

2007
JFE GROUP
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BUSINESS REPORT

Corporate Vision

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

Corporate Values

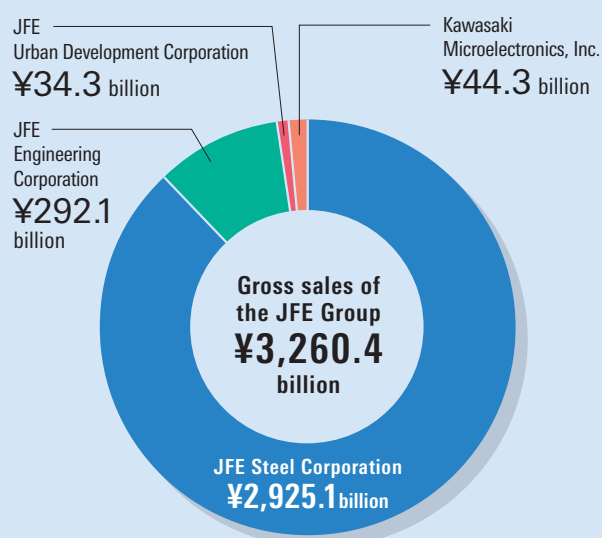
A Challenging Spirit, Flexibility, Sincerity

The JFE Group is broadly carrying forward development of businesses with steel and engineering at its core.

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 as the center of unified governance of the Group.

Established: September 27, 2002
Address: 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6527
Consolidated net sales: ¥3,260.4 billion (fiscal year ended March 31, 2007)
Consolidated ordinary income: ¥513.5 billion (fiscal year ended March 31, 2007)



For a more detailed information, please access our website:
 JFE Holdings, Inc. <http://www.jfe-holdings.co.jp/en/index.html>
 Financial information <http://www.jfe-holdings.co.jp/en/investor/index.html>
 Environmental Report <http://www.jfe-holdings.co.jp/environment/index.html>

JFE Steel Corporation

JFE Steel Corporation is an integrated steel producer ranking fourth* 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. JFE Steel produces and sells a wide range of high-value-added products and Only One and Number One products, taking advantage of its world-class technology and product development capabilities.

*Source: Metal Bulletin

JFE Engineering Corporation

JFE Engineering Corporation is responsible for the engineering business, which is the JFE Group's core business, together with steel. JFE Engineering Corporation 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.

JFE Urban Development Corporation

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.

Kawasaki Microelectronics, Inc.

Kawasaki Microelectronics, Inc. is an LSI vendor specializing in sophisticated, high-value-added ASIC (Application Specific Integrated Circuit). 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.

JFE R&D Corporation

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

Editorial Policy

This Business Report aims to report various activities of the JFE Group in an easily understandable manner to its stakeholders (parties who affect, or can be affected by, the Company's actions). Starting with the 2006 edition, the Business Report has also combined the conventional Annual Report and Environmental Sustainability Report.

The Special Feature section elaborates our activities to realize a highly profitable earnings structure and social contribution through such activities, with "the JFE Group's technological capabilities and human resource power" as its main theme.

The following sections describe the Group's main activities and performance data from three points of view, i.e., Economic, Social and Environmental aspects.

Organizations Subject to the 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., 213 consolidated subsidiaries and 41 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 the Report

In principle, this report covers the year ending March 31, 2007 (from April 1, 2006 to March 31, 2007).

Some sections include activities in the year ending March 2008.

Scheduled Publication Date of the Next Report

June 2008

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.

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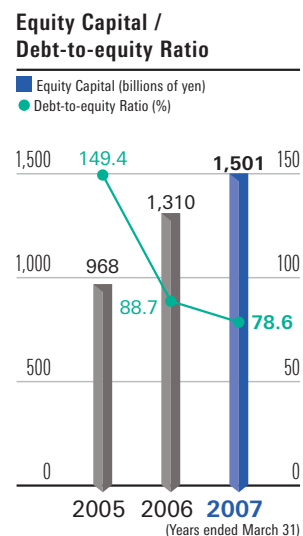
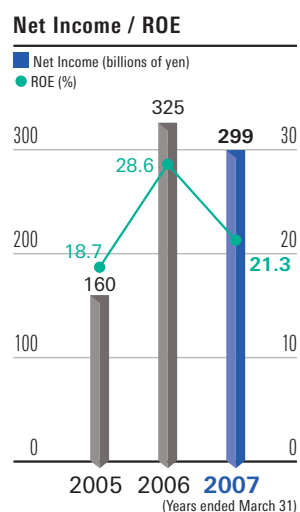
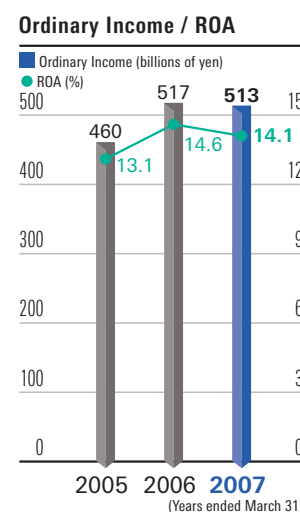
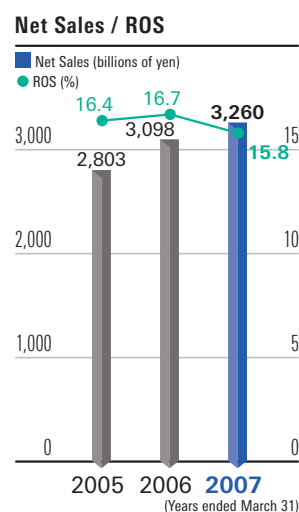
Main Financial Data

JFE Holdings, Inc. and Consolidated Subsidiaries

Years ended March 31	Millions of yen (Unless otherwise specified)			Thousands of U.S. dollars ¹
	2007	2006	2005	2007
Operating Results (For the Year)				
Net sales	¥3,260,447	¥3,098,374	¥2,803,699	\$27,619,203
EBITDA ²	705,712	708,171	662,221	5,978,077
Operating income	503,938	517,171	467,237	4,268,852
Ordinary income ³	513,520	517,313	460,684	4,350,021
Net income	299,683	325,996	160,057	2,538,610
Financial Position (At Year-end)				
Total assets	3,872,142	3,630,322	3,656,389	32,800,864
Net assets ⁴	1,539,621	1,310,381	968,614	13,042,109
Debt and corporate bonds outstanding	1,180,532	1,162,857	1,446,785	10,000,271
Financial Indexes				
Return on Sales (ROS) ⁵	15.8%	16.7%	16.4%	
Return on Assets (ROA) ⁶	14.1%	14.6%	13.1%	
Return on Equity (ROE) ⁷	21.3%	28.6%	18.7%	
Equity capital ratio ⁸	38.8%	36.1%	26.5%	
Debt-to-equity ratio ⁹	78.6%	88.7%	149.4%	
Per Share Data				
Net income (yen)	¥ 513.58	¥ 555.02	¥ 273.97	\$ 4.35
Net assets (yen)	2,548.09	2,236.32	1,652.31	21.58
Cash dividends (yen)	120.00	100.00	45.00	1.01
Reference: JFE Steel Corporation				
Consolidated				
Crude steel output (thousand t)	32,828	30,145	31,281	
Non-consolidated				
Crude steel output (thousand t)	29,037	26,718	27,648	
Sales volume (thousand t)	26,430	24,571	25,725	
Average sales price (thousand yen/t)	76.0	76.9	61.7	

Notes:¹ Translations of the Japanese yen amounts into U.S. dollars are made at the rate of ¥118.05 = 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 Figures for the year ended March 2006 and earlier represent "shareholders' equity."
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

⁷ Return on Equity = net income/average net assets for the term x 100
 As for the calculation for the year ended March 2006 and earlier, Return on Equity = net income/average shareholders' equity for the term x 100
⁸ Figures for the year ended March 2006 and earlier represent "shareholders' equity ratio."
⁹ Debt-to-equity ratio = debt and corporate bonds outstanding/total equity capital x 100
 As for the calculation for the year ended March 2006 and earlier, debt-to-equity ratio = debt and corporate bonds outstanding/total shareholders' equity x 100



Main CSR Data

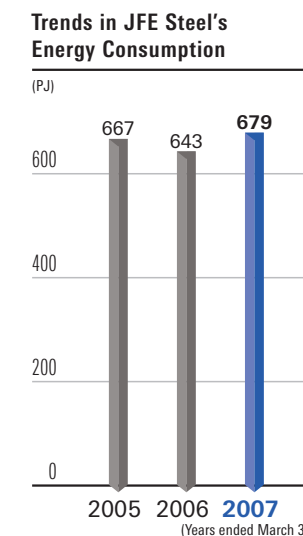
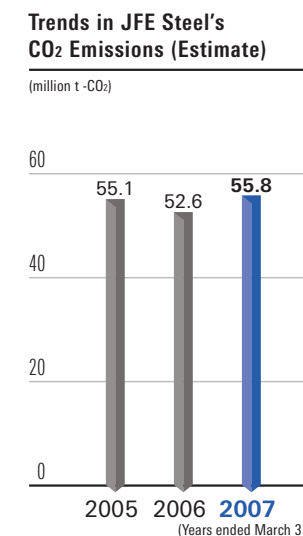
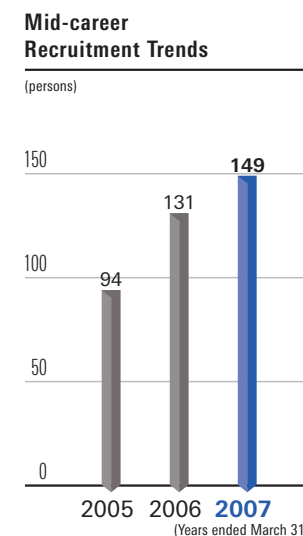
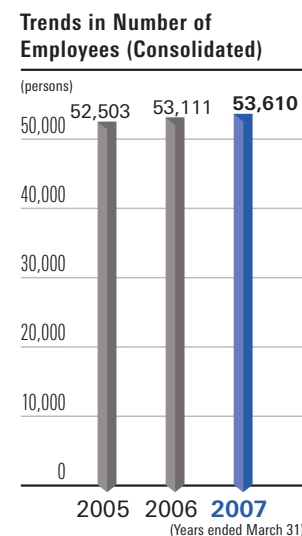
Social Aspects

Years ended March 31	2005	2006	2007
Number of employees (consolidated) (persons)	52,503	53,111	53,610
Number of regularly-hired employees ¹ *2 (persons)	275	533	515
Number of mid-career employees ¹ (persons)	94	131	149
Employment rate for disabled persons at JFE Steel ³ (%)	1.86	1.94	2.05

Environmental Aspects

Years ended March 31	2005	2006	2007
JFE Steel Corporation			
CO ₂ emissions (million t -CO ₂)	55.1	52.6	55.8
Energy consumption (PJ)	667	643	679
JFE Engineering Corporation			
CO ₂ emissions (million t -CO ₂)	0.014	0.014	0.015
Kawasaki Microelectronics, Inc.			
CO ₂ emissions (million t -CO ₂) ⁴	0.052	0.060	0.050

¹ Total of JFE Holdings, Inc. and five major operating companies
² Number of employment in April 2005, April 2006, and April 2007
³ As of June 1, 2005, June 1, 2006, and June 1, 2007
⁴ Figures include emissions of three alternative CFC gases including PFC



To All Stakeholders

I would like to begin by expressing my heartfelt gratitude for your ongoing support and understanding.

Since the establishment of the JFE Group—a world-leading enterprise founded on the core competencies of steel and engineering—we have been vigorously pushing ahead with development of a business structure that will facilitate sustained growth while simultaneously striving to expand the Group's overall profitability.

Era of Accelerating Changes (Business Environments surrounding the JFE Group)

Environments influencing JFE's corporate management have been undergoing dramatic change in recent years.

