



JFE GROUP BUSINESS REPORT 2006

As an Ever-progressing Company in Harmony
with Environment and Society



JFE

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Corporate Vision

The JFE Group - contributing to society with the world's most innovative technology

Corporate Values

A Challenging Spirit, Flexibility, Sincerity

Scope of Report

Organizations subject to Report and Compilation of Data

This Report covers JFE Holdings, Inc., JFE Steel Corporation, JFE Engineering Corporation, JFE Urban Development Corporation, Kawasaki Microelectronics, Inc., JFE R&D Corporation and their respective consolidated subsidiaries and affiliates subject to the equity method (i.e., 215 consolidated subsidiaries and 39 affiliates subject to the equity method). However, consolidated subsidiaries of these operating companies are excluded from the scope of environmental performance data unless specified otherwise.

** Data for the year ended March 2003 and before were compiled by adding together the data of Kawasaki Steel Corp. and NKK Corp. before the merger.*

Period subject to Report

In principle, this Report covers the year ending March 31, 2006.

** Some sections include activities in the year ending March 2007.*

Scheduled Publication Date of Next Report

June 2007

Caution Regarding Forward-Looking Statements

This report contains forward-looking statements regarding future plans, strategies and other activities of the JFE Group, which are exposed to risks and uncertainties. Actual results may substantially differ from these forward-looking statements, due to the impact of various factors including but not limited to the economic climate and market environment surrounding the business sectors in which the JFE Group operates, exchange rates, and trends in the demand for products and services.


Editorial Policy

The "JFE Group Business Report 2006: As an Ever-progressing Company in Harmony with Environment and Society" is our first report which combines the conventional Annual Report and Environmental Sustainability Report and covers the JFE Group's principal activities and performance data in terms of economic, environmental and social aspects.



For detailed financial information and environmental report, please visit our website:

 **Financial information** <http://www.jfe-holdings.co.jp/en/investor/index.html>

 **Environmental report** <http://www.jfe-holdings.co.jp/en/environment/index.html>

Business Highlights

Main Financial Data

JFE Holdings, Inc. and Its Consolidated Subsidiaries

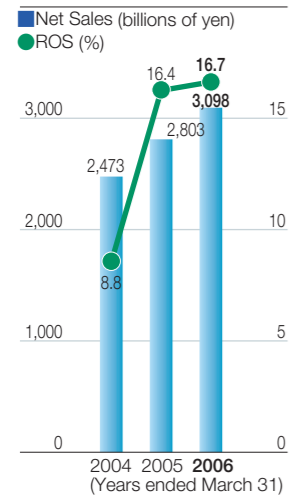
Years ended March 31	Millions of yen (Unless otherwise specified)			Thousands of U.S. dollars 2005*7
	2006	2005	2004	2006
Operating Results (For the Year)				
Net sales	¥3,098,374	¥2,803,699	¥2,473,725	\$26,375,874
EBITDA*2	708,171	662,221	432,352	6,028,525
Operating income	517,171	467,237	253,605	4,402,579
Ordinary income*3	517,313	460,684	218,372	4,403,788
Net income	325,996	160,057	106,872	2,775,142
Financial Position (At Year-end)				
Total assets	3,630,322	3,656,389	3,724,441	30,904,247
Shareholders' equity	1,310,381	968,614	746,298	11,155,026
Debt and corporate bonds outstanding	1,162,857	1,446,785	1,837,404	9,899,181
Financial Indexes				
Return on Sales (ROS)*4	16.7%	16.4%	8.8%	
Return on Assets (ROA)*5	14.6%	13.1%	6.5%	
Return on Equity (ROE)*6	28.6%	18.7%	15.9%	
Shareholders' equity ratio	36.1%	26.5%	20.0%	
Debt-to-equity ratio*7	88.7%	149.4%	246.2%	
Per Share Data				
Net income (yen)	¥555.02	¥273.97	¥185.84	\$4.72
Shareholders' equity (yen)	2,236.32	1,652.31	1,289.54	19.03
Cash dividends (yen)	100.00	45.00	30.00	0.85
Reference: JFE Steel Corporation				
Consolidated				
Crude steel output (thousand tons)	30,145	31,281	30,547	
Non-consolidated				
Crude steel output (thousand tons)	26,718	27,648	27,007	
Sales volume (thousand tons)	24,571	25,725	25,247	
Average sales price (thousand yen/ton)	76.9	61.7	50.5	

Notes:

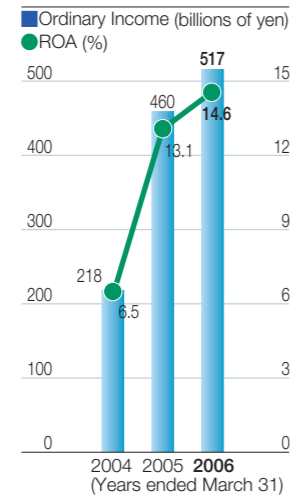
*1 Translations of the Japanese yen amounts into U.S. dollars are made at the rate of ¥117.47 = US\$1.00, solely for the convenience of readers.
 *2 EBITDA = ordinary income + interest and discount expenses + depreciation
 *3 Ordinary income = operating income + non-operating income - non-operating expenses
 *4 Return on sales = ordinary income/net sales x 100

*5 Return on assets = (ordinary income + interest and discount expenses)/total assets x 100
 *6 Return on equity = net income/total shareholders' equity x 100
 *(Total shareholders' equity at beginning of term + total shareholders' equity at end of term)/2
 *7 Debt-to-equity ratio = debt outstanding/total shareholders' equity x 100

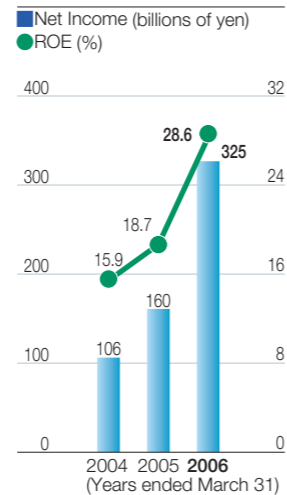
Net Sales / ROS



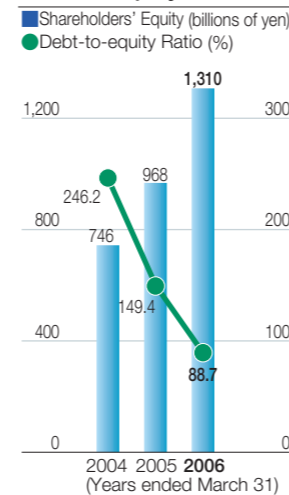
Ordinary Income / ROA



Net Income / ROE



Shareholders' Equity / Debt-to-equity Ratio



Main CSR Data

Environmental Aspects

Years ended March 31	2004	2005	2006
JFE Steel Corporation			
CO ₂ emissions*1 *2 (million tons -CO ₂)	56	57	55
Energy consumption*2 (PJ)	688	702	678
Industrial water recirculation rate*3 (%)	93.9	93.9	93.7
Recycling rate*4 (%)	99.3	99.5	99.6
JFE Engineering Corporation			
CO ₂ emissions (1,000 tons -CO ₂)	13.9	14.0	14.5
Kawasaki Microelectronics, Inc.			
CO ₂ emissions (1,000 tons -CO ₂)	16.8	16.9	17.3

Social Aspects

Years ended March 31	2004	2005	2006
Employment Status			
Number of employees (Consolidated) (persons)	52,557	52,503	53,111
Number of people recruited (persons)*5	415	361	413
Development Status of Worker-friendly Environment			
Number of employees who took maternity leave (persons)*5	42	43	27
Number of employees who took childcare leave (persons)*5	53	52	41

*1 Estimated figures
 *2 Total of JFE Steel Corporation and four affiliated electric furnace steelmakers
 *3 Industrial water recirculation rate (%) = [Total consumption - Volume of received industrial water]/Total consumption
 *4 Recycling rate = (Volume of byproducts generated - Final disposal volume)/Volume of byproducts generated
 *5 Total of JFE Holdings, Inc. and five major operating companies

Outline of the JFE Group

The JFE Group continues to take on the challenges of establishing advanced technologies and enhancing its market competitiveness as a leading Japanese future-oriented enterprise group.

JFE Holdings, Inc. Headquarters of the JFE Group

This is the JFE Group's streamlined head office, responsible for group-wide strategic functions, risk management and accountability to the public.

Established	September 27, 2002
Address	1-1-2 Marunouchi, Chiyoda-ku, Tokyo
Consolidated net sales	¥3,098.3 billion (fiscal year ended March 31, 2006)
Consolidated ordinary income	¥517.3 billion (fiscal year ended March 31, 2006)
Number of employees	86 employees (as of March 31, 2006)

Origin of Company Name

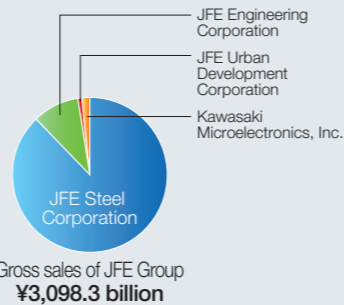
The company name JFE is composed of the letter "J" for Japan, "F" for steel (as in Fe, the atomic symbol of iron) and "E" for engineering. It is also the acronym of "Japan Future Enterprise," i.e., a leading Japanese future-oriented enterprise group with steel and engineering businesses at its core.

Origin of Company Name

<http://www.jfe-holdings.co.jp/en/company/brand/index.html>

Background to Merger

<http://www.jfe-holdings.co.jp/en/company/tougou/index.html>



JFE Steel Corporation World-leading steel producer

JFE Steel Corporation is an integrated steel producer ranking fifth in the world in terms of crude steel production. It is highly competitive internationally thanks to the unique strengths of a framework built on two major steelworks—one each in eastern and western Japan—and produces and sells a wide range of high-value-added steel products, taking advantage of its world-class technology and product development capabilities.

Established	April 1, 2003
Address	2-2-3 Uchisaiwaicho, Chiyoda-ku, Tokyo
Consolidated net sales	¥2,753.8 billion (fiscal year ended March 31, 2006)
Consolidated ordinary income	¥510.7 billion (fiscal year ended March 31, 2006)
Number of employees	44,579 employees (as of March 31, 2006)
Group companies	Consolidated subsidiaries: 184 subsidiaries Affiliates subject to equity method: 32 affiliates



JFE Engineering Corporation Proposing optimal systems on the global arena

JFE Engineering Corporation is responsible for the engineering business, which is the JFE Group's core business, together with steel. It provides solutions based on advanced technologies in the fields of energy (mainly pipelines and LNG plants), environment (e.g., waste disposal facilities, water supply and sewerage facilities, biomass utilization*), steel structures (e.g., bridges, steel frames), systems (e.g., industrial machinery) and logistics.

* Photo on right: Biomass power generation plant for Iwakuni Wood Power Company, Limited

Established	April 1, 2003
Address	1-1-2 Marunouchi, Chiyoda-ku, Tokyo
Consolidated net sales	¥306.0 billion (fiscal year ended March 31, 2006)
Consolidated ordinary income	¥0.9 billion (fiscal year ended March 31, 2006)
Number of employees	7,428 employees (as of March 31, 2006)
Group companies	Consolidated subsidiaries: 21 subsidiaries Affiliates subject to equity method: 7 affiliates



JFE Urban Development Corporation Total urban production capitalizing on diverse expertise

JFE Urban Development Corporation creates a pleasant urban environment through its four businesses: the large-scale complex development business, which involves the redevelopment of idle land owned by the JFE Group and the creation of new urban districts; the condominium business, which supplies distinctive, high-quality condominiums; the real estate solutions business, which engages in the redevelopment of land owned by third parties; and the property development business, which executes the development, management and operation of real estate assets.

Established	April 1, 2003
Address	1-1-2 Marunouchi, Chiyoda-ku, Tokyo
Consolidated net sales	¥28.5 billion (fiscal year ended March 31, 2006)
Consolidated ordinary income	¥2.8 billion (fiscal year ended March 31, 2006)
Number of employees	327 employees (as of March 31, 2006)
Group companies	Consolidated subsidiaries: 2 subsidiaries



Kawasaki Microelectronics, Inc. Taking advantage of proprietary design and production technologies for Application-Specific Integrated Circuit (ASIC)

Kawasaki Microelectronics, Inc. is an LSI vendor specializing in sophisticated, high-value-added ASIC. It offers a comprehensive range of services to its customers from designing and development to manufacturing, testing and shipping. Its strength is demonstrated in products for LCD panels, as reflected in its substantial market share worldwide.

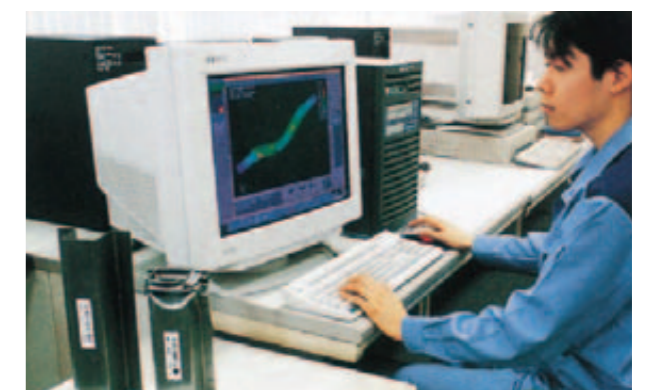
Established	July 2, 2001
Address	1-3 Nakase, Mihama-ku, Chiba City, Chiba Prefecture
Consolidated net sales	¥46.1 billion (fiscal year ended March 31, 2006)
Consolidated ordinary income	¥2.0 billion (fiscal year ended March 31, 2006)
Number of employees	602 employees (as of March 31, 2006)
Group companies	Consolidated subsidiaries: 2 subsidiaries



JFE R&D Corporation Development center of basic technologies shared within the JFE Group

JFE R&D Corporation is a concept-creating research institution that undertakes further development of core technologies shared between JFE Group's core businesses, namely, steel and engineering, and opens up possibilities for new technologies by combining them organically with such elemental technologies.

Established	April 1, 2003
Address	1-1 Minamiatarida-cho, Kawasaki-ku, Kawasaki City, Kanagawa Prefecture
Number of employees	89 employees (as of March 31, 2006)



As an Ever-progressing Company in Harmony with Environment and Society

First of all, I would like to express my heartfelt gratitude for your ongoing support and understanding.

Since the establishment of the JFE Group, we have been vigorously pushing ahead with the development of a business structure that will enable sustained growth and have been striving to expand the Group's overall profitability, as a world-leading enterprise group with steel and engineering at the core of its businesses. In the execution of businesses, we have aimed to meet society's high expectations based on our commitment to coexist harmoniously with the global environment and strictly adhere to corporate ethical standards.

Accomplishments and Challenges in the year ended March 2006

In the year ended March 31, 2006, the JFE Group declared ¥3,098.3 billion in consolidated net sales, ¥517.3 billion in ordinary income and ¥325.9 billion in net income, resulting in increased earnings three years in a row since its establishment. Interest-bearing debt—which was our biggest concern—decreased to ¥1,162.8 billion, and the debt-to-equity ratio substantially improved to 88.7%. As these accomplishments far exceeded the targets set for the improvement of our financial position under the first Medium-Term Business Plan (hereinafter referred to as "the Plan"), we were able to announce at the General Meeting of Shareholders an unprecedented substantial increase

President & CEO

Tsunio Sudo

in dividends for our shareholders: ¥100 per share. We were also able to make large strides in building a highly sustainable and strong corporate structure, including increasing investments and loans for future growth more than initially planned.

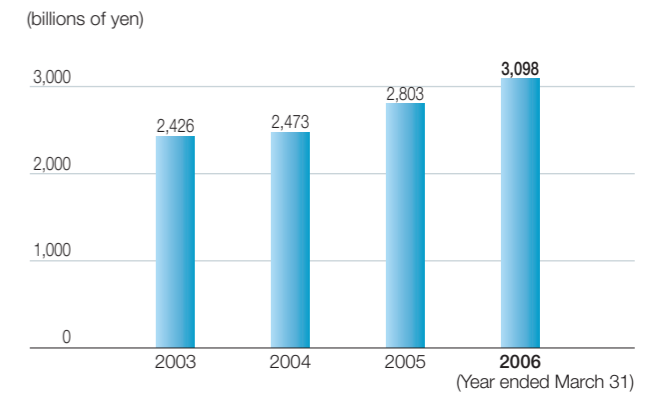
Second Medium-Term Business Plan

The JFE Group came into existence as a result of the former NKK Corp. and Kawasaki Steel Corp. deciding to merge their businesses by putting their very survival at stake under a tough business climate unparalleled in history.

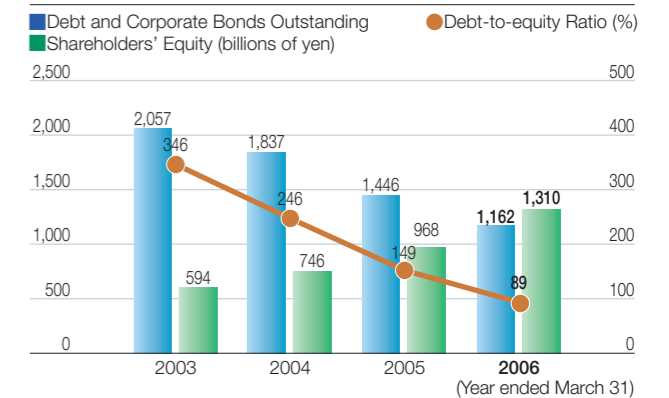
Under the first Plan (From April 2003 to March 2006) launched immediately after the establishment of the JFE Group, our top priority was to establish our corporate foundations to take off as a global enterprise, with a focus on facilitating the merger, making it bear fruit as quickly as possible and improving our financial position.

The second Plan (From April 2006 to March 2009) formulated in March 2006 aims to establish a highly profitable framework based on the corporate foundations built during the first Plan and to reinforce our foundations to expand and leap forward into the future from a global perspective, while improving shareholder satisfaction by aggressively generating returns. Specific areas where we will focus our efforts on under the second Plan are as follows.

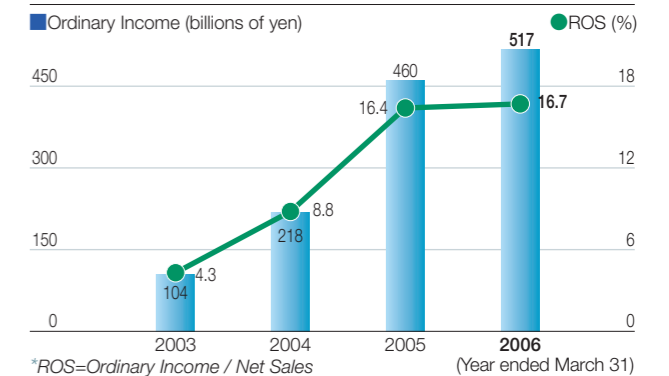
Trends in Net Sales



Trends in Debt and Corporate Bonds Outstanding / Shareholders' Equity / Debt-to-equity Ratio



Trends in Ordinary Income / ROS *(Return on Sales)



Message from the CEO: To All Stakeholders

1. Establishing a Profitable Structure

The business climate over the past three years has been more favorable than initially expected, as characterized by the rapid increase in steel demand in China and in other countries. However, the outlook for the future is uncertain. There are concerns that the rapid expansion in the steel production capacity especially in China might heavily affect the balance between the global supply and demand for steel. Furthermore, the engineering business is experiencing intensified competition with survival at stake, due to the continued downtrend in the field of domestic public works where we have demonstrated our strength over the years.

Under these circumstances, we need to enhance our overall strength in providing higher value-added products and services more stably, in order for us to continue generating high earnings and contribute to society.

Specifically, in the steel business, we will fully take advantage of our technological superiority on the back of our world-leading R&D organization with as many as 700 researchers, and further enhance and expand our production and sales capabilities for high value-added

Fulfillment Status of First Medium-term Business Plan

(billions of yen)

Year ended March 31	2006 (plan)	2006 (actual)
Ordinary Income	250.0	517.3
ROS	10%	16.7%
Debt and Corporate Bonds Outstanding	1,600.0	1,162.8
Debt-to-equity Ratio	190%	88.7%
Shareholders' Equity	830.0	1,310.3

products unsurpassed by our competitors, including developing "Only One" and "Number One" technologies and products. As global steel markets are becoming polarized rapidly between the stable high-end market with growth potential and the low-end and general-purpose products market which is susceptible to market fluctuations, we will further reinforce our positioning within the global steel industry as a highly profitable company focusing on high-end products by taking the measures described above.

In the engineering business, we will thoroughly assess our business units to prioritize, focus our efforts on the fields of environment, energy, recycling and others, which are expected to grow in the future, and promptly switch to a cost structure commensurate with the scale of the business.

2. Approach to the Future

During the period of the first Plan, we were on the "defensive" side focusing on improving our financial position. In the next three years, we will look into strategic investment opportunities and execute such investments in a dynamic and aggressive manner at times when the management ought to be on the offensive, while continuing our efforts to enhance our financial position.

Moreover, in order to further reinforce R&D activities, we will transfer R&D organization in the fields of energy, environment and water from JFE Engineering to JFE R&D, and make concerted R&D efforts on a Group-wide scale. We will also treat important development themes for the Group as "Strategic Development Projects" and aggressively implement them.

3. Actively Generating Shareholder Returns

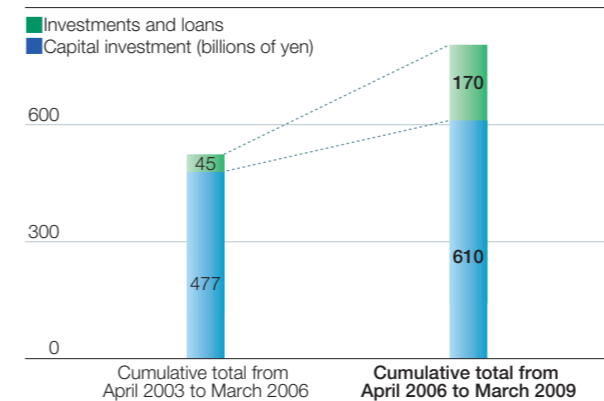
We have continued to increase our dividends, having substantially exceeded the financial targets under the first Plan. Under the second Plan, we have decided to look into increasing the dividend payout ratio to around 25% on a consolidated basis, in order to generate more returns to shareholders.

This means that a quarter of net income expected to be generated during the period of the second Plan will be allocated to shareholders' dividends, a quarter to

capital and other investments exceeding depreciation, and the remaining half to improving the financial position through the repayment of debts. If the debt-to-equity ratio falls below 50%, we will consider generating returns for shareholders more actively.



Investment and Loan Plan (payment basis)



Profit Target

Based on the above, the target consolidated ordinary income for the fiscal year ending March 2009 is approximately ¥500 billion, which is more or less the same level as the amount actually generated in the fiscal year ended March 2006.

This is based on conservative assumptions with respect to the market conditions for steel products, cost of raw materials, trends in domestic public works and other factors. By steadily implementing the second Plan, we intend to build a structure that can steadily generate ¥500 billion in ordinary income.



Message from the CEO: To All Stakeholders

Environment and Compliance

The JFE Group has pursued business activities with the aim of meeting society's high expectations based on its commitment to coexist harmoniously with the global environment and strictly adhere to corporate ethical standards. However, during the period of the first Plan, some Group companies gave rise to grave problems in terms of the environment and compliance, causing substantial inconvenience and concerns to various stakeholders.

We are deeply remorseful of our immaturity as a company, and at the same time, we intend to make serious efforts by going back to the basics, with our strong determination to win back confidence firmly from the society.

In regards to environmental problems, the JFE Group considers the improvement of the global environment to be of utmost importance for management, and pursues business activities in harmony with the environment to create a prosperous society. Based on such an environmental philosophy, we will help create a better global environment by providing environmentally-friendly steel products and engineering technologies. In addition, we are making serious efforts to reduce the environmental impact and conserve energy in all of our business activities.

In regards to compliance, which is fundamental to fulfilling social responsibility, we will act as a spearhead to further enhance the CSR (Corporate Social Responsibility) promotion system by utilizing the JFE Group CSR Committee, and take various measures to thoroughly raise the awareness of all employees with respect to compliance and make them follow through in practice.

Enhancing of Corporate Value

The steel industry has been experiencing restructuring and consolidation more frequently on a global scale lately. We recognize that even in such circumstances, as far as our basic corporate stance is concerned, we have no option but to improve corporate value by making serious management efforts, establish sound corporate governance and gain support from all stakeholders including our shareholders.

While we have not introduced any anti-takeover measures utilizing stock acquisition rights, etc. at this stage, we will take proper measures as necessary against buyout offers which might undermine our corporate value or the common interests of shareholders.



The JFE Group is committed to contributing to society with the world's most innovative technology. Having reaffirmed this corporate vision, we will commit ourselves to striving to achieve further progress as a truly excellent company in the 21st century.

Your frank opinions and advice on our efforts will be highly appreciated.

June 2006
Fumio Sudo

JFE Group's Second Medium-Term Business Plan

Consolidated Financial Plan

Years ended / ending March 31	2009 (plan)	2006 results
Ordinary Income	Approx. ¥500.0 billion	¥517.3 billion

Years ended / ending March 31	2009 (plan)	2006 results
Outstanding interest-bearing debt	¥800.0 billion	¥1,162.8 billion
Debt-to-equity Ratio	50% or less	88.7%

Cash Flow Utilization Plan

Cumulative total from April 2006 to March 2009 (billions of yen)

Source		Use	
		Dividends	200.0
Net income	800.0	Repayment of interest-bearing debt	400.0
			(200.0)
Depreciation	580.0	Investments and loans	780.0

Cumulative total from April 2003 to March 2006 (billions of yen)

Source		Use	
		Dividends	102.0
Net income	593.0	Repayment of interest-bearing debt	895.0
Depreciation	541.0		
Other	386.0	Investments and loans	523.0

Basic Policies

1. Establishing a Profitable Structure

We will gain solid support and confidence from customers and the general public based on high-quality products and advanced services.

