inquiries and expect a recovery going forward.

For the fiscal year ending March 31, 2021, we forecast orders received of ¥198.0 billion, a decrease of ¥13.5 billion year on year; net sales of ¥190.0 billion, a decrease of ¥27.5 billion; operating income of ¥7.0 billion, a decrease of ¥11.7 billion; and profit attributable to owners of parent of ¥4.0 billion, a decrease of ¥5.3 billion.

Our basic approach is to maintain and increase cash dividends on a stable and continuous basis.

We plan to pay an interim dividend per share of ¥17.5 for the fiscal year ending March 31, 2021, the same amount as the previous fiscal year, for annual dividends per share of ¥35.0.

(in billions of yen)	FY2019 Result (A)	FY2020 Forecast (B)	Change from year-ago period (B)-(A)	Ratio to year-ago period (B)÷(A)
Orders received	211.5	198.0	(13.5)	93.6%
Net sales	217.5	190.0	(27.5)	87.4%
Operating income (ratio)	18.7 8.6%	7.0 3.7%	(11.7) (4.9%)	37.4% –
Ordinary income	19.9	7.0	(12.9)	35.2%
Profit/Loss	9.3	4.0	(5.3)	43.0%
Profit/Loss per share (yen)	126.66	54.38	(72.28)	42.9%
Dividends per share (yen)	45.0	35.0	(10.0)	77.8%

Business overview by segment for fiscal year ending March 31, 2021

(1) Industrial Machinery Products Business

The Industrial Machinery Products Business plans to achieve orders received of ¥147.0 billion, net sales of ¥147.0 billion, and operating income of ¥11.5 billion.

Regarding film and sheet manufacturing equipment, our customers are making plans for proactive capital investment up until 2023 as regulations on CO_2 emissions become ever more stringent around the world. Amid this situation, exports for China and Europe in particular have been brisk. As for molding machines, with people spending more time at home, demand has increased since July 2020 among container, game console, and home appliance manufacturers. Accordingly, in the second half of the fiscal year we expect orders for the molding machines to be back at the same level as the previous year. There are also signs of recovery in demand for the automobile industry.

(2) Material and Engineering Business

The Material and Engineering Business plans to achieve orders received of ¥48.5 billion, net sales of ¥40.0 billion, and operating income of ¥1.5 billion.

For clad steel and pipes, we anticipate orders for large clad pipes, but due to a delay in project progress caused by COVID-19, the orders are expected to come in the fourth quarter.

Industrial Machinery Products Business

(in billions of yen)	FY2019 Result (A)	FY2020 Forecast (B)	Change from year-ago period (B)-(A)	Ratio to year-ago period (B)÷(A)
Orders received	162.6	147.0	(15.6)	90.4%
Net sales	171.4	147.0	(24.4)	85.8%
Operating income (ratio)	19.2 11.2%	11.5 7.8%	(7.7) (3.4%)	59.9% –

Material and Engineering Business

(in billions of yen)	FY2019 Result (C)	FY2020 Forecast (D)	Change from year-ago period (D)-(C)	Ratio to year-ago period (D)÷(C)
Orders received	46.2	48.5	2.3	105.0%
Net sales	42.8	40.0	(2.8)	93.5%
Operating income (ratio)	2.7 6.3%	1.5 3.8%	(1.2) (2.6%)	55.6% –

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.

Ever since we formulated a medium-term environmental plan in fiscal 2001 for the first time, we have been proactively promoting environmental management activities throughout the company. In fiscal 2018, we formulated the Fifth Medium-Term Environmental Plan (fiscal 2018 to fiscal 2019) and widened the scope of environmental activities to include the entire JSW Group. Accordingly, we engaged in activities to achieve the goals set out in the plan.

We have also created the Sixth Medium-Term Environmental Plan (fiscal 2020 to fiscal 2024) and have been stepping up our initiatives to achieve even higher goals.

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.

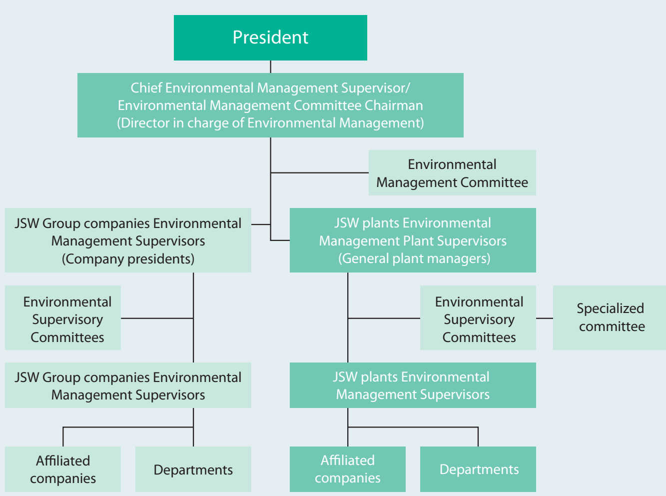
(1) We endeavor to increase the social value of our products in terms of environmental protection, safety and hygiene.

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

Environmental Management Structure

Recognizing the importance of conducting business activities in harmony with both the international and local communities, JSW has been promoting environmental management activities since 1997 as a Group-wide initiative.

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 Company's Hiroshima, Yokohama and Meiki plants and its Group companies, Japan Steel Works M&E, Inc., Fine Crystal Precision (S.Z.) Co., Ltd., and NIKKO-YPK SHOJI CO., LTD. (Head Office, Saitama Office, Kansai Branch, Kansai Sales District Office, Chubu Branch, Sendai Sales District Office, Nagano Sales District Office, Toyama Sales District Office, Kyushu Sales District Office), have obtained certification under ISO 14001, an international standard for environmental management systems.

We conduct checks 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 2019.

ISO 14001 Certifications of Business Sites

Business Site	Certification Date	Current Certification Body
Hiroshima Plant	December 18, 1998	Japan Quality Assurance Organization
Yokohama Plant	September 4, 2006	Japan Quality Assurance Organization
Meiki Plant	March 4, 2005	ASR International Corporation
Japan Steel Works M&E, Inc.	December 18, 1998	Lloyd's Register Quality Assurance
Fine Crystal Precision (S.Z.) Co., Ltd.	March 7, 2007	Intertek
NIKKO-YPK SHOJI CO., LTD.	February 7, 2005	Japan Quality Assurance Organization

Business activities and environmental impact

The following diagram shows the JSW Group's environmental impact resulting from its manufacturing activities in the Material and Engineering Segment (Japan Steel Works M&E) and the Industrial Machinery Products Business (JSW).

We measure both inputs (consumption of energy, water, and the like) and outputs (such as waste, carbon dioxide, and water resulting from manufacturing processes), and use the data in our environmental improvement activities.

INPUT

Materials
- Metals (including steel, non-ferrous metal)
- Plastics
- Rubber, timber, etc.

Chemical substances
5,881 t

Energy
2,993 TJ

Water
22.95 million m^3

MANUFACTURING

Steel and energy products
- Forged steel components for nuclear power reactors
- Monobloc rotor shafts
- Turbine casings for thermal power generation
- Clad steel plates/clad steel pipes

Industrial machinery products
- Twin-screw extruders
- Single-screw extruders
- Film and sheet equipment
- Electric servo drive injection molding machines
- Blow molding machines
- Magnesium alloy injection molding machines
- Excimer laser annealing systems

OUTPUT

79% of total waste volume is recycled

Total waste volume 82,259 t

Waste emission volume 17,032 t

Recycling volume 65,210 t

CO_2 (from electric power and fuel) 189,469 t-CO_2

CO_2 (from domestic transportation) 2,608 t-CO_2

Chemical substances (amounts emitted and transferred) 211 t

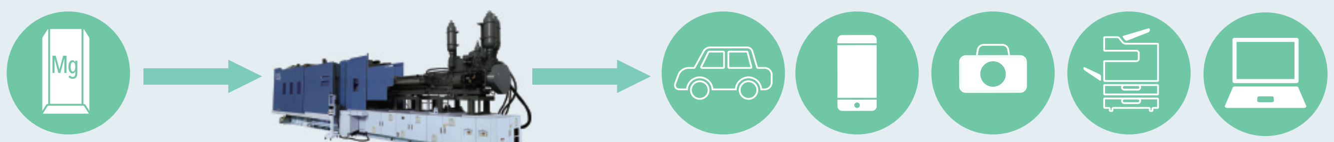
Waste water 16.88 million m^3

Environmental Topics

Environmentally Conscious Products

In recent years, in the Industrial Machinery Products Business, to contribute to the reduction of energy use we have been focusing on magnesium as a material that is lighter and more easily recyclable than aluminum and supplying magnesium alloy injection molding machines, which are used to produce notebook PC chassis, automobile parts, and other products, around the world. Meanwhile, hydrogen-derived energy has been gaining attention to curb global warming as exemplified in the gradual popularity in hydrogen fuel cell vehicles in the automobile industry. At JSW, we develop steel pressure vessels for hydrogen stations that take advantage of our advanced steel technologies as our contribution to the establishment of infrastructure for a hydrogen society. Some of the commercial hydrogen stations have already adopted our pressure vessels.

Magnesium alloy injection molding machines

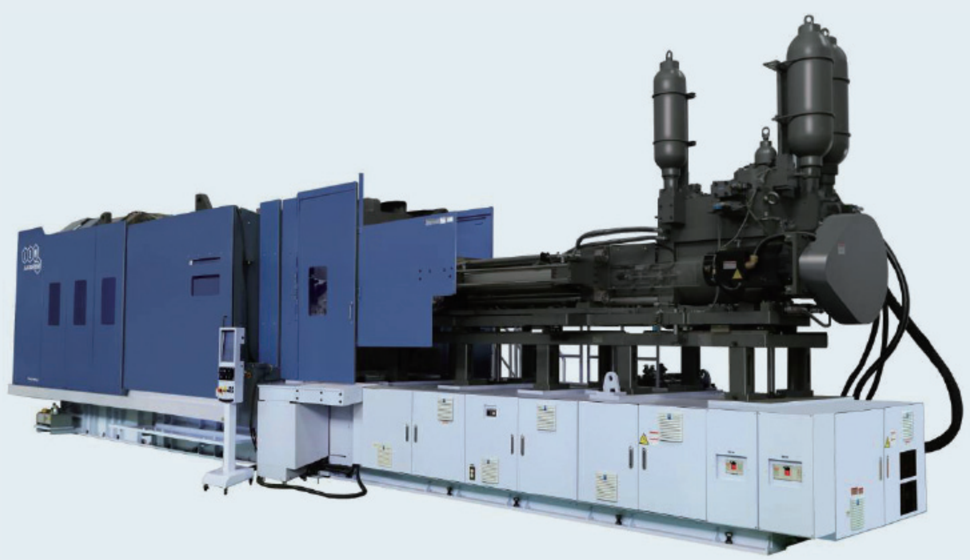


Magnesium has been drawing much attention as a material whose features include light weight, easy recyclability, and eco-friendliness. As an example, magnesium alloy automobile parts are expected to improve fuel efficiency as a result of lighter body weight and prove effective in curbing the emission of greenhouse gases.

When applied to the chassis of notebook PCs and cameras, magnesium contributes to reducing their overall weight to make it more convenient to carry around. Moreover, its superior recyclability makes it possible to repeatedly reuse the material to cut down on waste generation.

Our magnesium alloy injection molding machines melt magnesium in a sealed cylinder. This renders it unnecessary to use non-flammable gas (mainly sulfur hexafluoride, a potent greenhouse gas that has a high global warming potential), which was needed in the conventional die casting method to prevent molten metal in the furnace from being exposed to the atmosphere. In this way, magnesium alloy injection molding machines don't emit greenhouse gases.

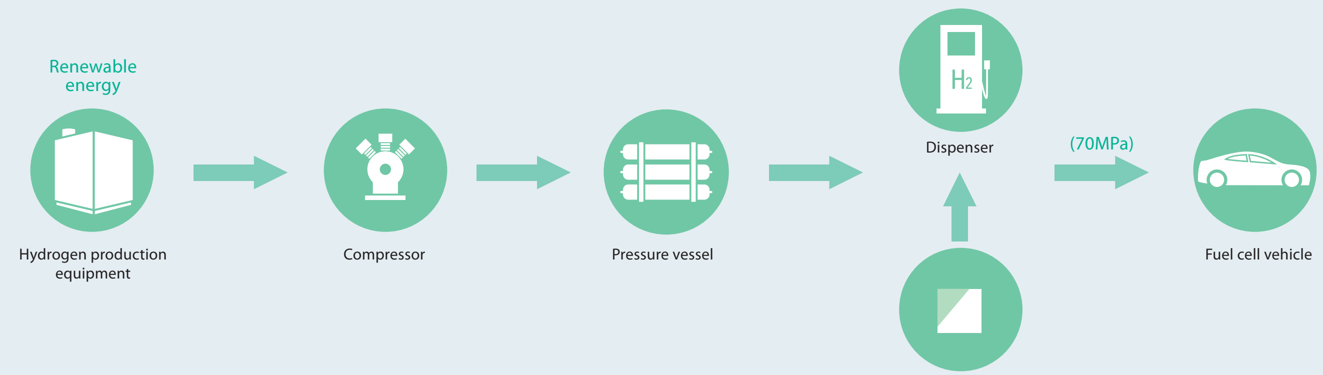
JSW will remain committed to the realization of a recycling-based society and the prevention of further global warming through the development of injection molding machines.

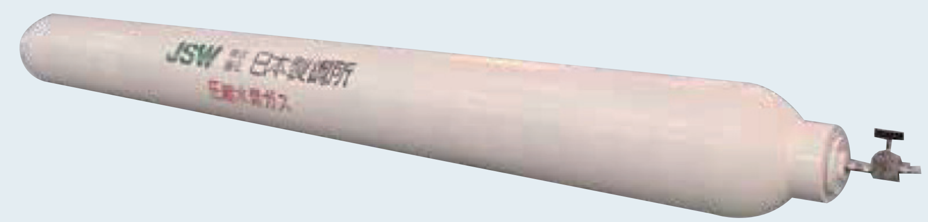


Pressure Vessels for Hydrogen Stations

FCVs run on fuel cells which generate electricity by a chemical reaction between hydrogen and atmosphere-derived oxygen. After the reaction, the car only emits water. Since FCVs don't emit CO2 like internal-combustion vehicles, they are drawing much attention as an ultimate eco-car. Amid an environment in which curbing global warming has become an urgent task, it is essential to realize a hydrogen-based society by promoting the spread of FCVs and constructing more hydrogen stations around the world that supply hydrogen to FCVs.

To contribute to realizing a hydrogen-based society, we have been combining our long-accumulated technologies and expertise in steel materials and hydrogen to supply highly reliable steel pressure vessels for hydrogen stations. We remain committed to the development of a future hydrogen society by providing safe and secure products underpinned by dependable technologies and expertise.





At hydrogen stations that recharge hydrogen, which is the fuel for fuel cell vehicles (FCV), pressure vessels are essential for storing the hydrogen gas at high pressure.

Some commercial hydrogen stations, for which construction began in 2013, use our steel hydrogen vessels.

In fiscal 2018, we developed a new pressure vessel featuring a longer product life at a more affordable price than the previous products.

©Iwatani Corporation Hydrogen stations appearance

©Iwatani Corporation Hydrogen station

Research and Development

Research and development activities were almost entirely funded by the Company during fiscal 2019. Combined spending on research and development for the Industrial Machinery Products Business, the Steel and Energy Products Business, and the Other Business amounted to ¥4,708 million (US$43 million). Aiming to become a company that contributes to the prosperity of society by generating changes through our innovative technologies, we strive to develop new products and production techniques using our proprietary technologies. To bring these products and techniques to market as soon as possible, we actively promote multidisciplinary and technological tie-ups and joint development.