The steel industry has been experiencing restructuring and consolidation more frequently on a global scale, as represented by the advent of ArcelorMittal and the acquisition of Corus by Tata Steel.

Demand for steel has been growing rapidly, especially in Asia sustained by development in China and India. In parallel, raw materials have been subject to substantial price increases, and polarization of the steel market into high-end and commodity-grade sectors has been progressing. We cannot deny that the environments influencing the steel industry have entered an era of radical change.

Winds of change are also blowing through the engineering industry, another of our core businesses. New opportunities are emerging in the environment, energy and recycling sectors at a time when measures to reduce fiscal deficits are leading to a decline in public works projects.

Despite these circumstances, the JFE Group is prepared to

overcome challenges encountered in fulfillment of its corporate social responsibility, from enhancing corporate governance and compliance to environmental issues to the in-house transfer of know-how among successive generations.

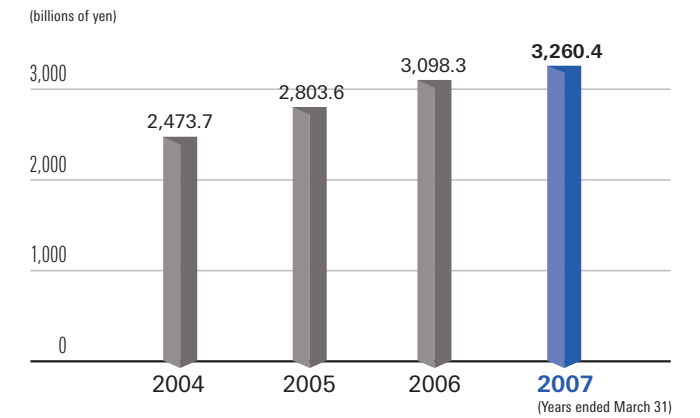
Second Medium-Term Business Plan: Basic Policies, Achievements to Date

Under the First Medium-Term Business Plan (April 2003 - March 2006), the JFE Group strived to establish a foundation from which it could advance as a global enterprise, enhancing its earning power and substantially improving its financial position. Success in this term led us to define the Second Medium-Term Business Plan (April 2006 - March 2009) as the period in which we will reinforce our foundation and take a major step forward as a global player. With that stance as our guide, we have formulated the following basic policies: (1) establishing a stable, profitable structure; (2) flexibly and aggressively undertaking strategic investment and reinforcing R&D; (3) promoting CSR and enhancing corporate governance; (4) improving our financial position; and (5) actively generating shareholder returns.

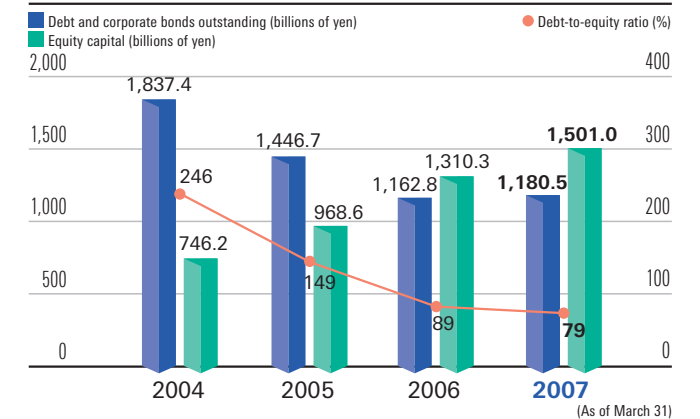
Under the Second Medium-Term Business Plan we will pursue creation of a corporate structure capable of steadily generating ordinary income in excess of ¥500 billion on an annual basis. The first year of the current business plan (April 2006 - March 2007) saw the JFE Group exceed all expectations, reporting consolidated ordinary income of ¥513.5 billion and net income of ¥299.6 billion. Clearly, the Group's strategy of establishing a stable and profitable structure by expanding production/sales of high value-added products is steadily bearing fruit.

President & CEO
Fumio Sudo

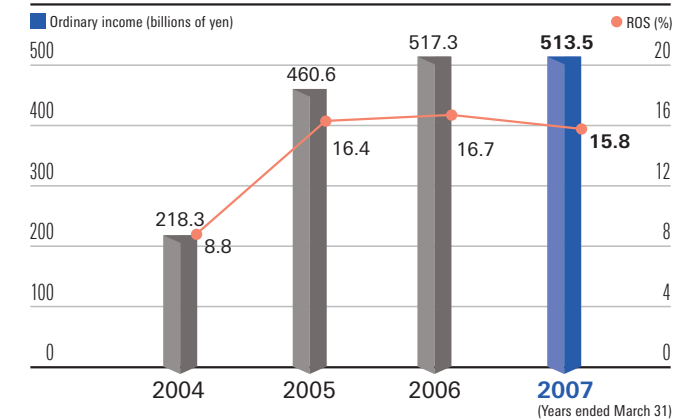
Trends for Net Sales



Trends for Debt and Corporate Bonds Outstanding/ Equity Capital and Debt-to-equity Ratio



Trends for Ordinary Income/ROS (Return on Sales)



Carrying Forward the New Growth Strategy

The JFE Group is steadily approaching the financial goals of the Second Medium-Term Business Plan; however, the Group is also advancing its strategy of emerging on the world stage as a global leader.

The high growth in global demand for steel is anticipated to continue, centering on Asia where the JFE Group has strong networks. Demand for high-end steel products, where the Group can prove its overwhelming strength, is also expected to grow rapidly. We will strive to expand production and sales of high-end steel products primarily by (1) reinforcing our domestic production bases, (2) considering an overseas production system, and (3) further strengthening our overseas alliances. In this way, we aim to expand both our earnings and the Group's presence in the global steel market.

To deal with tough business conditions in the engineering sector, meanwhile, we will endeavor to reinforce our competitiveness by means of greater concentration, strict project selection and dedication to reducing fixed costs. At the same time, we are determined to proactively develop opportunities in promising fields, such as new energy, energy resource conservation and recycling.

Maintaining, Enhancing Corporate Value and Common Shareholder Interests

The JFE Group will steadily promote enhancement and maintenance of corporate value and common interests of shareholders in tandem with establishment of a stable and profitable structure.

1. Reinforcing Corporate Governance

Enhanced corporate governance is among the basic policies being stressed in the Second Medium-Term Business Plan. To ensure transparency and fairness and further reinforce corporate governance



on a continual basis, the current year will see the JFE Group introduce outside directors while simultaneously reducing directorship terms.

We have also been progressively implementing measures to establish internal controls. For the purpose of developing and monitoring Group-wide internal controls, a new entity—the JFE Group Internal Control Committee—will be set up under the JFE Group CSR Council. We see this as a significant step forward as far as this issue is concerned.

2. Adopting Takeover Defense Measures

JFE Holdings, Inc. adopted a “Defense Policy toward Large-scale Purchases of JFE Shares” at a meeting of its board of directors in March 2007. A mechanism for automatically extending this Policy every two years was subsequently approved by the ordinary general shareholders meeting in June 2007.

In the event that a Large-scale Purchase of shares is proposed, the Policy will ensure that both the Large-scale Purchaser and the JFE Board of Directors provide shareholders with necessary and sufficient information, opinions and suggestions, and that shareholders are provided with sufficient time to review this input, so that shareholders can carefully evaluate potential effects of the proposal on JFE corporate value and their common interests. (For information on this Policy, please refer to Page 20.)

3. Proactively Generating Shareholder Returns

We have been proactive in our approach to generating shareholder returns. For example, the cash dividend for the business year ended March 2007 has been raised to ¥120 per share; we also acquired treasury shares worth ¥120 billion during a purchase program conducted between November 2006 and February 2007. These positive steps made it possible to achieve a payout ratio of 23.4% and a total shareholder return ratio of 64% for the year ended March 2007.

Environment and Compliance

The JFE Group, endeavoring to meet society's high expectations, is dedicated to promoting business activities firmly grounded in our commitment to coexist in harmony with the global environment and to maintain and defend corporate ethical standards.

With regard to environment-related issues, the JFE Group considers improvement of the global environment to be of utmost importance to management and, as such, undertakes all business activities with the aim of maintaining harmony with nature. This environmental philosophy commits the JFE Group to reducing our impact on nature while expanding efforts to conserve energy in every single business activity. This dedication is backed by unflagging efforts to develop and deliver environment friendly products and technologies.

Turning to compliance, the JFE Group Compliance Committee, as noted above, will be tasked with establishing the basic policies and measures to be taken by all operating companies. We will strive to encourage compliance through various means, including dissemination of relevant laws and regulations and creation of a compliance hotline.

We at the JFE Group have been pursuing corporate activities via dialog with a significant number of stakeholders. We will continue to strive toward sustained corporate growth and enhanced corporate value with your assistance and cooperation.

June 2007

President & CEO
JFE Holdings, Inc.



[SPECIAL FEATURE 1]

JFE Pride: World-Class Steelmaking Know-How

The JFE Group continuously strives to identify trends and respond with products capable of satisfying contemporary needs. This effort is made possible by high technological capability and superior human resources. Capitalizing on these strengths, the JFE Group is determined to maintain sustainable growth in concert with efforts to support society and protect the environment.



Only 1, Number 1

Social Contribution: High-end Steel That Supports JFE

Under the corporate vision of "contributing to society with the world's most innovative technology," the JFE Group gathers technological excellences, develops and manufactures products and technologies which contribute to the environment and society, and provides these fruits to the general public.

JFE excels at producing high-end steel, which has high strength, high corrosion resistance and high formability. This multi-function steel is recognized as essential raw material to support manufacturing of automobiles, home electric appliances, vessels and other products with low environmental loads. For example, high tensile strength steel sheets (HITEN, NANO HITEN) and HISTORY steel tubes, both of which contribute to weight reduction and collision safety of automobiles, and coated steel sheets, which contain no environmental load substances and contribute to weight reduction of automobiles, are indispensable to countermeasures against global warming and reduction of environmental load substances.

Under the Second Medium-Term Business Plan, JFE has constructed and is continuously promoting a strategy to expand production of the world's top-quality high-end steel. Specifically, we have set the target of increasing crude steel production by 3 million tons from 27 million tons in the year ended March 2006 to 30 million tons in the year ending March 2009 with all the increment generated by high-end steel production (from 20 million tons to 23 million tons).

Moreover, we have defined products capitalizing on the unique proprietary technology in the industry as "Only One" products and those capitalizing on the most innovative technology in the industry as "Number One" products, with strategies to expand these products. JFE intends to increase production of Only One/Number One products from 5 million tons in the year ended March 2006 to 7 million tons in the year ending March 2009.



Currently, the world's demands for iron and steel products have been on a continuous rise. These demands are polarized between commodity-grade products and high-end steel products for automobiles, home electric appliances and vessels, etc. The former can be produced where "a set of facilities and basic operation technologies" are available, while the latter requires "consistent and refined quality control technologies." With these backgrounds, the needs for high-end steel are increasing rapidly.

We confidently believe that JFE's technical capabilities are at the cutting edge of the world. JFE is pursuing a high-end steel strategy which aims to create and further refine technologies ahead of competing makers. We firmly believe this strategy enables JFE to permanently ensure technological superiority, maintain sustainable corporate growth, and contribute to sustaining the global environment in good shape.

Only One/Number One Products as an Embodiment of JFE's Excellent Technological Capabilities

Based on its distinguished process technology to produce refined steel sheet as thin as 0.1 mm thickness, JFE holds a great number of Only One/Number One products and technologies capitalizing on excellent technological capabilities rooted in rich experiences and unique proprietary technologies second to none.



Steel Production Process

1 Raw Material Processing



Raw materials are burned into sinter and coke. Steel is made from iron ore, limestone and coal. Most of the iron ore is mixed with coke and limestone and burned into sinter before being charged into a blast furnace. Meanwhile, coal is put into a coke oven where it is steamed and burned into coke, which works as a reducing agent.