- Steel business: Expansion of production and sales of high value-added products
- Engineering business: Thorough selection and concentration of business fields

We will establish a corporate structure which can continually generate a high level of earnings (on the scale of ¥500 billion in ordinary income per year).

2. Establishing a Highly Sustainable Corporate Constitution

(i) Approach to the Future

- We will make strategic investments in a dynamic and aggressive manner.
- We will further enhance our R&D system.

(ii) Promoting CSR and Establishing Corporate Governance

- We will make serious efforts on a Group-wide scale to strictly enforce compliance, which is fundamental to having a trusting relationship with society, actively tackle environmental issues (environmental protection and contribution to the global environment), establish safety, etc.
- We will establish sound corporate governance.

(iii) Improving Financial Position

We will achieve a debt-to-equity ratio of 50% or less as soon as possible.

3. Actively Generating Shareholder Returns

We will look into increasing the consolidated dividend payout ratio to 25%.

If the debt-to-equity ratio falls below 50%, we will consider generating returns for shareholders more actively.

JFE Steel Corporation



President & CEO
Hajime Bada

JFE Steel Corporation manufactures and sells a wide range of sophisticated steel products based on the world's most advanced technologies. We aim to meet the various needs of our customers and of the general public, by providing unique products and services incorporating a technological edge. With a sense of pride and responsibility, based on the view that the steel products we create contribute to social progress, we will continue to make our utmost efforts to de-

velop innovative technologies and products. Under the first Medium-Term Business Plan effective April 2003, we fulfilled our objective of increasing earnings, building a strong financial position and solidifying our foundations as a leading player in the global steel industry, while realizing the anticipated effects of the merger in the early stages.

Under the second Medium-Term Business Plan effective April 2006, having decided to aim at becoming a world-leading supplier of high value-added products, we will forge ahead toward realizing our corporate vision, which is to contribute to society with the world's most innovative technology. We will also further increase the JFE Group's enterprise value by endeavoring to build rock-solid foundations with emphasis on environmental protection, safety assurance, disaster prevention and compliance.

JFE Engineering Corporation



President & CEO
Osamu Saito

JFE Engineering Corporation has been meeting diverse needs stemming from steel production and shipbuilding, in the fields of energy (e.g., pipelines, LNG plants), environment (e.g., waste disposal facilities, water supply and sewerage facilities), steel structures (e.g., bridges, steel frames of buildings), industrial machinery systems, etc.

Under the second Medium-Term Business Plan effective April 2006, we will aim to become an engineering company which contributes to society with the world's most

innovative technology by capitalizing on the Group's overall strength, based on growth strategies focusing on composite fields of environment and energy and the environmental recycling sector, in addition to expanding overseas operations.

As a steppingstone, we must fulfill our social responsibility in terms of compliance, safety, disaster prevention and environmental protection. We have caused substantial concerns and inconvenience to customers and various parties as a result of being prosecuted for the violation of the Antimonopoly Law associated with engineering work for steel bridge superstructures and human-waste treatment facilities in 2005. We will strive to restore confidence and fulfill our social responsibility by strictly and steadily taking various compliance measures which have already been under review.

JFE Urban Development Corporation



President
Noriaki Shigemi

JFE Urban Development Corporation aims to bring about a pleasant urban environment through its four businesses—namely, the large-scale complex development business, the condominium business, the real estate solutions business and the property development business—by capitalizing on

the superior technological prowess of the JFE Group. On the other hand, in large-scale development projects which might have an impact on the local environment, we fulfill our social responsibility over crucial issues such as assuring harmony with the environment and reducing environmental impact, by taking advantage of our attributes as a manufacturing-oriented company. While none of our properties have been involved in the recent scandals regarding the misrepresentation of earthquake resistance, we will make further efforts in building a quality control system in the future to give customers peace of mind.

Kawasaki Microelectronics, Inc.



President & CEO
Yukio Yamauchi

Kawasaki Microelectronics, Inc. has consistently invested its management resources to enhance its ASIC business since its launch. As a result, we are experiencing sustained growth, having developed a structure that is not inferior to

major companies in terms of personnel, technological capabilities and product development abilities in specific fields which we focus on. We are also striving to build environmental protection and compliance systems in line with our growth as a company. We will continue to aim at becoming a world-leading LSI manufacturer which can undertake full-turn-key contracts spanning from design, wafer manufacturing, assembly and testing to quality assurance, with cutting-edge technology at the core of our business, together with domestic and overseas partner companies.

JFE R&D Corporation



President
Toyofumi Kitada

In April 2006, the environment and energy divisions of the former Engineering Research Institute were integrated into JFE R&D Corporation, increasing the number of researchers to some 130 and giving it a new start. JFE R&D Corporation

will conduct research with renewed recognition of its basic role, which is to observe future needs, propose new concepts to the JFE Group and apply them in practice, through the sophistication, lateral implementation and organic integration of elemental technologies in its portfolio. In particular, we will help boost the enterprise value of the JFE Group by aggressively tackling development issues including safety, security, disaster prevention, environment, CSR and reduction of CO₂ emissions, which are prerequisites for a company's survival, in conjunction with enhancements in the fields of environment and energy.

JFE Group's Technologies Preventing Global Warming

The JFE Group prevents global warming with various cutting-edge technologies, based on its corporate vision "to contribute to society with the world's most innovative technology".

At Steelworks



Main Energy-saving Technologies

- Waste plastics feeding to blast furnaces
- Blast furnace top-pressure recovery turbine
- Coke dry quenching
- Sintering cooler waste heat recovery
- BOF gas sensible heat recovery

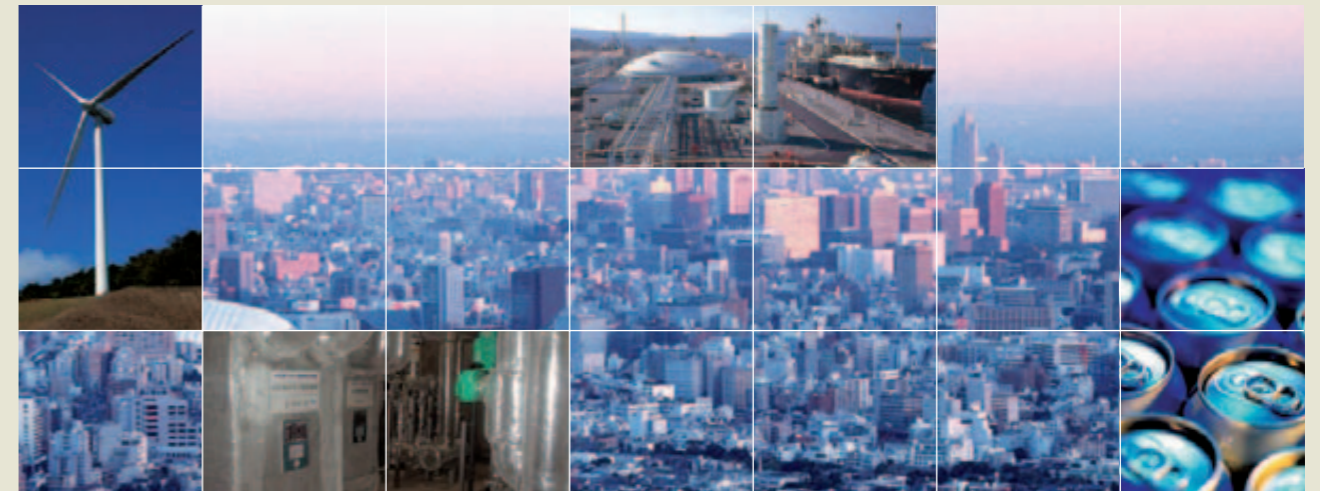
Continuous Steelmaking Processes

- Hot endless rolling
- Continuous casting
- Continuous annealing
- On-line accelerated cooling process (Super-OLAC)
- Plate online heating process (HOP)

Improvement of Efficiency of Facilities

- Regenerative burner
- Large gas turbine combined-cycle power generation
- Energy demand/supply control system

In Society



Improvement of Mileage of Automobiles

- High-tensile-strength automotive steel sheet (HITEN)
- Automotive steel pipes
- Electrical steel sheets for motors
- Fine γ steel

Improvement in Energy Efficiency

- Universal Brite
- Clathrate hydrate slurry (CHS) latent heat air-conditioning system

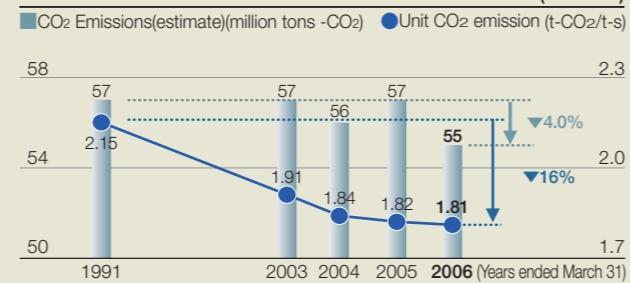
Clean Energy

- Wind power generation
- Biomass gasification power generation
- High-strength steel for penstocks
- Solar silicon

Thorough Reduction of CO₂ Emissions from Steelmaking Process

JFE Steel has introduced various facilities and developed technologies in an effort to cut CO₂ emissions. Its CO₂ emissions and unit CO₂ emission in the year ended March 2006 decreased 4% and 16%, respectively, compared to the year ended March 1991 level. JFE Steel is committed to reducing CO₂ emissions and preventing global warming by further pursuing technology development.

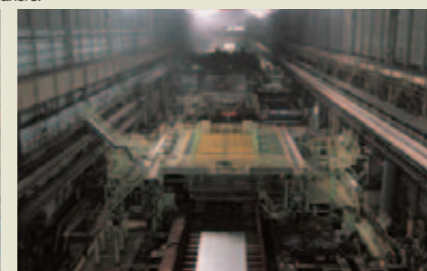
Trends in JFE Steel's CO₂ Emissions and Unit CO₂ Emission (Estimate)*



Waste plastics feeding to blast furnaces



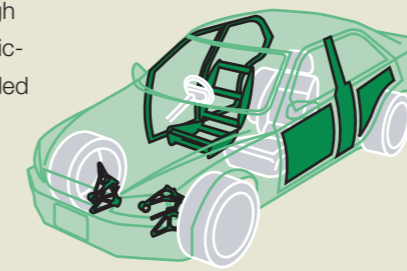
Hot endless rolling



Super-OLAC

HITEN and Automotive Steel Pipes Help Improve Mileage of Automobiles through Weight Reduction

High-tensile-strength automotive steel sheets "HITEN" became the world's first steel sheet in its grade to be used in automotive side panels, and is even being used in center pillars, seat frames and various reinforcing materials, for its ability to reduce the total body weight by 5% to 10%. Automotive steel pipes also contribute to automobile weight reduction by providing high strength in combination with high formability with the use of HISTORY steel pipes and sophisticated high formability Electric-Resistance-Welded steel pipes.



Steel products contributing to automotive weight reduction

Clathrate Hydrate Slurry (CHS) Latent Heat Air-conditioning System Curbs CO₂ Emissions through Air-conditioning System saves energy dramatically and Wins Prime Minister's Award at the 35th Japan Industrial Techniques Grand Prix

Clathrate hydrate slurry (CHS) latent heat air-conditioning system uses CHS instead of water, which brings highly effective energy-saving properties. The system has been adopted at Azalea Underground Mall in front of JR Kawasaki Station, with the plan to reduce CO₂ emissions by 1,090 tons per year based on comprehensive energy-saving measures centering on this system.



Clathrate hydrate slurry



Award ceremony of the 35th Japan Industrial Techniques Grand Prix

Building a Group-wide CSR System

The JFE Group has started building a Group-wide CSR system in response to the current social climate in which companies are strongly urged to fulfill their social responsibilities, in terms of compliance, product quality, industrial safety, environmental protection, etc. from the viewpoint of a wide range of stakeholders.

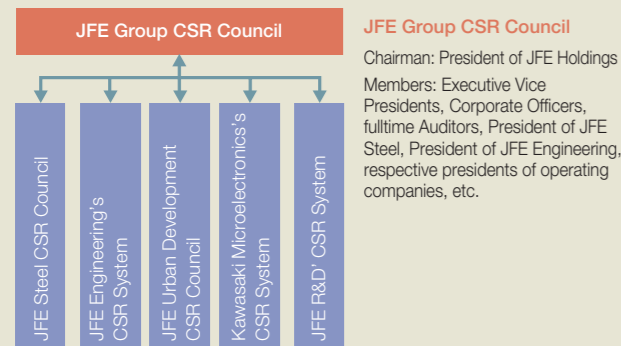
Launch of JFE Group CSR Council

With the aim of improving enterprise value through sustained growth, the JFE Group established the JFE Group CSR Council in October 2005, for the purpose of pursuing CSR activities—which had previously been carried out individually at each operating company—in a planned manner under consistent policies on a Group-wide scale.

The Council is chaired by the President of JFE Holdings, Inc. and convenes a meeting whenever necessary (four times a year as a general rule) with the Executive Vice Presidents, Corporate Officers, fulltime Corporate Auditors and the respective Presidents of JFE Steel Corporation, JFE Engineering Corporation and other operating companies. In consideration of the JFE Group's corporate vision and the Group companies' responsibilities to diverse stakeholders, the agendas encompass its corporate stance in general, including but not limited to issues of compliance, environment, personnel/labor, safety, disaster prevention, customer satisfaction and contribution to society. Its activities include (i) deliberation of Group-wide policies (including instructions and guidance in key projects), (ii) supervision over penetration status of policies and (iii) sharing of information including case studies on how to deal with issues and problems which have occurred.

As for agendas relating to compliance and environment, the existing JFE Group Compliance Council and the JFE Group Environmental Committee (renamed "Environmental Council") are positioned as independent organizations within the JFE Group CSR Council in order to maintain the continuity of their activities from the past, and to ensure consistency with other agendas.

CSR System



Main Activities in the year ended March 2006

In the year ended March 2006, the JFE Group CSR Council launched in October, had convened a meeting four times by March 2006. At the meetings, deliberations centered on measures to enhance the compliance system, and policies for environmental activities in view of reviewing Group-wide CSR from the foundations.

Specifically, the JFE Group Compliance Committee convened a meeting twice, identified problems in each Group company and produced a Compliance Guidebook aimed at establishing a system to encourage all members of the Group to fully understand the spirit of compliance and apply it in practice. In December 2005, the Committee conducted an Attitude Survey on Corporate Ethics, etc. targeted at all officers and employees of JFE Holdings, Inc. and five operating companies totaling some 20,000 people, of which approximately 70% responded.

In the field of environmental activities, the JFE Group Environmental Committee convened a meeting and discussed the next medium-term business plan from April 2006 to March 2009.

The policy for the year ending March 2007 is to look into measures to reeducate employees about the whistle-blowing system (Corporate Ethics Hotline) which has been in place since the inception of the JFE Group in the year ended March 2003, and to examine new education and training programs, etc. in consideration of the analyses and recommendations based on the Attitude Survey, as well as addressing various issues by broadening the scope of discussions.



Main Activities in the year ended March 2006: (i) JFE Steel Corporation

In April 2005, JFE Steel Corporation established the CSR Section which specializes in managing the efforts of each division in an all-inclusive, cross-divisional manner, in order for JFE Steel Group companies to make concerted CSR efforts.

JFE Steel Corporation defines CSR as an endeavor to "improve stakeholder satisfaction and enterprise value", and is committed to making CSR efforts by giving top priority to fields which affect the foundations for the company's survival, such as environmental protection, safety, disaster prevention and compliance.

Its strategic challenges are (i) establishing a Plan-Do-Check-Action (PDCA) cycle and (ii) enhancing the awareness of CSR.

In July 2005, JFE Steel Corporation launched the CSR Council chaired by the President. In addition to the existing Compliance Committee and Environmental Committee, it established 12 committees and subcommittees in its priority fields, such as the Subcommittee for Establishing and Circulating Rules, and the Subcommittee for Raising CSR Awareness.

In the year ended March 2006, the CSR Council convened meetings 11 times, and deliberated issues and policies for each committee and subcommittee. The Subcommittee for Establishing and Circulating Rules, which assumes that compliance with laws, regulations and rules requires an accurate understanding of them, established a new section titled "Information on Establishment, Revision and Abolition of Laws

Environmental Committee	Subcommittee for Internal Audits	Subcommittee for Raising CSR Awareness
Subcommittee for Personnel/Labor Affairs	Subcommittee for Social Contributions	Subcommittee for Group Companies
Subcommittee for Safety & Disaster Prevention	Compliance Committee	Subcommittee for Internal Control
Subcommittee for CS (Customer Satisfaction)	Subcommittee for Establishing and Circulating Rules	Risk Management Committee

and Regulations" on the intranet and appointed legal affairs staff in each division. The Subcommittee for Internal Audits conducted environmental audits including those targeted at Group companies, and conducted special audits on CSR-related agendas, including checking the observation status of the "Personal Information Protection Law".

In the year ending March 2007, JFE Steel Corporation will make efforts to enhance communication based on the results of the Attitude Survey on Corporate Ethics, etc. conducted in the year ended March 2006, including identifying information which should be shared, and developing the means to share such information.



Main Activities in the year ended March 2006: (ii) JFE Engineering Corporation

In consideration of the incident involving violation of the Antimonopoly Law, JFE Engineering Corporation regards compliance with the Antimonopoly Law as its top compliance priority and implemented various measures accordingly.

Under the second Medium-Term Business Plan effective April 2006, which defines "compliance", "safety", "disaster prevention" and "environmental protection" as four basic areas of responsibilities which need to be fulfilled, JFE Engineering Corporation's policy is to strictly execute such responsibilities and thereby pursue business activities which place CSR at the core of management. In particular, with respect to compliance, efforts to properly deal with the Antimonopoly Law and the Construction Industry Law, which are deemed critical in its business activities, will be enhanced further.

Report on Measures to Prevent Recurrence of Antimonopoly Law Violations

Last year, JFE Engineering Corporation and three other companies belonging to the JFE Group were subjected to administrative action and investigation on the grounds of violating the Antimonopoly Law in a tender for public works projects.

We deeply regret having caused substantial inconvenience and concerns to the public. Our companies have been working on and carrying out radical reform in order to prevent such violations from occurring again.

At JFE Engineering Corporation, the President himself is strictly enforcing compliance with the Antimonopoly Law by directly communicating with the employees under a new management team appointed in April 2005. In addition, the following concrete measures are being taken to prevent such violations from recurring.

- (i) The responsibilities of the Compliance Committee (Chairman: President, Members: Directors, Corporate Officers, fulltime Auditors) have been revised. The Committee's activities have been enhanced, such as the inspection and confirmation of the status of compliance with laws and regulations (including Group companies) and planning of compliance training schemes.
- (ii) An outside lawyer has been commissioned to specialize in compliance and the inquiry/whistle-blowing counter of the Corporate Ethics Hotline has been enhanced.
- (iii) Internal rules on marketing activities and their implementation have been reviewed. The work process has been made transparent so that monitoring by superiors and checking by other divisions are functioning.
- (iv) Legal and audit functions have been structurally enhanced, and a group-wide staff organization which oversees marketing and technologies was newly established, in an effort to reinforce internal control.
- (v) The managers of the marketing departments have been changed. Group-wide personnel exchange is being encouraged and the personnel rotation cycle has been shortened.
- (vi) In order to boost the awareness of each and every employee with respect to compliance, improvements have been made to compliance training schemes. At the same time, employees are required to comply with laws and regulations as part of their personal work objectives, and are strictly being instructed to follow through.

Moreover, JFE Engineering Corporation puts priority upon "compliance", "safety", "disaster prevention" and "environmental protection" as fundamental components of our CSR activities in the second Medium-Term Business Plan, and is striving to prevent such violations from occurring again by consistently inspecting and improving the measures mentioned above.

The three other companies belonging to the JFE Group are also implementing similar concrete measures to prevent such violations from recurring.

Management Organization

Management Organization and Internal Control

Restructuring of Management Organization

The JFE Group is structured in such a manner that businesses are run by operating companies placed under a holding company. As the holding company, JFE Holdings, Inc. is the backbone of centralized governance of the JFE Group and serves as the Group's streamlined head office, responsible for group-wide strategic functions, risk management and accountability to the public. The operating companies run businesses based on optimized operational and executive systems tailored to the characteristics of each business field.

Companies belonging to the JFE Group have adopted an auditor system. At JFE Holdings, Inc., the Board of Corporate Auditors-in which the majority of auditors are outside auditors-keeps an eye on management. Moreover, the holding company and major operating companies have adopted a corporate officers system to clearly define authority and responsibility and to accelerate the execution process through the separation of decision-making and execution. Important managerial matters concerning the entire Group are deliberated and resolved by the Management Committee and the Board of Directors of JFE Holdings, Inc. (JFE Hol-

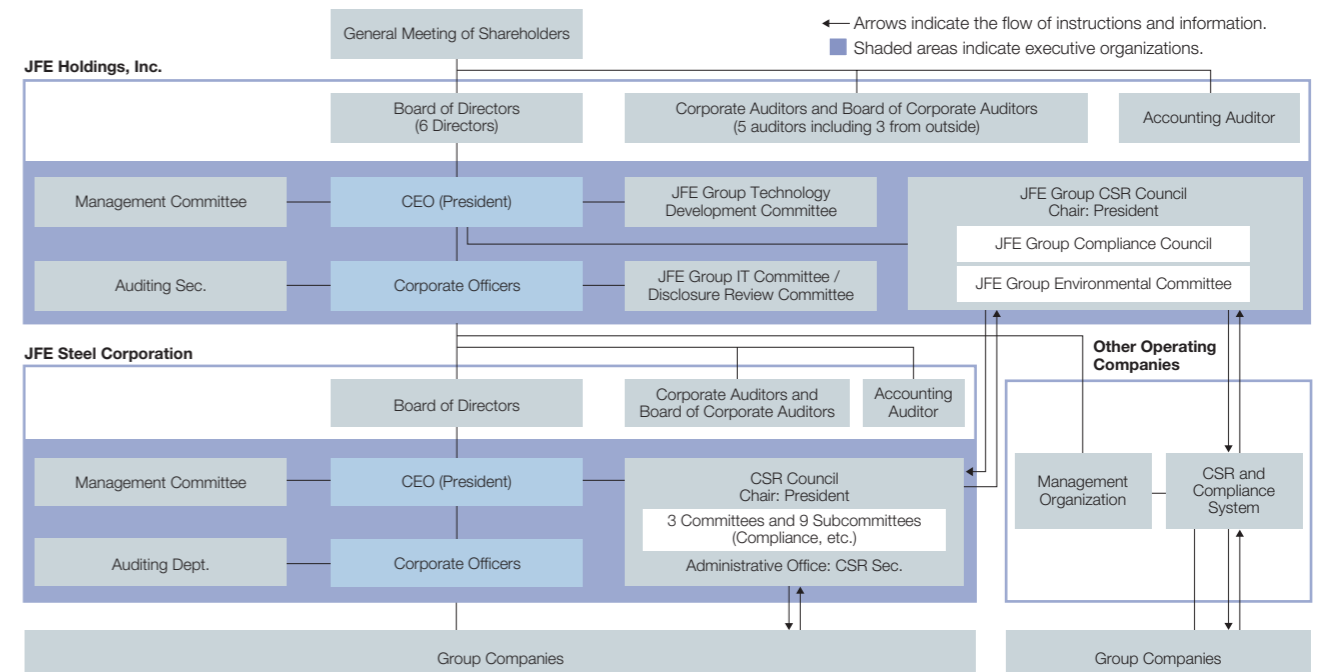
dings, Inc., JFE Steel Corporation and JFE Engineering Corporation hold Management Committee meetings approximately twice a month, and their respective Boards of Directors meet once or twice a month.)

To accommodate different strategies for different product /business lines, and to set a single profit controlling mechanism for optimal product/business management, the JFE Group has adopted a product-based sector system for JFE Steel and a "divisional company" system for JFE Engineering. The JFE Group has also established Group-wide committees to deliberate issues relating to technology development and IT which are shared across the Group.

Development of Internal Control System

JFE has set forth the Basic Policy for Building an Internal Control System (described below). In accordance with the Basic Policy, we have laid down regulations of the Board of Directors, rules of the Management Committee, rules of JFE Group CSR Council, compliance rules of the JFE Group, rules of the Disclosure Review Committee and other various committee rules, as well as organization/work rules and rules on information storage and management, and established the Corporate Ethics Hotline.

Management Organization and CSR Promotion System



Basic Policy for Building an Internal Control System

The JFE Group's corporate vision is to contribute to society with the world's most innovative technology. With the aim of fulfilling this vision and establishing a highly sustainable corporate constitution, we will build an internal control system to comply with laws, regulations and the Articles of Incorporation and to maximize our enterprise value as follows. The Basic Policy and the internal control system built according to the Policy will be subject to constant review and improvement efforts.