Business divisions and Group companies collaborate to 1) improve the capabilities, performance, and reliability of core products; 2) develop and nurture offerings in new business fields based on core and differentiated technologies; and 3) promote the development and commercialization of new products through synergies with Group companies.

Basic Research and Development Policy

(1) In terms of the promotion and commercialization of new businesses, the New Business Promotion Headquarters collaborates with each business division and prioritizes R&D on new energy and energy savings, information and telecommunications, nanotechnology and materials, aircraft components, and new production technologies, all of which are related directly to JSW's businesses. Through these efforts, we aim to focus on expanding and upgrading core technologies while cultivating and growing existing businesses.

(2) 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.

(3) 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, acquisitions, and alliances. In Steel Products, we aim for improving profitability of existing products while commercializing new areas.


Muroran Research Laboratory


Hiroshima Plant
Technical Development Department


Yokohama Plant
Technical Development Department

Activities by Business Segment

Industrial Machinery Products Business

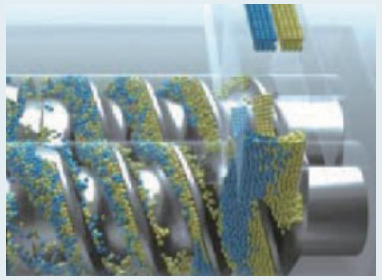
In machine-related product development, we are working to develop advanced processing technology for plastic molding machines; enhance the performance of plastic extruders; improve the functionality and performance of film and sheet equipment; enhance the performance and lower the cost of magnesium injection molding equipment and compressors; and develop manufacturing equipment for fiber-reinforced plastic composite components and other products. R&D spending in this segment was ¥2,101 million (US$19 million) in fiscal 2019.

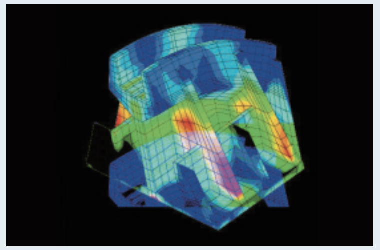
Steel and Energy Products Business

Product development centers on developing materials and manufacturing process technologies, notably for clad steel pipes for natural gas transportation pipelines as well as large steel castings and high alloys. Our technological development focuses on improving materials and element technologies for existing products. Segment R&D spending totaled ¥674 million (US$6 million) in fiscal 2019.

Other Business

In addition to commercializing and expanding businesses for aircraft components, various functional materials for the optical communication field such as high-performance crystalline materials, and pressure accumulators for hydrogen fueling stations, we also promote development and commercialization of various functional materials including high-performance metal materials and nanomaterials. Segment R&D spending totaled ¥1,932 million (US$18 million) in fiscal 2019.





Corporate Governance

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.

On November 18, 2015, we formulated "Corporate Governance Policy of The Japan Steel Works, Ltd." based on a resolution of the Board of Directors. The aim of the Policy is to clarify our basic stance, initiatives, and approach with respect to corporate governance. The Policy can be found at the following website: https://www.jsw.co.jp/en/ir/governance.html

Overview of Corporate Governance Structure

We employ an audit & supervisor board member system comprising nine directors, three of whom are independent, and four audit & supervisory board members, two of whom are external.

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

The Executive Board—consisting of two representative directors, executive officers nominated by the president, three outside directors, and an audit & supervisory board member (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 in addition to discussing, reporting on, and monitoring overall operational matters.

Our Management Council also convenes once monthly, in principle. Members include directors, audit & supervisory board members, divisional heads, general plant managers, headquarters managers, and executive officers. 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 Audit & Supervisory Board comprises four audit & supervisory board members, two of whom are external as part-time. These members 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 as well as major subsidiaries once every six months. The members receive divisional reports as necessary and exchange opinions with directors, executive officers, and key employees. Based on these efforts, the members express their views to management from an objective and neutral perspective, and exercise strict oversight with regard to the execution of directors' duties.

Seeking to ensure fairness and transparency of decision-making processes related to executive nomination and remuneration, the Company established the Nomination Advisory Committee and the Remuneration Advisory Committee. Consisting of six members, including several outside executives, the committees serve as advisory bodies to the Board of Directors. The Nomination Advisory Committee deliberates on matters related to appointment and dismissal of directors, audit & supervisory board members, and executive officers and reports to the Board of Directors. Likewise, the Remuneration Advisory Committee deliberates on matters related to renumeration of directors and executive officers and reports to the Board of Directors.

The constituent members of each entity are as follows.

Constituent members

Name	Title	Board of Directors	Executive Board	Management Council	Audit & Supervisory Board	Nomination Advisory Committee	Remuneration Advisory Committee
Naotaka Miyauchi	Representative Director & President	○ (Chairman)	○ (Chairman)	○ (Chairman)	—	○ (Chairman)	○ (Chairman)
Toshio Matsuo	Representative Director & Executive Vice President	○	○	○	—	—	—
Takashi Shibata	Director, Managing Executive Officer	○	○	○	—	—	—
Junichiro Deguchi	Director, Managing Executive Officer	○	○	○	—	○	○
Takashi Iwamoto	Director, Managing Executive Officer	○	○	○	—	—	—
Hiroki Kikuchi	Director, Executive Officer	○	○	○	—	—	—
Sadao Degawa	Director (Note 1)	○	○ (Notes 4)	○	—	○	○
Yoshiyuki Nakanishi	Director (Note 1)	○	○ (Notes 4)	○	—	○	○
Hisao Mitsui	Director (Note 1)	○	○ (Notes 4)	○	—	○	○
Kenji Watanabe	Audit & Supervisory Board Member (full-time)	○	○ (Notes 3 & 4)	○	○ (Chairman)	—	—
Toru Nishiyama	Audit & Supervisory Board Member (full-time)	○	○ (Notes 3 & 4)	○	○	—	—
Fumihiko Tanizawa	Audit & Supervisory Board Member (Note 2)	○	—	○	○	○ (Notes 5)	—
Hiroshi Misawa	Audit & Supervisory Board Member (Note 2)	○	—	○	○	—	○ (Notes 5)
Masao Oshita	Managing Executive Officer	—	○	○	—	—	—
Toyohiko Kagawa	Managing Executive Officer	—	○	○	—	—	—
Yoshitaka Sato	Executive Officer	—	—	○	—	—	—
Shingo Mito	Executive Officer	—	—	○	—	—	—
Shigeki Inoue	Executive Officer	—	—	○	—	—	—
Seiji Umamoto	Executive Officer	—	—	○	—	—	—
Shoji Nunoshita	Executive Officer	—	—	○	—	—	—
Other constituent members		—	—	Divisional heads, deputy director of heads, general plant managers, headquarters managers	—	—	—

Notes: 1. Sadao Degawa, Yoshiyuki Nakanishi, and Hisao Mitsui are outside directors. 2. Fumihiko Tanizawa and Hiroshi Misawa are outside audit & supervisory board members. 3. One audit & supervisory board member attends by rotation. 4. Attends as an observer. 5. Attends as an advisor.

Reason for Adopting the Corporate Governance Structure

Each director reports on the business execution status at important meetings of the Board of Directors, the Executive Board, the Management Council, and other bodies, which ensures mutual oversight of directors. Eleven executive officers, four of whom concurrently serve as directors, are appointed at the meeting of the Board of Directors. They execute business operations and make business-related decisions to the extent delegated, and report on the business execution status at meetings of the abovementioned Executive Board, Management Council, and other bodies, thereby ensuring oversight of executive officers by directors. Outside directors also attend each of important meetings mentioned above, participating in the decision-making process of management as well as expressing opinions to management from an objective and neutral perspective.

In addition to attending aforementioned important meetings as well as other meetings, each audit & supervisory board member conducts audits of headquarters divisions, business divisions, subsidiaries, and other organizations on a regular basis. When deemed necessary, they receive reports on information related to risk management, compliance, and other matters from respective departments. By exchanging opinions with directors, executive officers, and key employees, they keep tabs on the business execution status of directors and express opinions to management from an objective and neutral perspective.

The Company believes these measures ensure the current corporate governance structure to fully exert the oversight function over management.

Status of Internal Control System

The Company recognizes the importance of its management responsibilities with respect to establishing and properly managing the necessary systems to ensure appropriate business operations. Based on this recognition, it has set up a specialist unit to supervise internal controls, and its Internal Control Committee also meets as necessary. The Company is working to improve its internal control system in line with its Basic Policy on Internal Control Systems, adopted by the Board of Directors, as described below.

1. Adhering to laws and regulations and the Articles of Incorporation relating to the execution of duties by directors and employees

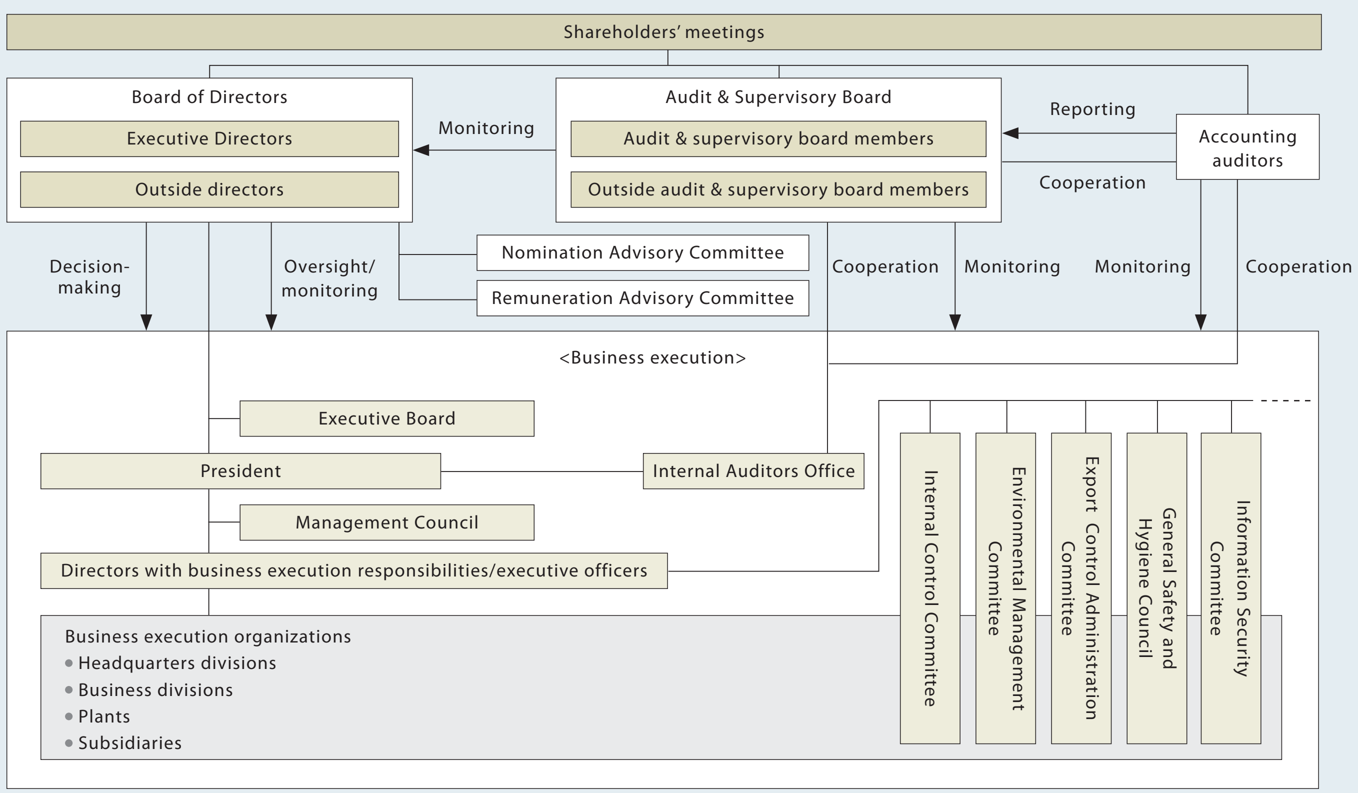
- At the Company, compliance extends beyond preventing fraud and adhering to laws and regulations and in-house rules. It also encompasses the fulfillment of broad social responsibilities and establishment of various compliance-related rules. The essence of its compliance activities centers on directors and executive officers taking the lead and practicing integrity and raising employee awareness of compliance issues through education and training.
- The Company established the Internal Audit Division to ensure that all of its corporate operations comply with all laws and regulations and in-house rules. The Division conducts regular and spot audits and submits the results of its audits to the president and to other relevant parties as appropriate, including the Board of Directors, the Executive Board, the Management Council, and audit & supervisory board members.
- The Company ensures multiple ways, including internal and external channels, for reporting and discussing compliance-related problems uncovered by employees, based on a guarantee of protection for whistleblowers.
- The Company clearly stipulates in its Corporate Code of Behavior the thorough enforcement of organizational crisis management against anti-social forces, and firmly rejects unwarranted demands from them in accordance with the law and in collaboration with relevant authorities.

2. Safeguarding and managing information relating to the execution of duties by directors

- The Company appoints a director or an executive officer as the person responsible for safeguarding and managing information. Adhering to document and information management rules and regulations, the Company stores and manages important information relating to the execution of duties by directors and executive officers as printed or digital records. This information includes the minutes of important meetings and written requests for approvals. Further, directors and audit & supervisory board members may review or copy this information as needed.
- The Company discloses financial and important management information in an appropriate and timely manner.

3. Rules on managing risk of losses

- Directors, executive 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.
- The Company maintains 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 control administration set up committees and create and administer rules for properly managing such risks throughout the Company. The Company also appoints a director or an executive officer as the person responsible for risk management. In collaboration with the Internal Audit Division, that person monitors the progress of risk management and reports to the Board of Directors or the Executive Board as appropriate.
- At key headquarters divisions, business divisions, and plants, the Company has risk managers who evaluate measures and identify daily risks. It also has a crisis management headquarters to handle critical situations. Accordingly, the Company is prepared for both ordinary and emergency situations.



4. **Ensuring the efficient execution of duties by directors**
   - The Company ensures rapid decision-making and flexible and efficient business execution by having the president act as chief executive officer, with directors overseeing key headquarters divisions and business units. Under this command and management structure, executive officers appointed by the Board of Directors perform the duties assigned to them. Directors and executive officers deliberate, 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, executive officers, and employees. Directors and executive officers plan and implement specific policies for reaching goals, segregating tasks in line with in-house rules. They also evaluate the results, review progress, and submit periodic and spot reports to the Board of Directors, the Executive Board, and the Management Council.

5. **Ensuring appropriate conduct at Group companies**
   - The Company encourages Group subsidiaries to work to establish and build Companywide internal controls according to JSW's Vision, Management Philosophy, and JSW Group Corporate Code of Behavior. The Company also supports Group subsidiaries to 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 rules.
   - The Company has formulated operational and management rules for subsidiaries and defined the related management responsibilities and leadership structures. The Company maintains a system for reporting, notifying, and gathering information about subsidiary decisions on important matters and important facts.
   - In addition to dispatching directors and audit & supervisory board members to Group subsidiaries, the Company ensures that subsidiaries comply with all laws and regulations and in-house rules by mandating periodic and spot internal audits through relevant departments or the Internal Audit Division. It also audits operations directly and instructs subsidiaries on internal control improvements.
   - The Company supports the efforts of Group subsidiaries to establish systems to identify and evaluate risks according to division of duties determined independently based on rules concerning risk management.

6. **Appointing audit & supervisory board member assistants, securing their independence from directors, and ensuring the effectiveness of instructions given to them**
   - On request from audit & supervisory board members, the Company offers employees as assistants. The Company seeks the opinions and consent of these members for appointments, dismissals, evaluations, and other personnel treatment regarding these assistants to secure their independence from directors and executive officers.
   - The Company ensures that employees assigned as assistants can perform their duties according to the directions and instructions of audit & supervisory board members.