2 Iron making (Blast Furnace)



Pig iron is produced in a blast furnace. Sinter and coke are charged into a blast furnace. In order to melt the iron ore, a hot blast as high as 1,200°C is blown from the bottom of the furnace and pig iron is tapped from the furnace.

3 Steelmaking (Converter)



Hard and brittle "pig iron" is converted into solid and supple "steel". As pig iron is hard and brittle, it needs to be converted into solid and easily formable steel. During this process, oxygen is injected into a converter and impurities such as carbon are removed so as to convert pig iron into steel.



Technology

Technological Capabilities to Create High-Quality Products

JFE's high-end steel is produced by integrated technologies into which highly advanced technical know-how is assembled. These technologies are created by innovative "human" power which JFE boasts to the world in various aspects including "R&D," "production technology," and "facility maintenance."

Various advanced science technology and unique R&D taken ahead of customer needs are essential to create new products and technologies. As a corporate group with steel and engineering at its core, JFE is taking up challenges inherent to unique R&D under the world's most innovative research system which combines about 700 highly skilled experts.

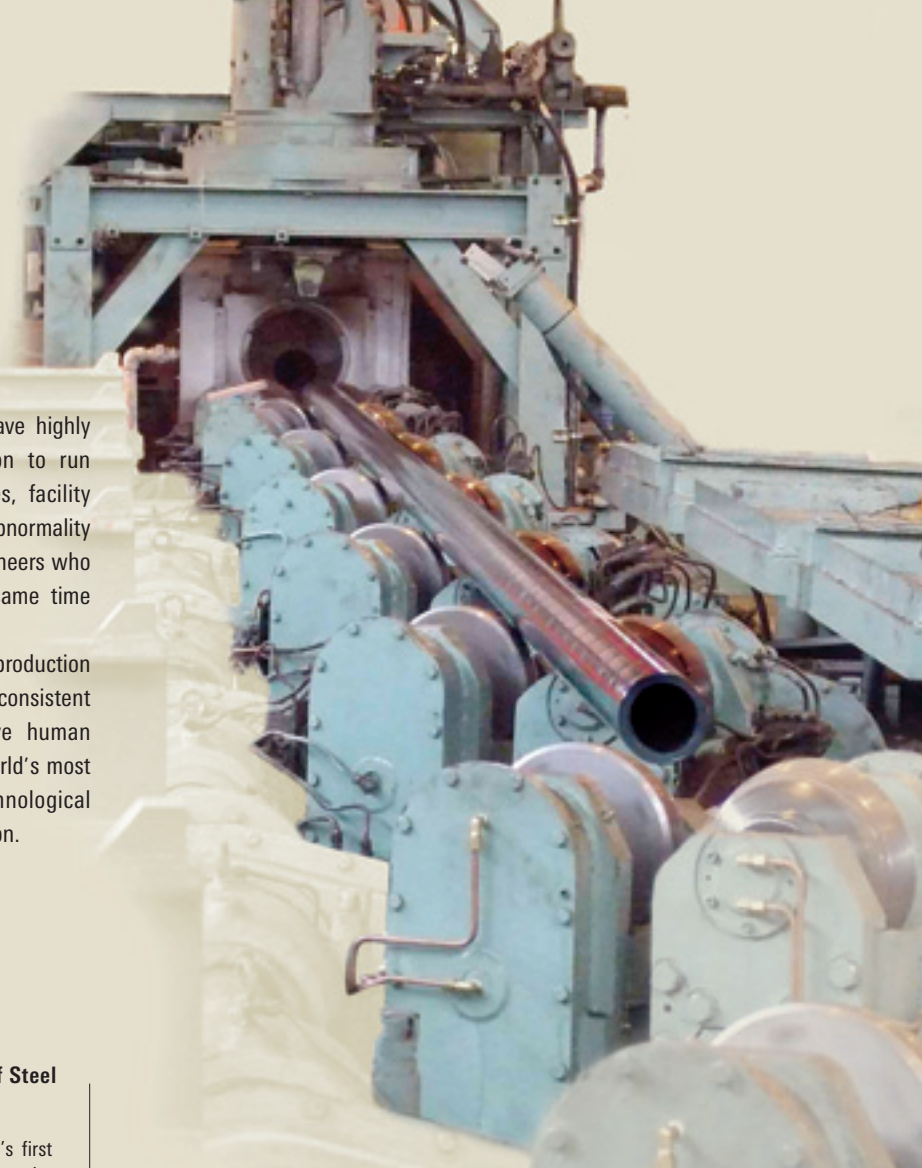
In recent years, customer needs for steel products have become more advanced and further diversified. Moreover, in light of acceleration of new product development, it is important to dig out and boost potential demands for steel materials. Through promotion of EVI (Early Vendor Involvement) activities, JFE has been carrying forward development of new technologies and new products which customers, society and the global environment are expecting.

In 2005, as the base of EVI activities, the Customers' Solution Laboratory (CSL) was established for customers in the automobile fields, while the Technical Solution Center for Steel Construction Materials (THiNK SMART) was set up for customers in civil engineering and construction fields as well as experts involved in university/corporate research institutes. In this way, JFE is strengthening the EVI activities.

Advanced production technology is also essential to deliver new products and new technologies based on R&D to our customers. Above all, high-end steel requires a great number of highly advanced science technologies, including component adjustments as precise as one millionth (ppm) or less, and crystal texture control on nano-order by thermal adjustments by 0.1°C in each stage from heating, cooling,

rolling to coating. In production sites, it is essential to have highly capable operation engineers who pay sensitive attention to run production facilities equipped with all these technologies, facility maintenance engineers who monitor facilities to prevent abnormality from happening in any facility, and energy environment engineers who provide huge steelworks with stable energy and at the same time reduce CO₂ emissions to the utmost.

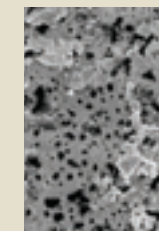
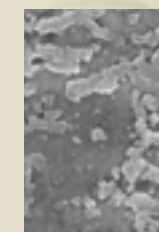
JFE has the world's most innovative engineers in its production sites as well, which ensures continuous production and consistent quality of high-end steel. "The world's most innovative human resources" are gathered to contribute to society with the world's most innovative technology, further sharpening their technological capabilities in order to maintain the world's forerunner position.



Center Pillar of Automobiles
The center pillar is a part which is located between the front and rear doors. It supports the roof and protects passengers from injury in case of a side crash.

Customers' Solution Laboratory to Create the Future of Steel Materials for Automobiles Jointly with Customers

In August 2005, CSL was established as the Japanese industry's first communication facility with customers in the automobile fields, in order to enhance customer satisfaction. Areas showing the latest research accomplishments, areas conducting investigations of automobile bodies and material compositions, experimental laboratories, and meeting rooms are all assembled in this facility. United activities with automobile companies and parts manufacturers not only promote our joint research vigorously but also lead to acceleration of R&D.



4 Steelmaking (Secondary Refining)



Impurities are removed to the limit. In order to manufacture extremely high-quality products, impurities are further removed and highly precise component control is implemented so as to realize the utmost purity.

5 Continuous Casting



Molten steel is cooled, solidified and cut into slabs/billets. Molten steel is poured into continuous casters and cooled down. The cooled and solidified steel is slowly taken out from the bottom of casters, and cut in a certain length into semi-finished steel products such as slabs and billets.

6 Hot Rolling



Slab is put through mills and rolled into thin steel sheets. After being heated in reheating furnace, slab is put through roughing and finishing mills where it is thinly lengthened out at once and rolled into hot-rolled coil.

7 Cold Rolling



Thinner and more refined steel sheets are produced. Steel sheets produced through the hot-rolling process are further thinly and evenly lengthened out by being put through mills at room temperature. As a result, steel sheets with high accuracy become available.



Human Resources

Fostering of Human Resources and Generation Shift in the Workforce

Considering "human resources" as an important element of an excellent company, JFE has been striving to improve sustainable capabilities which should last into the future. With "A Challenging Spirit, Flexibility, and Sincerity" being set forth in the Group's Corporate Values, JFE believes that each employee should always endeavor to "challenge" and carry forward his/her task in a "flexible" and "sincere" manner and that will lead to JFE's further prosperity.

In order to maintain a highly motivated workforce, JFE offers a wide range of educational courses on specialized technical knowledge (steel technology, management technology, finance and accounting, etc.) as well as new employee training programs, OJT sessions at assigned places and executive training programs. Moreover, we annually dispatch several personnel to foreign business schools, law schools or research institutions for overseas education. In this way, the JFE Group has been carrying out various training programs.

Employees' voluntary improvement activities at production sites also comprise a major driving force for enhancement of technological capabilities. Production staff members are engaged in voluntary improvement activities known as "J1 Activities," which aim to make the JFE Group the number one. More specifically, a small group has been organized in each workplace of production sites so as to prove individual creativity and solve key issues of its own workplace. The J1 Activities have set forth safety/environment, quality, productivity improvement, and cost reduction as major themes, having continuously brought about successful results for more than 40 years. Currently, about 1,500 groups are engaged in these activities, which greatly contribute to better communication and smooth generation shift in each workplace.

In Japan, the Year 2007 Problem, which is anticipated from the massive retirement of baby boomers, has become headline news recently.

In order to cope with the Year 2007 Problem, JFE has been endeavoring to foster human resources and pass on skills from generation to generation in an organized and planned manner. Since succession of skills characteristic of Japanese society requires quantification and database compilation of skills so as to grasp those skills at each level of workplaces, groups and individuals, a "comprehensive human resources fostering system" has been working at JFE Steel since its introduction in October 2006. Applicable scope of this system is accordingly enlarged.

JFE will continuously manufacture the world's most innovative products with the world's most innovative "technologies" based on the world's most innovative "human" power. We are determined to continue making contributions to customers, society and the global environment, as well as aiming at sustainable corporate growth.



Video shooting of special operation work



The 8th J1 Activities JFE Steel Family Convention

The 8th meeting for announcing results of J1 Activities (JFE Steel Family Convention) was held in Fukuyama in November 2006. A total of 27 representative groups (including 5 groups from abroad) were divided into 2 conference rooms where they earnestly reported their accomplishments.



8 Continuous Annealing



Steel sheets are annealed. Steel sheets hardened through the cold-rolling process are continuously heated, cooled and made into higher-strength steel sheets with excellent workability.

9 Coating



Steel sheets are galvanized for corrosion proof. Coating of molten zinc is applied to the surface of cold-rolled steel sheets. This galvanizing process produces coated steel sheets which are hardly rusted and easily painted and printed.

10 Shipment



Finally, high-end steel sheets are produced. Products become available after having gone through consistently strict quality control at each stage of a great number of production processes.



Products are delivered to customers. Finished products are delivered in high-quality state from steelworks to customers by sea, trailers or other transportation.



Energy Saving

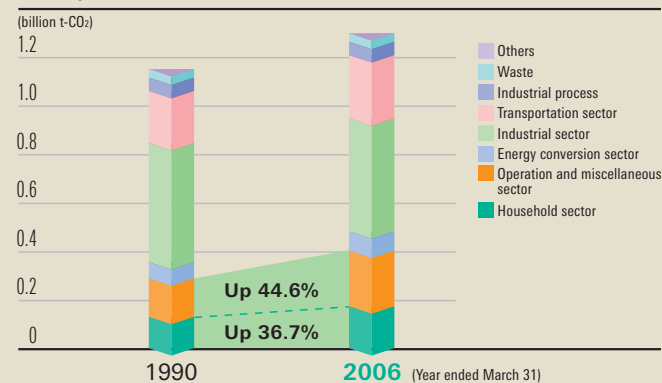
Increasing Need to Reduce Greenhouse Gas Emissions

Among environmental problems, global warming is the closest and most serious one to us. How to cope with generation of greenhouse gas (GHG), which causes global warming, is a huge challenge for human beings. The first commitment period of the Kyoto Protocol will start in January 2008. In accordance with this Protocol, Japan is required to reduce its GHG emissions by 6% compared to 1990 levels. In contrast, CO₂ emissions for the year ended March 2006 amounted to 1.36 billion tons (final figure) or a significant 7.8% increase from 1990 levels.