1. System referred to in Paragraph 4-6 of Article 362 of the Corporate Law and Each Item of Paragraph 1, Article 100 of the Enforcement Regulations of the Corporate Law

- (1) System to Ensure that the Duties Performed by Directors and Employees Comply with Laws, Regulations and the Articles of Incorporation**
 - (a) The job authority of Directors, Corporate Officers and employees will be clearly defined by organizational authority/work rules, etc., and the duties will be performed accordingly.
 - (b) Compliance Committee will be established, which deliberates and resolves basic policies and important matters relating to compliance with ethical codes, laws and regulations, supervising the implementation of the measures.
 - (c) A system will be developed and properly implemented for important information on compliance with ethical codes, laws and regulations to be conveyed directly to the top management from the employees (Corporate Ethics Hotline).
 - (d) The internal audit organization will conduct audits on the status of compliance with laws, regulations and the Articles of Incorporation.
- (2) System to Ensure the Efficient Performance of Duties by Directors**
 - (a) Efforts will be made to enhance deliberations in the meetings of the Board of Directors and the Management Committee, and as necessary, deliberations at appropriate meetings will be held for proper decision making.
 - (b) The internal audit organization will conduct audits on the effectiveness and efficiency of operations.
- (3) System to Store and Manage Information on Performance of Duties by Directors**
 - (a) The minutes of the Board of Directors will be prepared and properly stored and managed in accordance with laws and regulations which include information on matters resolved and reported at the meeting of the Board of Directors.
 - (b) Information on the Management Committee and other committees which deliberate important managerial matters will be properly recorded, stored and managed.
 - (c) Approval documents and other important documents, etc. relating to the performance of duties will be properly prepared, stored and managed.
- (4) Rules and Other Systems to Manage Risk of Loss**
 - (a) For risk management associated with business activities, compliance with ethical codes, laws and regulations, financial reporting, disclosure of information, etc., Corporate Officers, etc. in charge will make efforts in identifying risks and as necessary, the risks will be confirmed and evaluated at the appropriate meeting and the policies on how to tackle such risks will be deliberated and resolved.
- (b) Resolution procedures for important managerial matters will be prescribed in the regulations of the Board of Directors, and such matters will be deliberated and resolved accordingly.
- (5) System to Ensure Appropriate Operations within the Enterprise Group**
 - (a) Companies belonging to the JFE Group will develop a system with respect to matters set forth in the Basic Policy as necessary, in consideration of the company size, nature of business, organization design and other characteristics and traits of the company.
 - (b) Risk Management System
 - JFE will prescribe the resolution procedures for important managerial matters concerning the entire Group in the regulations of the Board of Directors, etc., and deliberate and resolve such matters accordingly.
 - Each operating company (key operating subsidiary in which JFE Holdings, Inc. has a direct shareholding) will prescribe the resolution procedures for important matters concerning the company itself and Group companies under its control in the regulations of the Board of Directors, etc., and deliberate and resolve such matters accordingly.
 - (c) Compliance System
 - JFE will establish the JFE Group Compliance Committee, deliberate and resolve the basic policies for and important matters relating to the Group's compliance with ethical codes, laws and regulations and oversee the implementation status of measures. Furthermore, the JFE Group Compliance Committee will work together with the respective compliance committees of the operating companies to promote compliance with ethical codes, laws and regulations.
 - Each operating company will establish a compliance committee, deliberate and resolve the basic policies for and important matters relating to compliance with ethical codes, laws and regulations by the company itself and Group companies under its control and oversee the implementation status of measures.
 - Each Group company under the control of an operating company will establish a system required for compliance with ethical codes, laws and regulations, in consideration of the company size, nature of business, organization design and other characteristics and traits of the company.
 - (d) Financial Reporting and Disclosure System
 - Each company belonging to the JFE Group will establish a system required for ensuring the reliability of financial reports and a system required for disclosing information in a timely and appropriate manner.

2. System referred to in Each Item of Paragraph 3, Article 100 of the Enforcement Regulations of the Corporate Law

- (1) Matters concerning Employees Assisting the Duties of Corporate Auditors**
 - Employees will be appointed in the Office of Corporate Auditors to assist the duties of Corporate Auditors.
- (2) Matters concerning the Independence of Employees Assisting the Duties of Corporate Auditors from Directors**
 - Personnel affairs of such employees will be subject to consultation with Corporate Auditors.
- (3) System to Report to Corporate Auditors**
 - (a) Corporate Auditors will attend the meetings of the Board of Directors, meetings of the Management Committee and other important meetings and receive reports.
 - (b) Directors, Corporate Officers and employees will report the status of performance of duties to the Board of Corporate Auditors or Corporate Auditors, as necessary or upon the request of the Board of Corporate Auditors or Corporate Auditors.
- (4) Other Systems to Ensure that Audits are Conducted Effectively by Corporate Auditors**
 - (a) Directors, Corporate Officers and employees will cooperate in creating an auditing environment which facilitates the activities of Corporate Auditors, such as the perusal of important documents required in audits conducted by Corporate Auditors, site investigation, exchange of opinions with Directors, investigation of subsidiaries, collaboration with corporate auditors of subsidiaries, etc.
 - (b) Corporate Auditors will receive reports on the results of audits conducted by the Accounting Auditor and the internal audit organization from time to time and work closely with each of them.



President & CEO
Fumio Sudo



Member of the Board
Executive Vice President
Yuichi Moriyama



Member of the Board
Executive Vice President
Toshikuni Yamazaki



Member of the Board
Masayuki Hammyo



Member of the Board
Hajime Bada



Member of the Board
Osamu Saito

Members of the Board

President & CEO	Fumio Sudo
Member of the Board	Yuichi Moriyama
	Toshikuni Yamazaki
	Masayuki Hammyo
	Hajime Bada
	Osamu Saito

Corporate Auditors

Fulltime Auditors	Tetsuo Miyazaki
	Kunioki Kubo
External Auditors	Aritsugu Tashiro
	Toshikuni Nishinohara
	Takaaki Wakasugi

Corporate Officers

President & CEO	Fumio Sudo	CEO
Executive Vice President	Yuichi Moriyama	Supervision of General Administration Dept., Corporate Planning Dept. and DME Project Dept.
Executive Vice President	Toshikuni Yamazaki	Supervision of Finance and Investor Relations Dept. and Comptrollers' Dept.
Senior Vice President	Eiji Hayashida	In Charge of Corporate Planning Dept., Comptrollers' Dept. and DME Project Dept.
Vice President	Sakio Sasamoto	In Charge of General Administration Dept.
Vice President	Shinichi Okada	In Charge of Finance and Investor Relations Dept.

Chapter I
Economic Aspects

Seeking Further Growth

In order for a company to grow, it is necessary to generate steady earnings based on a sound corporate constitution.

The JFE Group strives toward further growth by building on a corporate constitution that places importance on its origin as a manufacturing-oriented enterprise group. We are focusing on improving cost competitiveness, establishing superiority in terms of quality, developing new products and new technologies, improving the productivity of employees, and ensuring skills and techniques are effectively passed from one generation to the next.



Business Overview of the JFE Group

The earnings forecast for the year ending March 2007 is based on data published when the financial results were announced on April 27, 2006.

The JFE Group has endeavored to create high value-added, quality products and services and to boost its enterprise value based on its long-term relationships of trust with customers and partners. Since its establishment in September 2002, and in accordance with its corporate vision, which is to contribute to society with the world's most innovative technology, the group has consistently invested its management resources in the development of innovative technologies.

We will continue to focus on achieving the highest levels of competitiveness by capitalizing on our strong operational base, advanced technological capabilities, state-of-the-art steelworks, manufacturing plants, and other facilities with unparalleled efficiency, and by creating an innovative corporate culture which continually takes on challenges to bring about change. As part of our efforts to become an excellent company that produces sustained growth, we aim to respond to global customer needs better and faster, enhance credibility among shareholders and capital markets worldwide, provide employees with new challenges and opportunities, and contribute to local communities and global environmental conservation.

Overview of the years ended/ending March 2006 and March 2007

Consolidated business performance of the JFE Group in the year ended March 2006 was ¥3,098.3 billion in net sales, ¥517.1 billion in operating income, ¥517.3 billion in ordinary income, ¥509.2 billion in income before income taxes and ¥325.9 billion in net income, all of which increased year-on-year.

A year-end dividend of ¥100 per share was declared, an increase of ¥55 over the previous year, to the increased dividend was made possible by substantial improvements in JFE Group's financial position, and by efforts to

maximize cash flow including the facilitated disposal of assets. Consolidated ordinary income in the year ended March 2006 reached ¥517.3 billion, more than double the target under the first Medium-Term Business Plan expiring in the year ended March 2006 (hereinafter referred to as "the Plan").

Our consolidated earnings forecast for the year ending March 2007 is ¥3,120 billion in net sales, ¥470 billion in operating income, ¥460 billion in ordinary income and ¥270 billion in net income.

In line with our policy of actively paying dividends, which reflects our view that generating shareholder returns is one of our top management priorities, we are looking into paying an interim dividend in the year ending March 2007.

Consolidated Operating Results (billions of yen)

Years ended March 31	2005	2006
Net sales	2,803.6	3,098.3
Operating income	467.2	517.1
Ordinary income	460.6	517.3
ROS	16.4%	16.7%
Net income	160.0	325.9
Annual dividend per share	45.00(Yen)	100.00(Yen)

Consolidated Performance Forecast for the year ending March 2007 (billions of yen)

Year ending March 31	2007
Net sales	3,120.0
Operating income	470.0
Ordinary income	460.0
ROS	14.7%
Net income	270.0

JFE Steel Corporation

Overview of the years ended/ending March 2006 and March 2007

In the year ended March 2006, JFE Steel managed to secure a high level of earnings on the back of brisk demand in the manufacturing industry, especially in the automotive sector. Consolidated crude steel output decreased from the previous year to 30.15 million tons, as production, especially with respect to thin steel sheets in the domestic and Asian markets, was adjusted to improve the balance between demand and supply. Net sales increased from the previous year to ¥2,753.8 billion, reflecting flexible management of production and sales in line with changes in market trends.

JFE Steel's ordinary income increased to ¥510.7 billion from the previous year. The improvement was attributed to the acceleration of sales of high value-added products

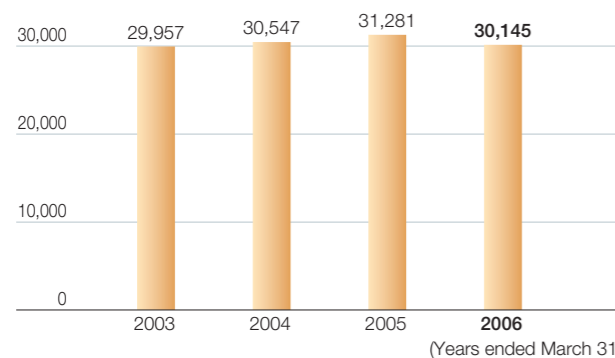
Operating Results

(billions of yen)

Years ended March 31		2005	2006
Net sales	Non-consolidated	1,640.4	1,937.1
	Consolidated	2,421.7	2,753.8
Operating income	Non-consolidated	334.6	394.4
	Consolidated	456.3	513.8
Ordinary income	Non-consolidated	341.6	404.5
	Consolidated	450.3	510.7
ROS	Consolidated	18.6%	18.5%

Consolidated Crude Steel Output

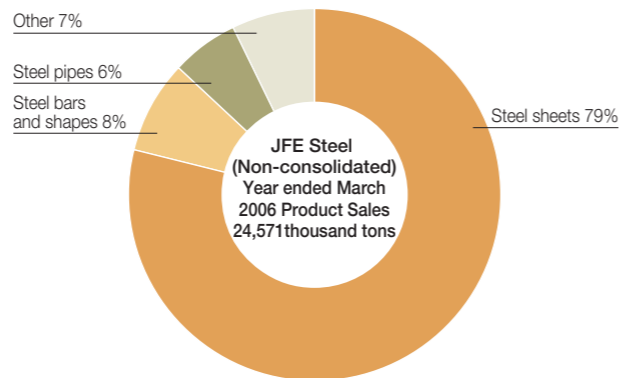
(thousand tons)



including "Only One" and "Number One" products, and the further reduction of costs. In addition, our subsidiaries' success in sustaining their good performance based on their efforts to enhance their earnings base, which offset the impact of the surge of raw materials prices and the curtailment of production detrimental to the bottom line, also contributed to the improvement in ordinary income.

Demand in the field of high-end products is expected to remain brisk both at home and abroad in the year ending March 2007, while improvements in the demand-supply balance are anticipated in the field of general-purpose products. We will continue to aim for a flexible and appropriate approach, by keeping a sharp eye on the market with respect to each product category and field, and by determining real demand, while making efforts to improve the percentage of high value-added products.

Shipment Status



Summary of the First Medium-Term Business Plan from April 2003 to March 2006

Under the first Plan, we concentrated our efforts on building a strong financial position by realizing the effects of the merger as soon as possible. Specifically, we worked hard to establish a two-steelworks framework based on the East Japan Works and the West Japan Works, enhance the technology development framework through the establishment of the Steel Research Laboratory, build a vertically-integrated, high-end steel products network centering on Asia, and make investments aimed at the stable procurement of raw materials. Our policy to pursue high value-added products is steadily showing results, as exemplified by the substantial increase in the percentage of "Only One" and "Number One" products in JFE Steel's net sales, from 7% in the first year of the Plan, to 21% in the year ended March 2006, exceeding the target which was the doubling of the percentage. Moreover, we have made significant steps in establishing an optimal production system, and in improving the capacity utilization of facilities, having reduced the number of blast furnaces by two, and suspended 15 rolling lines, to consolidate facilities. We also completed the reorganization and consolidation of

subsidiaries in 13 fields, which was more than the 9 fields targeted under the Plan.

In addition, our joint-venture manufacturer of galvanized steel sheets for automobiles in Guangzhou, China (Guangzhou JFE Steel Sheet Co., Ltd.) commenced commercial production this spring, creating a foothold in the Chinese market.

Trends in Consolidated Performance during the period of the First Medium-Term Business Plan

(billions of yen)

Years ended March 31	2004	2005	2006
Net sales	2,103.9	2,421.7	2,753.8
Ordinary income	208.5	450.3	510.7
ROS	9.9%	18.6%	18.5%

Status of "Only One" and "Number One" Products

(billions of yen)

Years ended March 31	2004	2005	2006
Non-consolidated net sales of JFE Steel	1,315.6	1,620.3	1,902.5
Percentage of "Only One" and "Number One" products	13%	17%	21%

JFE Steel Corporation



Outline of the Second Medium-term Business Plan from April 2006 to March 2009

Domestic steel demand during the period covered by the second Plan, up until the year ending March 2009, is expected to be stable, sustained by an underlying trend towards slow recovery. Demand in the manufacturing sector including automotive, shipbuilding and machinery production is expected to be strong, while demand in the construction sector is projected to fall. Overall demand is expected to be more or less the same as the level in the year ended March 2006.

Overseas demand for high-end steel is expected to increase in the medium and long run.

Given these market conditions, our aim under the second Plan is to become a trusted supplier of the world's top value-added products by expanding sales of products, which incorporate and reflect our technological leadership. Simultaneously, we will strive to secure growth into the future, continuing to develop and expand sales of high-end products, while further strengthening our financial position.

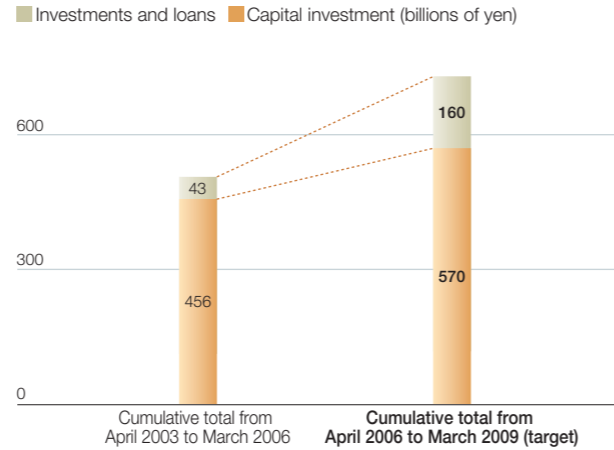
Our top priority under the second Plan is to increase sales of high value-added products, and continue to build a stable production system. Therefore, we will boost our world-leading technology development capabilities, working hard to strengthen our relationship with allies focusing on high value-added products, and reinforce our domestic production system.

For the purpose of expanding sales of high value-added products, we will develop "Only One" and "Number One" products targeted at sectors such as automotive and energy where high-end steel demand is likely to continue growing in the future, and will further improve

customer satisfaction with respect to technology, quality, delivery, etc. In addition, we will enhance our production facilities to increase our annual production output by 3 million tons compared to the level in the year ended March 2006. Moreover, in order to boost the competitiveness, both in terms of cost and quality, of the two-steelworks framework built around the East Japan Works and the West Japan Works, where our strength lies, we will endeavor to reinforce the foundations at our production facilities: expanding training opportunities for our personnel; facilitating the effective transfer of skills and techniques to new generations; improving labor productivity; and procuring raw materials at low prices on a stable basis. At the same time, we will tackle global environmental issues, including reducing CO₂ emissions.

Our second priority is to enhance our competitiveness on a Group-wide scale, and to maximize consolidated earnings. Accordingly, a common challenge for the entire

JFE Steel's Investment and Loan Plan (payment basis)



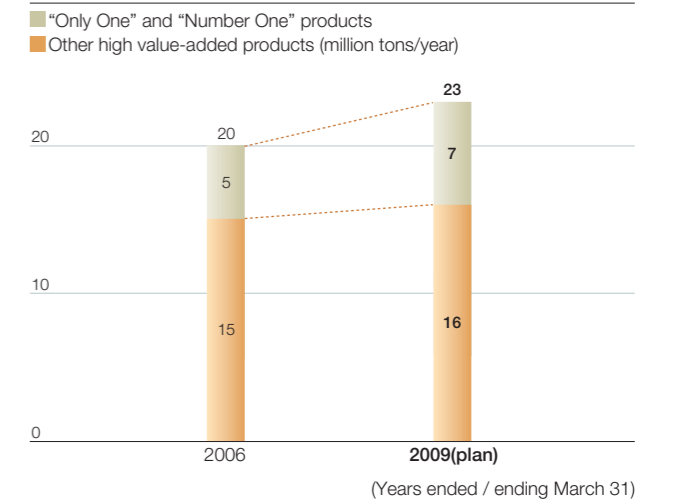
Major Capital Investments in the year ending March 2007

Place of Business	Project Name	Furnace capacity/production capacity	Completion of Work	Amount of Investment
West Japan Works	Fukuyama Revamp of blast furnace no.4	5,000m ³	May 2006	¥25 billion
West Japan Works	Fukuyama Construction of new galvanizing line no.4	0.6 million tons/year	Second half of the year ending March 2007	¥18 billion
East Japan Works	Keihin Construction of new pickling line	1.2 million tons/year	Second half of the year ending March 2007	¥13 billion
Chita Works	Enhancement of production capacity of 13 Cr seamless oil country tubular goods (OCTGs)	90,000→120,000 tons/year	January 2007	¥10 billion

Group will be to further develop the foundations of our organization: striving to secure and train competent personnel; providing an environment in which skills and techniques are passed smoothly from one generation of employees to the next; improving labor productivity overall; and boosting cost competitiveness.

Our third priority is to develop a business framework that is capable of quickly recognizing and capitalizing on opportunities for growth, especially in view of the increase in demand for high-end steel products centering on Asia. In particular, Guangzhou JFE Steel Sheet Co., Ltd., which commenced commercial production in the spring of 2006, will be developed into a fully-fledged producer as soon as possible, to meet expanding demand.

Volume of Sales of High Value-added Products



Signing ceremony with Guangzhou JFE Steel Sheet Co., Ltd.



JFE Engineering Corporation

Overview of the years ended/ending March 2006 and March 2007

In the year ended March 2006, JFE Engineering exerted efforts to cultivate new businesses and cut costs especially fixed costs, amid dramatic structural changes in the public works market. Despite such efforts, its profits and revenues decreased from the previous year, due in part to the impact of its suspension from nominated tenders for steel bridge superstructure projects. Orders received totaled ¥290.7 billion, net sales amounted to ¥306 billion and ordinary income was ¥900 million.

In the year ending March 2007, we will seek to expand our businesses by taking a versatile approach to Engineering, Procurement & Construction (EPC) business, recycling business, etc. in the environment and energy markets which are expected to grow in the future, such as fuel conversion, energy conservation, utilization of waste as a source of energy, and reduction of CO₂ emissions.

On the other hand, our businesses relating to steel structures, water pipes/conduits and water treatment—which are highly susceptible to the public-sector market—continue to face a tough business environment due to the impact of the curtailment of public investment and our suspension from nominated tenders. However, profits are expected to increase in line with our efforts such as the rapid transition to a fixed-cost structure commensurate with the scale of our business and the withdrawal from unprofitable businesses.

Consolidated Operating Results (billions of yen)

Years ended March 31	2005	2006	
Orders received	Energy	79.0	78.6
	Environment	120.4	86.9
	Steel structures & machinery	103.1	50.9
	Other	57.3	74.3
	Total	359.8	290.7
Net sales	Energy	71.1	66.3
	Environment	146.5	124.4
	Steel structures & machinery	69.2	58.2
	Other	64.7	57.1
	Total	351.5	△306.0
Operating income	5.3	△3.3	
Ordinary income	8.7	0.9	

Summary of the First Medium-Term Business Plan from April 2003 to March 2006

Under the first Plan, JFE Engineering endeavored to enhance the “divisional company” system based on business divisions and functional subsidiaries, promptly adapt to changes in the business environment, promote the sharing of strategies and maximize consolidated earnings in each business field. We also aimed to expand our business based on the “Only One” and “Number One” strategy.

However, the scale of our business diminished significantly due to structural changes in the public-sector market, which was our main source of income. We responded to this by cutting costs and curtailing selling, general and administrative expenses, but the business environment worsened even more. The situation was partly compounded by our suspension from nominated tenders in the year ended March 2006, which forced us to receive even less orders and resulted in the failure to fulfill the Plan.

Trends in Consolidated Performance during the period of the First Medium-Term Business Plan (billions of yen)

Years ended March 31	2004	2005	2006
Orders Received	338.1	359.8	290.7
Net Sales	339.4	351.5	306.0
Ordinary Income	5.4	8.7	0.9
ROS	1.6%	2.5%	0.3%

Outline of the Second Medium-term Business Plan from April 2006 to March 2009

For the foreseeable future, JFE Engineering will be forced to operate in each business field amid fierce competition with survival at stake. To overcome this, our objective under the Second Medium-term Business Plan is to establish key products and services which generate earnings of the highest level in each business field, to revive as an enterprise group.

Firstly, we will thoroughly execute selection and concentration with respect to business fields, and lower our breakeven point by radically slashing fixed costs especially in the steel structures business and water plants business. Specific efforts to substantially reduce fixed costs will include: withdrawing from and curtailing unprofitable businesses; thoroughly improving the efficiency of common divisions; streamlining staff proportionately to the scale of business; cutting shared expenses by reexamining redundant functions within the Group; conducting a drastic review of Group-wide R&D expenses including the revision of the concept of research laboratories; and transferring some of the head office functions to Tsurumi Engineering and Manufacturing Center. We will also pursue reductions in variable costs in a thoroughgoing fashion.

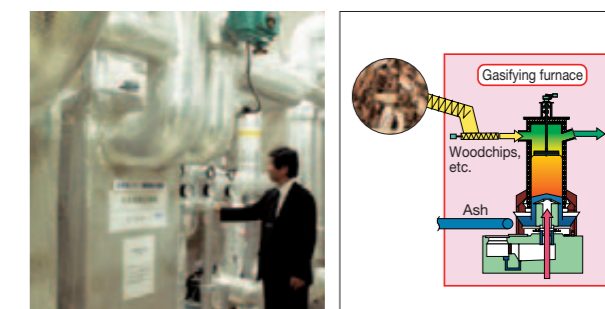
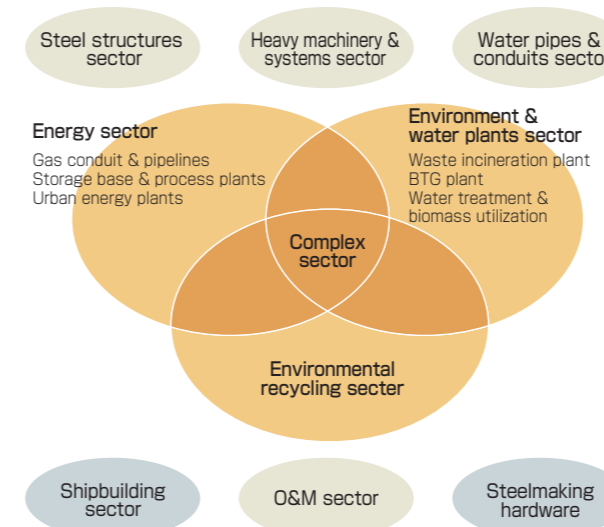
Early restructuring of our earnings base will be sought by completing the review and development of our business structure according to such changes in the demand structure within the year ending March 2007.

Moreover, based on our wealth of experience and technologies in the fields of energy and environment, we will strive to expand the scope of our energy, energy conservation and recycling businesses focusing on the private sector and overseas, with respect to both plant construction projects and operation projects.

Specifically, for the purpose of expanding the sales of our technologies and products, we will make enhancements in the fields of energy conservation (e.g., hydrate slurry), biomass power generation plants (e.g., waste wood biomass), energy conservation of production facilities aimed at reducing CO₂ emissions and utilization of unused forms of energy. Furthermore, we will nurture and enhance our environmental & recycling business into a stable earnings base, in anticipation of the further increase in demand for resources recycling. We will also establish the foundations of our overseas businesses through human resources development and accumulation of expertise.

Based on such efforts, our ROS target for the final year of the Plan (the year ending March 2009) is 6%, which is a level no inferior to industry leaders. In conjunction with this, we will appropriately observe the Antimonopoly Law, the Construction Industry Law, etc. Especially in regards to the Antimonopoly Law, we will strictly enforce fair trading more than ever and ensure compliance with new institutionalized frameworks, rules, etc.

Business Portfolio



Clathrate hydrate slurry (CHS) latent heat air-conditioning system
Woody biomass gasification power generation system

JFE Urban Development Corporation



Overview of the years ended/ending March 2006 and March 2007

The market has been in a good state in that the condominium supply in the Tokyo Metropolitan Area exceeded 80,000 for eight consecutive years and the percentage of property sales contracts signed in the first month exceeded 80% for the first time in nine years in the year ended March 2006.

JFE Urban Development's net sales decreased to ¥28.5 billion due to untimely condominium sales, but its ordinary income increased from the previous year to ¥2.8 billion due to cost reduction and other such efforts.

In the year ending March 2007, JFE Urban Development expects the scale of its business to expand, including the fulfillment of sales from the Yokohama Yamanouchi

condominium project.