7. **Reporting to audit & supervisory board members by directors and employees of the Company and its subsidiaries, other structures for reporting to audit & supervisory board members, and preventing unfavorable treatment based on the content of what is reported**
   - Audit & supervisory board members are guaranteed the opportunity to attend meetings of the Board of Directors, the Executive Board, the Management Council, and other managerial meetings that deliberate, decide, and report on important matters.
   - Based on its management approval system, the Company presents approval records to audit & supervisory board members. Audit & supervisory board members can at any time request reports from directors, executive officers, and employees of the Company and Group subsidiaries. Also, persons who have received reports from directors, executive officers, and employees of the Company and Group subsidiaries can convey such reports to audit & supervisory board members.
   - The Company guarantees that persons making reports to audit & supervisory board members are not subject to unfavorable treatment based on the content of such reports.

8. **Policies on advance payment and compensation pertaining to costs and obligations incurred in the execution of duties by audit & supervisory board members**
   - The Company assumes responsibility for any necessary costs incurred in the execution of duties by audit & supervisory board members.

9. **Ensuring the effectiveness of audits conducted by audit & supervisory board members**
   - The Company encourages directors, executive officers, and employees to recognize the importance and value of audits conducted by audit & supervisory board members and to accord them their fullest cooperation. These members can request assistance from the Internal Audit Division, headquarters divisions, and all other divisions for auditing tasks.
   - The Company enables audit & supervisory board members to collaborate closely with the accounting auditor and the Internal Audit Division.
   - Audit & supervisory board members have the discretion to employ the services of legal advisors and other outside experts.

10. **Ensuring reliable financial reporting**
    - The Company evaluates the effectiveness of internal controls for financial reports in keeping with basic policies for such controls. The Board of Directors and the Executive Board deliberate and report on the findings of such evaluations.

Outline of Liability Limitation Agreement

In accordance with Article 427, Paragraph 1 of the Companies Act as well as Articles 28 and 36 of the Articles of Incorporation, the Company has concluded a Liability Limitation Agreement with three outside directors and four audit & supervisory board members as stipulated in Article 423, Paragraph 1 of the Companies Act. The liability limit based on this agreement shall be the amount stipulated in the act.

Liability limitation will be applicable only when the execution of duties by outside directors and audit & supervisory board members giving rise to such liabilities is recognized to have been carried out in good faith and with no gross negligence.

Number of Directors

The Articles of Incorporation stipulates the number of directors to be 10 or less.

Requirements for Resolution for Election of Directors

The Articles of Incorporation stipulates that the resolution for the election of directors shall require the presence of shareholders holding one-third or more of the voting rights of shareholders who can exercise voting rights as well as a majority vote of such shareholders, and that no cumulative voting shall be accepted for the resolution.

Special Resolution Requirements of the Meeting of Shareholders

The Articles of Incorporation stipulates that the resolution stipulated by Article 309, Paragraph 2 of the Companies Act shall require the presence of shareholders holding one-third or more of the voting rights of shareholders who can exercise voting rights as well as a two-thirds majority of such voting rights. The aim for the requirement is to smoothly lead the meeting of shareholders by relaxing the quorum for special resolutions at shareholder meetings.

Shareholder Meeting Resolutions That Can Be Resolved at Meetings of the Board of Directors

1. Acquisition of treasury stock

- To execute a flexible capital policy, the Articles of Incorporation allows the acquisition of treasury stock by a resolution of the Board of Directors in accordance with Article 165, Paragraph 2 of the Companies Act.

2. Interim dividends

- The Articles of Incorporation stipulates the payment of interim dividends with September 30 as the record date by a resolution of the Board of Directors in accordance with Article 454, Paragraph 5 of the Companies Act. The aim is to enable the swift return of profits to shareholders.

Basic Policy on Control over the Company

I. Basic Policy on the Nature of Persons Who Control Decision-Making over the Company's Financial and Business Policies

JSW believes that the decision on whether persons who control decision-making over JSW's financial and business policies will ensure and enhance JSW's corporate value and the common interests of JSW's shareholders should ultimately be made based on the general will of JSW's shareholders.

However, in the event that a takeover proposal is made by a third party, it may not always be easy for JSW's shareholders to properly judge in a short space of time the impact of the takeover on JSW's corporate value and the common interests of shareholders based on a sufficient understanding of JSW's tangible and intangible management resources, the potential effect of forward-looking policies, and other components of JSW's corporate value. Accordingly, JSW deems any persons who propose a large-scale acquisition of JSW shares or takeover without providing JSW's shareholders with sufficient information or time to examine the content of the takeover proposal to be inappropriate as persons who control decision-making over JSW's financial and business policies. Moreover, some takeover proposals may be intended to cause clear damage to JSW's corporate value or the common interests of JSW's shareholders while others may effectively coerce JSW's shareholders into selling their JSW shares. JSW deems any persons who make such a takeover proposal to be inappropriate as persons who control decision-making over JSW's financial and business policies.

II. Measures to Prevent Decisions on the Company's Financial and Business Policies from Being Controlled by Persons Deemed Inappropriate under the Basic Policy

JSW resolved to renew the Countermeasures to Large-Scale Acquisitions of JSW's Stock (Takeover Defense Measures) at the meeting of its Board of Directors held on May 15, 2017 and obtained shareholders' approval for renewal at the 91st Annual General Meeting of Shareholders held on June 27, 2017 (hereinafter the renewed countermeasures are referred to as the "Plan").

For further details of the Plan, please refer to "Renewal of Countermeasures to Large-Scale Acquisitions of JSW's Stock (Takeover Defense Measures)" dated May 15, 2017 in the News section of JSW's website (https://www.jsw.co.jp/) (in Japanese).

1. Purpose of the Plan

The purpose of the Plan is to secure and enhance JSW's corporate value and, in turn, the common interests of its shareholders by ensuring, in the event of a tender offer for JSW's shares, an act similar thereto or a proposal thereof (hereinafter referred to as "Tender Offer, etc."), the information and time necessary for shareholders to decide whether they should accept the Tender Offer, etc. or for JSW's Board of Directors to make an alternative proposal or, in some cases, to enable negotiations to be held with the tender offeror or the person proposing the tender offer (hereinafter referred to as the "Tender Offeror, etc.").

2. Summary of the Plan

(i) Establishment of Procedures for Triggering the Plan

The Plan sets out necessary procedures for realizing the "1. Purpose of the Plan" in the event of a Tender Offer, etc. for JSW's shares, including requirements for advance provision of information about the Tender Offer, etc. by the Tender Offeror, etc.

(ii) Gratis Allotment of Stock Acquisition Rights and Use of Independent Committee

In the event that a Tender Offer, etc. by a Tender Offeror, etc. is deemed potentially to seriously damage JSW's corporate value and the common interests of its shareholders, for example, a Tender Offeror, etc. makes a Tender Offer, etc., without following the procedures set forth in the Plan, JSW shall allot, by means of the gratis allotment of stock acquisition rights, to all shareholders, excluding JSW, at such time stock acquisition rights (hereinafter referred to as the "Stock Acquisition Rights") with the condition that exercise by the Tender Offeror, etc. is not allowed and provisions regarding acquisition stating that JSW may acquire the Stock Acquisition Rights from holders other than the Tender Offeror, etc. in exchange for JSW's shares. JSW does not intend to deliver money as consideration for acquisition of the Stock Acquisition Rights held by the Tender Offeror, etc.

With respect to decisions on the implementation or non-implementation of the gratis allotment of the Stock Acquisition Rights and the acquisition thereof, the Plan aims to eliminate arbitrary decisions by the Board of Directors by formulating Independent Committee Rules, by establishing in accordance with these rules an independent committee comprised of experts (experienced corporate managers, former employees of government agencies, parties with knowledge of the investment banking industry, lawyers, certified public accountants, academics, etc.) who are independent from JSW management, and by seeking decision-making through the committee while at the same time aiming to ensure transparency through proper information disclosure to shareholders in a timely manner.

(iii) Exercise of the Stock Acquisition Rights and Acquisition of the Stock Acquisition Rights by the Company

In the event that gratis allotment of the Stock Acquisition Rights takes place in accordance with the Plan and all shareholders other than the Tender Offeror, etc. receive shares in JSW as a result of those shareholders exercising the Stock Acquisition Rights or the Company acquiring the Stock Acquisition Rights, the ratio of voting rights in JSW held by the Tender Offeror, etc. may be diluted by up to a maximum of 50%.

III. Decision of Board of Directors on Specific Measures and Rationale for Decision

JSW's medium-term management plan and measures to strengthen corporate governance were formulated as specific measures to ensure and enhance JSW's corporate value and the common interests of its shareholders, and are, therefore, in line with JSW's basic policy and do not aim to maintain the position of the directors or executive officers of the Company.

The Plan is a framework in case of a Tender Offer, etc. for JSW's shares designed to ensure and enhance JSW's corporate value and, in turn, the common interests of its shareholders and is in line with JSW's basic policy. The Plan's fairness and objectivity is ensured primarily because it was approved by shareholders at the 91st Annual General Meeting of Shareholders of JSW; it is a framework which attaches importance to the wishes of shareholders regarding implementation of a gratis allotment of the Stock Acquisition Rights; it requires the establishment of an independent committee comprised of independent outside experts and only allows implementation of gratis allotment of the Stock Acquisition Rights based on a decision by the independent committee; and gratis allotment of the Stock Acquisition Rights can only be implemented if reasonable and objective conditions are satisfied. The Plan does not aim to maintain the position of the directors or executive officers of the Company.

Notes:1. The Basic Policy on Control Over the Company is as of the end of the consolidated fiscal year under review.

Notes:2. Non-renewal of the Plan:
The Plan was due to expire at the close of the 94th Annual General Meeting of Shareholders held on June 24, 2020. Prior to expiry of the Plan, JSW had been engaged in much discussion and examination of its handling based on recent trends surrounding takeover defense measures and dialogue with shareholders both in Japan and overseas, including institutional shareholders. As a result, based on comprehensive consideration of the recent trend toward stronger corporate governance and the status of JSW's initiatives for stronger corporate governance as well as changes in JSW's operating environment, JSW decided at a meeting of its Board of Directors held on May 25, 2020 not to renew the Plan.

JSW will strive even further to strengthen corporate governance, which has long been a focus of its efforts, and will remain committed to sustainable growth and the enhancement of its corporate value over the medium to long term. Moreover, even after expiry of the Plan, JSW will continue to take appropriate steps in accordance with the Financial Instruments and Exchange Act, the Companies Act, and other relevant laws and regulations in relation to persons who intend to make large-scale acquisitions of its shares. Such steps include demanding that they provide necessary and sufficient information for shareholders to properly determine the pros and cons of the large-scale acquisition; disclosing the opinion of the Board of Directors based on due respect for the opinions of independent outside directors; and endeavoring to ensure that shareholders have the time and information necessary to examine any proposal.

Board of Directors, Audit & Supervisory Board Members, and Executive Officers

Board of Directors

As of September 1, 2020

Representative Director & President	Naotaka Miyauchi
Representative Director & Executive Vice President	Toshio Matsuo
Directors, Managing Executive Officers	Takashi Shibata Junichiro Deguchi Takashi Iwamoto
Directors, Executive Officer	Hiroki Kikuchi
Directors	Sadao Degawa (Outside) Yoshiyuki Nakanishi (Outside) Hisao Mitsui (Outsaide)

Audit & Supervisory Board Members

As of September 1, 2020

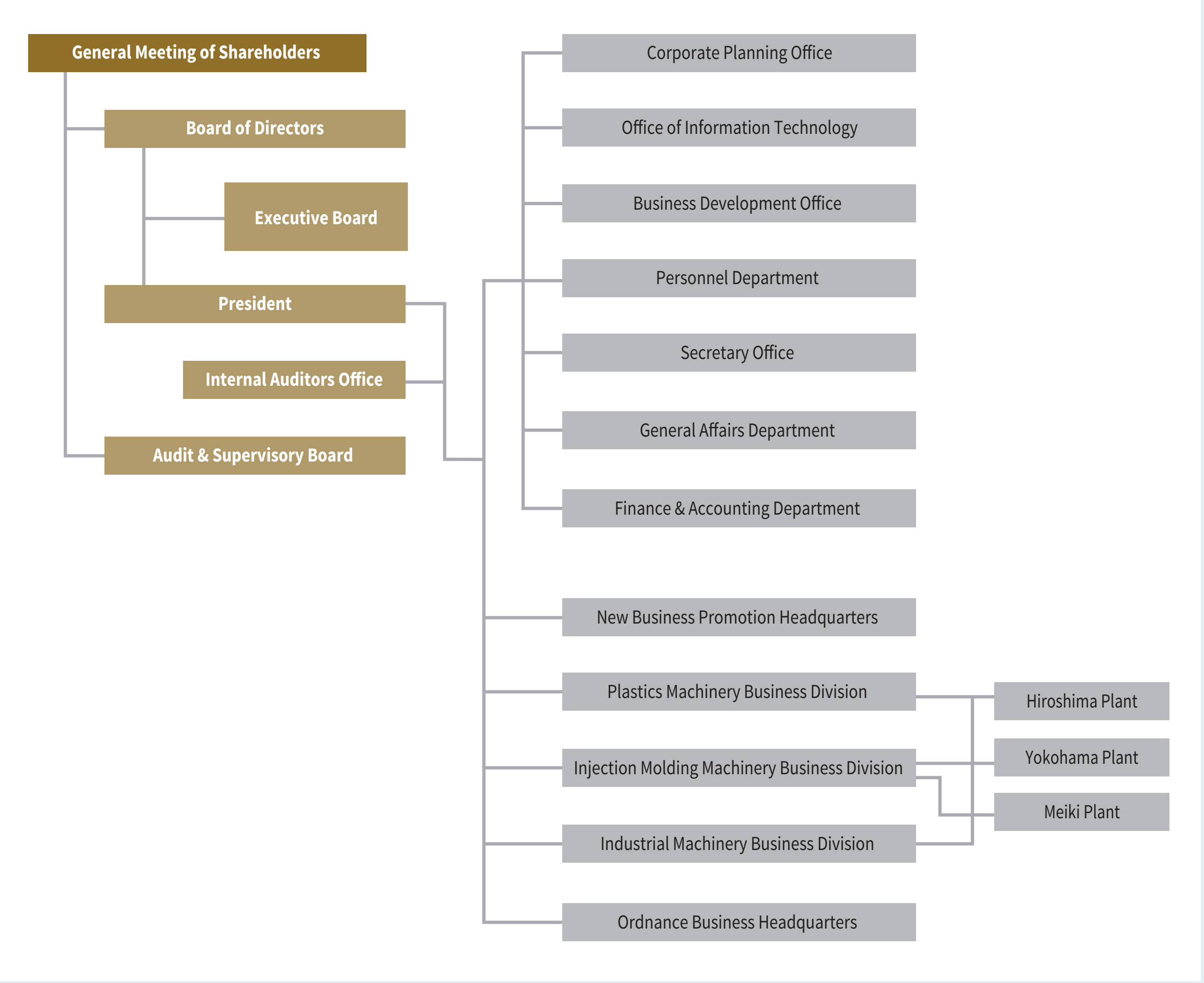
Audit & Supervisory Board Members	Kenji Watanabe Toru Nishiyama Fumihiko Tanizawa (Outside) Hiroshi Misawa (Outside)

Executive Officers

As of September 1, 2020

Managing Executive Officers	Masao Oshita Toyohiko Kagawa
Executive Officers	Yoshitaka Sato Shingo Mito Shigeki Inoue Seiji Umamoto Shoji Nunoshita