The industrial sector reduced GHG emissions by 5.5% compared to 1990 levels, reflecting its continuous effort for energy saving since the first oil crisis. However, the operation and miscellaneous sector which is composed chiefly of office and business establishments recorded a 44.6% increase, with a 36.7% increase in the household sector, and an 18.1% increase in the transportation sector including automobiles and vessels. Overall, it is a hard fact that GHG emissions have been on the rise.

The Japanese government has also set up the Top Runner Program mainly for electric appliances used in offices and households, thereby promoting replacement into appliances with excellent energy saving functions. Our society is now required to introduce appliances with excellent energy saving functions and use clean energy with low GHG emissions to operate these appliances.

CO₂-equivalent Emissions



SPECIAL FEATURE 2

Creating an Earth-friendly Environment

Amid heated discussions on global warming and other environmental problems, we are determined to contribute to creation of an earth- and people-friendly environment through realization of energy saving and resource saving by maximally providing our accumulated technologies and experiences in the environment and energy fields.



Clathrate Hydrate Slurry (CHS) Heat Storage Air-conditioning System Contributing to Substantial Energy Saving

JFE Engineering offers revolutionary technology which substantially reduces GHG emissions of central air-conditioning equipment used in offices and business establishments: the Clathrate Hydrate Slurry (CHS) Heat Storage Air-conditioning System.

Clathrate hydrate slurry (CHS) is a new fluid with the same fluidity and more than twice as large capacity to store cold energy as water. Thus, it can be called "fluid ice." A smaller amount of CHS than that of water can be used as an agency which carries the same amount of cold energy within a building. This revolutionary system also realizes more energy saving by storing cold energy in CHS during the nighttime when the air temperature falls and by using the stored cold energy during the daytime when the air temperature rises. Running cost of this air-conditioning system can be also saved by taking advantage of the nighttime electric power discount offered by electric power companies. To sum up, this system has embodied cutting-edge technology, while also being friendly both to the earth and to customers using the system.

Clathrate Hydrate Slurry (CHS) Heat Storage Air-conditioning System



Clathrate hydrate slurry (CHS) heat storage air-conditioning facility (JFE Tsurumi Works Sogo Building)

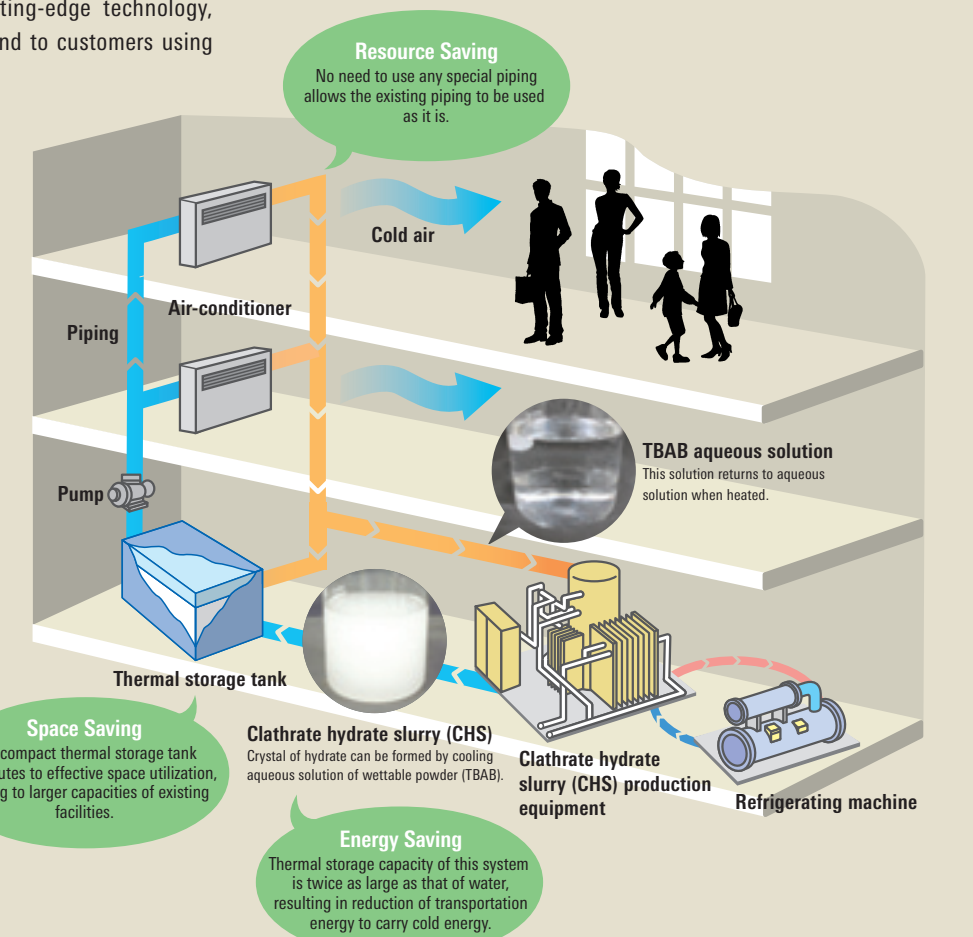
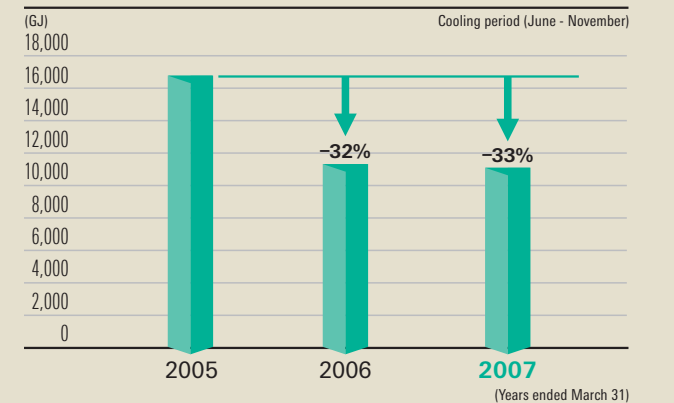
Unique technology jointly developed by JFE Engineering and NEDO (New Energy and Industrial Technology Development Organization).

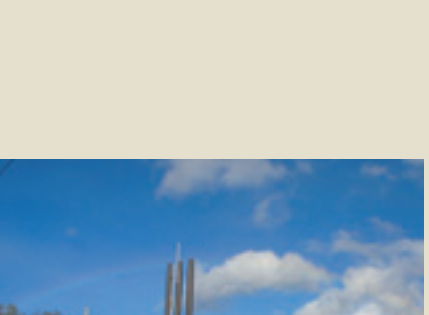
This system received the Prime Minister Prize of the 35th Japan Industrial Technology Grand Prix in 2006 for its commendable technological uniqueness.



Kawasaki Underground Mall (Azalea)

Energy Saving Achievement Status (Primary Energy Consumption: in Self-owned Office Buildings during Cooling Period)





Earth-Friendly

Advanced Technologies to Fight Global Warming

In addition to the foregoing, JFE Engineering provides society with a wide range of earth-friendly energy technologies with low GHG emissions, such as gas cogeneration, biogas power generation by methane fermentation, wood biomass gas-fired power generation and wind power generation.

Furthermore, JFE provides infrastructures such as city gas pipelines and LNG bases delivering natural gas (of which CO₂ emissions are supposed to be the smallest among fossil fuels) to "local communities."

JFE Engineering is determined to continuously contribute to the creation of an earth-friendly environment by utilizing its accumulated technologies and expertise to the full extent for society.



MANAGEMENT ORGANIZATION

Members of the Board, Corporate Auditors and Corporate Officers of JFE Holdings



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
Hajime Bada



Member of the Board
Osamu Saito



Member of the Board
Uichiro Niwa



Member of the Board
Shigeo Asai

Members of the Board

- | | |
|--------------------------|--------------------|
| President & CEO | Fumio Sudo |
| Member of the Board | Yuichi Moriyama |
| Executive Vice President | |
| Member of the Board | Toshikuni Yamazaki |
| Executive Vice President | |
| Member of the Board | Hajime Bada |
| Member of the Board | Osamu Saito |
| Member of the Board | Uichiro Niwa |
| Member of the Board | Shigeo Asai |

Mr. Uichiro Niwa and Mr. Shigeo Asai are external members of the board.

Corporate Auditors

- | | |
|-------------------|-----------------------|
| Full-time Auditor | Tetsuo Miyazaki |
| Full-time Auditor | Kunioki Kubo |
| Corporate Auditor | Toshikuni Nishinohara |
| Corporate Auditor | Takaaki Wakasugi |

Mr. Toshikuni Nishinohara and Mr. Takaaki Wakasugi are external corporate auditors.

Corporate Officers

- | | | |
|--------------------------|--------------------|---|
| President & CEO | Fumio Sudo | CEO |
| Executive Vice President | Yuichi Moriyama | Supervision of General Administration Dept. and Corporate Planning 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. and Comptrollers' Dept. |
| Vice President | Sakio Sasamoto | In Charge of General Administration Dept. |
| Vice President | Shinichi Okada | In Charge of Finance and Investor Relations Dept. |

Management Organization and Internal Control

Fundamental Philosophy on Corporate Governance

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.

Meanwhile, the operating companies run businesses based on optimized operational and executive systems tailored to the characteristics of each business field, with the aims of strengthening competitiveness and expanding earnings power.

The JFE Group endeavors to maximize its enterprise value for shareholders and all the other stakeholders by ensuring that the holding companies and the operating companies fulfill each responsibility.

Management Organization and Internal Control

1. Corporate Institutions

The JFE Group member companies have adopted an auditor system. At JFE Holdings, Inc., there are four auditors (including two external auditors) and seven members of the board, out of whom two external board members have been newly appointed at the general meeting of shareholders effective in June 2007. The holding company has established more objective and transparent management organization by receiving external members of the board, who have superior insights based on experience and who supervise the company's management in a fair manner without any bias on interests of the company's management members or particular stakeholders. In addition, the Board of Corporate Auditors—where external auditors comprise half of the members—keeps an eye on management, endeavoring to ensure and strengthen corporate soundness.

Moreover, JFE Holdings, Inc., JFE Steel Corporation, JFE Engineering Corporation, and Kawasaki Microelectronics, Inc. have adopted a corporate officer system to clearly define authority and responsibility through separation of management decision-making and business execution and to accelerate the execution.

2. Decision-making on Important Matters

With regard to important matters concerning each member company of the JFE Group, each company has its own rules which clearly define the decision-making process. As for important managerial matters concerning the entire Group, JFE Holdings, Inc. is structured to ultimately deliberate and resolve these matters.

More specifically, important matters are deliberated by the Management Committee, etc., and resolved by the Board of Directors of each member company of the JFE Group, with each of the operating companies responsible for key issues of its own and affiliated companies, while JFE Holdings, Inc. is responsible for key issues of its own, the operating companies and the other group companies.