Yokohama Yamanouchi development

Summary of the First Medium-Term Business Plan from April 2003 to March 2006

Under the first Plan, JFE Urban Development promoted the large-scale development and utilization of company-owned land including the Yamanouchi region in Yokohama, and executed condominium projects centering on the Tokyo Metropolitan Area as the mainstay of our profitable businesses.

Trends in Consolidated Performance during the period of the First Medium-Term Business Plan (billions of yen)

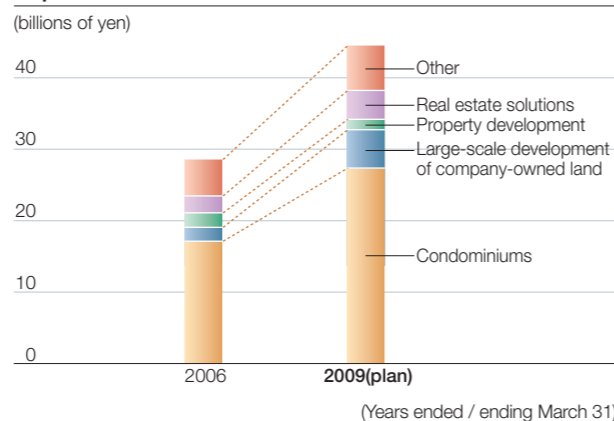
Years ended March 31	2004	2005	2006
Net sales	26.2	31.5	28.5
Ordinary income	1.3	2.2	2.8
ROS	5.3%	7.2%	9.8%

Outline of the Second Medium-term Business Plan from April 2006 to March 2009

We will continue to promote our development business to increase the value of real estate owned by the Group, and strive to attain sustained growth by establishing a high reputation in the market as a mid-sized developer.

Specifically, we will continue to put our efforts into the large-scale development project in the former Asano Dockyard in Yamanouchi, Yokohama and development projects centering on condominium projects. Our endeavors to attain further growth will include enhancing our rental property business and actively expanding outside the Group our real estate solutions business involving urban redevelopment projects and land utilization projects (condominium tower sale, equivalent exchange).

Expansion of Business Scale (billions of yen)



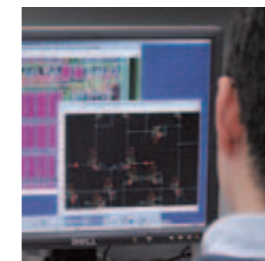
Kawasaki Microelectronics, Inc.



Overview of the years ended/ending March 2006 and March 2007

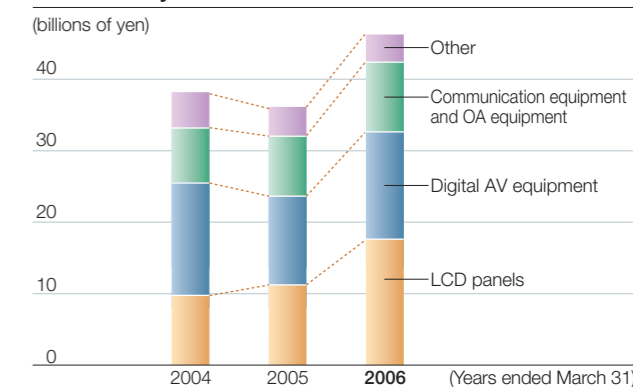
In the year ended March 2006, shipment of Kawasaki Microelectronics' flagship Application-Specific Integrated Circuit (ASIC) products for LCD panels was buoyant, despite the impact of the fall in product prices. As a result, both revenue and profits increased from the previous year: net sales totaled ¥46.1 billion and ordinary income amounted to ¥2 billion.

Kawasaki Microelectronics' objective for the year ending March 2007 is to increase sales, especially with respect to products targeted at LCD panels for which demand is expected to remain strong.



Designing of ASIC

Net Sales by Product Field (billions of yen)



Summary of the First Medium-Term Business Plan from April 2003 to March 2006

Under the first Plan, we enhanced our competitiveness in receiving orders for ASIC products and sales grew primarily in the field of LCD panels.

Trends in Consolidated Performance during the period of the First Medium-Term Business Plan (billions of yen)

Years ended March 31	2004	2005	2006
Net sales	38.0	36.0	46.1
Ordinary income	4.6	1.8	2.0
ROS	12.2%	5.0%	4.4%

Outline of the Second Medium-term Business Plan from April 2006 to March 2009

In order to provide customers with distinctive product development solutions, we will further boost our designing, manufacturing and technical service capabilities to promptly meet a wide range of technical requirements. In particular, we will seek to expand the volume of transactions with prominent customers in priority fields such as products targeted at LCD panels and tap new application fields. Specifically, we will focus our efforts on the fields of LCD panels, flat-screen televisions, OA equipment and communication equipment by taking advantage of our integrated production system which can assure a high level of reliability, spanning from designing, wafer manufacturing and assembly all the way up to testing.

In addition, we will strive to become a listed company as soon as possible, with the aim of strengthening our financial base for the further expansion and progress of our businesses.



Utsunomiya Works

JFE Group's R&D System

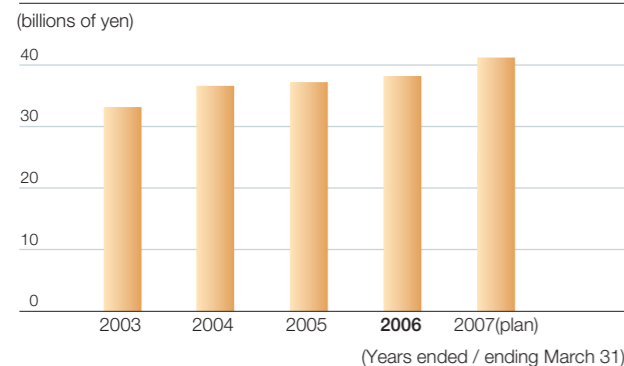
R&D Efforts aimed at Further Progress and Growth

Based on its corporate vision to contribute to society with the world's most innovative technology, the JFE Group efficiently conducts R&D at each of its operating companies in a highly creative fashion, and pursues R&D on the back of strong teamwork between JFE R&D Corporation and other Group companies. The JFE Group Technology Development Committee chaired by the President of JFE Holdings, Inc. formulates Group-wide R&D strategies and selects and works on crucial projects which need to be tackled across the Group.

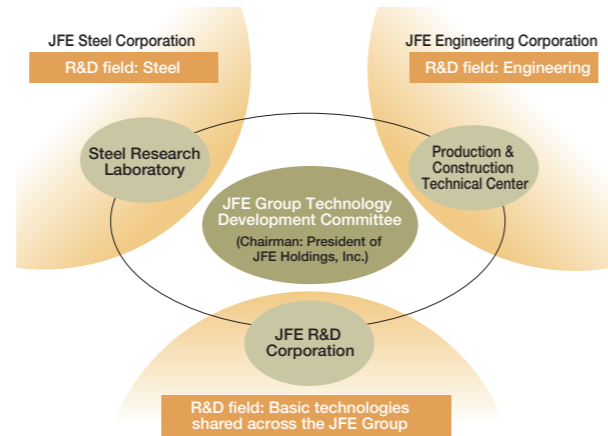
The JFE Group as a whole boasts a development team with approximately 700 researchers (about 1,000 members including non-researchers engaged in development) and continually makes more than 1,800 patent applications per year. Its R&D system is one of the biggest in the world for an enterprise group with steel and engineering businesses at its core.

The development concept shared across the Group is to consistently be the industry leader and tap new fields, based on: the development of new proprietary products foreseeing customer needs; the development of technologies for the efficient production of high-quality products; the development of products and manufacturing technologies which help protect the global environment; and developments capitalizing on Group-wide synergies. Our flexible response to changes in the business environment, combined with our aggressive R&D efforts to secure high profitability and gain confidence from the market and the general public, are serving as the driving force for the Group's progress and growth.

Trends in R&D Expenses



JFE Group's R&D System



Further Enhancement of Customer-oriented Approach

In August 2005, the Customers' Solution Laboratory (CSL) opened within the JFE Steel Research Laboratory in Chiba as a base for Early Vendor Involvement (EVI) activities targeted at customers in the automotive sector—the first of its kind in Japanese Steel industry.

CSL is a complex featuring exhibitions of the latest research accomplishments, a work space where research is conducted on vehicle body structures and high performance steel components, and the state of the art forming and joining technology, laboratories and conference rooms. It has been visited by many automakers and components manufacturers—more than 300 visitors—since its opening.

CSL vigorously conducts joint research based on activities in unison with customers and simultaneously helps accelerate R&D.

* Please also refer to *Improvement of Customer Satisfaction (CS)* on P.48.



Customers' Solution Laboratory in Chiba

Major External Awards Received Since April 2005

Awarded in	Description of Award	Award-winning Technology	Category
May 2005	The Society of Materials Science, Japan: Award for Technical Developments	Stainless steel for motorcycle disk brakes with improved heat resistance based on precipitates control	●
May 2005	Japan Society for Technology of Plasticity: AIDA Awards	Development of Precise Method for Strip Flatness in Cluster-type Rolling Mill	●
June 2005	The Japan Society of Industrial Machinery Manufacturers—Excellent Environmental Equipment Award: Chairman's Award	Phosphorus recovery and recycling system based on Magnesium Ammonium Phosphate (MAP) method	▲
August 2005	Japan Coating Technology Association: Technology Award	Development of new laminated steel sheets for food tins	●
September 2005	Japan Institute of Metals: Technology Development Award	Development of High Strength Steel Plates with Excellent Toughness by Controlling Morphology of Carbides through HOP (Heat-treatment On-line Process)	●
September 2005	Japan Institute of Metals: Technology Development Award	High Strength Ferritic Stainless Steel Sheet with Deep Drawability Utilizing Control of Slip System by Chromium	●
September 2005	Japan Institute of Metals: Technology Development Award	Development of "Universal Brite type E" New Film Laminated TFS for 18L Can and Pail Can	●
January 2006	Excellent Energy Conserving Equipment Award: METI Minister's Award	High-performance descaling nozzle	●
February 2006	Japan Institute of Energy: Award in Technical Division	Research and Development on Advanced High-Temperature Air Combustion Technology (HICOT)	▲
February 2006	Japan Institute of Energy: Thesis Award	Pseudo-components ramping technology for softened and molten coal based on high-temperature Nuclear Magnetic Resonance (NMR)	●
March 2006	Japan Industrial Techniques Grand Prix: Prime Minister's Award	Development and practical application of new air conditioning system using Clathrate Hydrate Slurry (CHS)	▲
April 2006	Japan Society of Civil Engineers: Kansai Branch's Technology Incentive Award	New reinforcement technology and deformation monitoring technology for existing shield tunnels	▲
May 2006	Japan Society for Technology of Plasticity: AIDA Medal	Development of New ERW Steel Tube "HISTORY Steel Tube" with High Strength and Excellent Formability using Warm	●

Main R&D Topics Since April 2005

Announcement Date	Topics	Category
April 5, 2005	JFE develops damping brace for high-strength/high-energy-absorbing anti-seismic reinforcements for bridges.	●
May 17, 2005	JFE's photocatalyst air purification system: Starts sale of full-fledged systems for removing substances in high concentrations.	▲
June 16, 2005	JFE establishes joint venture with ThyssenKrupp Steel AG—Promotion of Early Vendor Involvement (EVI) activities for automotive steel sheets—	●
July 22, 2005	Clathrate Hydrate Slurry (CHS) Latent Heat Air-conditioning System introduced in Tsurumi Engineering and Manufacturing Center highly commended in the field of thermal storage.	▲
August 2, 2005	JFE develops a water-retaining paving material called "Road Cool" for mitigating the heat-island phenomenon.	●
August 4, 2005	JFE410DH (11%-chrome steel product for building construction) meets long-life "century housing" requirements.	●
August 18, 2005	JFE becomes the world's first to develop nickel-free, molybdenum-free chrome stainless steel with high corrosion resistance.	●
August 24, 2005	JFE opens a new base called "Customers' Solution Laboratory" in the Steel Research Laboratory.	●
October 11, 2005	Hot-formed seamless rectangular steel tubes for building construction "JFE Kakuhot" certified by Minister of Land, Infrastructure and Transport.	●
November 1, 2005	JFE opens a new base for steel structures field called "THINK SMART" in the Steel Research Laboratory.	●
November 15, 2005	JFE commences the long endurance test of small scale DME (dimethyl ether) fueled cogeneration system.	■
November 29, 2005	DME-fueled trucks start running on public roads for business purposes.	■
December 12, 2005	JFE develops new alloy steel powder for automotive parts—Realization of high rotating bending fatigue strength without need of high-temperature sintering—	●
December 13, 2005	JFE develops ultrahigh-strength plate "HITEN" (JFE-HYD960LE)—Expansion of product lineup of HITEN plates based on Heat-treatment On-line Process (HOP)—	●
December 14, 2005	JFE achieves groundbreaking low nitrogen oxide (NOx) emissions from DME-fueled diesel engines.	▲
December 21, 2005	JFE develops sophisticated segregation-free steel powder "JIP Clean Mix LEX".	●
December 26, 2005	"Hyper-burring High-carbon Hot-rolled Steel Sheets" adopted in automatic transmission (AT) components.	●
January 26, 2006	JFE receives orders for high-performance line pipes based on Heat-treatment On-line Process (HOP) on a full scale.	●
February 6, 2006	JFE develops ultrahigh-strength steel bar with ultrafine austenite structure "Fine γ"—Becomes the world's first to succeed in stable mass production—	●
February 20, 2006	780MPa-class ERW steel pipes adopted in automotive suspension parts for the first time in the world, production goes into full swing.	●
March 1, 2006	JFE develops sophisticated automotive steel pipe "Steel Pipe for Quenched Torsion Beam"—Adopted in suspension parts, production goes into full swing—	●
March 16, 2006	JFE develops highly-efficient bending technology applicable even to high-strength steel pipes "PRB Process"—Jointly developed with Toyota Motor Corp. and Taiyo Corp.—	●
April 6, 2006	Clathrate Hydrate Slurry (CHS) Latent Heat Air-conditioning System introduced in Azalea Underground Mall in Kawasaki.	▲
May 8, 2006	JFE becomes the world's first to discover "polygonal spiral-shaped carbon nanotubes".	■▲
May 16, 2006	JFE develops new resistance spot welding technology for automobile body assembly.	●
May 16, 2006	JFE succeeds in the development of "E3G", the world's most Excellent, high-Efficient and Environmental friendly Gas engine.	▲

For further information on each topic, please refer to the News Release section of our website.

For the Protection of the Global Environment

The JFE Group considers the improvement of the global environment to be of utmost importance for management, and promotes business operations in harmony with the environment to create a prosperous society. Based on this environmental philosophy, we are striving to protect the global environment and aiming to grow into an environmentally-friendly enterprise.

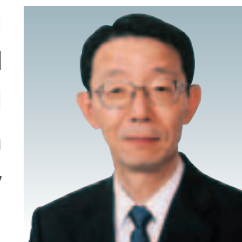
For a more detailed environmental report, please access our website.
environmental report <http://www.jfe-holdings.co.jp/en/environment/index.html>



Message from Officers

Aiming to Grow into an Environmentally-friendly Enterprise

The JFE Group is committed to coexisting harmoniously with and improving the global environment, as declared in its standards of business conduct and environmental policy. Having declared the enhancement of our environmental efforts as a major objective again under the second Medium-Term Business Plan from the year ending March 2007 onwards, we will pursue environmentally-friendly business activities.



Senior Vice President
Eiji Hayashida

Enhancement of Environmental Protection Activities

The environmental problems associated with water quality at JFE Steel's East Japan Works in Chiba in December 2004 have served as a trigger to conduct stricter reviews of the environmental management system (EMS) within the JFE Group. While enhancements to environmental management have started to yield results, we will make greater efforts so as to gain local residents' confidence in our environmental protection activities.

Strict Enforcement of Energy Conservation in Production Activities

The JFE Group will strictly enforce energy conservation in manufacturing processes, with the aim of realizing manufacturing processes with the least CO₂ emissions in the world.

Environmental Contributions through Technologies and Products

For steel products, we will prevent global warming by

reducing the weight of automobiles based on high tensile strength steel sheets and by saving energy in motors, etc. based on electromagnetic steel sheets. In the field of engineering, we will help reduce the environmental load of society and prevent global warming by energy-saving technologies such as the clathrate hydrate slurry (CHS) latent heat air-conditioning system, renewable energy technologies, technologies to remove harmful substances, environmental plants technologies, etc. In the field of recycling, we will implement recycling businesses which bring together steelmaking technologies and engineering technologies, and play our part in the sustained recycling of resources in the region.

Promotion of Environment-related Communication

In order to boost the quality of environmental management, we believe it is important to improve our environmental efforts while seeking stakeholders' opinions. We will continue to facilitate communication with shareholders into the future.

Environmental Philosophy

The JFE Group considers the improvement of the global environment to be of utmost importance for management, and promotes business operations in harmony with the environment to create a prosperous society.

Environmental Policy

1. To reduce the environmental influence in all business operations
2. To make contributions through technologies and products
3. To make contributions through conservation of resources and energy
4. To promote communications with society
5. To promote international cooperation

State of Remedies for Environmental Problems in Chiba

The environmental problems associated with water quality which arose at JFE Steel's East Japan Works (Chiba) have caused grave concern among local residents, the responsible authorities and all those otherwise involved since December 2004. In Chiba, we are vigorously working on a wide range of measures to prevent any recurrence, having reaffirmed that environmental protection is of utmost importance in corporate governance. We will engage in environmental protection activities and endeavor to realize "environmentally-friendly steelworks", having learnt a lesson from the environmental problems.

Environmental Problems in Chiba and Responses

In Chiba, JFE Steel was investigated by the Chiba Coast Guard Office on suspicion of discharging water with high alkalinity in violation of the Water Pollution Control Law on December 16, 2004. In response, we conducted an internal investigation and found that data on quality analysis of water above the allowance limit had been falsified and wastewater exceeding the allowance limit had been discharged. We reported these problems to the Chiba City and Prefectural Governments, investigated the causes and examined the countermeasures while receiving their supervision.

After complying with the cleanup directive based on the pollution control agreement with the local authorities and with the suspension and improvement orders pursuant to the Water Pollution Control Law, in addition to deliberations at the Special Committee on Cyanogen Countermeasures of the Chiba City Government, we completed implementing the principal remedies.



Panoramic view of Chiba

Remedies in Chiba

I. Remedies against Falsification of Water Quality Analysis Data

Falsification of water quality analysis data is deemed to have been caused by the problems in the water quality control operations and data management as shown in the table on the right. We have overhauled our EMS to prevent such problems from recurring.

Problems	Principal Remedies Implemented in Chiba
(1) Poor leadership and inadequate staffing in the Environmental Control Department (ECD)	<ul style="list-style-type: none"> ECD was restructured as an independent department and given authority to order suspension of operations. Number of environmental management staff was increased from 12 to 26.
(2) Inadequate checking and reporting of environmental data	<ul style="list-style-type: none"> Time taken for analysis was shortened and a system to quickly report abnormalities was established. Double-checking of analysis data was enforced, as was the sharing of information within the Works. Water quality monitoring was enhanced by introduction of automatic analyzers.
(3) Deficient awareness of environmental protection and compliance	<ul style="list-style-type: none"> Seminars on environmental issues, pollution control agreement, etc. were held. Staff were encouraged to acquire Environmental Pollution Control Operator certification and certified personnel were deployed at the plant.

II. Remedies against Wastewater Exceeding Allowance Limit

Wastewater discharged from some drain outlets and drainage canals exceeded the allowance limit set forth by the Water Pollution Control Law or the pollution control agreement. In response, we thoroughly investigated the causes of each problem and implemented remedies including improving and reinforcing our water treatment facilities, improving the operating methods, enhancing water quality monitoring and

enforcing stricter wastewater management in production processes. We completed these remedies against the exceeding allowance limit of wastewater by March 2006, which have steadily eliminated such exceeding. The following is a summary report on the causes of and the measures taken against the leakage of highly alkaline water from seawalls and the leakage of cyanogen from some wastewater outlets.

Measures against Leakage of Highly Alkaline Water

Highly alkaline water is deemed to have leaked from seawalls as a result of the slag placed in the vicinity of the seawalls and the calcium content of the topsoil laid on public land dissolving in rainwater and leaking into the sea.

As a countermeasure, we changed the topsoil laid

on public land, prevented rainwater from seeping into public land from the plant premises by erecting steel sheet piles, etc. and stopped the leakage of rainwater from seawalls by raising the height of the seawalls. (These measures were completed in May 2005).

Measures against Cyanogen Leakage (Measures against Dust Smelting Furnace)

Excessive cyanogen levels in wastewater from some drain outlets were caused by cyanogen seepage from the water treatment facilities of the dust smelting furnace as well as sludge. The principal measures taken by us involved making improvements to the facilities as shown in the figure below. We are currently investigating the contamination status of soil and groundwater, and will take necessary cleanup measures based on the investigation findings.

These remedies were implemented subject to deliberations by the Special Committee on Cyanogen

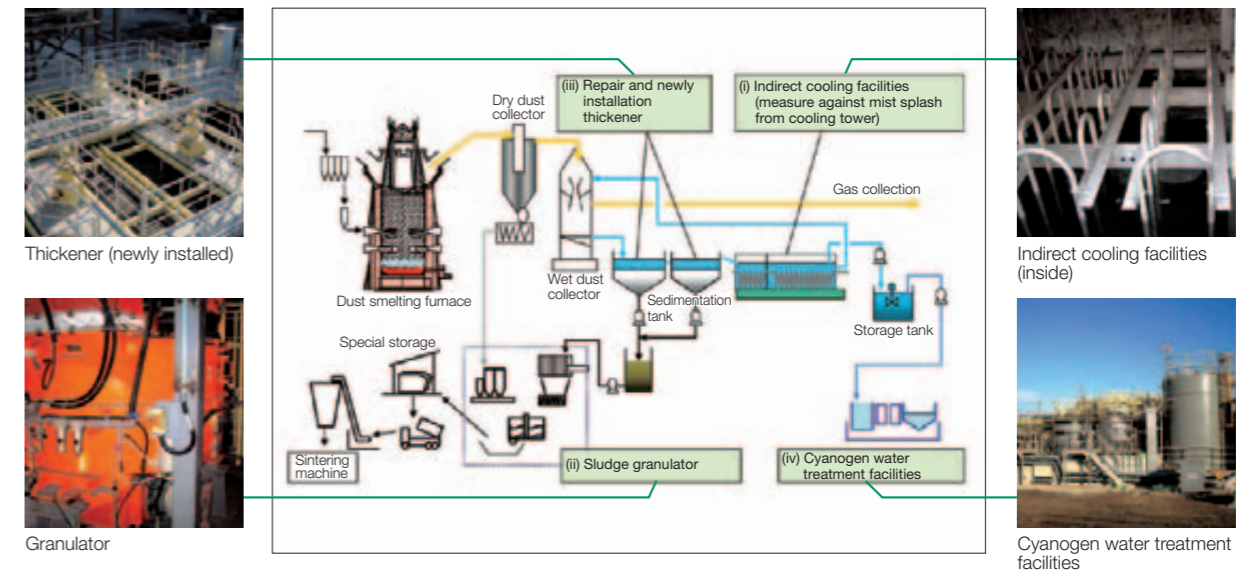
Countermeasures of the Chiba City Government.

Trial operation of the dust smelting furnace commenced on January 5, 2006 after the Special Committee confirmed the outcome of the remedies.

Subsequently, the dust smelting furnace went into full-fledged operation after its trial operation status was assessed and checked by the Special Committee on March 20.

We held a briefing session for local residents prior to the trial operation of the dust smelting furnace (December 27, 2005) and afterwards (June 4, 2006).

Outline of Principal Measures against Dust Smelting Furnace



Head Office and Company-wide Initiatives

In order to prevent such an incident from recurring, we are engaged in the following initiatives to reinforce our EMS and raise environmental awareness not only in Chiba but across the entire company.

(i) Environmental specialists were appointed at the Auditing Department of JFE Steel's head office and environmental audits were conducted encompassing affiliated companies.

The year ended March 2006 results
Chiba: 4 times, Other Works: Twice each,
Affiliated Companies: 34 companies, 54 works

(ii) The Environmental Management Advisory Council was convened, including professionals from outside the company.

The year ended March 2006 results Meetings: Three times, Site Inspection: Twice

(iii) All JFE Steel engineers (approx. 1,800) were obliged to sit an examination for the Environmental Pollution Control Operator qualification.

The year ended March 2006 results Examinees: 784, Qualified: 206

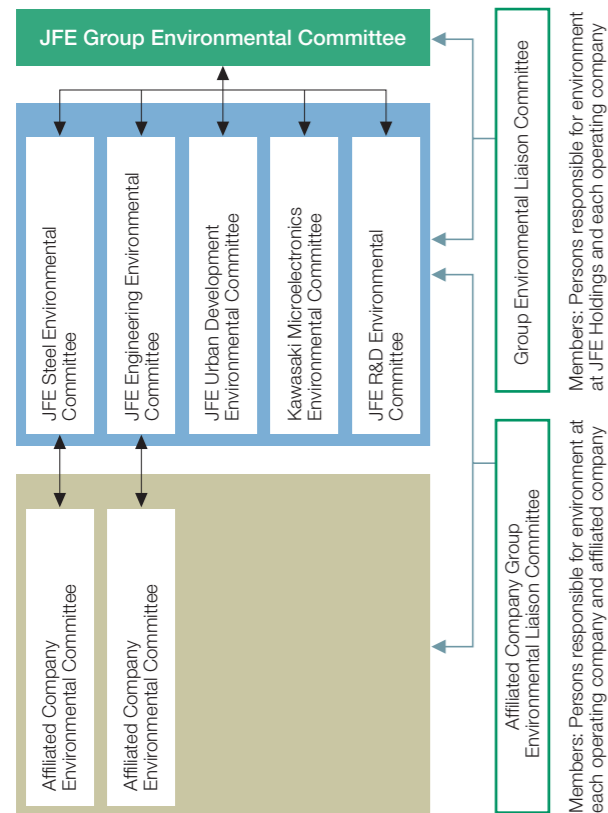
For information on the environmental problems in Chiba, please access <http://www.jfe-steel.co.jp/works/east/chiba/environment2.html>

Operation of Environmental Management

EMS Development and Operation Status

The JFE Group has established the JFE Group Environmental Committee chaired by the President of JFE Holdings under the JFE Group CSR Committee (refer to P.17) and formed an Environmental Committee at each of its operating companies and affiliated companies in an effort to solve various environment-related problems. We have also established a Group Environmental Liaison Committee consisting of staff in charge of environmental affairs at JFE Holdings and the five operating companies to laterally implement environmental measures and improve their standard within the Group.