Organization



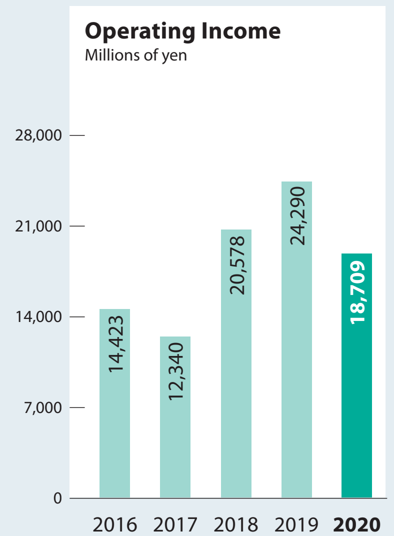
Six-Year Summary

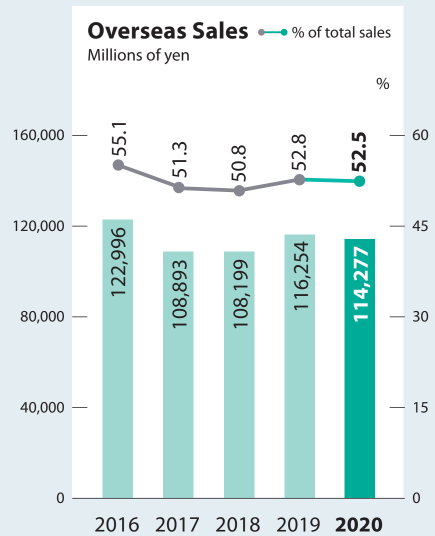
Years ended March 31

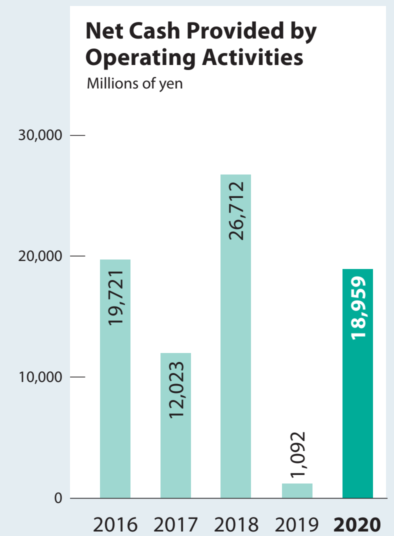
Millions of yen

	2015	2016	2017	2018	2019	2020
Consolidated						
Net sales	¥194,674	¥223,301	¥212,469	¥211,700	¥220,153	**¥217,527**
Profit (loss) attributable to owners of parent	(5,327)	(16,600)	(4,968)	10,712	19,966	**9,310**
Total assets	319,667	293,138	275,315	297,365	305,471	**297,173**
Total net assets	138,234	111,340	107,587	118,600	129,827	**132,492**
Amounts per share (yen):						
Profit (loss)	¥(71.94)	¥(226.62)	¥(67.61)	¥145.77	¥271.69	**¥126.66**
Non-Consolidated						
Net sales	¥153,455	¥176,116	¥166,722	¥160,787	¥165,624	**¥162,073**
Profit (loss)	(5,658)	(18,719)	(8,260)	8,559	17,129	**6,594**
Total assets	291,793	263,112	242,353	259,342	263,005	**253,298**
Total net assets	124,381	97,107	88,837	96,596	106,055	**106,432**
Amounts per share (yen):						
Profit (loss)	¥(76.41)	¥(255.55)	¥(112.40)	¥116.48	¥233.08	**¥89.71**
Cash dividends applicable to the year	¥4.00	¥5.00	¥15.00	¥37.50	¥55.00	**¥45.00**

Note: The Company conducted a 1-for-5 reverse common stock split effective on October 1, 2016. For the sake of simplicity, the profit (loss) per share in the table above are calculated using the number of shares after the reverse stock split.







Financial Performance (Consolidated)

Operating Results

Net Sales

Net sales totaled ¥217,527 million (US$1,999 million), down ¥2,626 million, or 1.2%, year on year. This was because sales of both the Industrial Machinery Products Business and the Steel and Energy Products Business were virtually on par with those in the previous fiscal year.

Operating Income

Operating income decreased ¥5,581 million, or 23.0%, to ¥18,709 million (US$172 million), and the operating income margin decreased 2.4 percentage points to 8.6%.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent was ¥9,310 million (US$86 million), down ¥10,655 million, or 53.4%, from the previous fiscal year. This equates to profit per share of ¥126.66 for the year.

Sales by Region

The Japanese market accounted for sales of ¥103,249 million (US$949 million) and the Chinese market for ¥44,126 million (US$405 million), with all other markets accounting for ¥70,151 million (US$645 million).

Cash Flow

At year-end, cash and cash equivalents stood at ¥74,477 million (US$684 million), an increase of ¥657 million from a year earlier.

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to ¥18,959 million (US$174 million) compared with ¥1,092 million in the previous fiscal year. The primary contributing factors for the increase included profit before income taxes as well as a decrease in operating funds.

Cash Flow from Investing Activities

Net cash used in investing activities totaled ¥13,172 million (US$121 million) compared with ¥1,334 million in the previous fiscal year. This was due mainly to an increase in tangible and intangible assets.

Cash Flow from Financing Activities

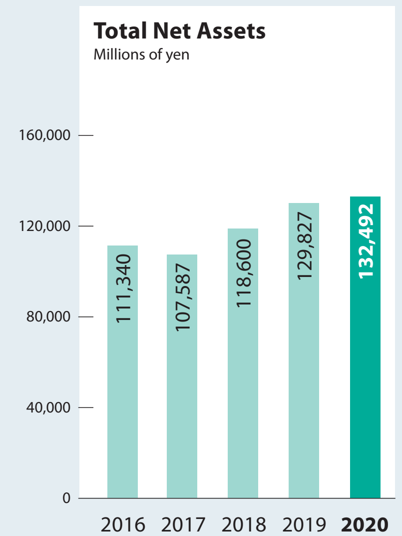
Net cash used in financing activities was ¥6,164 million (US$57 million) compared with ¥3,758 million in the previous fiscal year. This was attributable primarily to cash dividends paid and net decrease in short-term borrowings.

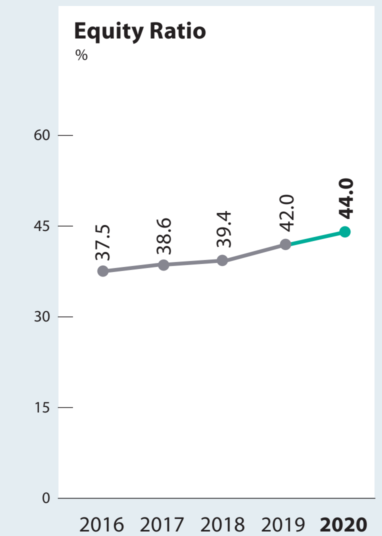
Financial Position

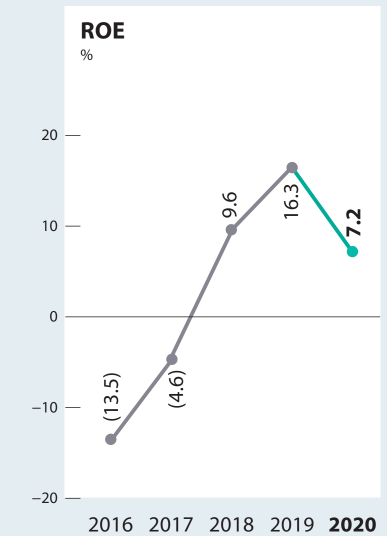
As of March 31, 2020, total assets amounted to ¥297,173 million (US$2,731 million), down ¥8,298 million from a year earlier. This was due primarily to a decline in investment securities arising from a drop in stock prices in addition to a decrease in such current assets as notes and accounts receivable.

Total liabilities stood at ¥164,680 million (US$1,513 million), down ¥10,963 million from a year earlier. This was due mainly to a decrease in current liabilities, including notes and accounts payable.

Net assets amounted to ¥132,492 million (US$1,217 million), up ¥2,665 million, due mainly to an increase in retained earnings.







The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2019 and 2020

Assets	Millions of yen 2019	Millions of yen 2020	Thousands of U.S. dollars (Note 4) 2020
Current assets:			
Cash on hand and in banks (Notes 6 and 18)	¥ 74,304	**¥ 75,525**	**$ 693,972**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	1,009	**161**	**1,479**
Trade (Note 18)	63,916	**51,141**	**469,916**
Other	223	**689**	**6,331**
Less allowance for doubtful accounts	(137)	**(156)**	**(1,433)**
Inventories (Note 5)	69,447	**72,363**	**664,918**
Other current assets	6,316	**10,789**	**99,136**
Total current assets	215,080	**210,515**	**1,934,347**
Property, plant and equipment, at cost (Notes 7 and 9):			
Land	8,250	**7,984**	**73,362**
Buildings and structures	70,519	**74,440**	**684,003**
Machinery and equipment	135,423	**137,407**	**1,262,584**
Leased assets	2,458	**2,500**	**22,972**
Construction in progress	1,764	**2,397**	**22,025**
	218,416	**224,729**	**2,064,955**
Less accumulated depreciation	(183,901)	**(185,583)**	**(1,705,256)**
Property, plant and equipment, net	34,514	**39,146**	**359,699**
Intangible assets	2,226	**2,968**	**27,272**
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates	1,268	**1,012**	**9,299**
Investment securities (Notes 18 and 19)	28,412	**20,836**	**191,455**
Long-term loans receivable	333	**323**	**2,968**
Retirement benefit asset (Note 21)	2,374	**1,588**	**14,592**
Deferred tax assets (Note 22)	18,566	**18,290**	**168,060**
Other assets	3,091	**2,929**	**26,914**
Less allowance for doubtful accounts	(397)	**(438)**	**(4,025)**
Total investments and other assets	53,650	**44,542**	**409,281**
Total assets	¥ 305,471	**¥ 297,173**	**$ 2,730,617**

Liabilities and net assets	Millions of yen 2019	Millions of yen 2020	Thousands of U.S. dollars (Note 4) 2020
Current liabilities:			
Short-term borrowings (Notes 11 and 18)	¥ 12,088	**¥ 10,048**	**$ 92,327**
Current portion of long-term debt (Notes 11 and 18)	696	**5,590**	**51,365**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	205	**523**	**4,806**
Trade (Note 18)	55,374	**47,886**	**440,007**
Other	3,685	**815**	**7,489**
Advances received for products	16,619	**19,012**	**174,694**
Accrued income taxes (Note 22)	3,326	**1,143**	**10,503**
Provision for loss on wind power generator business	1,887	**1,421**	**13,057**
Provision for business restructuring	5,295	**5,596**	**51,420**
Other current liabilities	13,290	**13,436**	**123,459**
Total current liabilities	112,469	**105,475**	**969,172**
Long-term liabilities:			
Long-term debt (Notes 11 and 18)	40,004	**36,425**	**334,696**
Accrued retirement benefits			
For directors and corporate auditors	73	**57**	**524**
Retirement benefit liability (Note 21)	10,494	**11,172**	**102,656**
Deferred tax liabilities (Note 22)	90	**371**	**3,409**
Other long-term liabilities	12,511	**11,178**	**102,711**
Total long-term liabilities	63,174	**59,205**	**544,014**
Net assets:			
Shareholders' equity (Note 15)			
Common stock:			
Authorized — 200,000,000 shares			
Issued — 74,332,356 shares	19,716	**19,737**	**181,356**
Capital surplus	5,362	**5,383**	**49,462**
Retained earnings	102,915	**108,454**	**996,545**
Treasury stock, at cost			
(803,339 shares in 2020 and 803,082 shares in 2019)	(2,312)	**(2,312)**	**(21,244)**
Total shareholders' equity	125,682	**131,262**	**1,206,120**
Accumulated other comprehensive income:			
Unrealized holding gain (loss) on securities	3,290	**1,017**	**9,345**
Unrealized gain (loss) from hedging instruments	(226)	**(69)**	**(634)**
Translation adjustments	(222)	**(356)**	**(3,271)**
Remeasurement of retirement benefit plans	(115)	**(1,049)**	**(9,639)**
Total accumulated other comprehensive income	2,725	**(458)**	**(4,208)**
Non-controlling interests	1,419	**1,688**	**15,510**
Total net assets	129,827	**132,492**	**1,217,422**
Total liabilities and net assets	¥305,471	**¥297,173**	**$2,730,617**

See notes to consolidated financial statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income

For the years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2020	2020
Net sales	¥220,153	**¥217,527**	**$1,998,778**
Cost of sales (Note 12)	166,622	**167,251**	**1,536,810**
Gross profit	53,531	**50,275**	**461,959**
Selling, general and administrative expenses (Note 12)	29,240	**31,566**	**290,049**
Operating income	24,290	**18,709**	**171,910**
Other income (expenses):			
Interest and dividend income	903	**846**	**7,774**
Interest expense	(246)	**(249)**	**(2,288)**
Impairment loss (Note 9)	(1,623)	**—**	**—**
Other, net (Note 13)	5,992	**(5,151)**	**(47,331)**
	5,027	**(4,554)**	**(41,845)**
Income before income taxes	29,317	**14,154**	**130,056**
Income taxes (Note 22):			
Current	5,335	**2,646**	**24,313**
Deferred	3,791	**1,974**	**18,138**
Income (Note 28)	20,190	**9,534**	**87,605**
Profit attributable to non-controlling interests	223	**223**	**2,049**
Income attributable to shareholders of The Japan Steel Works, Ltd.	¥ 19,966	**¥ 9,310**	**$ 85,546**

See notes to consolidated financial statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

For the years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2020	2020
Income	¥20,190	**¥ 9,534**	**$ 87,605**
Other comprehensive income:			
Unrealized holding gain (loss) on securities	(3,978)	**(2,273)**	**(20,886)**
Unrealized gain (loss) from hedging instruments	(532)	**157**	**1,443**
Translation adjustments	(232)	**(122)**	**(1,121)**
Remeasurement of retirement benefit plans	(478)	**(927)**	**(8,518)**
Total other comprehensive income (Note 14)	(5,221)	**(3,166)**	**(29,091)**
Comprehensive income	¥14,968	**¥ 6,368**	**$ 58,513**
Total comprehensive income attributable to:			
Shareholders of The Japan Steel Works, Ltd.	¥14,768	**¥ 6,126**	**$ 56,290**
Non-controlling interests	¥ 200	**¥ 241**	**$ 2,214**

See notes to consolidated financial statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