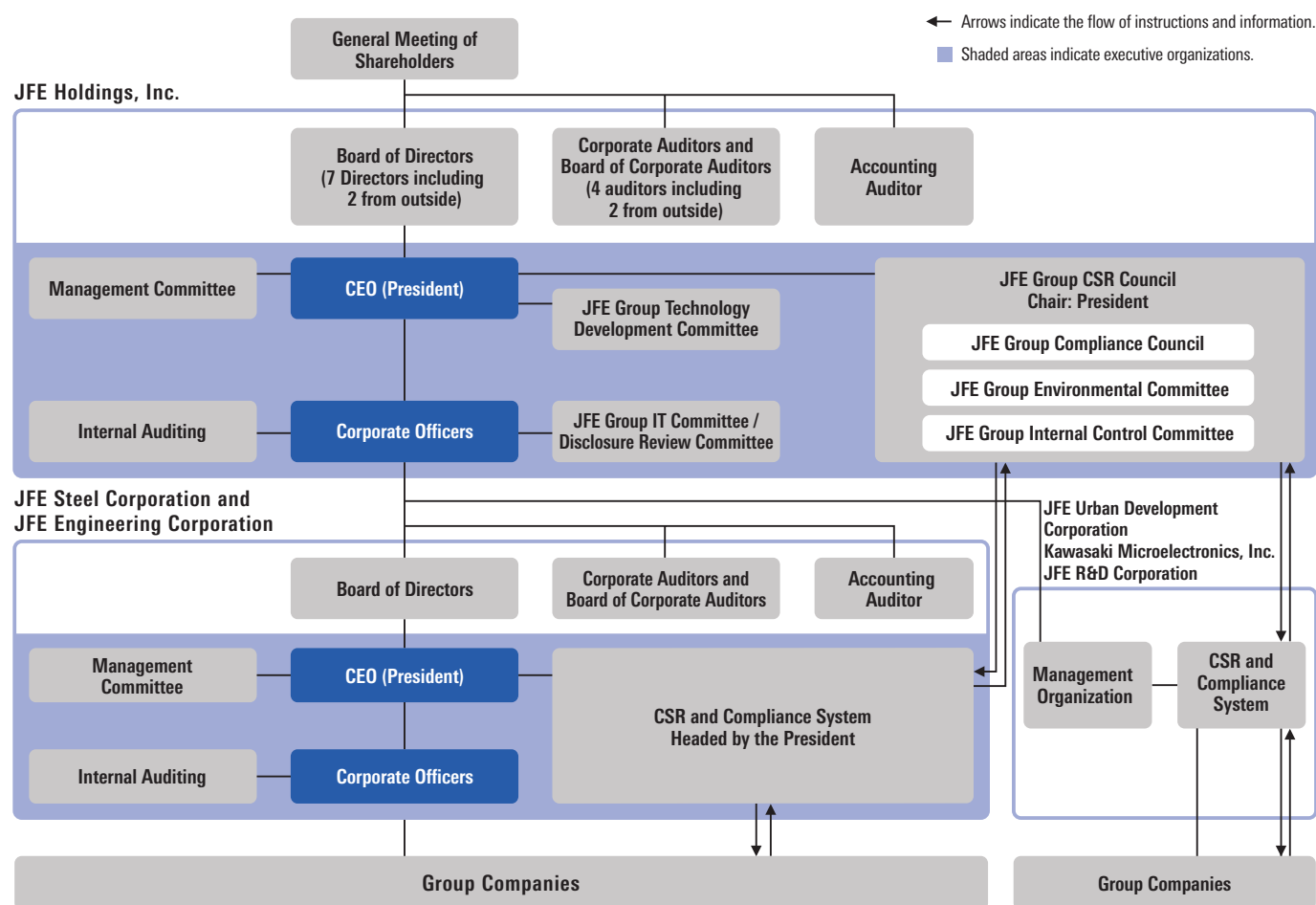
JFE Holdings, Inc., JFE Steel Corporation and JFE Engineering Corporation hold the Management Committee meetings approximately twice a month, with each meeting chaired by the President and attended by Members of the Board, Corporate Officers and Corporate Auditors. Their respective Boards of Directors meet once or twice a month.

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

3. Internal Control

JFE's internal control (including a risk management system) is defined by the Basic Policy for Building an Internal Control System. In accordance with this policy, regulations of the Board of Directors, rules of the Management Committee, rules of the JFE Group CSR Council, rules of the JFE Group Compliance Council, rules of the JFE Group Internal Control Committee, rules of the Disclosure Review Committee and other various committee rules, as well as organization/work rules and rules on information storage and management have been enacted, the Corporate Ethics Hotline has been established, and internal audit and audit by corporate auditors have been reinforced, thereby ensuring the Group's internal control.

Relationship Diagram of Management Organization and Internal Control



Policy toward Large-scale Purchases of JFE Shares

JFE Holdings, Inc. decided to adopt the Policy toward Large-scale Purchases of JFE Shares at the meeting of its Board of Directors held in March 2007. Later on, two-year continuation of this Policy was approved at the ordinary general shareholders meeting held in June 2007.

JFE believes that a change of management control is an effective tool to revitalize corporate activities and economy and that when a Large-scale Purchase is commenced, the shareholders of JFE should, in principle, make decisions as to whether or not the Large-scale Purchase is acceptable.

However, with respect to a Large-scale Purchase or a proposal related to a Large-scale Purchase, JFE recognizes that the shareholders of JFE need to carefully evaluate effects of the Large-scale Purchase or the proposal on the corporate value of JFE and the common interests of the shareholders. For this purpose, JFE believes that both the Large-scale Purchaser and JFE's Board of Directors should provide the shareholders with necessary and sufficient information, opinions and suggestions, and that the shareholders should be given necessary and sufficient time to review them. Based on this basic philosophy, JFE has decided the adoption of this Policy.

Under the Policy, JFE's Board of Directors has established rules concerning Large-scale Purchases of JFE shares, and will require any Large-scale Purchaser to comply with the Large-scale Purchase Rules. If the Large-scale Purchaser does not comply with the Large-scale Purchase Rules, the Board of Directors intends to take certain countermeasures. Moreover, in cases where it is clear that a Large-scale Purchase will cause irreparable damage or loss to JFE, or where a Large-scale Purchase will cause severe damage to the corporate value of JFE and the common interests of the shareholders, then the Board of Directors intends to take certain countermeasures even if the Large-scale Purchaser has complied with the Large-scale Purchase Rules.

In order to ensure that the decision by JFE's Board of Directors on effects of a Large-scale Purchase on the corporate value of JFE and the common interests of the shareholders as well as the board's decision on the invocation of countermeasures based on this Policy will be made in a transparent, objective, fair, and reasonable manner, a Special Committee has been established, where the outside directors of JFE shall play an important role. For further information, please visit JFE's website at <http://www.jfe-holdings.co.jp/>.

ECONOMIC ASPECTS

Seeking Further Growth

In order for a company to grow, it is necessary to generate steady earnings based on a sound corporate structure. The JFE Group strives toward further growth by building on a corporate structure 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 2008 is based on data published when the financial results were announced on April 26, 2007.

The JFE Group, guided by its corporate vision of "contributing to society with the world's most innovative technology," has sincerely endeavored to enhance corporate value and common interests of its shareholders.

Since its inception, the Group has strived to reinforce its foundation from which to grow into a global company. To date, these efforts have resulted in Group achievements of both stronger earnings power and substantially improved financial position.

JFE Holdings had been acquiring treasury shares since the board resolution in November 2006. The share buyback program was completed effective in February 2007, by which time treasury shares totaling ¥120 billion had been purchased.

Our consolidated earnings forecast for the year ending March 2008 is ¥3,500 billion in net sales, ¥525 billion in operating income, ¥520 billion in ordinary income and ¥310 billion in net income. We plan to pay an interim dividend of ¥60 per share for the year ending March 31, 2008.

Business Overview for the Years Ended/Ending March 2007 and March 2008

The year ended March 2007 was the first year under the Second Medium-Term Business Plan, which seeks to solidify the Group's foundation for global-scale growth and development. Its endeavors to create highly profitable earnings structure successfully resulted in steady progress ahead of planned targets in the year under review. Consolidated business performance in the year ended March 2007 was ¥3,260.4 billion in net sales, ¥503.9 billion in operating income, ¥513.5 billion in ordinary income and ¥299.6 billion in net income, all of which achieved target levels for the year under the Second Medium-Term Business Plan.

The JFE Group considers that profit return to its shareholders is one of its top management priorities, and has a policy of proactively distributing dividends while also ensuring sustainable corporate structure as the whole Group. During the Second Medium-Term Business Plan (April 1, 2006 through March 31, 2009), we will consider a consolidated payout ratio around 25% as the baseline level. Based on this basic policy as well as considering the progress of the Second Medium-Term Business Plan to date, we declared a year-end dividend of ¥70 per share for the year under review, which, combined with the interim dividend paid earlier, results in a full-year dividend of ¥120 per share, an increase of ¥20 per share over the previous year.

Consolidated Operating Results (billions of yen)

Years ended March 31	2006	2007
Net sales	3,098.3	3,260.4
Operating income	517.1	503.9
Ordinary income	517.3	513.5
ROS	16.7%	15.8%
Net income	325.9	299.6
Annual dividend per share	100 (Yen)	120 (Yen)

Consolidated Earnings Forecast for the Year Ending March 2008 (billions of yen)

Year ending March 31	2008
Net sales	3,500
Operating income	525
Ordinary income	520
ROS	14.9%
Net income	310

Net sales
3,260.4
billion yen

Ordinary income
513.5
billion yen

Net income
299.6
billion yen

JFE Steel Corporation



President & CEO
Hajime Bada

Crude steel output
32.83
million tons

Net sales
2,925.1
billion yen

Ordinary income
503.9
billion yen

Under the Second Medium-Term Business Plan, in which the company aims to become "a trusted supplier of the world's top value-added products," we are striving to expand sales of high value-added products which incorporate and reflect our technological leadership. At the same time, we are endeavoring to achieve a good balance between development/sales expansion of high value-added products and enhancement of our financial position toward future growth. We will continuously focus our efforts on maintenance and further improvement of our world-leading technology development capability. Simultaneously, we are determined to carry forward alliance strategies centering on high value-added areas, and reinforce our production bases.

Operating Results		(billions of yen)	
Years ended March 31		2006	2007
Net sales	Non-consolidated of JFE Steel	1,937.1	2,055.5
	Consolidated of JFE Steel	2,753.8	2,925.1
Operating income	Non-consolidated of JFE Steel	394.4	388.8
	Consolidated of JFE Steel	513.7	499.9
Ordinary income	Non-consolidated of JFE Steel	404.5	407.5
	Consolidated of JFE Steel	510.7	503.9
ROS	Consolidated of JFE Steel	18.5%	17.2%

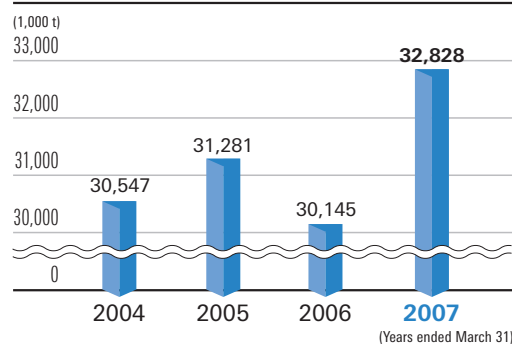
Business Overview for the Years Ended/Ending March 2007 and March 2008

In the year ended March 2007, JFE Steel achieved consolidated crude steel output of 32.83 million tons (fourth in the world by volume), an increase over the previous year. The increase was primarily due to the curtailment of production cuts that had been implemented to improve supply/demand balance for commodity-grade products in the previous year. Increased sales, primarily of high-end products, also contributed.

Higher sales volumes and overall sales expansion by group companies contributed to an increase in net sales to ¥2,925.1 billion over the previous year. Ordinary income amounted to ¥503.9 billion, almost equal to the previous year's level thanks to increased sales volumes as well as efforts to reduce costs. These positive factors balanced out several adverse factors including disappearance of appraisal profits on raw materials which had boosted earnings in the previous year, and a temporary decline in export sales prices in the first quarter.

Turning to the outlook for the year ending March 2008, strong demand is anticipated to continue primarily for manufacturing sectors in both domestic and international markets. At the same time, there will be increases on the expense side due to rising depreciation cost as a result of changes in depreciation rules, and rising prices for non-ferrous metals and other raw materials. Nevertheless, ordinary income is forecast to increase—mainly on the strengths of higher sales prices and expanding production in response to tighter supplies of high-end products.