Organizational Structure of EMS



JFE Group Environmental Committee

Chairman: President of JFE Holdings
Members: Directors responsible for environmental matters at JFE Holdings and each operating company

Environmental Committee (Operating Company)

Chairman: President or director responsible for environmental matters at the operating company
Members: Managers of related departments, persons responsible for environment at each works, center

Environmental Committee (Affiliated Company)

Chairman: Directors responsible for environmental matters
Members: Managers of related departments

ISO14001 Certification Campaign

Each company belonging to the JFE Group is seeking to obtain ISO14001 certification in order to tackle environmental problems on a voluntary and continual basis. Our three operating companies with production sites have invariably received ISO14001 certification either for all of their individual production sites or at the company level. We are also encouraging many Group affiliates to acquire ISO14001 certification, and five affiliates newly obtained certification in the year ended March 2006. Moreover, affiliates which had already been certified at the company level gained certification anew for seven of its sites. We will continue to expand the list of certified companies and sites within the Group in the future.

ISO14001 certification for JFE Steel's East Japan Works (Chiba) was temporarily suspended on February 4, 2005, but was reinstated on August 4, 2005 following the reassessment of its revised EMS.

Environmental Audits

The JFE Group conducts environmental audits based on ISO14001 as well as environmental audits aimed at improving the quality of environmental management. ISO14001-based audits involve external audits conducted by certification authorities as well as internal audits led by employees experienced in environmental management affairs who have participated in auditor training/education programs conducted by external institutions. On the other hand, environmental audits aimed at improving the quality of environmental management are conducted by the Auditing Department of the Head Office, and environmental specialists of environmental management divisions of the Head Office with respect to each works and affiliated company mainly in regards to their environmental management status, their system of compliance with environmental laws and regulations, etc.



Environmental audit conducted by Auditing Department (JFE Steel)

Risk Management

The JFE Group strives to reduce environmental risks by thoroughly implementing appropriate preventive measures and control in various environmental aspects of business activities.

Measures against PCB

The JFE Group endeavors to prevent PCB pollution by such means as properly storing old equipment which contain PCB. Having completed the early reservation procedures for outsourcing the disposal of PCB to the Japan Environmental Safety Corporation (JESCO) in the year ended March 2006, we plan to execute disposal step by step according to JESCO's disposal schedule.



Storage status of equipment containing PCB

Measures to Prevent Soil Contamination

The JFE Group exerts efforts to prevent the contamination of soil in company-owned land, and executes proper management based on the Soil Contamination Countermeasures Law enforced in 2003. On our website and other media, we also disclose information on large-scale soil purification carried out upon the alteration of sites.



Website of JFE Metal Products & Engineering, Inc.

Environmental Accounting

In the year ended March 2006, environment-related capital investment totaled ¥24.3 billion—an increase of ¥9.6 billion over the previous year partly due to the promotion of measures to reinforce environmental management—and expenses amounted to ¥70.6 billion.

As a result of activities during the year ended March 2006, our recycling rate of byproducts reached 99.6%. Furthermore, the effects of energy conservation were valued at ¥2.5 billion by estimation.

Environmental Protection Costs

			(billions of yen)	
Description			Amount of Investment	Amount of Expenses
Environmental investment & expenses related to JFE's own business	Management	Monitoring & measurement of environmental influence, EMS-related activities, environmental education & training, etc.	—	1.9
	Prevention of global warming	Energy conservation, effective use of energy, etc.	10.8	13.4
	Effective use of resources	Recirculation of industrial water, recycling of by-products & waste generated in-house, waste management, etc.	2.0	17.8
	Environmental protection	Prevention of air pollution, water pollution, soil contamination, noise, vibration, ground subsidence, etc.	11.5	31.1
	Miscellaneous	Fees/charges, etc.	—	1.8
Environmental investment & expenses related to customers and society	Research & development	Technology development for environment, energy, prevention of global warming	—	4.0
	Social activities	Protection of nature, support to forestation, information disclosure, exhibition, advertisement, etc.	—	0.6
Total			24.3	70.6

Environmental accounting data stated above were calculated on the basis of the following assumptions.

Period subject to accounting: April 1, 2005 to March 31, 2006

Scope of Compiled Data: For costs, data on environment-related investment and expenses at JFE's steelworks were gathered, but in the field of research & development, Group-wide data was collected. The effects refer to "presumed effects"; "risk aversion effects", etc. are excluded from calculations.

* Calculations do not include capital investments made primarily for purposes other than environmental protection, such as renovation of superannuated facilities, even if the process as a whole results in a net energy saving compared to the former process.

Priority Environmental Targets and Results

Priority Environmental Targets and Results

(Year ended / ending March 31)

	2006 Priority Environmental Targets	2006 Results	2007 Priority Environmental Targets
JFE Steel	Promote measures to mitigate global warming •Based on Japan Iron and Steel Federation's Voluntary Action Plan. (Reduce energy consumption by 10% compared to the year ended March 1991 level.)	•Reduce energy consumption by 1.5% compared to the year ended March 1991 level. (Reduce CO ₂ emissions by 4% compared to the year ended March 1991 level.)	Promote measures to prevent global warming •Promote measures to prevent global warming based on Japan Iron and Steel Federation's Voluntary Action Plan.
	Promote by-product recycling •Look at developing and applying technologies for recycling dust and slag.	•Develop technologies to dispose of dust containing zinc (project subsidized by New Energy and Industrial Technology Development Organization (NEDO)). •Develop technologies to clump together fine dust and sludge. •Develop technologies to separate and utilize waste bricks.	Promote recycling of byproducts •Look into developing and applying technologies for recycling dust and sludge. (Maintain the year ended March 2006 target.) •Reduce landfill disposal of waste bricks by 20% year-on-year.
	Overhaul the environmental management system •Take steps to strengthen the EMS and prevent recurrence of the wastewater problems in Chiba. •Revise the company-wide EMS.	•Complete the reinforcement of EMS and principal measures to prevent recurrence of wastewater problems in Chiba. •Take measures to enhance the company-wide EMS.	Efforts to reduce environmental risks •Comply with new laws and regulations. •Promote voluntary environmental protection activities.
	Work toward a new regulatory system •Draw up policies to reduce emissions of VOC*1.	•VOC reduction policy: 30% reduction in emissions by the year ending March 2011 compared to the year ended March 2001 level.	
JFE Engineering	Promote energy-saving activities in production divisions •Tsurumi Engineering & Manufacturing Center: 1% reduction compared to the year ended March 2005 level Shimizu Works: 15% reduction compared to the year ended March 1998 level Tsu Works: 15% reduction compared to the year ended March 1998 level At Tsurumi, target is calculated based on energy consumption (electricity usage) per hour of operation. At Shimizu and Tsu, target is calculated based on energy consumption (electricity usage) per unit volume of production.	•Targets were fulfilled at Tsurumi and Shimizu but not at Tsu. Tsurumi Engineering & Manufacturing Center: 11% reduction compared to the year ended March 2005 level Shimizu Works: 16% reduction compared to the year ended March 1998 level Tsu Works: 0% reduction compared to the year ended March 1998 level	Promote energy-saving activities in production divisions •Tsurumi Engineering & Manufacturing Center: 10% reduction compared to the year ended March 1998 level Shimizu Works: 16% reduction compared to the year ended March 1998 level Tsu Works: 16% reduction compared to the year ended March 1998 level
	Promote reduction of construction site waste •Reduce final disposal rate*2 to 35% or less in three years by the year ending March 2008.	•The year ended March 2006 landfill disposal rate: 25.7% (Total waste volume: 10,811 tons)	Promote reduction of construction site waste •Reduce final disposal rate to 35% or less in three years by the year ending March 2008.
	Promote resource-saving and environmentally-friendly office activities •2% increase in green procurement rate of office supplies compared to the year ended March 2005 level	•Targets were fulfilled at Tsurumi and Shimizu but not at Tsu. Tsurumi Engineering & Manufacturing Center: Up 2.1% Shimizu Works: Up 2.4% Tsu Works: Up 1.0%	Promote resource-saving and environmentally-friendly office activities •4% increase in green procurement rate of office supplies compared to the year ended March 2005 level
Kawasaki Microelectronics	Promote measures to prevent global warming •Energy-saving rate: 0.8% or higher	•Energy-saving rate: 0.73%	Promote measures to prevent global warming •Achieve energy-saving rate of 1% or higher. •Conduct experiments to reduce PFC*3 gas emissions by 70%.
	Reduce chemical substances •Reduce PRTR*4 substances and greenhouse gas emissions.	•Terminate the use of dimethylformamide.	Reduce chemical substances •Reduce one type of PRTR substances. •Reduce two types of PRTR-regulated substances to one type.
	Reduce waste •Reduce waste generation by 3% or more.	•Convert approx. 30% of waste plastics into valuable substances.	Reduce waste •Reduce waste generation by 4% or more.

*1 VOC: Volatile Organic Compounds.

*2 Landfill disposal rate = [Total waste volume - (Volume recycled + Volume reduced)] / Total waste volume

*3 PFC: Perfluorocarbon

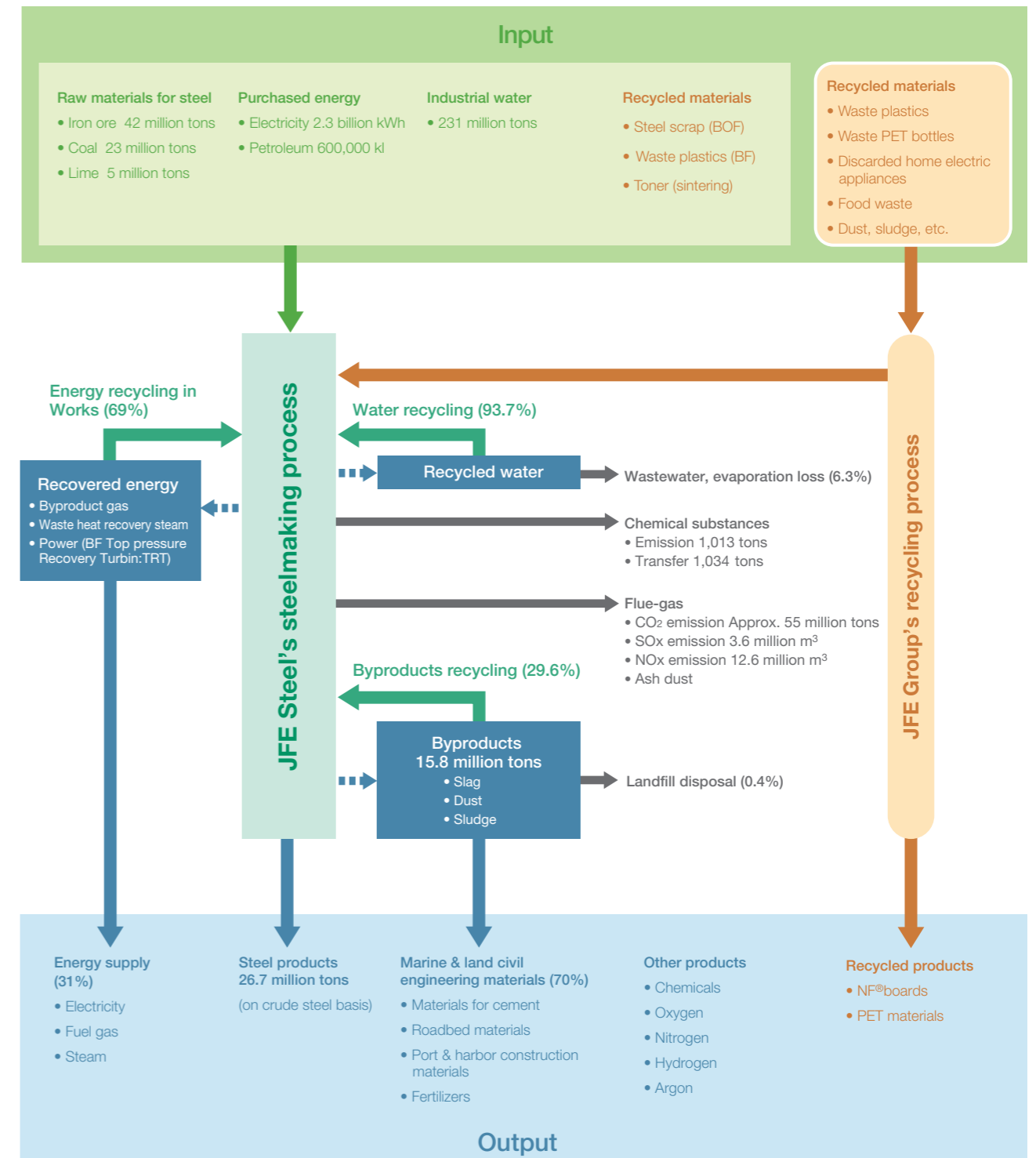
*4 PRTR: Pollutant Release and Transfer Register.

JFE Steel Corporation's Activities to Reduce Environmental Load

Flow of Energy and Materials in Steelmaking Process

JFE Steel has engaged in technology development and made capital investments aggressively, including developing energy-saving and environmental-protection technologies for the purpose of reducing its environmental impact. As a result, its steelmaking processes now boast

the world's highest energy efficiency and resource recycling rates. Even now, JFE Steel is developing new technologies and introducing new facilities with the aim of further reducing the environmental impact of each steelmaking process.



JFE Steel Corporation's Activities to Reduce Environmental Load

Preventing Global Warming

Reducing Energy Consumption

JFE Steel launched energy-saving activities in response to the First Oil Crisis in 1973, and by around 1990, achieved energy savings of 21% compared to the year ended March 1974 levels by promoting the reduction of reheating furnace fuel consumption, operational improvements, the introduction of large-scale waste heat recovery equipment, process continuation/energy-saving operation of production processes and other such efforts.

Crude steel production at JFE Steel and its four affiliated electric furnace steel makers*1 in the year ended March 2006 totaled approximately 30 million tons, up approximately 14% from the year ended 1991. This was attributable to the increased supply of "Only One" and "Number One" products including high tensile strength steel sheets for automobiles in response to the strong demand from customers. On the other hand, the company has been reducing energy consumption through improvements in the efficiency of facilities including the revamp of blast furnaces, operational improvements such as the reducing agent usage and the expansion in scrap recycling, as well as the strict enforcement of energy conservation. As a result, JFE Steel's unit energy consumption (energy consumption per ton of crude steel) in the year ended March 2006 decreased by 14% compared to the 1990 level. Moreover, its energy consumption was 678PJ*2, down 1.5% from the year ended 1991.

Unit CO2 emission (CO2 emission per unit of crude steel production) dramatically decreased by 16% in the year ended March 2006 compared to the year ended 1991 level. CO2 emission was estimated at approximately 55 million tons, down 4% from the year ended 1991.

JFE Steel will continue to push ahead with measures to prevent global warming, including developing and introducing new energy-saving technologies and improving the efficiency of production processes, in consideration of the Japan Iron and Steel Federation's Voluntary Action Plan.

***1 Four affiliated electric furnace steel makers:**

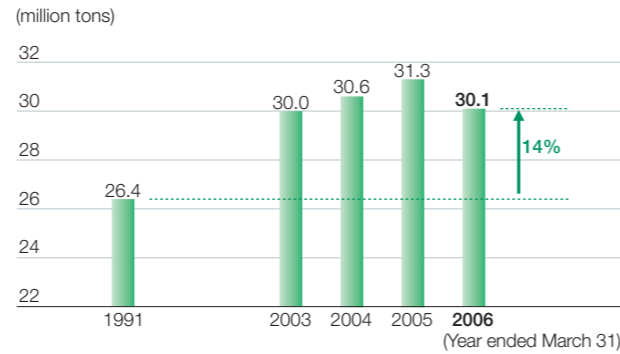
JFE Bars & Shapes Corp., Daiwa Steel Corp., Tohoku Steel Corp. and Toyohira Steel Corp.

***2 PJ (Petajoule):**

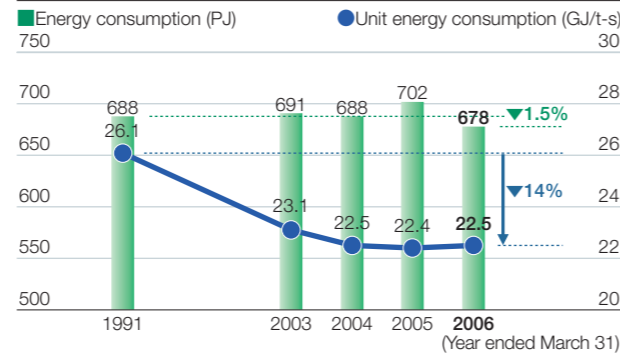
A unit of energy, 1PJ=10¹⁵J, 1J=0.2389cal

*3 Figures are calculated by aggregating the data of JFE Steel and its four affiliated electric furnace steel makers.

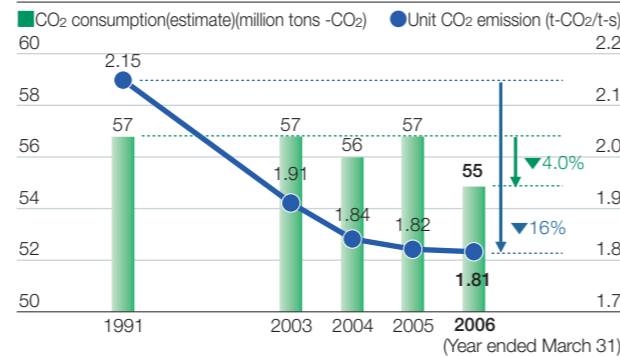
JFE Steel's Crude Steel Production*3



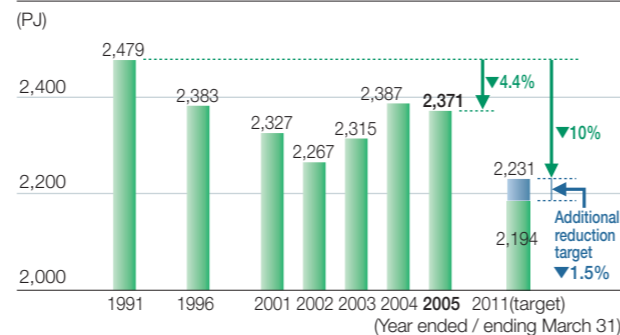
Trends in JFE Steel's Energy Consumption and Unit Energy Consumption*3



Trends in JFE Steel's CO2 Emission and Unit CO2 Emission (Estimate)*3



Trends in Japanese Steel Industry's Energy Consumption



Source: The Japan Iron and Steel Federation

JFE Steel Corporation's Activities to Reduce Environmental Load

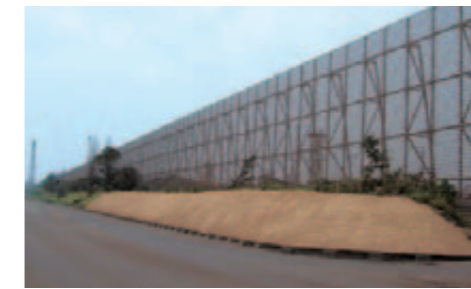
Air & Water Quality Preservation and Reducing Generation and Discharge of Byproducts

Air & Water Quality Preservation

JFE Steel takes aggressive measures to lower the emission of sulfur oxide (SOx), nitrogen oxide (NOx), powder dust and soot dust. JFE Steel has introduced desulfurization and denitration systems to flue-gas treatment, and installed optimal dust collection and dust control facilities depending on the circumstances to deal with powder dust and ash dust.

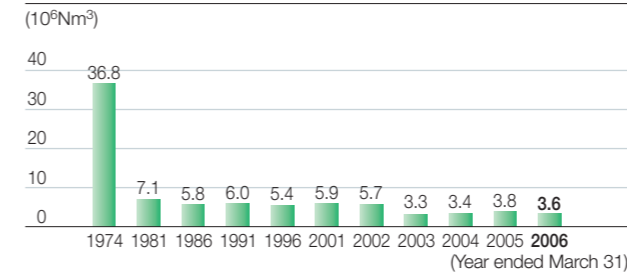
As the water used in its steelmaking process is thoroughly re-circulated and recycled, its industrial water recirculation rate* is as high as approximately 94%. Moreover, JFE Steel properly executes water treatment with respect to wastewater flowing into public waterways in an effort to reduce the impact of contamination.

* Industrial water recirculation rate (%) = (Total consumption - Received industrial water) / Total consumption

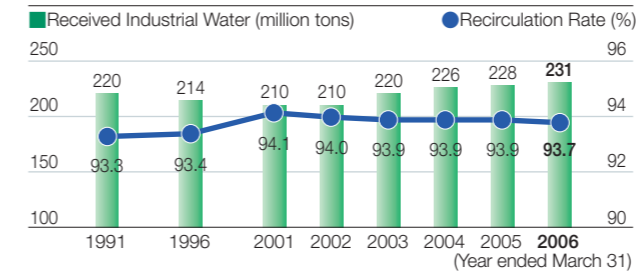


Dust Prevention Fence in West Japan Works (Fukuyama)

Trends in SOx Emissions



Trends in Received Industrial Water and Recirculation Rate



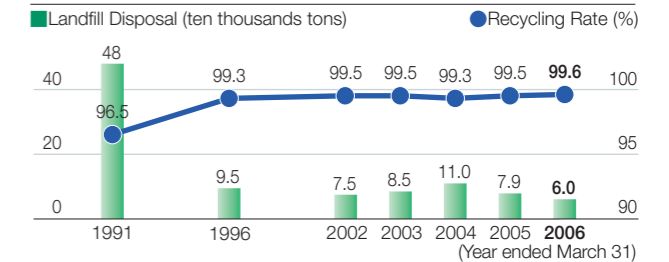
Reducing Generation and Discharge of Byproducts

JFE Steel strives to lower the generation of byproducts (slag*1, dust, sludge*2) in the steelmaking process and pursues Zero Waste Activities which involve recycling byproducts into raw materials for steel manufacturing in-house. JFE Steel is also actively expanding the applications and markets for steel slag products such as Road Cool®. Especially with respect to Marine Block®, Marine Base® and other environment restoration materials, applications are being developed based on industry-government-university collaboration.

*1 Slag: Material consisting of non-iron rock component in iron ore and lime which float to the surface of molten metal which being separated. Used as material for cement, etc.

*2 Sludge: Dewatered mud-like substance separated and removed from circulating water/wastewater treatment facilities.

Trends in Landfill Disposal and Recycling Rate



Example of Advanced Application for slag

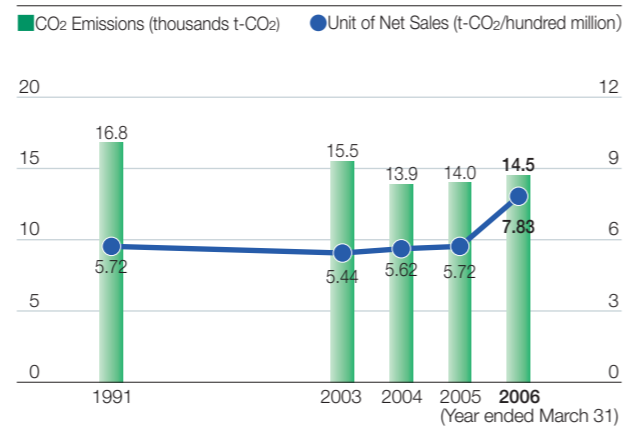
Product Name	Description
Road Cool® Paving material for mitigating heat-island phenomenon	Road Cool® is made of fine blast-furnace slag. Rainwater retained inside Road Cool® evaporates in good weather, resulting in lower temperature.
Marine Block® Artificial reefs for seaweed/coral breeding (steel slag carbonated block)	This is a solid block made of steelmaking slag which has absorbed CO2. It is extremely stable in seawater and serves as an excellent platform for seaweed and coral growth.
Marine Base® Sand-capping materials	This is a submerged embankment made of granulated blast furnace slag, which can create a good coastal habitat.

Operating Companies' Activities to Reduce Environmental Load

JFE Engineering Corporation's Activities to Reduce Environmental Load

JFE Engineering has introduced clathrate hydrate slurry (CHS) latent heat air-conditioning systems in the complex of Tsurumi Engineering and Manufacturing Center, and is engaging in comprehensive energy-saving activities, such as turning off the lights during lunch breaks, switching off computers when they are not in use, and going on energy-saving patrols in plants. Its CO₂ emissions totaled 14,500 tons in the year ended March 2006, down 14% from the year ended March 1991. JFE Engineering is also working to reduce the generation and discharge of waste by setting targets at each office, plant and construction site.