For the years ended March 31, 2019 and 2020

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 15)	Total shareholders' equity	Unrealized holding gain (loss) on securities	Unrealized gain (loss) from hedging instruments	Translation adjustments	Remeasurement benefit plans adjustments (Note 21)	Total accumulated other comprehensive income	Non-controlling interest	Total net assets
Balance at April 1, 2018	¥19,694	¥5,467	¥ 86,256	¥(2,310)	¥109,107	¥ 7,269	¥ 305	¥ (21)	¥ 370	¥ 7,923	¥1,569	¥118,600
Changes during the year												
Issuance of new shares	22	22			44							44
Cash dividends paid			(3,307)		(3,307)							(3,307)
Income attributable to shareholders of The Japan Steel Works, Ltd.			19,966		19,966							19,966
Purchase of shares of consolidated subsidiaries		(127)			(127)							(127)
Purchases of treasury stock				(1)	(1)							(1)
Net changes in items other than those in shareholders' equity						(3,978)	(532)	(200)	(486)	(5,197)	(150)	(5,348)
Total changes during the year	22	(104)	16,659	(1)	16,575	(3,978)	(532)	(200)	(486)	(5,197)	(150)	11,227
Balance at March 31, 2019	¥19,716	¥5,362	¥102,915	¥(2,312)	¥125,682	¥ 3,290	¥(226)	¥(222)	¥ (115)	¥ 2,725	¥1,419	¥129,827
Balance at April 1, 2019	**¥19,716**	**¥5,362**	**¥102,915**	**¥(2,312)**	**¥125,682**	**¥ 3,290**	**¥(226)**	**¥(222)**	**¥ (115)**	**¥ 2,725**	**¥1,419**	**¥129,827**
Changes during the year												
Issuance of new shares	**20**	**20**			**41**							**41**
Cash dividends paid			**(4,227)**		**(4,227)**							**(4,227)**
Income attributable to shareholders of The Japan Steel Works, Ltd.			**9,310**		**9,310**							**9,310**
Purchases of treasury stock				**(0)**	**(0)**							**(0)**
Change in scope of consolidation		**0**	**454**		**455**							**455**
Net changes in items other than those in shareholders' equity					**—**	**(2,273)**	**157**	**(133)**	**(933)**	**(3,184)**	**269**	**(2,914)**
Total changes during the year	**20**	**21**	**5,538**	**(0)**	**5,579**	**(2,273)**	**157**	**(133)**	**(933)**	**(3,184)**	**269**	**2,665**
Balance at March 31, 2020	**¥19,737**	**¥5,383**	**¥108,454**	**¥(2,312)**	**¥131,262**	**¥ 1,017**	**¥ (69)**	**¥(356)**	**¥(1,049)**	**¥ (458)**	**¥1,688**	**¥132,492**

Thousands of U.S. dollars (Note 4)

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 15)	Total shareholders' equity	Unrealized holding gain (loss) on securities	Unrealized gain (loss) from hedging instruments	Translation adjustments	Remeasurement benefit plans adjustments (Note 21)	Total accumulated other comprehensive income	Non-controlling interest	Total net assets
Balance at April 1, 2019	**$181,163**	**$49,270**	**$945,649**	**$(21,244)**	**$1,154,847**	**$ 30,231**	**$(2,077)**	**$(2,040)**	**$(1,057)**	**$ 25,039**	**$13,039**	**$1,192,934**
Changes during the year												
Issuance of new shares	**184**	**184**			**377**							**377**
Cash dividends paid			**(38,840)**		**(38,840)**							**(38,840)**
Income attributable to shareholders of The Japan Steel Works, Ltd.			**85,546**		**85,546**							**85,546**
Purchases of treasury stock				**(0)**	**(0)**							**(0)**
Change in scope of consolidation		**0**	**4,172**		**4,181**							**4,181**
Net changes in items other than those in shareholders' equity					**—**	**(20,886)**	**1,443**	**(1,222)**	**(8,573)**	**(29,257)**	**2,472**	**(26,776)**
Total changes during the year	**184**	**193**	**50,887**	**(0)**	**51,263**	**(20,886)**	**1,443**	**(1,222)**	**(8,573)**	**(29,257)**	**2,472**	**24,488**
Balance at March 31, 2020	**$181,356**	**$49,462**	**$996,545**	**$(21,244)**	**$1,206,120**	**$ 9,345**	**$ (634)**	**$(3,271)**	**$(9,639)**	**$ (4,208)**	**$15,510**	**$1,217,422**

See notes to consolidated financial statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

For the years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	**2020**	**2020**
Operating activities			
Income before income taxes	¥ 29,317	**¥ 14,154**	**$ 130,056**
Depreciation and amortization	4,639	**6,017**	**55,288**
Impairment loss	1,623	**—**	**—**
Interest and dividend income	(903)	**(846)**	**(7,774)**
Interest expense	246	**249**	**2,288**
Equity in losses (gains) of affiliates	(89)	**3**	**28**
(Gain) loss on valuation of investment securities	51	**3,589**	**32,978**
(Gain) loss on sales of investment securities	(263)	**990**	**9,097**
Loss on disposal of tangible and intangible assets	228	**483**	**4,438**
Gain on sales of property, plant and equipment and intangible assets	(3,900)	**(1,295)**	**(11,899)**
Gain on bargain purchase	—	**(361)**	**(3,317)**
Loss (gain) on step acquisitions	—	**95**	**873**
Decrease/increase in consumption taxes receivable/payable	(443)	**(484)**	**(4,447)**
Decrease in provision for loss on wind power generator business	(1,478)	**(465)**	**(4,273)**
Increase (decrease) in provision for business restructure	(1,093)	**300**	**2,757**
Changes in operating assets and liabilities:			
Trade assets (Note 18)	(13,217)	**15,059**	**138,372**
Trade liabilities	(1,155)	**(10,436)**	**(95,893)**
Inventories (Note 5)	(7,618)	**(1,865)**	**(17,137)**
Other	1,143	**(695)**	**(6,386)**
Subtotal	4,797	**24,493**	**225,057**
Interest and dividends received	893	**843**	**7,746**
Interest paid	(265)	**(275)**	**(2,527)**
Income taxes paid	(4,334)	**(6,102)**	**(56,069)**
Net cash provided by operating activities	1,092	**18,959**	**174,207**
Investing activities			
Investments into time deposits	(56)	**(533)**	**(4,898)**
Proceeds from withdrawal of time deposits	544	**193**	**1,773**
Increase in tangible and intangible assets	(7,347)	**(12,824)**	**(117,835)**
Decrease in tangible and intangible assets	6,057	**1,650**	**15,161**
Proceeds from sale of investment securities	272	**1,763**	**16,200**
Purchases of investment securities	(43)	**(2,016)**	**(18,524)**
Reimbursement of long-term deposits on contracts	(177)	**(628)**	**(5,770)**
Collection of long-term loans receivable	10	**10**	**92**
Payments for investments in capital of subsidiaries and associates	—	**(384)**	**(3,528)**
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	**240**	**2,205**
Payments for purchase of shares of subsidiaries resulting in change in scope of consolidation	—	**(896)**	**(8,233)**
Purchase of investments in subsidiaries	(497)	**—**	**—**
Other	(97)	**253**	**2,325**
Net cash used in investing activities	(1,334)	**(13,172)**	**(121,033)**
Financing activities (Notes 11 and 18)			
Net increase (decrease) in short-term borrowings	83	**(2,140)**	**(19,664)**
Increase in long-term debt	250	**1,200**	**11,026**
Decrease in long-term debt	(242)	**(315)**	**(2,894)**
Cash dividends paid	(3,307)	**(4,227)**	**(38,840)**
Acquisition of treasury stock	(1)	**(0)**	**(0)**
Repayments of finance lease obligations	(550)	**(737)**	**(6,772)**
Proceeds from share issuance to non-controlling shareholders	—	**49**	**450**
Other	9	**7**	**64**
Net cash provided by (used in) financing activities	(3,758)	**(6,164)**	**(56,639)**
Effect of exchange rate changes on cash and cash equivalents	(58)	**(65)**	**(597)**
(Decrease) increase in cash and cash equivalents	(4,059)	**(443)**	**(4,071)**
Cash and cash equivalents at beginning of the year	77,879	**73,820**	**678,306**
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	**1,100**	**10,108**
Cash and cash equivalents at end of the year (Notes 16 and 18)	¥ 73,820	**¥ 74,477**	**$ 684,343**

See notes to consolidated financial statements.

The Japan Steel Works, Ltd. and Consolidated Subsidiaries

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, 2020, the numbers of consolidated subsidiaries, and subsidiaries and affiliates accounted for by the equity method were 36 and 2 (31 and 2 in 2019), respectively. Nikko Information Systems Co., Ltd., which was a consolidated subsidiary in the previous consolidated fiscal year, has been merged with the Company, and as a result, the company has been excluded from consolidated subsidiaries from this consolidated fiscal year. Since the Company acquired additional shares of GM Engineering Co., Ltd., which was an affiliate accounted for by the equity method in the previous consolidated fiscal year, the company has been included as a consolidated subsidiary from the current consolidated fiscal year. JSW Plastics Machinery (Shenzhen) Co., Ltd., JSW Machinery Trading (Shanghai) Co., Ltd., and JSW Machinery (Ningbo) Co., Ltd., which were non-consolidated subsidiaries in the previous consolidated fiscal year, have been included in the consolidation as consolidated subsidiaries due to materiality. Muroran Copper Alloy Co., Ltd. was newly established in the current consolidated fiscal year and has been included in consolidated subsidiaries. The Company acquired all shares of Nichiyu Machinery Co., Ltd. in the current consolidated fiscal year and has been included in the consolidated subsidiaries.

Certain foreign subsidiaries are consolidated on the basis of fiscal years 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 Non-controlling 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 Non-controlling 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

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) Provision for business restructuring
The Company provides a provision for the anticipated losses on wind power generators sold in previous years in order to restructure the wind power generator business.

(k) Property, plant and equipment and depreciation
Depreciation of property, plant and equipment is calculated by the declining-balance method based on the estimated useful lives and the residual value determined by the Company, except for certain buildings which are depreciated by the straight-line method.

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to profit. The estimate useful lives of the assets are as follows:

Buildings and structures:	6 to 65 years
Machinery, equipment and vehicles:	3 to 20 years

(l) Intangible fixed assets
Amortization of intangible fixed assets is calculated using the straight-line method.

Software products for internal use are amortized mainly over the estimated useful lives of five years.

(m) 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.

(n) 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.

(o) 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.

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

(q) 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.

(r) 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.

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

(t) 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 year.

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

(v) Standards issued but not yet effective
Accounting Standard and Implementation Guidance on Revenue Recognition
On March 30, 2018, The Accounting Standards Board of Japan (ASBJ) issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview
This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:
1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when(or as)the entity satisfies a performance obligation

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of adoption of accounting standard and implementation guidance
The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

Accounting Standards for Fair Value Measurement and Implementation Guidance
Accounting Standards for Financial Instruments
Implementation guidance on disclosures about Fair Value of Financial Instruments Accounting Standard for Measurement of Inventories (Corporate Accounting Standard No. 9)
On July 4, 2019, the ASBJ issued "Accounting Standards for Fair Value Measurement" (ASBJ Statement No. 30), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31), Accounting Standards for Financial Instruments (ASBJ Statement No. 10), and Implementation guidance on disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9)

(1) Overview
This is accounting standards for Fair Value Measurement and Implementation Guidance for applying accounting standards for Fair Value Measurement (hereinafter referred to as "market price accounting standards") have been developed. Accounting standards for Fair Value Measurement are applied to the market prices of the following items.
・Financial instruments in "Accounting Standards for Financial Instruments" and "Implementation guidance on disclosures about Fair Value of Financial Instruments" have been revised to stipulate notes such as a breakdown of the fair value of financial instruments by level.

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of the accounting standard and implementation guidance.
The Company is currently evaluating the effect of the adoption of the accounting standard and implementation guidance on its consolidated financial statements.

Accounting Standard for Disclosure of Accounting Estimates
On March 31, 2020, the ASBJ issued Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31)

(1) Overview
This accounting standard has been released to provide guidance on disclosure of information that deepens the understanding of users of the financial statements about estimates that embody a risk of a significant impact on the financial statements of the following accounting period.

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard from the of the fiscal year ending March 31, 2021.

Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections
On March 31, 2020, the ASBJ issued "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24)

(1) Overview
This accounting standard has been released to provide an outline of the applicable accounting principles and procedures in cases where directly relevant accounting standards are not available.

(2) Scheduled date of application
The Company expects to adopt the accounting standard from the ending of the fiscal year ending March 31, 2021.

3. Accounting Changes

[Disclosure for the year ended March 31, 2020]

(a) Consolidated cash flow statement

The amount of "Decrease/increase in consumption taxes receivable/payable", which was displayed in "Other" of "Cash flow from operating activities" in the previous consolidated fiscal year, has been separately reported in the current consolidated fiscal year due to increase in its materiality.

"Increase (decrease) in provision for warranties for completed construction," and "Increase (decrease) in provision for loss on construction contracts" which were included in the Operating activities section of the statement of cashflows, along with "Collection of long-terms receivable" and "Payments for asset retirement obligations" which were included in the Investing activities section of the statement of cashflows were reclassified into "Others" within their respective sections due to its less significance in materiality.

The consolidated financial statements for the previous consolidated fiscal year have been reclassified to reflect this change in presentation method.

As a result, in the cash flow statement for the previous consolidated fiscal year, "Increase (decrease) in provision for warranties for completed construction" of "Cash flow from operating activities" ¥(1,409) million, "Increase (decrease) in provision for loss on construction contracts" ¥(553) million and "Other" ¥376 million have been reclassified as "Decrease/increase in consumption taxes receivable/payable " of ¥(443) million and "Other" of ¥(1,143) million. In "Cash flow from investing activities," "Collection of long-term loans receivable" of ¥(50) million, "Payments for asset retirement obligations" of ¥(71) million, and "others" of ¥25 million are "others". It has been reclassified as ¥(97) million.

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 ¥108.83 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2020. 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, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Finished products	¥ 2,767	**¥ 3,792**	**$ 34,843**
Work in process	61,004	**62,927**	**578,214**
Raw materials and supplies	5,675	**5,643**	**51,852**
Total	¥69,447	**¥72,364**	**$664,927**

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 ¥223 million ($2,049 thousand) at March 31, 2020 and ¥852 million at March 31, 2019.

6. Assets Pledged as Collateral

The assets pledged as collateral for derivative transactions etc., at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Time deposit	¥99	**¥194**	**$1,783**

Note: The assets posted for derivative transactions were 99 million yen on March 31, 2019 and 94 million yen on March 31, 2020, and there are no corresponding liabilities as of the end of the current consolidated fiscal year.

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, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Accumulated advanced depreciation expense	¥1,455	**¥1,445**	**$13,278**

8. Notes Receivable and Notes Payable Maturing at Fiscal Year-End

Although March 31, 2019 was a bank holiday, notes maturing on that date were accounted for as if they were settled on their maturity date. The corresponding amounts of notes receivable and notes payable maturing on March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Trade notes and accounts receivable	¥ 435	**¥—**	**$—**
Trade notes and accounts payable	¥1,836	**¥—**	**$—**
Other current liabilities	¥ 941	**¥—**	**$—**
Endorsed trade notes receivable	¥ 1	**¥—**	**$—**

9. Impairment Loss

Current fiscal year (From April 1, 2019 to March 31, 2020)

Not applicable

Prior fiscal year (From April 1, 2018 to March 31, 2019)

The Company and its consolidated subsidiaries (hereinafter collectively known as the "Group") recorded an impairment loss on the following groups of assets in the prior fiscal year:

Use	Asset type	Location
Property for rent	Land	Fuchu, Tokyo
Other Businesses: Business assets at investee subsidiary	Machinery, equipment and vehicles, etc.	Muroran, Hokkaido and Guangdong, China

(1) Grouping of assets

The Group determine whether to recognize an impairment loss and measure the loss by grouping assets based on the smallest units used in management accounting that generate cash flows which are largely independent and whose revenue and expenditures are identified on an ongoing basis. Property for rent is grouped by the individual properties. However, the Group determines whether to recognize impairment and measures the impairment on an individual asset basis if the asset is idle and not expected to be used in the future.

(2) Circumstances that led to the recognition of the impairment loss

Carrying amounts of non-current assets were reduced to recoverable amounts and the reduced amounts were recognized in extraordinary losses as impairment loss because investment amounts were no longer expected to be recovered due to a decrease in profitability.

Breakdown of the impairment loss is as follows:

Machinery, equipment and vehicles	¥ 19 million
Land	1,597
Other	6
Total	¥1,623

(3) Calculation method for recoverable amounts

The property for lease is measured by the net selling price and is evaluated by the real estate appraisal value. For business-use assets, the recoverable value is measured based on the value in use, and is assessed based on the memorandum value.