Consolidated Crude Steel Output



Activities in the Year Ended March 2007 and Efforts for the Year Ending March 2008

In the year ended March 2007, the Japanese economy maintained moderate growth on the back of healthy growth in the world economy. In the steel industry, the world's crude steel output surpassed 1.2 billion tons in the year under review. In high-quality steel markets where JFE Steel proves its superiority to the full, steady growth continued in the domestic manufacturing sector and Asian regions, especially in China.

Meanwhile, the steel industry faces an ever-changing environment. Integration and reorganization efforts continue on a global scale, notably the formation of ArcelorMittal, infusing the industry with a new vitality. In addition, the Chinese steel industry has shifted from being a net importer to a net exporter as a result of substantial capacity buildup over recent years.

Under these circumstances, domestic steel demand during the year ended March 2007 remained strong, supported by brisk demand in the manufacturing sector. As for construction-related demand, the emergence of new construction projects, primarily in the Tokyo metropolitan area, has been a positive factor. Turning to exports, overseas demand for steel products remains strong as Asian economies centering on China stay on a growth track.

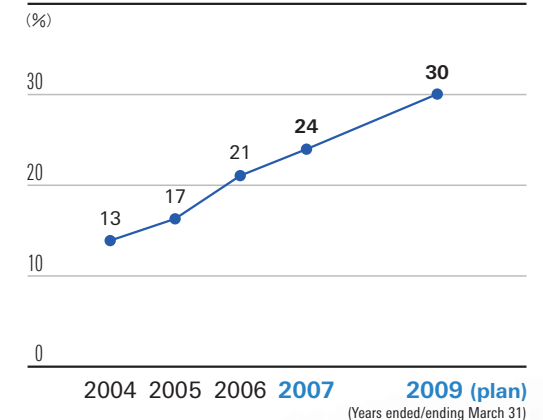
In the year ended March 2007, the first year under the Second Medium-Term Business Plan, JFE Steel strived to expand sales of high value-added products

and significantly raised sales proportion of Only One and Number One products to 24% of total sales from 13% in the year ended March 2004. We also implemented several measures to reinforce manufacturing facilities for high value-added products, including construction of a No. 4 hot-dip galvanizing line at Fukuyama; construction of a new continuous pickling line at Keihin; and enhancement of production capacity for small diameter seamless steel pipes at Chita.

Proportion of Only One and Number One products to total sales

24%

Trends in Proportion of Only One and Number One Products to Total Sales



Please visit our website at
JFE Steel Corporation
<http://www.jfe-steel.co.jp/>

As part of strategic measures to strengthen our alliances, galvanizing line operations at Guangzhou JFE Steel Sheet Co., Ltd., a joint venture between JFE Steel and China-based Guangzhou Iron & Steel Enterprises Holdings Ltd., started smoothly. Moreover, the two parent companies have reached agreement on an additional project to constructing a new production facility for cold-rolled steel sheets, continuous annealing line, and No.2 hot-dip galvanizing line at Guangzhou JFE Steel Sheet in anticipation of continuously growing demand in China for high-end steel sheets for automobiles. In addition, JFE Steel has strengthened its partnership with Korea-based Dongkuk Steel Mill Co., Ltd. to enhance competitiveness in the high quality steel plate area.



No. 4 hot-dip galvanizing line at Fukuyama

For the year ending March 2008, we aim to ensure our production system represented by crude steel output of 30 million tons on a non-consolidated basis and 34 million tons on a consolidated basis through sales expansion in high value-added products by 3 million tons as targeted in the medium-term business plan. To this end, production capacity for medium-diameter steel pipes in Chita will be significantly enhanced and newly-started facilities will be promptly put into full operation. The aim is to combine new facilities with existing lines while maintaining a stable production system. At the same time, we will make concerted efforts to further reinforce customer satisfaction and our technology development capability.



Small diameter seamless steel pipes production facility at Chita

Capital Investment Plan for the Year Ending March 2008

Works	Project	Work Period	Amount of Investment
Chita Works	Enhancement of production capacity for medium-diameter seamless steel pipes	July 2007—July 2008	¥15 billion
East Japan Works (Keihin area)	Construction of scrap-melting shaft furnace	June 2007—August 2008	¥10 billion
West Japan Works (Kurashiki area)	Construction of CDQ (Coke Dry Quenching) facility	July 2007—February 2009	¥9.5 billion
East Japan Works (Keihin area)	Construction of pickling line	January 2006—May 2007	¥13 billion
East Japan Works (Chiba area)	Construction of No. 14 oxygen plant	July 2006—August 2007	¥6 billion

Guangzhou China Project

In autumn 2003, JFE Steel Corporation and Guangzhou Iron & Steel Enterprises Holdings Ltd. established "Guangzhou JFE Steel Sheet Co., Ltd. (GJSS)," joint venture, principally to produce and market hot-dip galvanized steel sheets primarily for the automobile industry in China. Its No. 1 hot-dip galvanizing line (annual production capacity: 400,000 tons) was completed in March 2006, and an opening ceremony was held in March 2007.

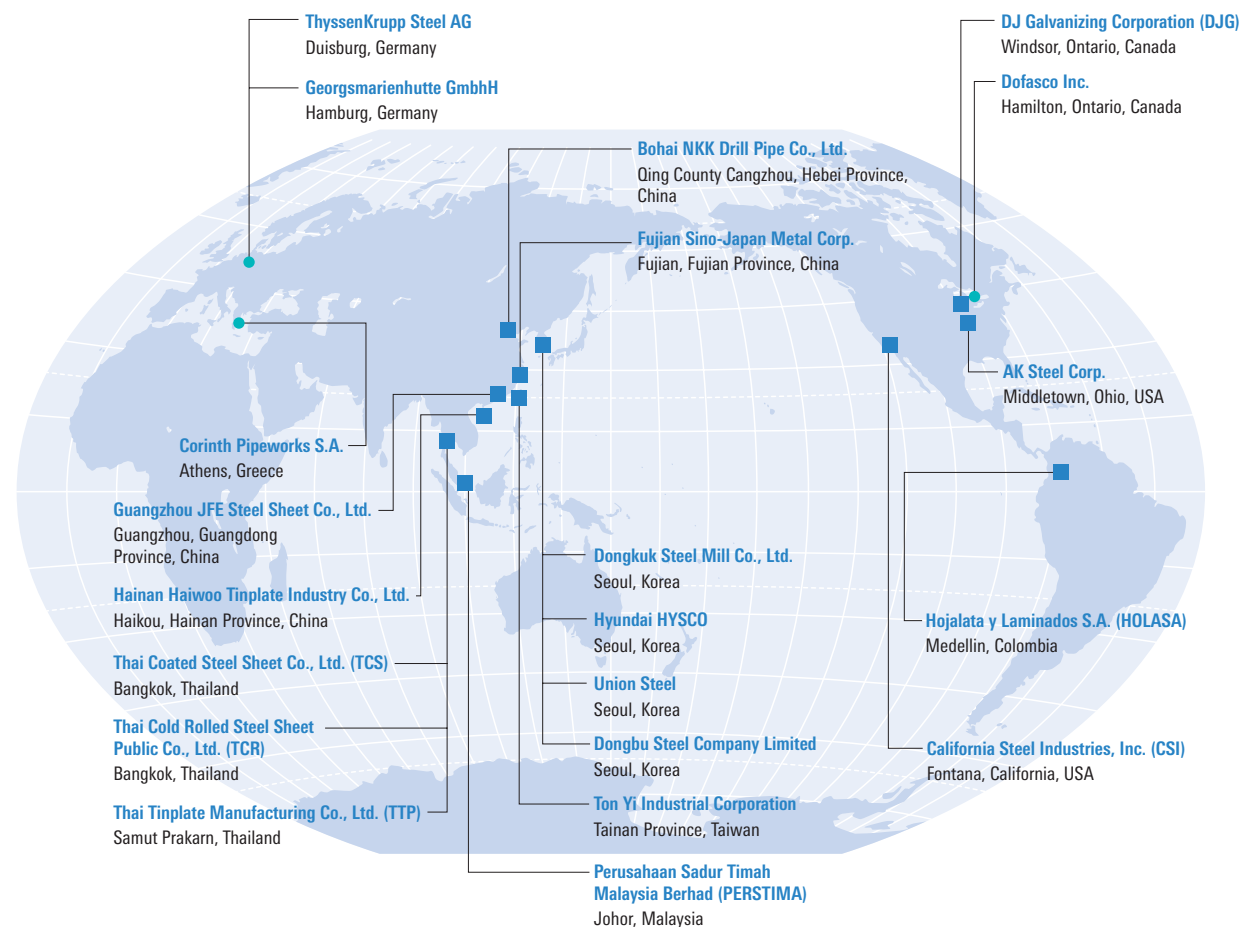
The two parent companies have reached agreement on future growth strategy at GJSS and construction of (1) a new production facility for cold-rolled steel sheets, (2) a continuous annealing line, and (3) a second hot-dip galvanizing line in order to meet anticipated growing demand for high-end steel sheets for automobiles in future years.

Following the agreement, the two companies will continue to work out the details and, after obtaining approvals from governmental authorities in China, expect to conclude an official joint venture agreement. The companies envision construction completion around 2010.



Overseas Subsidiaries, Affiliates and Allies

■ Major subsidiaries and affiliates ● Major allies



JFE Engineering Corporation



President & CEO
Osamu Saito

Net sales
292.1
billion yen

Ordinary income
5.8
billion yen

In the Second Medium-Term Business Plan, we aim to establish a business foundation which will realize earnings of the highest level in each business field. We will promote efforts toward restructuring our earnings structure by creating an optimal business system which is adapted to changes in the market, as well as by making efforts in the selection and concentration of business fields. We will also strive to strengthen our efforts in growing fields such as the environmental energy and recycling fields, in which we possess excellent technology in the private sector and overseas markets, in order to increase profits.

Consolidated Operating Results (billions of yen)

Years ended March 31	2006	2007
Orders received	290.7	275.1
Net sales	306.0	292.1
Operating income (loss)	(3.3)	(1.9)
Ordinary income	0.9	5.8

Business Overview for the Years Ended/Ending March 2007 and March 2008

In the year ended March 2007, JFE Engineering achieved a significant increase in orders in the private sector. However, due to the declining scale of public works projects and the constraints of the long-lasting suspension from bidding, orders worth ¥275.1 billion were booked, while net sales amounted to ¥292.1 billion, which represented a year-on-year decline. Nevertheless, ordinary income increased over the previous year to ¥5.8 billion as a result of withdrawal from unprofitable businesses and reduced costs centering on fixed costs.

Turning to the outlook for the year ending March 2008, even though a harsh business environment is predicted similar to the previous year, we will establish optimal business systems adapted to new market construction for a new era for the steady promotion of business. Moreover, earnings are forecast to remain almost flat compared to the previous term because of the continuous cost reductions and the steady promotion of projects.

Activities in the Year Ended March 2007 and Efforts for the Year Ending March 2008

In the year ended March 2007, JFE Engineering commenced various measures toward a fundamental restructuring of our earnings structure.

In the environmental business where our group has overwhelming strength, in order to strengthen and expand our business foundation we established JFE Environmental Solutions Corporation. The company was created to realize an efficient business management system that unites planning, design, construction, and maintenance for the purpose of providing total solutions. The company will serve as a core for the environmental business of our group.

Markets in which we can utilize our technical ability to its full extent are growing, while the drive for investment in plants and equipment for reducing environmental burdens is strong in the private sector. Against this background, we steadily received orders

for the "biomass boiler" and "wood biomass gasified power generation system" that belong to the environment and energy complex sector which we have positioned as the pillar of our growth strategy.

We will also steadily strengthen the business foundation for the industrial machinery, recycling, and overseas sectors.