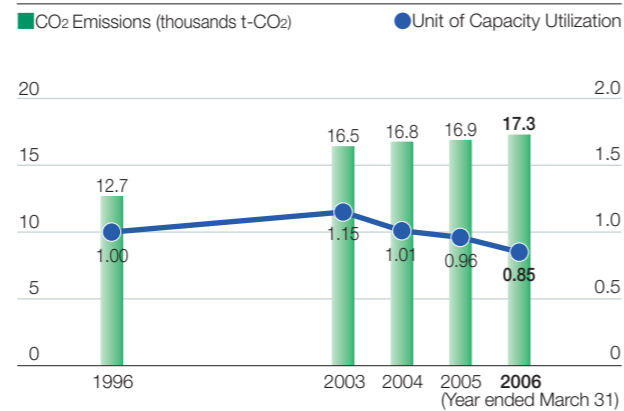
Trends in CO₂ Emissions and Unit of Net Sales



Kawasaki Microelectronics, Inc.'s Activities to Reduce Environmental Load

Kawasaki Microelectronics' Utsunomiya Works has improved its energy-saving performance by 0.73% in the year ended March 2006. It also converted about 30% of waste plastics into valuable substances, and terminated the use of dimethylformamide, which is a PRTR substance. Although its CO₂ emissions have gradually been increasing since the year ended March 2003 due to the expansion of facilities especially testers, its CO₂ emissions per unit of capacity utilization has been steadily decreasing, owing to the effects of its energy-saving activities and increased production.

Trends in CO₂ Emissions and Unit of Capacity Utilization



JFE Urban Development Corporation's Activities to Reduce Environmental Load

Orto Yokohama and Techno Hub Innovation Kawasaki (THINK) operated by JFE Urban Development have adopted cogeneration systems and introduced clathrate hydrate slurry (CHS) latent heat air-conditioning systems developed by JFE Engineering, in an effort to lower energy consumption. In development projects, JFE Urban Development makes various efforts to improve the environmental performance of buildings, including promoting rooftop gardening which helps curb the heat-island phenomenon.



Example of rooftop gardening: Grand Scena Tsudanuma

JFE's Recycling Businesses

Overview of Recycling Businesses

The JFE Group is engaged in a wide range of waste recycling businesses by bringing together steelmaking technologies and engineering technologies. We are playing our part in building a recycling-oriented society by recycling and effectively using a wide variety of used products: our

efforts include converting waste plastics into materials for blast furnaces through the sophisticated utilization of our steelworks infrastructure, recycling fluorescent tube, used home electric appliances and food waste, and manufacturing NF[®] boards from waste plastics.

JFE Group's Recycling Businesses

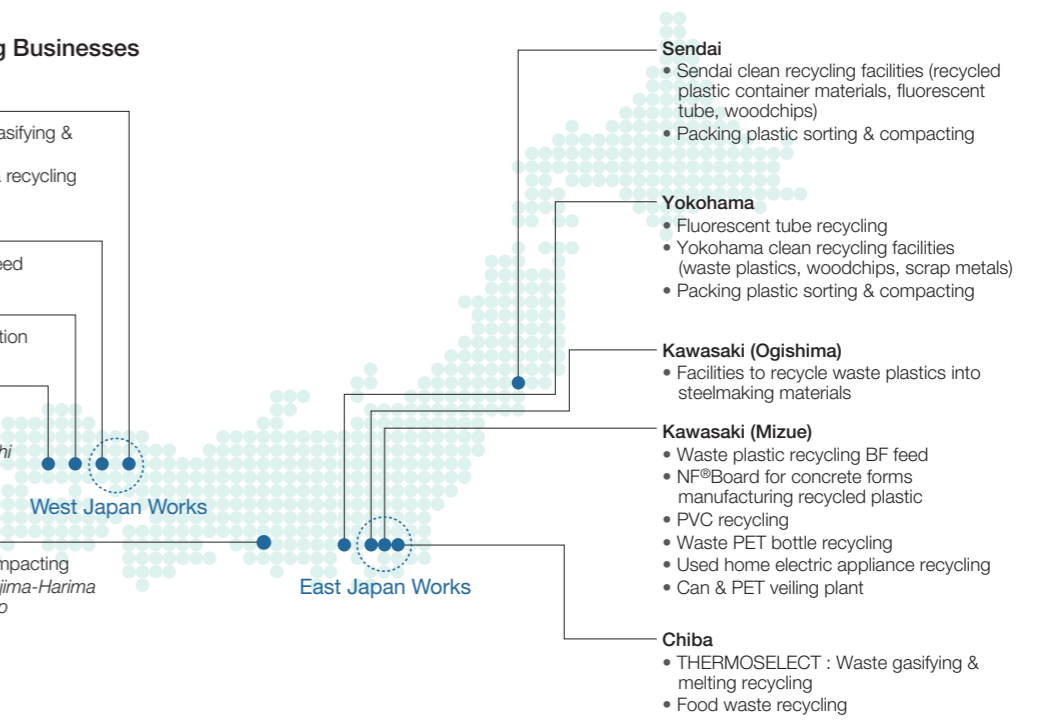
- Kurashiki (Mizushima)**
- THERMOSELECT : Waste gasifying & melting recycling
 - Waste wood carbonization & recycling

- Fukuyama**
- Waste plastic recycling BF feed

- Fukuyama**
- RDF gasifying power generation

- Hiroshima**
- Plastic containers container veiling facilities
 - * Joint venture with Mitsubishi Heavy Industries Group

- Nagoya**
- Packing plastic sorting & compacting
 - * Joint venture with Ishikawajima-Harima Heavy Industries (IHI) Group



Customers' Comments

Mos Food Services, Inc.

Our company promotes the use of tableware and recycling of vegetable scraps in order to reduce waste. Food products which have past their use-by date in the warehouse at our delivery hub in the Tokyo Metropolitan Area are recycled into biogas materials at Japan Recycle Corp. located inside the East Japan Works. We hope this framework will be effectively used in other regions as well, considering that it is a safe method of recycling resources with high utility value.



Takuzo Nakayama
Leader of Environmental Promotion Group, CSR Headquarters, Mos Food Services, Inc.

Mitsubishi Electric Corporation — Kamakura Works

At Kamakura Works, we are engaged in voluntary environmental activities unique to the region. We request that waste contractors use our proprietary COCO-DATES waste image tracking system* to confirm the proper collection, transport and intermediate treatment of waste. We place full confidence in JFE Kankyo Corp., which undertakes the disposal of a wide range of waste including fluorescent tube.



Kenichi Yamaoka
Head of EMS Center, Production Technology Department, Kamakura Works, Mitsubishi Electric Corporation

* COCO-DATES: A time and location verification technology using a weather satellite.

Meeting Social Requirements

The JFE Group pursues various activities as a socially responsible company to meet the strong demand from various stakeholders to fulfill its obligations to society in terms of compliance, product quality, disclosure of information, contribution to local communities, industrial safety, etc.

With Customers and Clients

JFE Group's Quality Assurance System

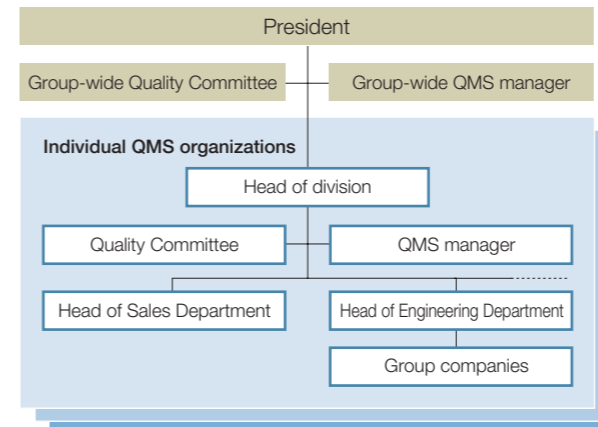
JFE Steel Corporation's Quality Assurance System

JFE Steel has acquired various certifications including ISO9001, API and ship classification standards. Under a standardized system based on quality manuals, we steadily offer products to customers' satisfaction, including "Only One" and "Number One" products, which help strengthen customers' competitiveness in consideration of security, safety, environmental and other such aspects of customers, while striving to improve quality by constantly enforcing the Plan-Do-Check-Action (PDCA) cycle.

JFE Engineering Corporation's Quality Assurance System

JFE Engineering's quality assurance system consists of quality management systems (QMS), each of which is established independently by its divisions and centers led by the President. Group-wide QMS involves the establishment of annual quality targets by the divisions and centers based on the annual priority quality measures announced in April, the formulation of annual targets and quality-related activity plans by the individual departments and the interim report on quality-related activities in October, followed by the final report on quality-related activities presented at the group-wide Quality Committee meeting with the involvement of the President in the following March. JFE Engineering seeks to continually improve the system by enforcing PDCA at all times, including reflecting the results of the final report in the annual priority quality measures for next year.

Basic Organization Chart of JFE Engineering's QMS



Improvement of Customer Satisfaction (CS)

The JFE Group facilitates communication with customers and promotes product development closely together with customers, with the aim of improving customer satisfaction. The Steel Research Laboratory conducts joint research with customers, having established the Customers' Solution Laboratory targeted at the automobile sector and THiNK SMART targeted at the field of steel structures, such as civil engineering, construction and bridges.

Establishment of THiNK SMART

In November 2005, the Steel Research Laboratory became the industry's first with JFE R&D Corporation to establish THiNK^{*1} SMART^{*2}, a testing and research facility mainly for steel products for social infrastructure (such as plates, shape steel and steel pipes used in the fields of civil engineering, construction and bridges) and for technologies to use and process such products. THiNK SMART seeks to promote technology development and facilitate the early practical application of new products by providing JFE Group's new steel products, advanced utilization and processing technologies and design, manufacturing and maintenance technologies to customers in the steel structures sector and members of university and corporate research institutes.

^{*1} THiNK: Techno Hub INnovation K_{awasaki}

^{*2} SMART: Steel Materials for Application Research & Technology



THiNK SMART

With Shareholders and Investors

Basic Policy for Dividends

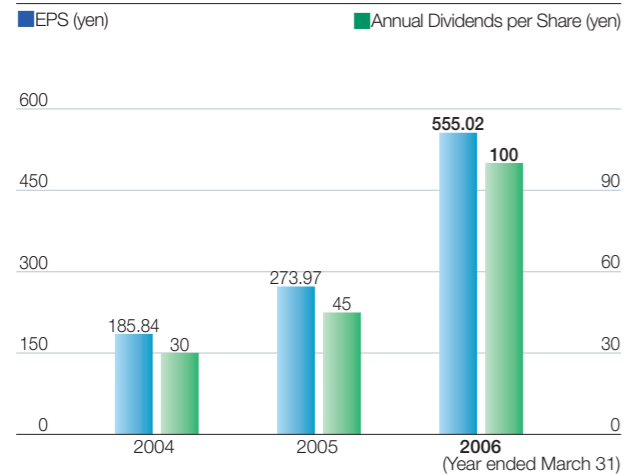
The JFE Group considers that generating returns to its shareholders is one of its top management priorities, and pays dividends in consideration of the trends in its business performance, while striking a balance with internal reserves to prepare for aggressive business expansion in view of enhancing the Group's financial position and improving its medium-term business performance, based on a stable and highly profitable structure.

In the year ended March 31, 2006, we declared a dividend of ¥100 per share.

Our basic policy is to increase the dividend payout ratio to about 25% on a consolidated basis in the future.

It is also our policy to generate returns to our shareholders more actively in the event that the debt-to-equity ratio falls below 50%.

Trends in Earnings per Share (EPS) and Annual Dividends



Basic Policy for Disclosure of Information

The JFE Group recognizes that timely and appropriate disclosure of corporate information to investors is the bedrock of a healthy securities market. We are enhancing our internal framework to enable the consistent disclosure of corporate information in a prompt, precise, fair and appropriate manner from the viewpoint of investors, and endeavoring to provide corporate information to our shareholders and investors in a timely and appropriate fashion.

Communication with Shareholders and Investors

The JFE Group makes efforts in fair disclosure through domestic and overseas investor-relations activities, including making presentations targeted at institutional investors and securities analysts, giving individual press interviews, visiting domestic and overseas investors and transmitting information via its website.

We also strive to provide the same level of information overseas as in Japan, such as having individual meetings overseas with overseas institutional investors and issuing key press releases simultaneously in both Japanese and English as a fundamental rule.

Based on the recognition that communication with individual investors will become increasingly important in the years ahead, we will pursue activities more intensively in this area in the future.

With respect to shareholders, we send an Interim Report upon the semiannual closing of accounts and an Annual Business Report upon the annual closing of accounts, and with respect to general investors, we promptly disclose various presentation materials on our website in the form of PDF files. We are making aggressive efforts in providing information, including presentations at branches of securities companies, etc. and streaming videos featuring interviews with the top management.

From the year ending March 2007 onwards, we plan to organize guided tours at plants for our shareholders.



IR Website

Annual Business Report

IR Calendar (Year ended March 2006)

June 28, 2005	Ordinary general meeting of shareholders
July 28, 2005	Announcement of summary of operating results for first quarter of fiscal year ended March 31, 2006
September 8, 2005	Announcement of earnings forecast
November 7, 2005	Announcement of financial results for first half of fiscal year ended March 31, 2006
January 31, 2006	Announcement of summary of operating results through third quarter of fiscal year ended March 31, 2006
March 2, 2006	Announcement of earnings forecast
March 9, 2006	Announcement of the second medium-term business plan (from April 2006 to March 2009)
April 27, 2006	Announcement of financial results for the fiscal year ended March 31, 2006

With Local Communities

Philanthropic Activities by JFE 21st Century Foundation

The JFE 21st Century Foundation, which was launched in 2003 as a progressive successor to the Kawasaki Steel 21st Century Foundation established in 1990, engages in projects aimed at fulfilling the purpose of its establishment, that is, to further promote harmony between the Group's business activities and society in general, and share prosperity with the community at large to achieve a more open presence (the year ending March 2007 project expenses: ¥109 million).



Letter of donation presented by Mr. Sudo, Chairman of the Foundation

Grants for Technical Research

Since the year ended March 1992, the JFE 21st Century Foundation has consistently provided research grants (issuance of competitive research funds by inviting applications from the public) for the purpose of promoting technical research at universities. By the year ended March 2006, 292 projects have received a cumulative total of ¥590 million in research grants, resulting in the Foundation's high rating among universities. In the year ended March 2006, the Foundation provided a total of ¥50 million in research grants to 16 research projects related to steel technology and 9 projects related to environmental technology (¥2 million per project), chosen from among 193 grant applications from 66 universities. The research accomplishments are disclosed to the public in reports and on the Foundation's website so that they can be utilized broadly in society.



Recipients of grants for technical research

Grants for Asian History Studies

In the year ended March 2004, the JFE 21st Century Foundation introduced grants for the purpose of promoting studies which help create a vision for industry and culture in Japan to coexist and prosper harmoniously with Asia in the 21st century. In its first year, the Foundation received as many as 42 grant applications from 31 universities and provided a total of ¥10.5 million in grants to seven projects (¥1.5 million per project).



Recipients of grants for Asian history studies

Supporting Educational Activities in Regions with Ties to Steel

In the year ended March 1992, the Foundation established the JFE 21st Century Foundation Award in the creative writing competition (essays, poems, tanka and haiku) targeted at Japanese elementary school and junior high school students studying overseas organized by the Japan Overseas Educational Services (JOES), and has since been co-sponsoring the event and donating copies of an anthology of winning entries to elementary schools and public libraries. In the year ended March 2006, the Foundation donated the copies to 1,133 elementary schools, 594 junior high schools and 117 public libraries in 20 cities and towns.

Furthermore, in the beginning of 2005, the Foundation donated two of its science publications entitled "Tatara—Nihon korai no seitetsu [Foot bellows: Steelmaking in ancient Japan]" and "Tetsu—Furukutemo shinkashiteiru zairyo [Steel: An ancient but evolving material]" to some 1,500 junior high schools, high schools and public libraries. For these donations, the Foundation received letters of appreciation from the mayor and head of the education board of seven cities and towns, namely, Chiba City, Kawasaki City, Yokohama City, Handa City, Taketoyocho, Kurashiki City and Fukuyama City.



Donated books



The Foundation receives an official letter of appreciation from Mr. Fukuman, the head of the Board of Education of Fukuyama City

With Local Communities

Supporting Cultural Activities and Events in Regions with Ties to Steel (Co-sponsorship)

The JFE 21st Century Foundation cosponsors and supports various cultural activities and events hosted by local authorities and local community groups participated by many members of the general public. The Foundation co-sponsored the following activities and events in the year ended March 2006:

- Cho Chikun Cup: Go Competition (Chiba City)
- Chiba Prefectural Youth Go Competition (Chiba City)
- Japanese Traditional Noh Drama at Night in Hibiya City (Chiyoda-ku, Tokyo)
- Kawasaki Contemporary Sculpture Exhibition (Kawasaki City)
- JFE/MUZA Lunchtime Concert (Kawasaki City)
- Yokohama Children's International Peace Program (Yokohama City)
- Handa Community Industrial Festival (Handa City)
- Kurashiki Music Festival (Kurashiki City)
- Fukuyama Rose Festival (Fukuyama City)
- Fukuyama's Best Entertainers (Fukuyama City)
- Setouchi Dazzling Stage Drama (Fukuyama City)



Yokohama Children's International Peace Program

Donations and Aid

The JFE Group gives donations and aid in various fields to contribute to local and international communities, including disaster relief, education, regional, welfare, culture and art. In the year ended March 2006, its donations and aid totaled approximately ¥400 million.

In the area of disaster relief, we donated about ¥2 million to support the victims of the huge landslide which occurred in the southern part of Leyte Island, Philippines in February 2006. We also gave donations to support regions in the United States ravaged by Hurricane Katrina, and regions in Pakistan struck by a devastating earthquake.



Donations to support victims of the landslide in the southern part of Leyte Island

Open-day Events at Steelworks

To express our daily appreciation to local residents, JFE Steel holds open-day events every year at each of its steelworks.

For example, the West Japan Works held the 2005 JFE West Japan Festival in Fukuyama (approx. 155,000 participants) and JFE West Japan Festival in Kurashiki (approx. 150,000 participants), while the Chita Works held the 3rd Chita Family Festival (approx. 16,000 participants). JFE Steel has also established Visitors' Centers in its steelworks to help local residents gain a better understanding of its operations, and some 50,000 local elementary, junior high and high school students and members of the general public visit the facilities annually. JFE Steel also makes its gymnasiums and athletic grounds available for use to local residents.



JFE West Japan Festival in Kurashiki Open-day events at steelworks

Helping Fight Fires in the Neighborhood

When a fire broke out in December 2005 at an old cleaning factory site adjacent to JFE Advantech Co., Ltd.'s main factory in Nishinomiya City, Hyogo Prefecture, 14 volunteer firefighters from JFE Advantech fought the fire using water pumps and other equipment for about an hour. JFE Advantech received a letter of appreciation from the Kawaragi Fire Department of Nishinomiya City for helping prevent the fire from spreading.



JFE Advantech Co., Ltd. receives a letter of appreciation from the Kawaragi Fire Department of Nishinomiya City

With Our Employees

Employment of People with Disabilities

The JFE Group puts a great deal of effort into promoting the employment of people with disabilities.

Especially, we strive to create a worker-friendly environment at our three subsidiaries JFE Apple East Corp., JFE Apple West Corp. and Mie Data Craft Co., Ltd., where we employ numbers of disabled people.

Efforts at Mie Data Craft Co., Ltd.

Mie Data Craft Co., Ltd., a subsidiary of JFE Engineering, provides a diverse range of services based on computer tools centering on computer-aided design (CAD) services. Employees with disabilities are playing an active role as crucial members of the workforce. We will continue to employ more people with disabilities in the future to contribute to local communities.



Mie Data Craft Co., Ltd.

Generation Shift in the Workforce

To prepare for the dramatic generational shift in the workforce over the next decade, JFE Steel's steelworks have developed a new personnel training system and are taking action in a planned and consistent manner to make sure skills and techniques of each employee are passed down to the next generation. In addition, at the time of its inception, JFE Steel introduced a program to continually reemploy employees beyond the retirement age of 60—dubbed the Senior Expert Program—based on the view that senior employees with a wealth of valuable experience and expertise are extremely capable members of the workforce. Under the Program, senior employees who want to keep working beyond the retirement age are reemployed. JFE Steel's policy is to gradually extend employment to the age of 65 and give senior employees the opportunity to play an active role in accordance with the purpose of the Law concerning Stabilization of Employment of Older Persons.

Creating a Worker-friendly Environment

The JFE Group endeavors to enhance its work system and welfare program so that its employees can work with a sense of security. For example, we have extended the child-care leave period and introduced shorter working hours for employees who are raising small children in order to enable them to strike a balance between work and family life.

In the year ended March 2006, 27 employees took maternity leave and 41 employees took child-care leave.

Respecting Human Rights

The JFE Group is engaged in activities to respect human rights on a Group-wide scale, with the recognition that respecting the human rights of members of the general public and employees is a corporate social responsibility and one of our crucial management issues.

For example, we are actively conducting role-specific and workplace-based training, and striving to ensure fair and impartial corporate practices in all recruitment and personnel management affairs, in order to foster employees with a proper understanding and awareness of various human rights issues who can do the right thing as a businessperson and a member of society.

For the prevention of sexual harassment, our efforts include stipulating anti-sexual-harassment clauses in work regulations, holding courses, putting up posters and establishing male and female counseling services at each place of business.

Labor-management Initiatives

The Federation of JFE Steel Workers' Unions (approx. 20,000 members) was launched through the merger of the former Federation of NKK Workers' Unions and the former Federation of Kawasaki Steel Workers' Unions in September 2003, following the establishment of JFE Steel in April 2003. JFE Steel has built healthy labor-management relations through active dialogue, based on such efforts as creating opportunities for the senior management led by the President and the union representatives to periodically exchange opinions on management issues, etc. (quarterly labor-management conferences).

With Our Employees

Industrial Health and Safety

Ensuring safety is fundamental to the manufacturing industry and is the basis of corporate viability.

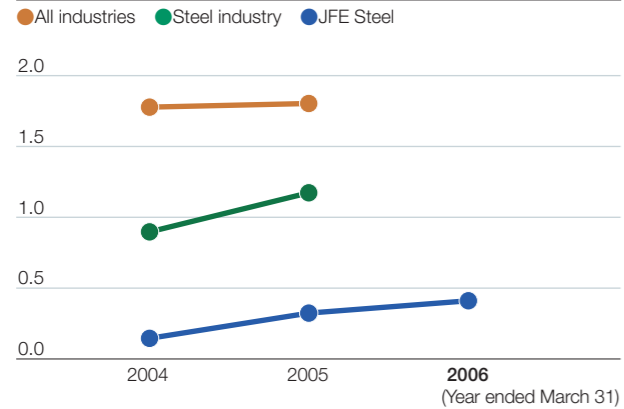
Since its establishment, JFE Steel has been committed to safety practices in accordance with its fundamental belief that all accidents are preventable and must be prevented without fail.

The rate of accidents causing absence from work had been on the decline at JFE Steel (formerly NKK and Kawasaki Steel) since 1998, but regrettably, the rate

worsened over the past two years. We will continue to make improvements in all aspects of facilities, personnel and administration, raise each individual worker's risk awareness and strive to create safe workplaces free of industrial accidents.

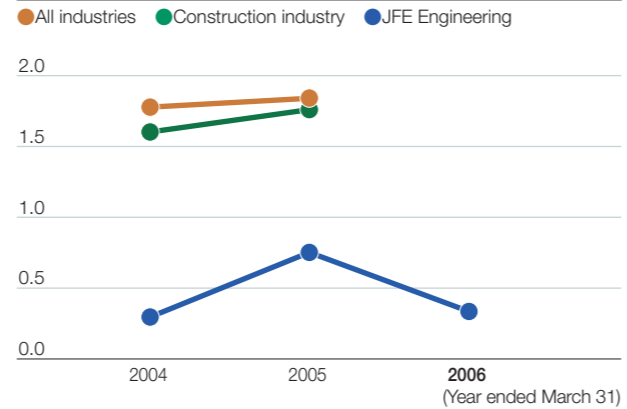
JFE Engineering is endeavoring to create safe working environments at its manufacturing plants and to prevent accidents at construction sites.

Trends in Rate of Accidents causing Absence from Work at JFE Steel Corporation



* Data for the year ended March 2006 has not been announced yet for all industries and the steel industry (as of June 2006).

Trends in Rate of Accidents causing Absence from Work at JFE Engineering Corporation



* Data for the year ended March 2006 has not been announced yet for all industries and the construction industry (as of June 2006).

Measures against Asbestos

Since the hazardous nature of asbestos was pointed out and the government established laws and regulations and started giving administrative guidance, the JFE Group has been taking various measures in response, including adopting alternative materials, improving facilities and environments and implementing work management.

For example, our steelworks and manufacturing plants which conventionally used asbestos in some tasks as a sealant or heat insulating material have replaced it with alternative materials and no longer use it.

There are still some buildings, facilities, equipment, etc. with asbestos which were built or installed before the regulations

came into force, in addition to some sealants and heat insulating materials containing asbestos which are allowed to be used due to the lack of alternative materials. As they are currently used in a fixed state, scattering of asbestos particulates is deemed unlikely.

In order to prevent health disorders caused by asbestos from arising, related divisions and Group companies will continue working together to promote alternative materials, respond to inquiries and consultation requests, and strictly ensure compliance with the Regulations for the Prevention of Asbestos-related Disorders.

Third-party Comments

JFE Group's Environmental Efforts and Philanthropic Activities



Yuko Sakita
(Journalist,
Environmental Counselor)

Meaning of Switching to a Single Business Report

JFE Holdings, Inc. has released the first edition of "The JFE Group Business Report", which is a combination of the conventional Annual Report and the Environmental Sustainability Report. The new Report is highly commendable for having clearly declared JFE's corporate stance to strive towards sustainable progress by putting together economic, environmental and social aspects, and for accurately reflecting how vital it is for the management as a whole to tackle global environmental problems.

On the other hand, JFE has fulfilled its accountability by making use of various information media, having published the web version of its Environmental Report in greater detail than ever before by ensuring that the increased volume of the new Report would not result in the shallow coverage of the environmental field.

Third-party Comments on Environmental and Social Aspects

It is impressive that in order to facilitate communication with and gain confidence from all stakeholders in the fiscal year under review, JFE gave consideration to the publication of a wide range of data and their presentation in an easy-to-read format with the use of graphs and figures in a thoroughgoing manner, with respect to both environmental and social aspects. It deserves special mention, in addition to its sincere stance on publishing negative information.