10. Contingent Liabilities

Contingent liabilities at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
As endorsers of trade notes receivable:			
Endorsed to other	¥ 68	**¥ 49**	**$ 450**
As guarantors of loans:			
Muroran Environmental Plant Service Co., Ltd.	243	**193**	**1,773**
Gotsu Wind Power Co., Ltd	720	**586**	**5,385**
Employees and other	4	**1**	**9**

11. Short-Term Borrowings and Long-Term Debt

All short-term borrowings, with interest at annual rates ranging from 0.2690% to 0.9900% at March 31, 2020 and 0.2690% to 1.4750% at March 31, 2019, were unsecured.

Long-term debt at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Loans from banks and insurance companies with interest at annual rates ranging from 0.1600% to 0.7450%	¥39,408	**¥40,847**	**$375,328**
Less those maturing within one year	(199)	**(5,155)**	**(47,367)**
Lease obligations	1,292	**1,168**	**10,732**
Less those maturing within one year	(496)	**(434)**	**(3,988)**
Long-term indebtedness reflected in the consolidated balance sheets	¥40,004	**¥42,016**	**$386,070**

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2020 are summarized as follows:

	Long-term loans		Lease obligations	
Year ending March 31,	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2021	¥ 5,155	$ 47,367	¥434	$3,988
2022	1,950	17,918	329	3,023
2023	15,889	145,998	224	2,058
2024	2,398	22,034	133	1,222
2025	4,689	43,086	41	377
2026 and thereafter	10,765	98,916	5	46

12. Research and Development Expenses

Research and development expenses included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Research and development expenses	¥4,506	**¥4,708**	**$43,260**

13. Other Income (Expenses)—Other, Net

The details of "Other, net" in "Other income (expenses)" for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Foreign exchange gain (loss)	¥ 38	**¥ (173)**	**$ (1,590)**
Equity in gains (losses) of affiliates	89	**(3)**	**(28)**
Gain on sales of property, plant and equipment	3,933	**1,296**	**11,908**
Gain on sales of investment securities	263	**379**	**3,482**
Rent income on non-current assets	786	**757**	**6,956**
Cancellation fee received	1,186	**6**	**55**
Loss on sales or disposal of property, plant and equipment	(260)	**(484)**	**(4,447)**
Loss on valuation of investment securities	(51)	**(3,589)**	**(32,978)**
Loss on sales of investment securities	—	**(1,369)**	**(12,579)**
Provision for business restructuring	(711)	**(2,244)**	**(20,619)**
Other, net	717	**276**	**2,536**
Total	¥5,992	**¥(5,151)**	**$(47,331)**

14. 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, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥(5,750)	**¥(7,837)**	**$(72,011)**
Reclassification adjustments for gains and losses realized in net income	51	**4,578**	**42,066**
The amount of unrealized holding gain (loss) on securities before tax effect	(5,699)	**(3,258)**	**(29,937)**
Tax effect	1,720	**985**	**9,051**
Unrealized holding gain (loss) on securities	(3,978)	**(2,273)**	**(20,886)**
Unrealized gain (loss) from hedging instruments:			
Amount arising during the year	(765)	**226**	**2,077**
Tax effect	233	**(68)**	**(625)**
Unrealized gain (loss) from hedging instruments	(532)	**157**	**1,443**
Translation adjustments:			
Amount arising during the year	(232)	**(122)**	**(1,121)**
Translation adjustments	(232)	**(122)**	**(1,121)**
Remeasurement benefits plans adjustments:			
Amount arising during the year	(951)	**(1,228)**	**(11,284)**
Reclassification adjustments for gains and losses realized in net income	261	**(132)**	**(1,213)**
The amount of unrealized holding gain (loss) on securities before tax effect	(689)	**(1,361)**	**(12,506)**
Tax effect	210	**434**	**3,988**
Remeasurement benefits plans adjustments	(478)	**(927)**	**(8,518)**
Total other comprehensive income	¥(5,221)	**¥(3,166)**	**$(29,091)**

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

Year ended March 31, 2020

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

	Number of shares			
	Year ended March 31, 2019	Increase during the year	Decrease during the year	Year ended March 31, 2020
Shares issued:				
Common stock	**74,309,108**	**23,248**	**—**	**74,332,356**
Treasury stock:				
Common stock (Notes 1 and 2)	**803,082**	**257**	**—**	**803,339**

Notes: 1. The increase in shares issued – common stock of 23,248 was due to issuance of new shares as restricted stock.
2. The increase in treasury stock – common stock of 257 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 21, 2019
Type of shares: Common stock
Total amount of dividends: ¥2,205 million ($20,261 thousand)
Dividends per share: ¥30.0 ($0.276)
Cut-off date: March 31, 2019
Effective date: June 24, 2019

② Resolution: Meeting of Board of Directors held on November 11, 2019
Type of shares: Common stock
Total amount of dividends: ¥2,022 million ($18,579 thousand)
Dividends per share: ¥27.5 ($0.253)
Cut-off date: September 30, 2019
Effective date: December 11, 2019

(ii) Dividends of which the cut-off date was in the year ended March 31, 2020, but the effective date is in the following fiscal year

Resolution: Annual general meeting of shareholders held on June 24, 2020
Type of shares: Common stock
Total amount of dividends: ¥1,286 million ($11,817 thousand)
Dividends per share: ¥17.5 ($0.161)
Cut-off date: March 31, 2020
Effective date: June 25, 2020
Source of dividends: Retained earnings

Year ended March 31, 2019

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

	Number of shares			
	Year ended March 31, 2018	Increase during the year	Decrease during the year	Year ended March 31, 2019
Shares issued:				
Common stock	74,292,607	16,501	—	74,309,108
Treasury stock:				
Common stock (Notes 1 and 2)	802,503	579	—	803,082

Notes: 1. The increase in shares issued – common stock of 16,501 was due to issuance of new shares as restricted stock.
2. The increase in treasury stock – common stock of 579 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 26, 2018
Type of shares: Common stock
Total amount of dividends: ¥1,469 million
Dividends per share: ¥20.0
Cut-off date: March 31, 2018
Effective date: June 27, 2018

Note: Dividends per share include ¥2.5 of commemorative 110th anniversary dividend.

② Resolution: Meeting of Board of Directors held on November 5, 2018
Type of shares: Common stock
Total amount of dividends: ¥1,837 million
Dividends per share: ¥25.0
Cut-off date: September 30, 2018
Effective date: December 5, 2018

(ii) Dividends of which the cut-off date was in the year ended March 31, 2019, but the effective date is in the following fiscal year

Resolution: Annual general meeting of shareholders held on June 21, 2019
Type of shares: Common stock
Total amount of dividends: ¥2,205 million
Dividends per share: ¥30.0
Cut-off date: March 31, 2019
Effective date: June 24, 2019
Source of dividends: Retained earnings

16. 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, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Cash on hand and in banks in the consolidated balance sheet	¥74,304	**¥75,525**	**$693,972**
Other current assets	283	**199**	**1,829**
Time deposits with maturities of more than three months	(768)	**(1,247)**	**(11,458)**
Cash and cash equivalents in the consolidated statement of cash flows	¥73,820	**¥74,477**	**$684,343**

(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, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Lease assets	¥557	**¥385**	**$3,538**
Lease obligations	601	**604**	**5,550**

17. Leases

Year ended March 31, 2020

Future minimum lease payments subsequent to March 31, 2020 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2021	**¥118**	**$1,084**
2022 and thereafter	**121**	**1,112**
Total	**¥239**	**$2,196**

Year ended March 31, 2019

Future minimum lease payments subsequent to March 31, 2019 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen
2020	¥110
2021 and thereafter	179
Total	¥289

18. Financial Instruments

Overview

(a) Policy for financial instruments

In consideration of plans for operations and capital investment, the Group utilizes 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 are used to raise funds mainly in connection with capital investments. The repayment dates of the long-term debts extend up to nine years from the balance sheet date. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk and foreign currency exchange 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 and interest-rate currency swaps 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 and interest-rate currency swaps 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 and interest-rate currency swaps.

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 20 Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair Value of Financial Instruments

Carrying values and estimated fair values of financial instruments on the consolidated balance sheets as of March 31, 2020 and 2019 are shown in the following tables. The following tables do 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, 2020

	Millions of yen		
	Carrying amount	**Estimated fair value**	**Difference**
Assets			
Cash on hand and in banks	**¥ 75,525**	**¥ 75,525**	**¥ —**
Trade notes and accounts receivable	**51,297**	**51,296**	**(0)**
Securities:			
Other securities	**19,268**	**19,268**	**—**
Total assets	**¥146,091**	**¥146,090**	**¥ (0)**
Liabilities			
Trade notes and accounts payable	**¥ 48,409**	**¥ 48,409**	**¥ —**
Short-term borrowings	**10,048**	**10,048**	**—**
Current portion of long-term debt	**5,155**	**5,155**	**(0)**
Long-term debt	**35,691**	**36,142**	**450**
Total liabilities	**¥ 99,305**	**¥ 99,756**	**¥450**
Derivatives (*)	**¥ (98)**	**¥ (98)**	**—**

	Thousands of U.S. dollars		
	Carrying amount	**Estimated fair value**	**Difference**
Assets			
Cash on hand and in banks	**$ 693,972**	**$ 693,972**	**$ —**
Trade notes and accounts receivable	**471,350**	**471,341**	**(0)**
Securities:			
Other securities	**177,047**	**177,047**	**—**
Total assets	**$1,342,378**	**$1,342,369**	**$ (0)**
Liabilities			
Trade notes and accounts payable	**$ 444,813**	**$ 444,813**	**$ —**
Short-term borrowings	**92,327**	**92,327**	**—**
Current portion of long-term debt	**47,367**	**47,367**	**(0)**
Long-term debt	**327,952**	**332,096**	**4,135**
Total liabilities	**$ 912,478**	**$ 916,622**	**$4,135**
Derivatives (*)	**$ (900)**	**$ (900)**	**—**

(*) 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, 2019

	Carrying amount	Estimated fair value	Difference
			Millions of yen
Assets			
Cash on hand and in banks	¥ 74,304	¥ 74,304	¥ —
Trade notes and accounts receivable	64,921	64,921	(0)
Securities:			
Other securities	26,852	26,852	—
Total assets	¥166,078	¥166,077	¥ (0)
Liabilities			
Trade notes and accounts payable	¥ 55,579	¥ 55,579	¥ —
Short-term borrowings	12,088	12,088	—
Current portion of long-term debt	199	199	0
Long-term debt	39,208	39,723	514
Total liabilities	¥107,076	¥107,590	¥514
Derivatives (*)	¥ (326)	¥ (326)	—

(*) 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 and long-term debt
The fair values are calculated by applying a discount rate, based on the assumed interest rate if 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 or the integral treatment of interest rate currency 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 20 Derivative Transactions, of the notes to the consolidated financial statements.

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

	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Unlisted stocks	¥2,226	¥2,027	$18,625

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, 2020 and 2019

Year ended March 31, 2020

	Due in one year or less	Due after one year through five years	Due after five years
			Millions of yen
Cash on hand and in banks	¥ 75,525	¥ —	—
Trade notes and accounts receivable	50,905	391	—
Total	¥126,431	¥391	—

	Due in one year or less	Due after one year through five years	Due after five years
			Thousands of U.S. dollars
Cash on hand and in banks	$ 693,972	$ —	—
Trade notes and accounts receivable	467,748	3,593	—
Total	$1,161,729	$3,593	—

Year ended March 31, 2019

	Due in one year or less	Due after one year through five years	Due after five years
			Millions of yen
Cash on hand and in banks	¥ 74,304	¥ —	—
Trade notes and accounts receivable	64,593	327	—
Total	¥138,898	¥327	—

(iv) The redemption schedule for long-term debt

Year ended March 31, 2020

	Long-term loans	Lease obligations
		Millions of yen
Due in 1 year or less	¥ 5,155	¥434
Due after 1 year through 2 years	1,950	329
Due after 2 years through 3 years	15,889	224
Due after 3 years through 4 years	2,398	133
Due after 4 years through 5 years	4,689	41
Due after 5 years	10,765	5

	Long-term loans	Lease obligations
		Thousands of U.S. dollars
Due in 1 year or less	$ 47,367	$3,988
Due after 1 year through 2 years	17,918	3,023
Due after 2 years through 3 years	145,998	2,058
Due after 3 years through 4 years	22,034	1,222
Due after 4 years through 5 years	43,086	377
Due after 5 years	98,916	46

Year ended March 31, 2019

	Long-term loans	Lease obligations
		Millions of yen
Due in 1 year or less	¥ 199	¥496
Due after 1 year through 2 years	5,000	346
Due after 2 years through 3 years	1,800	234
Due after 3 years through 4 years	15,700	148
Due after 4 years through 5 years	2,208	63
Due after 5 years	14,500	2

19. Securities

(a) Other securities

March 31, 2020

	Acquisition cost	Carrying amount	Unrealized gain (loss)
			Millions of yen
Carrying amount exceeding the acquisition cost:			
Stocks	¥ 7,413	¥11,596	¥ 4,182
Carrying amount not exceeding the acquisition cost:			
Stocks	10,389	7,672	(2,716)
Total	¥17,802	¥19,268	¥ 1,466

	Acquisition cost	Carrying amount	Unrealized gain (loss)
			Thousands of U.S. dollars
Carrying amount exceeding the acquisition cost:			
Stocks	$68,115	$106,552	$ 38,427
Carrying amount not exceeding the acquisition cost:			
Stocks	95,461	70,495	(24,956)
Total	$163,576	$177,047	$ 13,471

March 31, 2019

	Acquisition cost	Carrying amount	Unrealized gain (loss)
			Millions of yen
Carrying amount exceeding the acquisition cost:			
Stocks	¥14,079	¥21,598	¥ 7,519
Carrying amount not exceeding the acquisition cost:			
Stocks	8,041	5,253	(2,787)
Total	¥22,120	¥26,852	¥ 4,731

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.