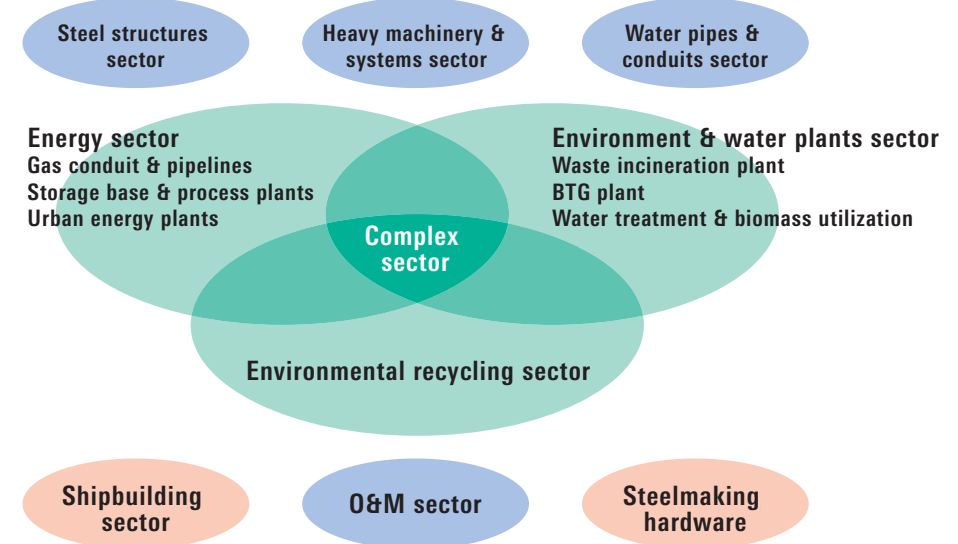
In the year ending March 2008, we plan to pursue the establishment of an optimal business system for the group as a whole in order to realize a stronger business unit and further enhance competitiveness, even amidst a tough business environment in which the recovery of public projects cannot be anticipated. In addition, we will strive to enlarge the business scale and secure stable profits by strengthening new growth foundations, such as the environment and energy complex sector and the environmental recycling sector.

*Circulating fluidized bed boiler using biomass fuel or recycling fuel



Biomass boiler (Rendu)

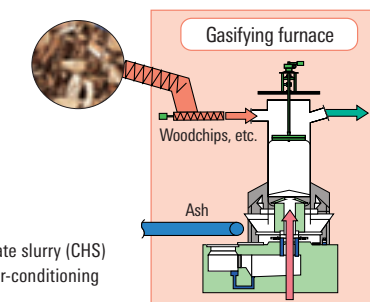
Business Portfolio



Inauguration ceremony for JFE Environmental Solutions Corporation



Clathrate hydrate slurry (CHS) heat storage air-conditioning system



Woody biomass gasification power generation system

Please visit our website at

JFE Engineering Corporation

<http://www.jfe-eng.co.jp/>

JFE Urban Development Corporation

Kawasaki Microelectronics, Inc.

Net sales
34.3
billion yen

Ordinary income
3.6
billion yen



President
Noriaki Shigemi

Under the Second Medium-Term Business Plan, JFE Urban Development continuously promotes the development business to increase the value of real estate held by the Group, and strives to attain sustained growth by establishing a high reputation in the market as a mid-sized developer.

Business Overview for the Years Ended/Ending March 2007 and March 2008

In the year ended March 2007, the Yokohama Yamanouchi development project went on the market, resulting in net sales of ¥34.3 billion and ordinary income of ¥3.6 billion, which represent year-on-year increases.

Turning to the outlook for the year ending March 2008, year-on-year declines are forecast in both sales and profits mainly due to smaller condominium sales volume.



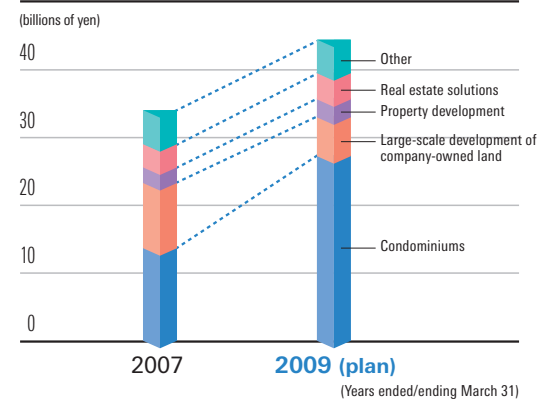
Yokohama Yamanouchi development (Cotton Harbor Area)

Activities in the Year Ended March 2007 and Efforts for the Year Ending March 2008

In the year ended March 2007, a land readjustment project was completed in the Yokohama Yamanouchi development project. Urban development advanced to completion, as evidenced by residents starting to move into three skyscraper seismic condominiums (total: 565 dwellings) and a supermarket opening, among others. In the real estate solutions project, we made a good start in terms of the steady accumulation of proprietary floor wholesale cases and the like in the first year under the Second Medium-Term Business Plan.

For the year ending March 2008, we will continuously strive to attain our medium-term targets while displaying our strengths to the full extent through endeavors such as the enhancement of our condominium projects and the enlargement of proprietary floor wholesale projects.

Expansion of Business Scale



Please visit our website at

JFE Urban Development Corporation

<http://www.jfe-ud.co.jp/>

JFE GROUP
BUSINESS
REPORT 2007



President & CEO
Yukio Yamauchi

Under the Second Medium-Term Business Plan, Kawasaki Microelectronics is pursuing sustained growth as an ASIC vendor. To this end, we strive to expand the volume of transactions with prominent customers in priority fields such as sectors targeted at LCD panels, as well as developing and tapping markets of new application equipment fields including communication equipment.

Business Overview for the Years Ended/Ending March 2007 and March 2008

In the year ended March 2007, falling prices for products destined for the LCD panel market resulted in year-on-year declines in sales and profits, with net sales amounting to ¥44.3 billion and ordinary income to ¥0.5 billion.

Turning to the outlook for the year ending March 2008, year-on-year declines are forecast to continue in both sales and profits due to continuously tough environments surrounding products destined for the LCD panel market. This negative factor in our priority field is more likely to outweigh a positive factor of possible sales increase in products for communication devices and flat-screen televisions.

Activities in the Year Ended March 2007 and Efforts for the Year Ending March 2008

In the year ended March 2007 or the first year under the Second Medium-Term Business Plan, Kawasaki Microelectronics further boosted designing, manufacturing and prompt and detailed technical service capabilities for the purpose of enabling customers to optimize the feature of each product.

For the year ending March 2008, we will step up 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. At the same time, we will focus our efforts on the fields of LCD panels, flat-screen televisions, OA equipment and communication equipment.

Net sales
44.3
billion yen

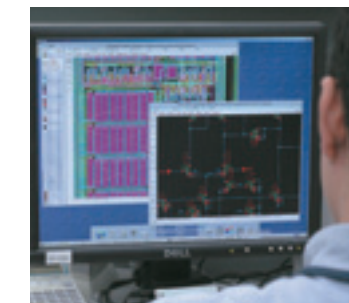
Ordinary income
0.5
billion yen



Utsunomiya Works



Clean Room



Designing of ASIC

Please visit our website at

Kawasaki Microelectronics, Inc.

<http://www.k-micro.com/>

R&D Aimed at Further Progress and Growth

R&D staff
about **700**
researchers

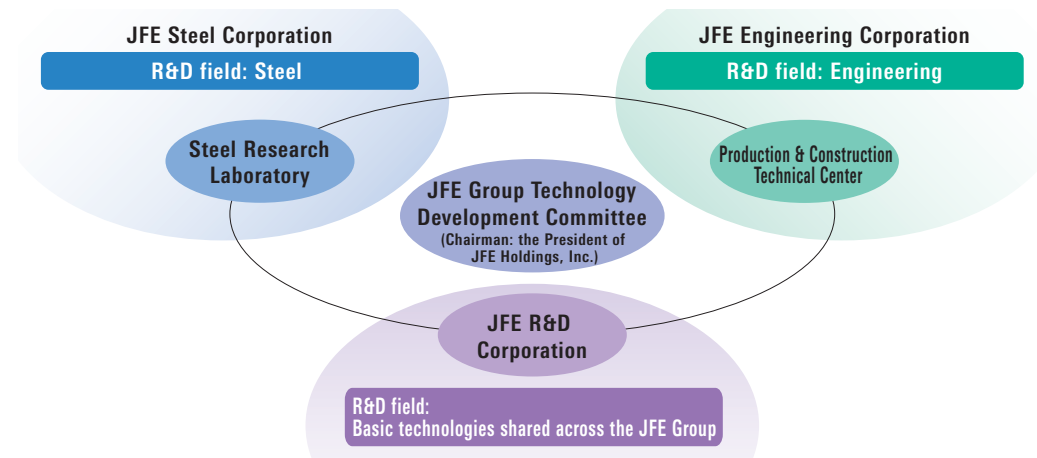
Patent applications
1,800
or more / year

JFE Group's R&D System

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 or 1,000

members if non-researchers engaged in development are included, and continually makes more than 1,800 patent applications per year. This is the world's largest-scale R&D system among corporate groups centering on steel and engineering businesses. Since specialized fields of our researchers are wide-ranging, a great number of synergy effects emerge when an array of wisdom is combined. Their achievements can be witnessed in the number of external technology awards: 13 awards in the year ended March 2007 and 43 awards for the past 3 years.



JFE R&D Corporation



President
Toyofumi Kitada

Our basic role is to propose innovative concepts to the JFE Group and put them into practice by discerning customer's long-range needs and capitalizing on our holding "advanced core technologies" through deepening, expanding and

integrating them. Based on this role, we promote R&D and contribute to enhancement of the JFE Group's corporate value.

With regard to the steel business, we track back to the nature of a phenomenon in steel making process by making the best use of advanced core technologies, and develop new technologies/products from the view points of total optimization and business continuity. As for the engineering business, we strongly support the Group's new business development and area expansion by utilizing the diversity of our advanced core technologies on R&D's aspect.

Research on Steel Materials to Support Future Automobile Manufacturing

Upgrading raw materials themselves is essential to reduce automobile weight for fuel efficiency or to improve collision safety. JFE Steel has been developing various high-end steel products to enhance automobile functions.

For example, high-strength steel sheets "NANO HITEN" contribute to weight reduction of automobile underbody parts by providing both high strength and excellent formability. High-strength steel sheets "WQ HITEN" contribute to weight reduction of automobile structural backbone parts and enhancement of collision safety by providing excellent formability. Highly-lubricated galvanized (GA) steel sheets "JAZ" contain no environmental pollutants and materialize superior press formability for automobile exterior body panels. Ferritic stainless steel sheets for exhaust manifolds "JFE-WX1"

with extremely high heat resistance are globally second to none in this category. As evidenced above, JFE Steel contributes to upgrading automobiles by developing a wide array of the world's top-quality high-end steel products.

Meanwhile, the Steel Research Laboratory has opened the Customers' Solution Laboratory (CSL) as a main base to promote EVI (Early Vendor Involvement) activities for customers in the automobile field, whereby the laboratory staff communicate with customers engaged in automobile and parts manufacturing, and provide support services for customers' future automobile manufacturing. Since its opening, CSL has received more than 900 customers, promoting joint research and pursuing business solutions together with our customers.

External technology awards received

43 awards
for the past 3 years



SOCIAL ASPECTS

Proactive Response

The JFE Group pursues a wide array of activities as a socially responsible company. Inspired by the need to satisfy our obligations to stakeholders and society, we are constantly seeking to improve compliance, transparency, industrial safety, product quality and our positive relationships with local communities.

Message from Senior Management

As a Socially Responsible Company

The JFE Group's Corporate Vision posits a challenge: Contributing to society with the world's most innovative technology. Coming to grips with this challenge, we have created a set of principles to guide JFE's corporate activities, and these principles are embodied in the Corporate Values and JFE Group Standards of Business Conduct.