Especially in regards to environmental aspects, CO₂ emission by JFE Steel Corporation is explicitly stated as approximately 55 million tons in the year ended March 2006, under the current circumstances in which companies are urged to take exhaustive measures against global warming following the enforcement of the Kyoto Protocol. This accounts for about 4% of total CO₂ emissions in Japan, which may not be surprising as a steel producer operating in the country's key industry. JFE Steel has managed to reduce its CO₂ emission by 4% from the year ended March 1991 level through energy-saving technologies and by improving the efficiency of its steelmaking process and facilities. I hope JFE will actively contribute to the sustainable development of Japan, Asia and the entire world by taking advantage of such technological prowess.

There is also a follow-up to last year's report regarding the improvement status of the environmental problem revealed at JFE Steel Corporation's East Japan Works in Chiba region at the end

of 2004. While I inspected the West Japan Works in April 2006, I was told that the problem in Chiba had served as a trigger for worksites in West Japan to establish a voluntary environmental management system and actively engage in dialogues with local residents to routinely deepen mutual understanding rather than transmitting information to them as a remedy in response to incidents. I would like to see JFE making continual efforts on a Group-wide scale, including having meetings to discuss the Environmental Report.

Requests on Environmental Aspects

As far as environmental aspects are concerned, various recycling businesses constitute an important field, including the recycling of waste plastics by making use of steelmaking technologies and the steelworks infrastructure, as well as the recycling of fluorescent lamps, home electric appliances, food products, etc. They are closely associated with building a recycling-oriented society, as well as with measures to curb global warming by making full use of unused forms of energy, and are deemed to become increasingly important to society in the future. JFE should make more efforts in this field and strive to offer specific information.

It is a field in which communication is particularly important, as exemplified by zero-emission campaigns based on collaboration with local communities. JFE should broaden its reach, including forming alliances with businesses stated herein.

Furthermore, the web version shows the changes in air pollutants SO_x and NO_x over the years in detail, while public interest in hazardous chemical substances is growing. Although total emission is decreasing, it would be easier to understand the progress of the measures taken if it showed how the emissions of distinctive substances in PRTR data such as benzene and dioxins have changed over the years.

Moreover, so-called site information of each place of business should be published with respect to a wide range of data, as it would help promote mutual understanding with local residents in each region.

Social Aspects: The Backbone of Collaboration with Local Communities

Last but not least, let me comment on the social aspects. As a group enterprise with some 50,000 employees, JFE is urged to fulfill its social responsibility and ensure the safety of its work environment.

In particular, compliance with laws and regulations is fundamental to CSR. I hope JFE will play an active role in this field as a company having a part in creating a sustainable world by striving to prevent the recurrence of such incidents as its involvement in the tender for a public works project in violation of the Antimonopoly Law.

Financial Section

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For detailed financial information, please visit our website:

[Financial information http://www.jfe-holdings.co.jp/en/investor/index.html](http://www.jfe-holdings.co.jp/en/investor/index.html)

Financial Section

FIVE-YEAR FINANCIAL SUMMARY

JFE Holdings, Inc. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen				
	2006	2005	2004	2003	2002
	JFE	JFE	JFE	JFE	NKK Kawasaki Steel
Operating Results (For the Year)					
Net sales	¥3,098,374	¥2,803,699	¥2,473,725	¥2,426,886	¥1,653,500 1,215,988
Operating income	517,171	467,237	253,605	146,879	(7,671) 43,879
Ordinary income before interest and discount expenses *1 *2	533,114	482,451	246,668	143,476	(3,413) 39,986
Ordinary income *1	517,313	460,684	218,372	104,670	(41,940) 24,388
Net income	325,996	160,057	106,872	15,951	(67,589) 6,822
Cash Flows (For the Year)					
Cash flows from operating activities	401,973	462,535	357,077	240,691	130,236 131,799
Cash flows from investing activities	(116,224)	(109,518)	(135,068)	(126,871)	(51,261) (76,186)
Free cash flows *3	285,749	353,017	222,009	113,820	78,975 55,613
Cash flows from financing activities	316,127	(369,873)	(229,258)	(183,746)	(126,391) 21,158
Financial Position (At the Year End)					
Total assets	3,630,322	3,656,389	3,724,441	3,831,643	2,227,397 1,930,922
Property, plant and equipment, net	1,827,342	1,846,109	2,013,638	2,078,037	1,176,523 984,717
Total shareholders' equity	1,310,381	968,614	746,298	594,563	320,545 284,955
Debt outstanding	1,162,857	1,446,785	1,837,404	2,057,105	1,109,304 1,146,318
Capital Investment and Others					
Capital investment	178,358	157,235	160,826	137,410	69,402 120,680
Depreciation and amortization	175,057	179,770	185,684	173,219	107,613 123,084
R&D expenses	38,193	37,192	36,529	33,116	18,029 18,547
Crude steel output (thousand tons) *4	30,145	31,281	30,547	29,957	20,033 12,289
Employees	53,111	52,503	52,557	54,100	28,413 28,591
Ratio					
Return on sales (ROS) *5	16.7%	16.4%	8.8%	4.3%	(2.5%) 2.0%
Return on assets (ROA) *6	14.6%	13.1%	6.5%	3.7%	(0.1%) 1.9%
Return on equity (ROE) *7	28.6%	18.7%	15.9%	2.7%	(19.4%) 2.3%
Equity ratio	36.1%	26.5%	20.0%	15.5%	14.4% 14.8%
Debt-to-equity ratio *8	88.7%	149.4%	246.2%	346.0%	346.1% 402.3%
					Yen
Per Share Data					
Net income	¥ 555.02	¥ 273.97	¥ 185.84	¥ 27.74	¥ (19.84) 2.14
Shareholders' equity	2,236.32	1,652.31	1,289.54	1,035.98	94.09 89.27
Cash dividends	100.00	45.00	30.00	15.00	0 0

Notes: *1 Ordinary income = Operating income + non-operating income - non-operating expenses
*2 Ordinary income before interest and discount expenses = Ordinary income + Interest and discount expenses
*3 Free cash flows = Cash flows from operating activities + cash flows from investing activities
*4 The amounts of crude steel output by former Kawasaki Steel were on a non-consolidated basis
*5 Return on sales (ROS) = Ordinary income/Net sales x 100
6 Return on assets (ROA) = (Ordinary income + interest and discount expenses) / total assets x 100
*(Total assets at beginning of term + total assets at end of term) / 2
*7 Return on equity (ROE) = Net income / total shareholders' equity** x 100
*(Total shareholders' equity at beginning of term + total shareholders' equity at end of term) / 2
*8 Debt-to-equity ratio = debt outstanding / total shareholders' equity x 100

Financial Section

CONSOLIDATED BALANCE SHEETS

JFE HOLDINGS, INC. AND SUBSIDIARIES
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
ASSETS			
CURRENT ASSETS:			
Cash and deposits (Note 3)	¥ 32,567	¥ 60,085	\$ 277,236
Notes and accounts receivable	477,663	519,722	4,066,255
Allowance for doubtful accounts	(1,607)	(1,375)	(13,680)
Inventories	545,878	509,608	4,646,956
Deferred tax assets (Note 13)	43,630	57,942	371,413
Other current assets (Note 6)	66,714	64,710	567,943
TOTAL CURRENT ASSETS	1,164,847	1,210,693	9,916,123
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land (Note 7)	514,251	522,096	4,377,721
Buildings and structures	1,628,563	1,628,129	13,863,650
Machinery and equipment	5,009,099	4,943,575	42,641,534
Construction in progress	64,452	49,258	548,667
SUBTOTAL	7,216,367	7,143,061	61,431,574
Accumulated depreciation	(5,389,024)	(5,296,951)	(45,875,756)
PROPERTY, PLANT AND EQUIPMENT, NET	1,827,342	1,846,109	15,555,818
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries and affiliates	140,551	122,635	1,196,484
Investments in securities (Notes 4 and 6)	311,024	267,745	2,647,688
Allowance for doubtful accounts	(8,124)	(18,511)	(69,158)
Deferred tax assets (Notes 13)	32,471	51,964	276,419
Other assets (Note 6)	162,209	175,752	1,380,864
TOTAL INVESTMENTS AND OTHER ASSETS	638,132	599,586	5,432,297
TOTAL ASSETS	¥3,630,322	¥3,656,389	\$30,904,247

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings	14,328	9,533	121,971
Current portion of long-term debt (Note 5)	282,173	424,623	2,402,085
Notes and accounts payable	396,396	438,460	3,374,444
Accrued income taxes	82,465	157,773	702,009
Other current liabilities	344,615	313,811	2,933,661
TOTAL CURRENT LIABILITIES	1,119,979	1,344,202	9,534,170
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	¥ 866,356	¥ 1,012,628	\$ 7,375,125
Accrued retirement benefits (Note 8)	156,427	150,495	1,331,633
Reserve for rebuilding furnaces	47,117	44,585	401,098
Deferred tax liabilities (Notes 7 and 13)	17,995	24,370	153,188
Other liabilities	74,453	73,936	633,822
TOTAL LONG-TERM LIABILITIES	1,162,350	1,306,016	9,894,866
TOTAL LIABILITIES	2,282,330	2,650,218	19,429,045
MINORITY INTERESTS (Note 7)	37,609	37,555	320,158
CONTINGENCIES (Note 9)			
SHAREHOLDERS' EQUITY:			
Common stock:			
Authorized 2,298,000,000 shares			
Issued 587,235,278 shares as of March 31, 2006 and 2005	100,000	100,000	851,281
Capital surplus	610,403	610,384	5,196,245
Retained earnings	502,943	196,806	4,281,459
Revaluation reserve for land, net of tax (Note 7)	5,599	14,281	47,663
Net unrealized gain on securities	117,602	75,754	1,001,132
Translation adjustments	(21,907)	(25,620)	(186,490)
Treasury stock, at cost:			
1,326,567 shares as of March 31, 2005	-	(2,992)	-
1,682,000 shares as of March 31, 2006	(4,260)	-	(36,264)
TOTAL SHAREHOLDERS' EQUITY	1,310,381	968,614	11,155,026
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥3,630,322	¥3,656,389	\$30,904,247

Financial Section

CONSOLIDATED STATEMENTS OF INCOME

JFE HOLDINGS, INC. AND SUBSIDIARIES
Year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
NET SALES	¥3,098,374	¥2,803,699	\$26,375,874
COST OF SALES	2,284,855	2,042,751	19,450,540
Gross profit	813,519	760,948	6,925,334
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	296,347	293,710	2,522,746
Operating income	517,171	467,237	4,402,579
NON-OPERATING INCOME (EXPENSES):			
Interest income	1,340	1,278	11,407
Interest expense	(15,801)	(21,767)	(134,510)
Dividends received	5,871	6,044	49,978
Equity in earnings of affiliates	17,302	14,325	147,288
Other, net	(8,572)	(6,433)	(72,971)
Ordinary income	517,313	460,684	4,403,788
EXTRAORDINARY PROFIT (LOSS) (Note 15)	(8,053)	(157,019)	(68,553)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	509,261	303,665	4,335,243
INCOME TAXES (Note 13):			
Current	179,791	166,515	1,530,526
Deferred	(428)	(24,915)	(3,643)
	179,362	141,600	1,526,874
INCOME BEFORE MINORITY INTERESTS	329,899	162,064	2,808,368
MINORITY INTERESTS	(3,901)	(2,007)	(33,208)
NET INCOME	¥ 325,996	¥ 160,057	\$ 2,775,142
	Yen		U.S. dollars (Note 1)
	2006	2005	2006
BASIC NET INCOME PER SHARE	¥ 555.02	¥ 273.97	\$ 4.72
CASH DIVIDENDS PER SHARE	100.00	45.00	0.85

The accompanying notes are an integral part of these statements.

Financial Section

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

JFE HOLDINGS, INC. AND SUBSIDIARIES
Year ended March 31, 2006 and 2005

	Millions of yen							
	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings (Deficit)	Revaluation reserve for land, net of tax	Net unrealized gains and losses on securities	Translation adjustments	Treasury stock
Balance at March 31, 2004	587,235	¥100,000	¥600,497	¥ 53,558	¥16,273	¥35,623	¥(52,304)	¥(7,349)
Income from sales of treasury stock			9,887					
Net income for the year				160,057				
Increase due to newly consolidated or deconsolidated subsidiaries and including or excluding certain companies from affiliates accounted for by the equity method				748				
Revaluation reserve for land, net of tax				1,919	(1,992)			
Dividends paid				(17,362)				
Bonuses to directors and corporate auditors				(4)				
Decrease due to newly consolidated or deconsolidated subsidiaries and including or excluding certain companies from affiliates accounted for by the equity method				(1,588)				
Net unrealized gains on securities						40,131		
Translation adjustments							26,684	
Treasury stock								4,357
Reversal of asset revaluation at Thai subsidiary/affiliate				(521)				
Balance at March 31, 2005	587,235	100,000	610,384	196,806	14,281	75,754	(25,620)	(2,992)
Income from sales of treasury stock			19					
Net income for the year				325,996				
Increase due to newly consolidated or deconsolidated subsidiaries and including or excluding certain companies from affiliates accounted for by the equity method								
Revaluation reserve for land, net of tax				5,646	(8,682)			
Increase due to asset revaluation at Thai subsidiary/affiliate				1,874				
Dividends paid				(26,366)				
Bonuses to directors and corporate auditors				(509)				
Decrease due to newly consolidated or deconsolidated subsidiaries and including or excluding certain companies from affiliates accounted for by the equity method								
Net unrealized gains on securities						41,848		
Translation adjustments							3,713	
Treasury stock								(1,268)
Reversal of asset revaluation at Thai subsidiary/affiliate				(505)				
Balance at March 31, 2006	587,235	¥100,000	¥610,403	¥502,943	¥5,599	¥117,602	¥(21,907)	¥(4,260)

The accompanying notes are an integral part of these statements.

Financial Section

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

JFE HOLDINGS, INC. AND SUBSIDIARIES
Year ended March 31, 2006 and 2005

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land, net of tax	Net unrealized gains and losses on securities	Translation adjustments	Treasury stock
Balance at April 1, 2005	\$851,281	\$5,196,084	\$1,675,372	\$121,571	\$ 644,879	\$(218,098)	\$(25,470)
Income from sales of treasury stock		161					
Net income for the year			2,775,142				
Increase due to newly consolidated or deconsolidated subsidiaries and including or excluding certain companies from affiliates accounted for by the equity method							
Revaluation reserve for land, net of tax			48,063	(73,908)			
Increase due to asset revaluation at Thai subsidiary/affiliate			15,953				
Dividends paid			(224,448)				
Bonuses to directors and corporate auditors			(4,333)				
Decrease due to newly consolidated or deconsolidated subsidiaries and including or excluding certain companies from affiliates accounted for by the equity method							
Net unrealized holding gains on securities					356,244		
Translation adjustments						31,608	
Treasury stock							(10,794)
Reversal of asset revaluation at Thai subsidiary/affiliate				(4,298)			
Balance at March 31, 2006	\$851,281	\$5,196,245	\$4,281,459	\$ 47,663	\$1,001,123	\$(186,490)	\$(36,264)

The accompanying notes are an integral part of these statements.

Financial Section

CONSOLIDATED STATEMENTS OF CASH FLOWS

JFE HOLDINGS, INC. AND SUBSIDIARIES
Year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥509,261	¥303,665	\$4,335,243
Adjustments for:			
Depreciation and amortization	175,057	179,770	1,490,227
Decrease in reserves	(143)	14,942	(1,217)
Interest and dividend income	(7,212)	(7,322)	(61,394)
Interest expense	15,801	21,767	134,510
Profit on sales of investments in securities	(20,726)	(13,430)	(176,436)
Loss on inventory evaluation	9,850	–	83,851
Loss on sales of property, plant and equipment	–	6,787	0
Loss on disposal of property, plant and equipment, etc.	–	19,071	0
Loss on impairment of property, plant and equipment, etc.	–	75,383	0
Write-down of investments in securities	1,444	11,308	12,292
Loss on liquidation of affiliates', etc.	–	27,852	0
Provision for loss on investments and other assets, etc.	–	2,092	0
Additional charges for early-retirement plan	2,557	–	21,767
Loss on settlement	–	1,160	0
Loss on soil decontamination of subsidiaries	–	4,645	0
Changes in assets and liabilities:			0
Changes in notes and accounts receivable	39,920	(129,991)	339,831
Changes in inventories	(38,568)	(47,661)	(328,322)
Changes in notes and accounts payable	(45,087)	19,676	(383,817)
Other, net	(25,251)	3,898	(214,957)
Subtotal	631,829	493,615	5,378,641
Interest and dividend income received	12,027	9,505	102,383
Interest paid	(16,790)	(22,988)	(142,930)
Income taxes paid	(232,110)	(31,982)	(1,975,908)
Other, net	7,016	14,384	59,725
NET CASH PROVIDED BY OPERATING ACTIVITIES	401,973	462,535	3,421,920

The accompanying notes are an integral part of these statements.

Financial Section

CONSOLIDATED STATEMENTS OF CASH FLOWS

JFE HOLDINGS, INC. AND SUBSIDIARIES
Year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property, plant and equipment	(176,324)	(171,915)	(1,501,013)
Proceeds from sales of property, plant and equipment	12,724	16,544	108,317
Payments for purchases of investments in securities	(6,270)	(797)	(53,375)
Proceeds from sales of investments in securities	43,980	38,229	374,393
Other, net	9,665	8,420	82,276
NET CASH USED IN INVESTING ACTIVITIES	(116,224)	(109,518)	(989,393)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in short-term borrowings, net	4,518	(17,080)	38,460
Increase in long-term debt	141,338	132,500	1,203,183
Repayments of long-term debt	(430,521)	(486,454)	(3,664,944)
Proceeds from sales of treasury stock	—	22,662	0
Payments for dividends by parent company	(26,243)	(17,255)	(223,401)
Other, net	(5,220)	(4,243)	(44,436)
NET CASH USED IN FINANCING ACTIVITIES	(316,127)	(369,873)	(2,691,129)
Effect of exchange rate change on cash and cash equivalents	3,125	569	26,602
Net decrease in cash and cash equivalents	(27,253)	(16,286)	(231,999)
Cash and cash equivalents at beginning of the year	59,866	77,178	509,627
Increase (decrease) in cash and cash equivalents at beginning of the year by newly consolidated or deconsolidated subsidiaries	(148)	(1,025)	(1,259)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 3)	¥ 32,464	¥ 59,866	\$ 276,359

The accompanying notes are an integral part of these statements.

Financial Section

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JFE HOLDINGS, INC. AND SUBSIDIARIES
Years ended March 31, 2006 and 2005

1. Basis of Presentation

The accompanying consolidated financial statements of JFE Holdings, Inc. (the "Company" hereinafter) and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The Company's overseas subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile.

The notes to the consolidated financial statements include information that is not required under the Japanese GAAP but is presented herein as additional information.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2006, which was ¥117.47 to US\$1.00. These convenient translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation Principles

The consolidated financial statements include the accounts of the Company's 215 domestic and foreign subsidiaries (the "Group" as JFE Holdings, Inc. consolidated group, hereinafter). All significant inter-company transactions and accounts are eliminated in consolidation.

39 affiliates are accounted for by the equity method whereby the Group includes in net income its share of income or losses of these companies, and records its investments at cost adjusted for its share of income, losses or dividends received.

(b) Translation of Foreign Currencies

Revenues and expenses are translated at the rates of exchange prevailing when transactions are made, and assets and liabilities are translated into Japanese yen at the exchange rates in effect on the respective balance sheet date.

The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current

exchange rates as of the balance sheet dates except for shareholders' equity, which is translated at historical rates. Differences arising from such translation are shown as "translation adjustments" in a separate component of shareholders' equity in the balance sheet.

(c) Valuation of Securities

Available-for-sale Securities

Marketable:

Valued primarily at market based on an average of the market prices for a period of one month prior to the settlement date. (Valuation differences are recorded fully to balance sheet by the direct capitalization method, with the costs of sales calculated primarily by the moving average method.)

Non-marketable:

Valued primarily at cost by the moving average method.

(d) Valuation of Inventories

Valued primarily at cost by the last in first out (LIFO) method.

(e) Depreciation Method for Property, Plant and Equipment

Depreciation is calculated primarily by the declining balance method.

(f) Intangible Fixed Assets

Amortization of intangible assets is calculated primarily by the straight-line method.

Amortization of the software for internal use is computed by the straight-line method based on the estimated useful lives (5 years).

(g) Allowance for Doubtful Accounts

The projected uncollectible amount is provided as the allowance using historical default rates in the past for ordinary credits and individual collectability assessments for credits deemed to have a high likelihood of default and for other specific credits.

(h) Accrued Retirement Benefits

Accrued retirement benefits are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the fiscal period.

Prior service cost is amortized in projected average years of service of the employees.

Actuarial losses are amortized in projected average years of service of the employees from the following fiscal year after the year in which they occurred.

(i) Changes in Accounting Method

On March 16, 2005, "Partial Amendment of Accounting Standard for Retirement Benefits" and "Guideline for

Partial Amendment of Accounting Standard for Retirement Benefits" were issued. These standards were adopted for the fiscal year ended March 31, 2006. There is no impact on profit and loss for the fiscal year ended March 31, 2006.

(j) Reserve for Rebuilding Furnaces

The estimated cost of the next repair is allocated to the reserves in equal amounts over the year to the next repair.

(k) Leases

Finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

(l) Revenue Recognition Method for Long-Term Construction Contracts

The revenue of long-term construction contracts, in respect of over 1-year duration and ¥500 million in amount, is recognized by the percentage-of-completion method.

(m) Consolidated Tax Return

The Company files a consolidated tax return with certain domestic subsidiaries.

(n) Per Share Information

Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Net income used in the computation was ¥325,098 million (\$2,767,498,000) and ¥159,548 million, the average number of shares used in the computation was 585,741,000 and 582,365,000 for the years ended March 31, 2006 and 2005 respectively.

Cash dividends per share shown in the statement of income are the amounts applicable to the respective year.

3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and deposits	¥32,567	¥60,085	\$277,236
Time deposits with a maturity of more than three months	(103)	(219)	(876)
	¥32,464	¥59,866	\$276,359

4. Securities

The following is a summary of held-to-maturity securities and available-for-sale securities at March 31, 2006 and 2005:

Marketable:

	Millions of yen					
	Held-to-maturity securities					
	2006			2005		
	Book value (Carrying amount)	Estimated fair value	Unrealized gain (loss)	Book value (Carrying amount)	Estimated fair value	Unrealized gain (loss)
Book value lower than estimated fair value:						
Bonds	¥ 23	¥ 24	¥ 0	¥ 33	¥ 35	¥ 1
Book value exceeding estimated fair value:						
Bonds	¥199	¥190	¥(9)	¥199	¥197	¥(2)
Total	¥223	¥214	¥(8)	¥233	¥232	¥(1)

	Millions of yen					
	Available-for-sale securities					
	2006			2005		
	Cost	Book value (Estimated fair value)	Unrealized gain (loss)	Cost	Book value (Estimated fair value)	Unrealized gain (loss)
Cost lower than book value:						
Equity securities	¥78,652	¥269,946	¥191,293	¥80,770	¥206,141	¥125,370
Bonds	-	-	-	66	66	-
Subtotal	78,652	269,946	191,293	80,837	206,207	125,370
Cost exceeding book value:						
Equity securities	1,594	1,244	(349)	15,594	13,444	(2,150)
Bonds	45	44	(1)	-	-	-
Subtotal	1,639	1,289	(350)	15,594	13,444	(2,150)
Total	¥80,292	¥271,235	¥190,942	¥96,431	¥219,651	¥123,220

	Thousands of U.S. dollars		
	Held-to-maturity debt securities		
	2006		
	Book value (Carrying amount)	Estimated fair value	Unrealized gain (loss)
Book value lower than estimated fair value:			
Bonds	\$ 195	\$ 204	\$ 0
Book value exceeding estimated fair value:			
Bonds	1,694	1,617	(76)
Total	\$1,898	\$1,821	\$(68)

	Thousands of U.S. dollars		
	Available-for-sale securities		
	2006		
	Cost	Book value (Estimated fair value)	Unrealized gain (loss)
Cost lower than book value:			
Equity securities	\$669,549	\$2,297,999	\$1,628,441
Subtotal	669,549	2,297,999	1,628,441
Cost exceeding book value:			
Equity securities	13,569	10,589	(2,970)
Bonds	383	374	(8)
Subtotal	13,952	10,973	(2,979)
Total	\$683,510	\$2,308,972	\$1,625,453

Non-marketable: Available-for-sale securities:	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Unlisted stocks, except OTC-traded stock	¥39,338	¥47,591	\$334,876
Unlisted bonds	204	-	1,736
Private placement municipal bonds	-	225	-
Government bonds	-	20	-
Subscription certificates	22	22	187

5. Long-term Debt

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
0.74% yen bonds, due November 2007	¥ 30,000	¥ 30,000	\$ 255,384
0.89% yen bonds, due October 2008	20,000	20,000	170,256
0.75% yen bonds, due February 2009	20,000	20,000	170,256
1.0% yen bonds, due July 2010	20,000	20,000	170,256
Euro Yen Zero Coupon Guaranteed Convertible Bonds, due June 2009 (Note 1)	100,000	100,000	851,281
0.75% yen bonds (issued by JFE Steel), due May 2005	-	15,000	-
0.75% yen bonds (issued by JFE Steel), due May 2005	-	15,000	-
1.92% yen bonds (issued by JFE Steel), due May 2005	-	10,000	-
2.075% yen bonds (issued by JFE Steel), due June 2005	-	10,000	-
0.70% yen bonds (issued by JFE Steel), due August 2005	-	10,000	-
1.89% yen bonds (issued by JFE Steel), due August 2005	-	10,000	-
2.0% yen bonds (issued by JFE Steel), due November 2005	-	10,000	-
2.0% yen bonds (issued by JFE Steel), due November 2005	-	1,000	-
2.75% yen bonds (issued by JFE Steel), due February 2006	-	10,000	-
1.25% yen bonds (issued by JFE Steel), due March 2006	-	10,000	-
2.10% yen bonds (issued by JFE Steel), due May 2006	10,000	10,000	85,128
0.87% yen bonds (issued by JFE Steel), due June 2006	10,000	10,000	85,128
2.10% yen bonds (issued by JFE Steel), due June 2006	10,000	10,000	85,128
0.94% yen bonds (issued by JFE Steel), due August 2006	10,000	10,000	85,128
0.9% yen bonds (issued by JFE Steel), due November 2006	30,000	30,000	255,384
3.1% yen bonds (issued by JFE Steel), due May 2007	20,000	20,000	170,256
3.225% yen bonds (issued by JFE Steel), due June 2007	10,000	10,000	85,128
0.93% yen bonds (issued by JFE Steel), due August 2007	10,000	10,000	85,128
Yen bonds (issued by JFE Steel), due December 2007 (Note2)	10,000	10,000	85,128
0.83% yen bonds (issued by JFE Steel), due February 2008	40,000	40,000	340,512
3.00% yen bonds (issued by JFE Steel), due February 2008	10,000	10,000	85,128
2.70% yen bonds (issued by JFE Steel), due April 2008	10,000	10,000	85,128
2.70% yen bonds (issued by JFE Steel), due April 2008	10,000	10,000	85,128
2.5% yen bonds (issued by JFE Steel), due June 2008	10,000	10,000	85,128
1.03% yen bonds (issued by JFE Steel), due June 2008	10,000	10,000	85,128
Yen bonds (issued by JFE Steel), due May 2009 (Note 3)	20,000	20,000	170,256
2.375% yen bonds (issued by JFE Steel), due November 2009	10,000	10,000	85,128
3.27% yen bonds (issued by JFE Steel), due November 2009	10,000	10,000	85,128
3.00% yen bonds (issued by JFE Steel), due January 2010	10,000	10,000	85,128
1.06% yen bonds (issued by JFE Steel), due March 2010	10,000	10,000	85,128
0.64% yen bonds (issued by JFE Steel), due July 2010	30,000	-	255,384
0.98% yen bonds (issued by JFE Steel), due November 2010	20,000	-	170,256
3.5% yen bonds (issued by JFE Steel), due May 2012	20,000	20,000	170,256
Loans, principally from banks and insurance companies, due 2006 – 2022:	618,530	856,252	5,265,429
Less current portion	(282,173)	(424,623)	(2,402,085)
Total long-term debt	¥868,356	¥1,012,628	\$7,392,151

Notes:

1. Details of the Convertible Bond are as follows:

- 1) Type of shares
Common stock
- 2) Issue value of stock acquisition rights
Non-assessable
- 3) Conversion price
¥3,465 per Share
- 4) Total principal amount issued

The total of ¥102.5 billion plus 102.5% of the principal amount of the Bond portion for Stock Acquisition Rights issued, upon obtaining appropriate proof and compensation, to replace Euro Yen Zero Coupon Guaranteed Convertible Bonds, that are lost, stolen or destroyed.