(b) Impairment of investment securities

For the year ended March 31, 2019	2019	2020	2020
	Millions of yen		Thousands of U.S. dollars
Other securities			
Stock	¥51	¥3,589	$32,978

20. Derivative Transactions

(a) Derivatives not subject to hedge accounting

Year ended March 31, 2020
None applicable

Year ended March 31, 2019
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, 2020

Millions of yen

Hedge accounting method	Type of derivative		Principal items hedged	Contract amount	Over one year	Fair value
Allocation method	Foreign exchange forward contracts		Accounts receivable			
	Sell:	U.S. dollars		**¥14,045**	**¥589**	**¥(100)**
		Euros		**2,534**	**716**	**29**
		Canadian dollars		**15**	**—**	**1**
		JPY		**28**	**—**	**1**
		Thai baht		**57**	**—**	**(0)**
		Chinese Yuan		**1**	**—**	**0**
	Foreign exchange forward contracts		Accounts payable			
	Buy:	U.S. dollars		**¥ 2,052**	**¥ —**	**¥ 14**
		Euros		**2,321**	**218**	**(43)**

Thousands of U.S. dollars

Hedge accounting method	Type of derivative		Principal items hedged	Contract amount	Over one year	Fair value
Allocation method	Foreign exchange forward contracts		Accounts receivable			
	Sell:	U.S. dollars		**$129,054**	**$5,412**	**$(919)**
		Euros		**23,284**	**6,579**	**266**
		Canadian dollars		**138**	**—**	**9**
		JPY		**257**	**—**	**9**
		Thai baht		**524**	**—**	**(0)**
		Chinese Yuan		**9**	**—**	**0**
	Foreign exchange forward contracts		Accounts payable			
	Buy:	U.S. dollars		**$ 18,855**	**$ —**	**$ 129**
		Euros		**21,327**	**2,003**	**(395)**

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

Year ended March 31, 2019

Millions of yen

Hedge accounting method	Type of derivative		Principal items hedged	Contract amount	Over one year	Fair value
Allocation method	Foreign exchange forward contracts		Accounts receivable			
	Sell:	U.S. dollars		¥17,161	¥2,670	¥(266)
		Euros		1,557	131	30
		JPY		41	—	(0)
	Foreign exchange forward contracts		Accounts payable			
	Buy:	U.S. dollars		¥ 853	¥ —	¥ 8
		Euros		2,661	682	(84)
		Sterling pound		124	—	(14)

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

(ii) Interest-related transactions

Year ended March 31, 2020

Millions of yen

Hedge accounting method	Type of derivative	Principal items hedged	Contract amount	Over one year	Fair value
Special treatment for interest rate swaps	Receive/floating and pay/fixed	Long-term borrowings	**¥25,000**	**¥25,000**	**(*)**
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)	Receivable USD and floating rate/ payable JPY and fixed rate	Long-term borrowings	**708**	**708**	**(*)**

Thousands of U.S. dollars

Hedge accounting method	Type of derivative	Principal items hedged	Contract amount	Over one year	Fair value
Special treatment for interest rate swaps	Receive/floating and pay/fixed	Long-term borrowings	**$229,716**	**$229,716**	**(*)**
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)	Receivable USD and floating rate/ payable JPY and fixed rate	Long-term borrowings	**6,506**	**6,506**	**(*)**

(*) Interest rate swaps subject to the special treatment for interest rate swaps and interest rate currency swaps subject to integral treatment for interest rate currency swaps are accounted for together with the long-term debt, accordingly the fair value of the interest rate swaps is included in the fair value of the corresponding long-term debt.

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

Year ended March 31, 2019

Hedge accounting method	Type of derivative	Principal items hedged	Contract amount	Over one year	Fair value
					Millions of yen
Special treatment for interest rate swaps	Receive/floating and pay/fixed	Long-term borrowings	¥25,000	¥25,000	(*)
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)	Receivable USD and floating rate/ payable JPY and fixed rate	Long-term borrowings	708	708	(*)

(*) Interest rate swaps subject to the special treatment for interest rate swaps and interest rate currency swaps subject to integral treatment for interest rate currency swaps are accounted for together with the long-term debt, accordingly the fair value of the interest rate swaps is included in the fair value of the corresponding long-term debt.

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

21. 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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at the beginning of the year	¥19,792	¥20,031	$184,058
Service cost	996	1,110	10,199
Interest cost	112	97	891
Actuarial gain and loss	438	60	551
Retirement benefit paid	(1,328)	(947)	(8,702)
Prior service cost	20	—	—
Increase by merger	—	404	3,712
Other	—	8	74
Balance at the end of the year	¥20,031	¥20,764	$190,793

The changes in plan assets for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at the beginning of the year	¥15,517	¥14,924	$137,131
Expected return on plan assets	310	298	2,738
Actuarial gain and loss	(493)	(1,168)	(10,732)
Contributions by the Company	475	562	5,164
Retirement benefits paid	(885)	(659)	(6,055)
Balance at the end the year	¥14,924	¥13,956	$128,237

The changes in retirement benefit liability accounted for using the simplified method for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at the beginning of the year	¥3,034	¥3,012	$27,676
Retirement benefit expenses	642	589	5,412
Retirement benefits paid	(473)	(390)	(3,584)
Contributions	(191)	(192)	(1,764)
Transfer amount due to change from Simplified method to principle method	—	(247)	(2,270)
Contributions	—	6	55
Balance at the end the year	¥3,012	¥2,776	$25,508

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2020 and 2019 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Funded retirement benefit obligation	¥ 19,804	¥ 20,559	$ 178,430
Plan assets at the value	(16,180)	(15,215)	(145,779)
	3,623	5,343	32,643
Unfunded retirement benefit obligation	4,496	4,239	40,508
Net liability for retirement benefits in the balance sheet	8,119	9,583	88,055
Retirement benefit liability	10,494	11,172	102,656
Retirement benefit assets	(2,374)	(1,588)	(14,592)
Net liability for retirement benefits in the balance sheet	¥ 8,119	¥ 9,583	$ 88,055

The components of retirement benefit expense for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Service cost	¥ 996	¥1,110	$10,199
Interest cost	112	97	891
Expected return on plan assets	(310)	(298)	(2,738)
Amortization of actuarial gain and loss	261	(134)	(1,231)
Amortization of prior service cost	2	2	18
Simplified method for retirement benefit expenses	642	589	5,412
Transfer amount due to change from Simplified method to principle method	—	156	1,433
Other	42	2	18
Retirement benefit expense	¥1,747	¥1,524	$14,003

The components of retirement benefits plans adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Prior service costs	¥ (18)	¥ 2	$ 18
Actuarial gain and loss	(670)	(1,363)	(12,524)
Total	¥(689)	¥(1,361)	$(12,506)

The components of retirement benefits plans adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unrecognized prior service costs	¥ (18)	¥ (16)	$ (147)
Unrecognized actuarial gain and loss	(138)	(1,501)	(13,792)
Total	¥(157)	¥(1,518)	$(13,948)

The fair value of plan assets, by major category, as a percentage of total plan as of March 31, 2020 and 2019 is as follows:

March 31,	2019	2020
Bonds	30%	33%
Stocks	44	40
Cash on hand and in banks	0	0
General account	17	18
Other	9	9
Total	100%	100%

Retirement benefit trust set for the lump-sum and corporate pension plans accounts for 17% and 20% of the total plan assets, for the years ended March 31, 2020 and 2019, 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,	2019	2020
Discount rates	0.51%	0.58%
Expected rates of return on plan assets	2.00	2.00

Contributions made to defined contribution plans for the years ended March 31, 2020 and 2019 were ¥56 million ($515 thousand) and ¥64 million, respectively.

22. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Deferred tax assets:			
Accrued enterprise taxes	¥ 245	¥ 61	$ 561
Accrued bonuses	1,105	1,109	10,190
Depreciation	890	881	8,095
Amortization of long-term prepaid expenses	105	105	965
Loss on revaluation of inventory items	1,216	692	6,359
Loss on revaluation of financial instruments	184	184	1,691
Impairment loss	12,383	11,029	101,342
Retirement benefit liability	4,468	4,821	44,298
Provision for warranties for completed construction	137	61	561
Provision for loss on construction contracts	86	168	1,544
Provision for loss on wind power generator business	575	433	3,979
Provision for business restructuring	1,615	1,706	15,676
Less allowance for doubtful accounts	131	149	1,369
Asset retirement obligations	397	397	3,648
Percentage-of-completion method	280	423	3,887
Tax loss carry forwards	1,630	1,473	13,535
Unrealized loss on investment securities	849	814	7,480
Deferred loss on hedges	120	56	515
Unrealized gain on intercompany transactions	624	542	4,980
Other	1,113	1,063	9,768
Gross deferred tax assets	28,163	26,178	240,540
Valuation allowance for tax loss carryforwards	(1,465)	(1,461)	(13,425)
Valuation allowance for the total of future deductible temporary differences etc.	(2,584)	(2,517)	(23,128)
Total valuation allowance	(4,049)	(3,978)	(36,552)
Total deferred tax assets	24,113	22,199	203,979
Deferred tax liabilities:			
Reserve for advanced depreciation	2,051	1,828	16,797
Net defined benefit asset	712	530	4,870
Disposal cost with asset retirement obligations	230	230	2,113
Unrealized gain on investment securities	2,296	1,276	11,725
Deferred gain on hedges	20	26	239
Other	326	387	3,556
Total deferred tax liabilities	5,637	4,280	39,327
Net deferred tax assets	¥18,475	¥17,919	$164,651

Tax loss carry forward and its deferred tax asset carry forward due date at March 31, 2020 and 2019 were as follows:

Year ended March 31, 2020

	Millions of yen		
	Tax loss carry forwards	Valuation allowance	Deferred tax assets
Due in 1 year or less	¥ —	¥ —	¥—
Due after 1 year through 2 years	28	(28)	—
Due after 2 years through 3 years	329	(329)	—
Due after 3 years through 4 years	464	(464)	—
Due after 4 years through 5 years	208	(208)	—
Due after 5 years	443	(431)	12
Total	¥1,473	¥(1,461)	¥12

	Thousands of U.S. dollars		
	Tax loss carry forwards	Valuation allowance	Deferred tax assets
Due in 1 year or less	$ —	$ —	$ —
Due after 1 year through 2 years	257	(257)	—
Due after 2 years through 3 years	3,023	(3,023)	—
Due after 3 years through 4 years	4,264	(4,264)	—
Due after 4 years through 5 years	1,911	(1,911)	—
Due after 5 years	4,071	(3,960)	110
Total	$13,535	$(13,425)	$110

Year ended March 31, 2019

	Millions of yen		
	Tax loss carry forwards	Valuation allowance	Deferred tax assets
Due in 1 year or less	¥ 234	¥ (74)	¥159
Due after 1 year through 2 years	—	—	—
Due after 2 years through 3 years	33	(33)	—
Due after 3 years through 4 years	358	(357)	0
Due after 4 years through 5 years	569	(569)	—
Due after 5 years	434	(430)	3
Total	¥1,630	¥(1,465)	¥164

Change in deferred tax assets and deferred tax liabilities due to reduction in corporate income tax rate

	2019	2020
Statutory tax rates	Notes are omitted because the difference between the statutory effective tax rate and the tax burden rate after application of tax effect accounting is less than 5% of the statutory effective tax rate.	30.5%
Effect of:		
Permanent differences (Expense)		1.0
Expired loss carryforwards		1.0
Other		0.1
Effective tax rates		32.6%

23. Business Combinations

1. Transactions under common control

(Nikko Information Systems Co., Ltd.)

Based on a resolution of the Board of Directors meeting held on January 29, 2019, the Company absorbed Nikko Information Systems Co., Ltd. On April 1, 2019.

(1) Transaction overview

(a) The names and business details of the company subject to business combination

Name of the Company: Nikko Information Systems Co., Ltd.

Business details: Computer system consulting, contract development, technical guidance, etc.

(b) Date of business combination

April 1, 2019

(c) Legal form of business combination

An absorption-type merger where the Company becomes the surviving company and Nikko Information Systems Co., Ltd. becomes the Merged company

(d) The name of the Combined Enterprise

The Japan Steel Works, Ltd.

(e) Matters concerning the outline of other transactions

Since its establishment in April 1990 as a wholly-owned subsidiary of the Company, Nikko Information Systems Co., Ltd. has been in charge of the Company's information system operation and management as well as the entrusted development business. However, given that advanced information technology (Machine learning, etc.) is an important element for the enhancement of the Company's product and service values, Nikko Information Systems Co., Ltd. has decided to merge with the Company to strengthen its functions.

(2) Overview of accounting

In accordance with "Accounting Standards for Business Combinations" (Corporate Accounting Standards No. 21, January 16, 2019) and "Implementation Guidance for Accounting Standards for Business Combinations and Accounting Standards for Business Separation" (Corporate Accounting Standards Implementation Guidance No. 10, January 16, 2019) the accounting treatment has been made as a transaction under common control .

2. Business combination by acquisition

(GM Engineering Co., Ltd.)

At the meeting of the Board of Directors held on March 19, 2019, The Company resolved to acquire additional shares of GM Engineering Co., Ltd, a former affiliate and became its subsidiary on April 1, 2019.

(1) Transaction overview

(a) The name of the acquired enterprise and the nature of its business

Name of recipient company: GM Engineering Co., Ltd.

Nature of business: Design, manufacture, and sale of plastic sheet equipment, extruders, etc.; design, manufacture, and sale of dies and auxiliary equipment

(b) The main reasons for the business combination

Strengthen and expand sheet equipment business

(c) Date of business combination

April 1, 2019

(d) Legal form of business combination

Stock acquisition in exchange for cash

(e) The name of the Combined Enterprise

There is no change in the name of the combined company.

(f) Percentage of voting rights acquired

21.75% of the voting rights held immediately before the business combination

60.5% of the voting rights additionally acquired on the date of the business combination

82.25% of total voting rights after acquisition

(g) Main basis for determining acquiring companies

The Company acquired the shares in exchange for cash.

(2) The period of performance of the acquired company included in the consolidated income statement of the Company for the consolidated cumulative period

From April 1, 2019 to March 31, 2020

(3) Acquisition costs of acquired enterprises and their breakdown type

Market value of shares held on business combination date:	¥ 34 million
Cash spent for additional acquisition:	¥ 96 million
Acquisition cost:	¥131 million

(4) Details and amounts of major acquisition-related expenses

¥5 million for advisory expenses

(5) The difference between the acquisition cost of the Acquired Enterprise and the total amount of the acquisition cost for each transaction leading to the acquisition

Loss on phased acquisition: ¥89 million

(6) The amount of negative goodwill that occurred, and the cause for the occurrence

(a) The amount of negative goodwill that occurred
¥361 million

(b) Cause of occurrence
This was because the net assets at market value of GM Engineering Co., Ltd. exceeded the acquisition cost.

(7) The amount of assets accepted and liabilities assumed on the date of the Business Combination, and the major breakdown thereof

Current assets:	¥1,722 million
Fixed assets:	¥ 654 million
Total assets:	¥2,377 million
Current liabilities:	¥1,275 million
Fixed liabilities:	¥ 503 million
Total liabilities:	¥1,778 million

(Nichiyu Machinery Co., Ltd.)

At the meeting of the Board of Directors held on June 18, 2019, The Company resolved to acquire the shares of Nichiyu Machinery Co., Ltd. and make it a subsidiary. Based on the resolution, the Company entered into a stock purchase agreement on September 17, 2019, and acquired the shares on November 1, 2019.

(1) Transaction overview

(a) The name of the acquired enterprise and the nature of its business
Name of acquired company: Nichiyu Machinery Co., Ltd.
Nature of business: Manufacture, sales, parts sales, maintenance service of various unwinders and winders

(b) The main reasons for the business combination
To further expand business in the film sheet manufacturing equipment business by incorporating the winder business, which is indispensable for providing a full line product

(c) Date of business combination
November 1, 2019

(d) Legal form of business combination
Share acquisition in exchange for cash

(e) The name of the Combined Enterprise
There is no change in the name of the combined company.

(f) Percentage of voting rights acquired
100% of total voting rights after acquisition

(g) Main basis for determining acquiring companies
Our Company acquired the shares in exchange for cash.

(2) The period of performance of the acquired company included in the consolidated income statement of the Company for the consolidated cumulative period
From November 1, 2019 to March 31, 2020

(3) Acquisition costs of acquired enterprises and their breakdown type

Cash spent on acquisition:	¥950 million
Settlement payment confirmed after acquisition:	¥ (2) million
Acquisition cost:	¥948 million

(4) Details and amounts of major acquisition-related expenses
¥1 million for advisory expenses

(5) The amount of goodwill that occurred, and the cause for the occurrence

(a) The amount of goodwill that occurred
¥809 million

(b) Cause of occurrence
This was mainly due to the excess earning power expected from future business development.

(c) Amortization method and period
Straight-line depreciation over 5 years

(6) The amount of assets accepted and liabilities assumed on the date of the Business Combination, and the major breakdown thereof

Current assets:	¥957 million
Fixed assets:	¥ 30 million
Total assets:	¥987 million
Current liabilities:	¥845 million
Fixed liabilities:	¥ 3 million
Total liabilities:	¥849 million

24. Asset Retirement Obligations

The following table presents the changes in asset retirement obligations for the years ended March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at beginning of year	¥1,364	**¥1,308**	**$12,019**
Liabilities incurred due to the acquisition of property, plant and equipment	2	**—**	**—**
Accretion expense	22	**23**	**211**
Liabilities settled	(71)	**(2)**	**(18)**
Other	(9)	**—**	**—**
Balance at end of year	¥1,308	**¥1,329**	**$12,212**

25. Investment and Rental Properties

The Company has omitted the disclosure of investment and rental properties due to immateriality for the years ended March 31, 2020 and 2019.

26. 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 Industrial Machinery Products segment includes injection molding machines, film and sheet machinery, other. The Steel and Energy Products segment includes steel castings and forgings, steel plates and pipes. The Other Businesses segment includes deposition business, crystal business and wind power generation equipment.

Millions of yen

	Reportable segments					
Year ended March 31, 2020	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Total	Adjustments and Eliminations	Consolidated
Sales and operating income:						
Sales to third parties	¥171,416	¥41,418	¥4,691	¥217,527	¥ —	¥217,527
Intra-segment sales and transfers	1,499	5,320	2,152	8,972	(8,972)	—
Total sales	172,916	46,739	6,844	226,499	(8,972)	217,527
Operating income	¥ 19,272	¥ 2,484	¥ (146)	¥ 21,610	¥ (2,901)	¥ 18,709
Assets, depreciation, and capital expenditures:						
Total assets	¥147,703	¥39,036	¥9,946	¥196,686	¥100,486	¥297,173
Depreciation and amortization	4,022	866	681	5,570	163	5,733
Capital expenditures	5,813	3,234	1,226	10,275	309	10,585

Thousands of U.S. dollars

	Reportable segments					
Year ended March 31, 2020	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Total	Adjustments and Eliminations	Consolidated
Sales and operating income:						
Sales to third parties	$1,575,080	$380,575	$43,104	$1,998,778	$ —	$1,998,778
Intra-segment sales and transfers	13,774	48,884	19,774	82,441	(82,441)	—
Total sales	1,588,863	429,468	62,887	2,081,218	(82,441)	1,998,778
Operating income	$ 177,084	$ 22,825	$ (1,342)	$ 198,567	$ (26,656)	$ 171,910
Assets, depreciation, and capital expenditures:						
Total assets	$1,357,190	$358,688	$91,390	$1,807,277	$923,330	$2,730,617
Depreciation and amortization	36,957	7,957	6,257	51,181	1,498	52,678
Capital expenditures	53,414	29,716	11,265	94,413	2,839	97,262

Notes: 1. Adjustments and eliminations for segment profit of ¥2,901 million ($26,656 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 ¥100,486 million ($923,330 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 ¥163 million ($1,498 thousand) include depreciation and amortization for corporate assets. Adjustments and eliminations for capital expenditures of ¥309 million ($2,839 thousand) include capital expenditures for corporate assets.

Millions of yen

Year ended March 31, 2019	Reportable segments: Industrial Machinery Products	Reportable segments: Steel and Energy Products	Reportable segments: Other Businesses	Total	Adjustments and Eliminations	Consolidated
Sales and operating income:						
Sales to third parties	¥173,648	¥41,251	¥5,252	¥220,153	¥ —	¥220,153
Intra-segment sales and transfers	1,038	4,159	3,740	8,938	(8,938)	—
Total sales	174,687	45,410	8,993	229,091	(8,938)	220,153
Operating income	¥ 23,599	¥ 2,676	¥ 343	¥ 26,618	¥ (2,328)	¥ 24,290
Assets, depreciation, and capital expenditures						
Total assets	¥149,979	¥39,347	¥8,041	¥197,369	¥108,102	¥305,471
Depreciation and amortization	3,450	239	477	4,166	257	4,424
Capital expenditures	7,171	2,033	520	9,725	219	9,945

Notes: 1. Adjustments and eliminations for segment profit of ¥2,328 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 ¥108,102 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 ¥257 million include depreciation and amortization for corporate assets. Adjustments and eliminations for capital expenditures of ¥219 million include capital expenditures for corporate assets.

(a) Product and service information

Millions of yen

Year ended March 31, 2020	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Total
Sales to third parties	**¥171,416**	**¥41,418**	**¥4,691**	**¥217,527**

Thousands of U.S. dollars

Year ended March 31, 2020	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Total
Sales to third parties	**$1,575,080**	**$380,575**	**$43,104**	**$1,998,778**

Millions of yen

Year ended March 31, 2019	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Total
Sales to third parties	¥173,648	¥41,251	¥5,252	¥220,153

(b) Geographical information

(i) Sales

	Millions of yen 2019	Millions of yen 2020	Thousands of U.S. dollars 2020
Japan	¥103,898	**¥103,249**	**$ 948,718**
China	54,318	**44,126**	**405,458**
Others	61,936	**70,151**	**644,592**
Consolidated	¥220,153	**¥217,527**	**$1,998,778**

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, 2020 and 2019 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, 2020 and 2019 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, 2020 and 2019 are summarized as follows:

Millions of yen

Year ended March 31, 2020	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Adjustments and Eliminations	Total
Impairment loss	—	—	—	—	—

Thousands of U.S. dollars

Year ended March 31, 2020	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Adjustments and Eliminations	Total
Impairment loss	—	—	—	—	—

Millions of yen

Year ended March 31, 2019	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Adjustments and Eliminations	Total
Impairment loss	—	—	¥25	¥1,597	¥1,623

(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, 2020 and 2019 by reportable segment:

Millions of yen

Year ended March 31, 2020	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Adjustments and Eliminations	Total
Amortization	**¥283**	—	—	—	**¥283**
Balance as of March 31	**782**	—	—	—	**782**

Thousands of U.S. dollars

Year ended March 31, 2020	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Adjustments and Eliminations	Total
Amortization	**$2,600**	—	—	—	**$2,600**
Balance as of March 31	**7,186**	—	—	—	**7,186**

Millions of yen

Year ended March 31, 2020	Industrial Machinery Products	Steel and Energy Products	Other Businesses	Adjustments and Eliminations	Total
Amortization	¥215	—	—	—	¥215
Balance as of March 31	268	—	—	—	268

(f) Information on gain on negative goodwill

Year ended March 31, 2020

In the Industrial Machinery segment, we recorded a negative goodwill gain of ¥361 million ($3,317 thousand). This is because GM Engineering Co., Ltd. became a consolidated subsidiary.

Year ended March 31, 2019

None applicable

27. 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.

28. Amounts per Share

Profit (loss) attributable to owners of parent per share is calculated based on the profit (loss) attributable to owners of parent 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, 2020 and 2019 and for the years then ended were as follows:

	Yen 2019	Yen 2020	U.S. dollars 2020
Profit (loss) attributable to owners of parent	¥ 271.69	**¥ 126.66**	**$ 1.16**
Net assets	1,746.91	**1,778.94**	**16.35**

29. Subsequent Events

(Absorption-type split of steel business and absorption-type merger of 4 four subsidiaries)

Based on a resolution of the Board of Directors meeting held on January 28, 2020, the Company split the technical departments of our material and energy business and wind power generation equipment maintenance service with April 1, 2020 as the effective date(Simplified absorption-type split). These departments were succeeded to a consolidated subsidiary, Nikko MEC Co., Ltd. (hereinafter, Nikko MEC). Nikko MEC has also merged Nikko Machine Center Co., Ltd. (hereinafter Nikko Machine Center), Nikko Inspection Service Co., Ltd. (hereinafter, Nikko Inspection Service) and J-Win Co., Ltd. (hereinafter, J-Win), all a non-consolidated subsidiary of the Company.

(1) Transaction overview including the purpose of the transaction

Since the Great East Japan Earthquake in March 2011, the market for materials for nuclear power plants and thermal power plants, which had been the main source of profits for our raw materials/energy business, had shrinked and as a result the competition intensified.

We have been proceeding with a study on reorganization centered on the Muroran manufacturing plant.

We have reorganized the material and energy business of the Company, three subsidiaries responsible for its manufacturing function, the technical department and one subsidiary responsible for the maintenance service function of wind power generation equipment to optimize the organization for aim to establish a stable profitable structure at the current scale of this business by improving profitability through construction and integrated operation.

(2) Summary of reorganization

(a) Absorption-type split

1. Name of the company involved in the combination or the target business and the content of the business
   The Company:
   Engineering department of the raw material/energy business and maintenance service of wind power generation equipment
   Nikko MEC:
   Installation/maintenance/maintenance of factory equipment, manufacturingprocessing/sales of various cast steel products/steel plates/pipes
2. Business combination date
   April 1, 2020
3. Legal form of business combination
   An absorption-type company split (simplified absorption-type company split) in which the Company is the splitting company and Nikko MEC is the succeeding company.

(b) Absorption merger

1. Name of the company involved or the business to be combined and the content of the business.
   Nikko MEC
   Installation/maintenance/maintenance of factory equipment, manufacture/processing/sales of various cast steel products/steel plates/pipes, etc.
   Nikko Machine Center
   Machining of large cast and forged steel products, welded structures and dies, finish assembly, etc.
   Nikko Steel inspection service Intermediate and shipment inspection business of various cast and forged steel products, steel plates, welded structures and industrial machines, etc.
   J-Win
   Wind generator monitoring, maintenance, inspection and repair work, etc.
2. Business combination date
   April 1, 2020
3. Legal form of business combination
   Nikko MEC is the surviving company, Nikko Machinery Center, Nikko Inspection Service and J-Win are absorption-type mergers. J-Win is disbanded.
4. Name of the combined company
   Nikko MEC changed its trade name to Japan Steel M&E Co., Ltd. as of April 1, 2020.

(3) Overview of accounting

In accordance with "Accounting Standards for Business Combinations" (Corporate Accounting Standards No. 21, January 16, 2019) and "Implementation Guidance for Accounting Standards for Business Combinations and Accounting Standards for Business Separation" (Corporate Accounting Standards Implementation Guidance No. 10, January 16, 2019) the accounting treatment will be made as a transaction under common control.

(Absorption of consolidated subsidiary)

Following the resolution of the Board of Directors meeting held on December 18, 2019, the Company merged with its consolidated subsidiary Meiki Co., Ltd. on April 1, 2020.

(1) Transaction overview

1. Name and business content of the company
   Name of the company involved in the merger
   Meiki Co., Ltd.
   Business description
   Manufacture and sale of injection molding machines, etc.
2. Business combination date
   April 1, 2020
3. Legal form of business combination
   Absorption-type merger with our company as the surviving company and Meiki Co., Ltd. as the merged company.
4. Name of the combined company
   Japan Steel Works, Ltd.
5. Other matters regarding the outline of transactions
   Meiki Co., Ltd., as a pioneer in developing injection molding machines for the first time in Japan, has manufactured and sold various products adapted to each era. In March 2016, we made Meiki Co., Ltd. a wholly owned subsidiary through a stock exchange method.
   The merger aims at further improving production capacity and production efficiency, strengthening new product development, and expanding sales and service systems.

(2) Overview of accounting

In accordance with "Accounting Standards for Business Combinations" (Corporate Accounting Standards No. 21, January 16, 2019) and "Implementation Guidance for Accounting Standards for Business Combinations and Accounting Standards for Business Separation" (Corporate Accounting Standards Implementation Guidance No. 10, January 16, 2019) the accounting treatment will be made as a transaction under common control.

(Important business transfer)

At the Board of Directors meeting held on February 18, 2020, the Company resolved to transfer its compressor business to Burckhardt Compression (Japan) Ltd. and transferred them on April 17, 2020.

(1) Overview of business transfer

1. Name of company to be separated
   Burckhardt Compression (Japan) Ltd.
2. Content of the separated business
   Compressor business
3. Main reason for business separation
   This is done to expand the business by putting the resources of the compressor business into a business that is expected to grow.
4. Business separation date
   April 17, 2020
5. Matters concerning the outline of other transactions including legal form
   Business transfer where the consideration received is only cash and other assets

(2) Outline of accounting

1. Transfer amount
   Gain on business transfer ¥2,537 million
2. Appropriate book value of assets and liabilities related to the transferred business and its main breakdown
   Current assets ¥112 million yen
   Total assets ¥112 million yen
3 Accounting
   In accordance with "Accounting Standards for Business Separation" (Corporate Accounting Standard No. 7, September 13, 2017) and "Implementation Guidance for Business Combination Accounting Standards and Accounting Standards for Business Separation" (Corporate Accounting Standard Implementation Guidance No. 10, January 16, 2019) the accounting treatment will be made as a business transfer.

(3) Segment classification that includes the transferred business

Industrial machinery business

(4) Approximate amount of sales related to the separated business recorded in the income statement for the current consolidated fiscal year.

Net sales ¥3,552 million yen

(Significant borrowings)

Based on a resolution of the Board of Directors meeting held on January 28, 2020, the Company entered into a syndicate loan agreement with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited as arrangers on March 31, 2020 as follows and borrowed on April 7, 2020.

(1) Use of funds

Repayment of debt, investment and loan funds

(2) Borrowing amount

10,000 million yen

(3) Borrowing rate

Fixed interest rate

(4) Borrowing date

April 7, 2020

(5) Repayment deadline

April 7, 2027

(6) Repayment method

Lump sum repayment

(7) Provision of collateral

None

Independent Auditor's Report

The Board of Directors
The Japan Steel Works, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of The Japan Steel Works, Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 30, 2020

Yoshiyuki Nomizu
Designated Engagement Partner
Certified Public Accountant

Kazuki Hayashi
Designated Engagement Partner
Certified Public Accountant

Shingo Arai
Designated Engagement Partner
Certified Public Accountant

Corporate Directory

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	¥19,737 million
Employees	2,342 (Consolidated 5,334)
Auditor	Ernst & Young ShinNihon LLC Hibiya Mitsui Tower, 1-1-2 Yurakucho, Chiyoda-ku, Tokyo, Japan

(as of March 31, 2020)

Stock Information

Authorized Shares	200,000,000 shares
Issued and Outstanding Shares	74,332,356 shares
Shareholders	21,662
Stock Listings	Tokyo
Transfer Agent and Registrar	Sumitomo Mitsui Trust Bank, Ltd. 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

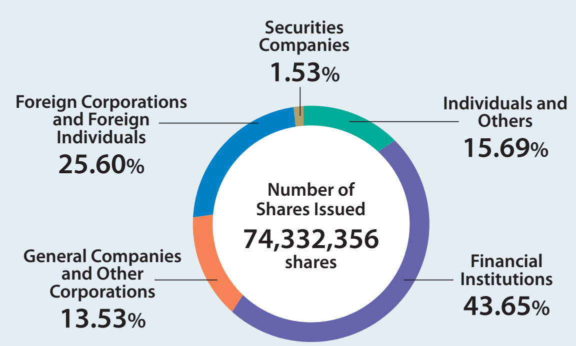
(as of March 31, 2020)

Major Shareholders
(shareholding ratio)

The Master Trust Bank of Japan, Ltd. (Trust Account)	11.59%
Japan Trustee Services Bank, Ltd. (Trust Account)	8.40%
TAIJU LIFE INSURANCE COMPANY LIMITED	3.85%
Sumitomo Mitsui Banking Corp.	2.99%
Sumitomo Mitsui Trust Bank, Ltd.	2.22%
Mitsui Sumitomo Insurance Co., Ltd.	2.13%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1.66%
JP MORGAN CHASE BANK 385151	1.55%
SSBTC CLIENT OMNIBUS ACCOUNT	1.38%
Mitsubishi Heavy Industries, Ltd.	1.37%

(as of March 31, 2020)

Classification of Shareholders by Percentage of Shares Held (As of March 31, 2020)



Notes 1: The shareholding ratios are calculated after deducting 803,339 treasury shares from the total number of shares issued.

Network

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