5) Total principal amount issued of new shares by exercise of rights

No exercise

6) The rate of granting of stock acquisition rights
100%

7) Stock Acquisition Right exercise period
Stock Acquisition Rights may be exercised at any time from June 28, 2004 to the close of banking operations (local time of the party exercising) on June 10, 2009 (or the third banking day prior to redemption in the event of accelerated redemption of the Bond).

2. 10-year yen bond swap rate – 0.82%

3. From May 16, 2001 to May 15, 2006: 1.30% per annum – redeemed on May 15, 2006

From May 16, 2006 to May 15, 2009: 2.00% per annum

6. Pledged Assets

At March 31, 2006 and 2005, pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Property, plant and equipment	¥58,647	¥110,288	\$499,250
Investments in securities	13,014	11,432	110,785
Others	39	34	332

In addition, the Company intends to set pledges for consolidated subsidiary shares (book value on the financial statements of individual consolidated subsidiaries of ¥2,335 million [\$19,877,000] at March 31, 2006 and 2005), respectively.

7. Revaluation of Land for Business

In the years ended March 31, 2001 and 2002, part of the subsidiaries and affiliates revaluated the land for business purposes based on the Law Concerning Revaluation of Land and its amendment issued on March 31, 2001 and 2002, respectively.

Revaluation differences, net of the portion charged to “deferred tax liabilities” and “minority interests,” were recorded as “revaluation reserve for land, net of tax” in shareholders’ equity.

The fair value of these lands is lower than the revaluated book-value, and the difference was ¥15,473million (\$131,718,000) and ¥16,975 million on March 31, 2006 and 2005, respectively.

8. Accrued Retirement Benefits

The following tables set forth the changes in the benefit obligation, plan assets and funded status of the Company and its subsidiaries at March 31, 2006 and 2005.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥(517,770)	¥(522,607)	\$(4,407,678)
Fair value of plan assets	359,785	323,337	3,062,781
Unfunded retirement benefit obligation	(157,984)	(199,270)	(1,344,888)
Unrecognized net retirement benefit obligation at transition	1,174	1,305	9,994
Unrecognized actuarial losses	39,528	86,080	336,494
Unrecognized prior service cost	(11,933)	(14,151)	(101,583)
Net amount	(129,215)	(126,035)	(1,099,982)
Prepaid cost	27,211	24,459	231,642
Accrued retirement benefits	¥(156,427)	¥(150,495)	\$(1,331,633)

Retirement and pension costs of the Company and its subsidiaries included the following components for the years ended March 31, 2006 and 2005.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost (Note 1)	¥17,550	¥17,382	\$149,399
Interest cost	7,719	7,854	65,710
Expected return on plan assets	(5,364)	(4,994)	(45,662)
Amortization:			
Net retirement benefit obligation at transition	131	22,472	1,115
Actuarial losses	12,015	13,191	102,281
Prior service cost	(1,605)	(676)	(13,663)
Accrued retirement benefit cost	30,447	55,230	259,189
Other (Note 2)	25	-	212
Total	¥30,473	¥55,230	\$259,410

Notes:

1. Accrued retirement benefit cost incurred by consolidated subsidiaries applying a simplified method to calculate retirement benefit obligation is included under “service cost.”

2. Premiums on defined contribution plans for certain consolidated subsidiaries.

3. With implementation of the early-retirement plan, ¥2,557 million (\$21,767,000) is included in extraordinary loss in 2006 as additional charges in addition to the above accrued retirement benefit cost.

The rationale for calculations of retirement benefit obligations for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
1. Retirement benefit projection amortization method:	Primarily, the straight-line method over the period	Primarily, the straight-line method over the period
2. Discount rate:	Primarily 1.5%	Primarily 1.5%
3. Expected return on plan assets:	Primarily 1.6%	Primarily 2.6%
4. Amortization period for prior service cost:	Primarily 10 years (Treated as cost using the straight-line method for a set number of years within the average remaining service period for employees at the time of accrual.)	Primarily 10 years (Treated as cost using the straight-line method for a set number of years within the average remaining service period for employees at the time of accrual.)
5. Amortization period for actuarial losses:	Primarily 10 years (Amortized using the straight-line method over a set number of years within the average remaining service period for the employees during the consolidated fiscal year in which discrepancies were accrued. These amounts are treated as cost posted to the next consolidated fiscal year after the year in which they were accrued.)	Primarily 10 years (Amortized using the straight-line method over a set number of years within the average remaining service period for the employees during the consolidated fiscal year in which discrepancies were accrued. These amounts are treated as cost posted to the next consolidated fiscal year after the year in which they were accrued.)
6. Amortization period for transitional obligations due to adoption of new accounting standards:	-	Primarily 5 years

9. Contingencies

At March 31, 2006 and 2005, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Guarantees of debt	¥31,847	¥45,160	\$271,107
Trade notes discounted	786	851	6,691
Trade notes endorsed	-	180	-
Other contingencies	17	40	144

Guarantees of debt at March 31, 2005 include ¥124 million borne by other companies under re-guarantee agreements. At March 31, 2006, commitments outstanding for loan commitments were ¥500 million (\$4,256,000).

10. Leases

The Group leases certain buildings and structures, machinery and equipment, office space and other assets. Total lease payments under these leases were ¥8,194 million (\$69,753,000) and ¥8,202 million for the years ended March 31, 2006 and 2005, respectively.

Pro forma information on leased property, such as acquisition costs, accumulated depreciation and net book value for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total
Acquisition costs	¥52,232	¥9,533	¥61,765	¥53,571	¥11,107	¥64,679	\$444,641	\$81,152	\$525,793
Accumulated depreciation	29,369	5,848	35,218	28,058	6,986	35,044	250,012	49,782	299,804
Net book value	¥22,862	¥3,684	¥26,547	¥25,513	¥ 4,121	¥29,634	\$194,619	\$31,361	\$225,989

Future minimum lease payments under finance leases as of March 31, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 7,233	¥ 7,888	\$ 61,573
Due after one year	19,314	21,745	164,416
Total	¥26,547	¥29,634	\$225,989

The acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion.

Depreciation expenses, which were not reflected in the accompanying consolidated statements of income, computed by the straight-line method, were ¥8,194 million (\$69,753,000) and ¥8,202 million for the years ended March 31, 2006 and 2005, respectively.

11. Derivatives and Hedging Activities

The Group's basic policy is that derivative financial instruments are used to reduce the interest rate risk and foreign exchange rate risk, not to speculate. The Group has established controls including policies and procedures

for risk assessments and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Group does not hold or issue derivative financial instruments for trading purposes.

The Group is exposed to certain market risks arising from its forward exchange contracts and swap agreements. The Group is also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest; however, the Group does not anticipate non-performance by any of these counterparties, all of whom are financial institutions with high credit ratings.

Interest rate swap agreements outstanding at March 31, 2006 and 2005 were as follows:

	Millions of yen					Thousands of U.S. dollars
	2006		2005		2006	
	Contracted amount	Recognized loss	Contracted amount	Recognized loss	Recognized loss	
Interest rate swap agreements: To receive floating and pay fixed rates	¥11,860	¥(798)	¥5,920	¥(209)	\$ (6,793)	
Total		¥(798)		¥(209)	\$ (6,793)	

12. Research and Development Expenses

Research and development expenses charged to income were ¥38,193 million (\$325,129,000) and ¥37,192 million for the years ended March 31, 2006 and 2005, respectively.

13. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 40.0% and 41.0% for the years ended March 31, 2006 and 2005, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2006 and 2005, are as follows:

	2006	2005
Statutory tax rate	40.0%	41.0%
Deferred tax assets not posted due to valuation allowance at subsidiaries	(4.8)	5.6
Effective tax rate	35.2%	46.6%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2006 and 2005 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Accrued retirement benefits	¥ 43,780	¥ 51,394	\$ 372,690
Loss on impairment of property, plant and equipment, etc.	25,823	30,161	219,826
Accrued expenses	23,788	24,160	202,502
Deferred tax assets recorded at subsidiaries in the United States	21,899	21,997	186,422
Reserve for rebuilding furnaces	18,094	-	154,030
Elimination of unrealized profits	17,246	19,452	146,811
Operating loss carry-forwards	-	13,870	-
Others	64,265	55,134	547,075
Total deferred tax assets	214,899	216,171	1,829,394
Valuation allowance	(33,218)	(31,392)	(282,778)
Valuation allowance at subsidiaries in the United States	(21,190)	(21,288)	(180,386)
Deferred tax assets net of valuation allowances	160,489	163,490	1,366,212
Deferred tax liabilities:			
Unrealized gain on securities	(74,809)	(49,855)	(636,834)
Others	(13,063)	(12,653)	(111,202)
Total deferred tax liabilities	(87,872)	(62,508)	(748,037)
Net deferred tax assets	¥ 72,617	¥100,981	\$ 618,174

14. Segment Information

Information regarding operations in industry segments, geographic segments and sales to foreign customers of the Group for the years ended and as of March 31, 2006 and 2005 was as follows:

The Company began disclosing consolidated ordinary income effective this fiscal year in order to more clearly present the results of business units under the operating companies system. In conjunction with this, the Company also discloses these consolidated figures for the previous fiscal year.

(1) Industry Segments

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Sales:			
Steel			
Sales to customers	¥2,726,383	¥2,397,068	\$23,209,185
Inter-segment	27,480	24,712	233,932
Total sales	¥2,753,864	¥2,421,780	\$23,443,125
Engineering			
Sales to customers	¥ 298,740	¥ 340,802	\$ 2,543,117
Inter-segment	7,340	10,750	62,484
Total sales	¥ 306,080	¥ 351,552	\$ 2,605,601
Urban Development			
Sales to customers	¥ 27,077	¥ 29,762	\$ 230,501
Inter-segment	1,513	1,826	12,879
Total sales	¥ 28,590	¥ 31,589	\$ 243,381
LSI			
Sales to customers	¥ 46,172	¥ 36,066	\$ 393,053
Inter-segment	-	-	-
Total sales	¥ 46,172	¥ 36,066	\$ 393,053
Elimination / Corporate			
Sales to customers	¥ -	¥ -	\$ -
Inter-segment	(36,334)	(37,290)	(309,304)
Total sales	¥ (36,334)	¥ (37,290)	\$ (309,304)
Consolidated total			
Sales to customers	¥3,098,374	¥2,803,699	\$26,375,874
Inter-segment	-	-	-
Total sales	¥3,098,374	¥2,803,699	\$26,375,874
Operating Expenses:			
Steel	¥2,240,072	¥1,965,465	\$19,069,311
Engineering	309,458	346,208	2,634,357
Urban Development	25,592	29,123	217,859
LSI	44,037	34,074	374,878
Elimination / Corporate	(37,957)	(38,410)	(323,120)
Consolidated total	¥2,581,202	¥2,336,461	\$21,973,286
Operating Income:			
Steel	¥513,791	¥456,315	\$4,373,806
Engineering	(3,377)	5,344	(28,747)
Urban Development	2,998	2,465	25,521
LSI	2,135	1,992	18,174
Elimination / Corporate	1,623	1,119	13,816
Consolidated total	¥517,171	¥467,237	\$4,402,579

Report of Independent Auditors

The Board of Directors
JFE Holdings, Inc.

We have audited the accompanying consolidated balance sheets of JFE Holdings, Inc. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of JFE Holdings, Inc. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

As discussed in Note 2., JFE Holdings, Inc. and its subsidiaries changed their accounting policy for impairment of fixed assets, for the year ended March 31, 2005.

June 28, 2006

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Ordinary Income:			
Steel	¥510,709	¥450,331	\$4,347,569
Engineering	928	8,744	7,899
Urban Development	2,810	2,274	23,921
LSI	2,022	1,821	17,212
Elimination / Corporate	843	(2,487)	7,176
Consolidated total	¥517,313	¥460,684	\$4,403,788

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Assets:			
Steel	¥3,304,473	¥3,306,349	\$28,130,356
Engineering	337,975	359,456	2,877,117
Urban Development	36,700	38,391	312,420
LSI	36,982	32,469	314,820
Elimination / Corporate	(85,809)	(80,277)	(730,475)
Consolidated total	¥3,630,322	¥3,656,389	\$30,904,247

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Depreciation and amortization:			
Steel	¥164,722	¥171,293	\$1,402,247
Engineering	5,427	4,468	46,199
Urban Development	404	386	3,439
LSI	4,434	3,547	37,745
Elimination / Corporate	69	73	587
Consolidated total	¥175,057	¥179,770	\$1,490,227

	Millions of yen	
	2005	
Loss on Impairment of property, plant and equipment, etc.		
Steel		¥73,455
Engineering		1,927
Urban Development		-
LSI		-
Elimination / Corporate		-
Consolidated total		¥75,383

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Capital expenditures:			
Steel	¥168,913	¥146,207	\$1,437,924
Engineering	3,338	3,331	28,415
Urban Development	435	313	3,703
LSI	5,561	7,179	47,339
Elimination / Corporate	110	203	936
Consolidated total	¥178,358	¥157,235	\$1,518,328

(2) Geographic Segments

Geographic segment information has not been disclosed because the sales and assets of consolidated foreign subsidiaries for the years ended March 31, 2006 and 2005 were less than 10% of consolidated net sales and assets.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2006 and 2005 amounted to ¥949,061 million (\$8,079,177,000) and ¥822,695 million, respectively.

15. Extraordinary Profit (Loss)

For the years ended March 31, 2006 and 2005, extraordinary profit (loss) consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Profit on sales of investments in securities	¥20,726	¥13,430	\$176,436
Loss on inventory evaluation	(9,850)	-	(83,581)
Loss on sales of property, plant and equipment	-	(6,787)	-
Loss on disposal of property, plant and equipment, etc.	-	(19,071)	-
Loss on impairment of property, plant and equipment, etc.	-	(75,383)	-
Write-down of investments in securities	(1,444)	(11,308)	(12,292)
Loss on liquidation of affiliates', etc.	-	(27,852)	-
Provision for loss on investments and other assets, etc.	-	(2,092)	-
Amortization of transitional obligation on accrued retirement benefits	-	(22,148)	-
Loss on settlement	-	(1,160)	-
Loss on soil decontamination of subsidiaries	-	(4,645)	-
PCB disposal	(12,611)	-	(107,355)
Additional charges for early-retirement plan	(2,557)	-	(21,767)
Penalties	(2,315)	-	(19,707)

MAJOR CONSOLIDATED SUBSIDIARIES AND EQUITY METHOD AFFILIATES

(As of March 31, 2006)

Name	Paid-in Capital**	Main Business Operations	Voting Shares (%)
JFE Steel Corporation	239,644	Steel Business	100.0
JFE Precision Co., Ltd.	3,400	Resources/Raw Materials	100.0
JFE MINERAL COMPANY, LTD.	2,000	Resources/Raw Materials	96.6
MIZUSHIMA FERROALLOY CO., LTD.	1,257	Resources/Raw Materials	93.8
JFE Refractories Corporation	948	Resources/Raw Materials	98.7
JFE Bars & Shapes Corporation	45,000	Electric Furnaces/Shape Steel Makers	100.0
DAIWA STEEL CORPORATION	5,050	Electric Furnaces/Shape Steel Makers	92.4
Touhoku Steel Corporation	300	Electric Furnaces/Shape Steel Makers	94.2
Toyohira Steel Corporation	1,560	Electric Furnaces/Shape Steel Makers	51.4
JFE Welded Pipe Manufacturing Co., Ltd.	1,437	Steel Product Processing/Processed products	97.7
JFE Metal Products & Engineering Inc.	5,000	Steel Product Processing/Processed products	96.4
JFE Galvanizing & Coating Co., Ltd.	5,000	Steel Product Processing/Processed products	98.4
JFE CONTAINER Co., Ltd.	2,365	Steel Product Processing/Processed products	54.4
JFE Pipe Fitting Mfg. Co., Ltd.	958	Steel Product Processing/Processed products	82.4
RIVER STEEL Co., Ltd.	900	Steel Product Processing/Processed products	90.0
Nippon Chuzo Co., Ltd.	2,102	Steel Product Processing/Processed products	42.1
JFE Kozai Corporation	488	Distribution/Processing	94.5
JFE Civil Engineering & Construction Corp.	2,300	Facilities & Maintenance/Construction	100.0
JFE Mechanical Co., Ltd.	1,700	Facilities & Maintenance/Construction	93.8
JFE Electrical & Control Systems, Inc.	400	Facilities & Maintenance/Construction	100.0
Kawatetsu Bridge and Steel Structure Corporation	1,500	Steel Structures/Temporary Construction	100.0
GEOSS CORPORATION	4,397	Steel Structures/Temporary Construction	39.4
JFE LOGISTICS CORPORATION	4,000	Logistics/Contracting	88.8
JFE Systems, Inc.	1,390	Information Systems	67.7
EXA CORPORATION	1,250	Information Systems	49.0
Fukuyama Joint Thermal Power Co., Ltd.	5,000	Electric Power/Utilities	50.0
Mizushima Joint Thermal Power Co., Ltd.	4,000	Electric Power/Utilities	50.0
JFE SANSO CENTER CORPORATION	90	Electric Power/Utilities	40.0
JFE Chemical Corporation	6,000	Chemicals	100.0
JFE LIFE CORPORATION	2,000	General Services/Assets Management	99.9
JFE Techno-Research Corporation	100	Intellectual Property & Technology Information/Inspection & Analysis	100.0
JFE SHOJI HOLDINGS, INC.	20,000	Trading Company	39.6
NKK U.S.A. Corporation	US\$ 347,446,000	Investment & Loan	100.0
NKK Capital of America, Inc.	US\$ 208,869,000	Group Finance	100.0
Guangzhou JFE Steel Sheet Company Ltd.	RMB625 million	Steel Product	51.0
California Steel Industries, Inc.	US\$ 10,000,000	Steel Product	50.0
Thai Coated Steel Sheet Co., Ltd.	THB 2,206 million	Steel Product	81.4
Thai Cold Rolled Steel Sheet Public Co., Ltd.	THB 10,703 million	Steel Product	38.4
Philippine Sinter Corporation	PHP 485 million	Resources/Raw Materials	100.0
JFE Engineering Corporation	10,000	Engineering Business	100.0
JFE KOKEN CORP.	3,494	Civil Construction/Pipeline Construction	100.0
JFE Plant & Service Corporation	1,360	Machinery Construction/Plant Construction	100.0
JFE KANKYO CORPORATION	650	Environment & Recycling	90.8
JP Steel Plantech Co.	1,995	Machinery Construction/Plant Construction	25.6
Universal Shipbuilding Corporation	25,000	Shipbuilding	50.0
NIPPON CHUTETSUKAN K.K.	1,855	Manufacture and Sale of Water Pipes and Gas Pipes	29.3
JFE Urban Development Corporation	3,000	Urban Development Business	100.0
KAWASAKI MICROELECTRONICS, Inc.	5,046	LSI Business	99.7
JFE R&D Corporation	10	R&D Operations	100.0
JFE Finance Corporation	50	Group Finance	100.0

*: Equity method affiliates

** : Millions of yen, unless otherwise specified

Other 177 consolidated subsidiaries and 27 equity method affiliates

Shareholder Information

(As of March 31, 2006)

Corporate Data

Company Name: JFE Holdings, Inc.
(Trade Name)

Head Office Address: 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005

Tel: +81-3-3217-4049 (main)

URL: <http://www.jfe-holdings.co.jp/>

Date of Establishment: September 27, 2002

Paid-in Capital: ¥100 billion

Number of Outstanding Shares: 587,235,278

Number of Shareholders: 379,717

Investor Information

Securities Trade: Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange (Securities code: 5411)

Annual Shareholders' Meeting: Held every June in Tokyo

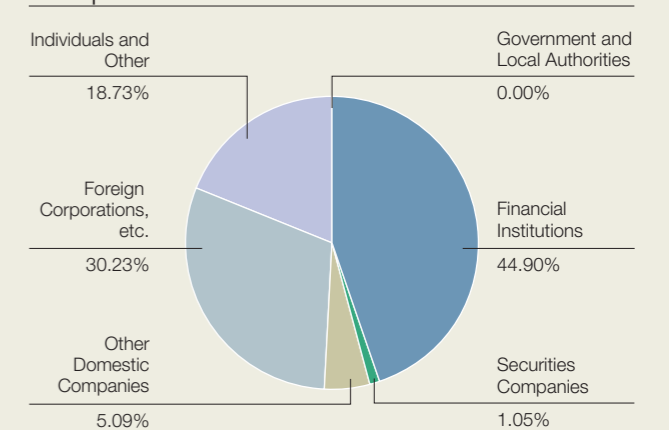
Transfer Agent: Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670

Business Office of Transfer Agent: Stock Transfer Agency Dept. of Mizuho Trust & Banking Co., Ltd.
17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722
Tel: +81-120-288-324 (toll-free)

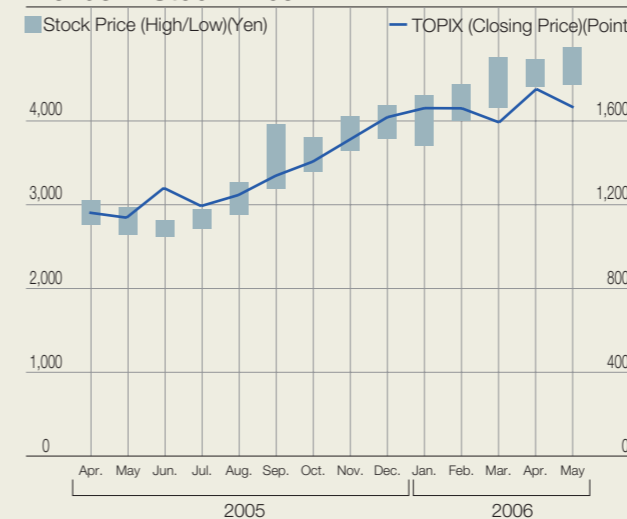
Principal Shareholders

Name of Shareholder	Number of Shares Held (Thousand Shares)	Percentage of Voting Rights (%)
The Master Trust Bank of Japan, Ltd. (trust account)	52,090	8.87
Japan Trustee Services Bank, Ltd. (trust account)	50,271	8.56
Nippon Life Insurance Company	19,006	3.24
The Dai-ichi Mutual Life Insurance Company	13,705	2.33
State Street Bank & Trust Company 505103	10,972	1.87
Tokio Marine and Nichido Fire Insurance Co., Ltd.	9,975	1.70
Mizuho Corporate Bank, Ltd.	9,708	1.65
Sompo Japan Insurance Inc.	8,419	1.43
State Street Bank & Trust Company	7,357	1.25
Trust & Custody Services Bank, Ltd. (trust account B)	7,268	1.24

Composition of Shareholders



Trends in Stock Price



Trends in Trading Volume