The Second Medium-Term Business Plan stipulates "promotion of CSR and establishment of corporate governance" as one of the Group's most fundamental principles. The JFE Group has been making sincere and concerted efforts to earn—and then retain—society's trust by ensuring rigorous legal and regulatory compliance, sustained commitment to the environment, and unwavering vigilance on issues of safety and security.

Our relationship with shareholders is predicated on effective communication. Lines of communication are maintained by various means, from simple but effective guided tours of our facilities to detailed investor relations meetings. From shareholders we turn to stakeholders—the Group devotes itself to enhancing the competitiveness of Japanese manufacturing industries through technological collaboration with customers; dedicates itself to protecting the legacy



Member of the Board
Executive Vice President
Yuichi Moriyama

of future generations by developing technologies to conserve the natural environment. We advance in step with every stakeholder, as evidenced by our efforts to promote employment through mid-career recruitment drives; to build sound labor-management relations and safe working conditions; and to exist in harmony with local communities.

JFE Group Standards of Business Conduct

- All JFE Group executives and employees will faithfully adhere to the following Standards of Business Conduct in all facets of corporate activities. These standards were created to embody the Corporate Vision of the JFE Group and go hand-in-hand with the Corporate Values.
- Senior executives are to take the lead in communicating these standards to employees throughout the group and in creating effective systems and mechanisms to ensure adherence to corporate ethical standards.
- Senior executives shall be directly involved both in the resolution and implementation of measures to prevent the recurrence of any violations of these standards. They shall disclose information about violations in a timely and accurate manner both inside and outside the group, shall clarify the authority and accountability involved and shall deal rigorously with offenses.

1. Provide quality products and services

Earn the trust and regard of customers by endeavoring to provide quality products and services based on superior technology and by fully respecting and protecting the privacy of personal and customer information.

2. Be open to society at large

Endeavor to communicate with shareholders and the broader community, and actively disclose corporate information.

3. Coordinate and cooperate with the community

Actively contribute to the community as a good corporate citizen in a spirit of coordination and cooperation.

4. Globalize

Endeavor to achieve mutual understanding with people around the world, working from global perspectives and respecting local cultures and customs.

5. Exist in harmony with the global environment

Contribute to the achievement of better living standards and the creation of societies that exist in harmony with the global environment.

6. Maintain proper relations with government and political authorities

Endeavor to build and maintain sound and proper relationships with government and political authorities.

7. Respond appropriately to anti-social elements

Firmly resist all elements and organizations that threaten social order and stability, and refuse all illegal and improper demands.

8. Respect human rights

Respect all employees and members of the general public as individuals and refrain from any and all discrimination in corporate activities.

9. Provide challenging work environments

Provide employees with attractive, safe and challenging work environments.

10. Comply with laws and ordinances

Comply with all applicable laws and ordinances, endeavor to compete fairly and freely, refrain from illegal business activities, promote sound business practices, and be faithful and sincere in all activities and dealings.

SOCIAL ASPECTS

Activities for the Year Ended March 2007

Believing with conviction that customers/clients, shareholders/investors, local communities and our employees are all important stakeholders, the JFE Group makes various contributions through the following activities in order to meet every expectation of our all stakeholders and be trusted as a responsible company.

April	May	June	July	August	September	October	November	December	January	February	March
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Customers/ Clients

The JFE Group is devoted to developing and providing products which fulfill customer satisfaction so that we can win full trust and enjoy prosperity with our domestic and international customers/clients.

Dongbu Steel Networking event with young employees



Energy Solution & Thermal Storage Fair '06



West Japan Works Awarding ceremony for material clients



Eco-Products 2006



ENEX 2007



Shareholders/ Investors

While striving to ensure fair and prompt information disclosure and stable profit return to shareholders, the JFE Group also endeavors to vitalize communication and build up relationships which should win trust and empathy.

Briefing for institutional investors and security analysts



Annual shareholders' meeting

QUO Card sent to each shareholder who exercised voting right



Guided tour at works for shareholders September 20/23 (Chiba)



Acquisition of treasury shares (120 billion yen)

Notification

Completion

Guided tour at works for shareholders November 20-23 (Chiba)

Guided tours at works for shareholders February 23/24 (Keihin) March 5 (Kurashiki) March 6 (Fukuyama) March 21/22 (Chiba)



Local Communities

The JFE Group is committed to build up good relationships with each nation and each region as a member of international society and that of local communities. JFE will continuously carry forward social contribution activities in various fields.

JFE West Japan Festival in Fukuyama



Local cleanup activities (Tsurumi Works)



China Japanese Speech Contest

Guided tour at works during summer break



JFE Chiba Festival



JFE West Japan Festival in Kurashiki



JFE 21st Century Foundation year ended March 2007 presentation ceremony to donate grant for university research



Cho Chikun Cup: Go Competition



Training for local government staff in Kurashiki area



With Our Employees

JFE strives to improve working conditions and various personnel systems so that every employee can prove individual's ability at the maximum and feel full job satisfaction as well as a great sense of security.

Round-table conference between JFE Steel's President and Chief Line Managers



JFE Steel's Labor-Management Committee



JFE Engineering: Distinguished Accomplishment Award from the President



JFE College



JFE Mechanical Fukuyama Manufacturing Trial Festival 2006



JFE Steel Companywide disaster drill



JFE Engineering's Machinery Center In-house skill contest



JFE Steel (Fukuyama and Kurashiki areas) Completion of bachelor quarters



CSR System

CSR System

The JFE Group is fully aware of corporate responsibility as a member of society, bases its management on a policy of Corporate Social Responsibility (CSR), and is determined to further strengthen CSR efforts.

The JFE Group CSR Council (chaired by the President) was established at JFE Holdings, Inc. in October 2005. The agendas encompass various issues including but not limited to compliance, environment, internal control, personnel/labor, safety, disaster prevention, and social contribution. The organization is structured to supervise and guide the entire Group's CSR efforts. Particularly with regard to "Compliance," "Environment," and "Internal Control," we have independent committees (headed by the President) respectively to strengthen the relevant efforts.

Major Activities in the Year Ended March 2007

JFE Steel Corporation

JFE Steel Corporation defines CSR as an endeavor to "improve stakeholder satisfaction and raise enterprise value." The company is committed to its CSR obligations, giving top priority to fields which affect the foundations of corporate sustainability, including environmental protection, safety & disaster prevention and compliance. At the same time, we set strategic challenges on (1) establishing a Plan-Do-Check-Action (PDCA) cycle and (2) raising CSR awareness.

The CSR Council (chaired by the President) promotes the CSR concept within the company; deliberates CSR-related challenges and policies, and monitors progress of concrete measures. In the year ended March 2007, the CSR Council convened ten meetings, discussing agendas for each of twelve committees/subcommittees.

More specifically, in June 2006, the Subcommittee for Raising CSR Awareness prepared and distributed a "Compliance Guidebook" to 15,000 employees including officers of the company and 45,000 employees including officers of group companies, in order to

improve compliance awareness. During the month of December 2006, each department of JFE Steel Corporation concentrated on raising awareness for at least 30 selected workplace-based items from the Guidebook.

The Subcommittee for Establishing and Circulating Rules established a reinforcement month for legal compliance (October of each year), and distributed the President's message to all employees in order to instill a basic awareness of legal compliance. Since its startup in 2005, the Subcommittee has also been monitoring the use of "Information on Establishment, Revision and Abolition of Laws and Regulations" on the intranet, and continuously improving this intranet section for more efficient operation since its startup in 2005.

Moreover, the Subcommittee for Internal Audits conducted special auditing related to CSR agendas, while the Subcommittee for Social Contributions received more visitors on plant tours; encouraged JFE Festivals to co-host events with local governments; and expanded support extended to local sports events, etc.

In the year ending March 2008, JFE Steel Corporation will strive to improve CSR awareness further by

disseminating corporate standards of business conduct and introducing the activities of each committee/subcommittee of the CSR Council through it's the company's internal communication press. At the same time, we will make every effort to share information and enrich communication.

JFE Engineering Corporation

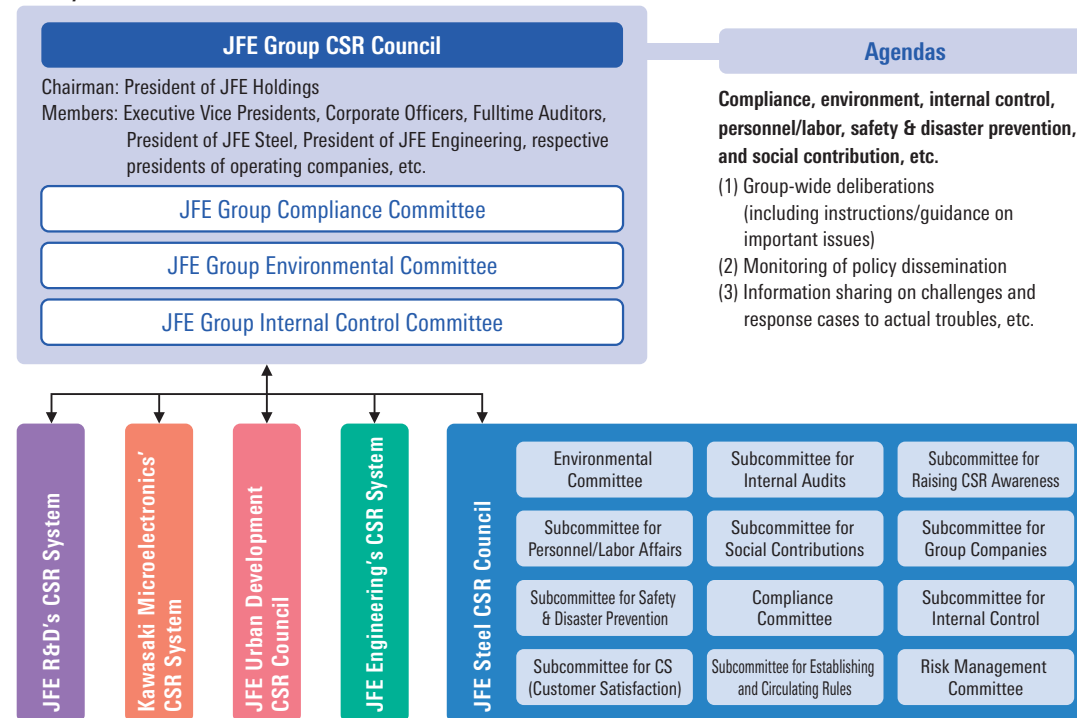
Defining "compliance," "safety," "disaster prevention," and "environmental conservation" as its four basic responsibilities, JFE Engineering Corporation promotes business activities based on its conviction that CSR should be an essential part of management. With regard to compliance in particular, JFE Engineering perceives compliance with the Antimonopoly Law as the most important challenge, reinforcing activities to prevent recurrence of violations. To this end, we are committed to enhance employees' awareness through measures such as compliance training and copy delivery of the Compliance Guidebook, as well as being devoted to improvement of operation process.

Corporate Ethics Hotline was set up in the year ended March 2004 as a contact point for employees to report and consult. All of its issues are deliberated by the Compliance Committee.



Compliance Guidebook explains a code of conduct plainly on a case-by-case basis with its copies delivered to all employees of both JFE Holdings, Inc. and each operating company.

CSR System



Report on Measures to Prevent Recurrence of Antimonopoly Law Violations

The JFE Group deeply regrets that some companies belonging to the Group have been subjected to administrative actions and investigations several times on the grounds of violating the Antimonopoly Law. In order to prevent such violations from occurring again, the Group has been working on and carrying out radical reform. At the same time, each operating company has been implementing the following specific measures in order to ensure full compliance with the Antimonopoly Law.

5. Ensure that all employees should recognize compliance with laws and regulations as one of the operational goals on their own.
 6. Promote personnel exchange among operating divisions and shorten the personnel rotation cycle.
 7. Clarify the decision-making process of receiving orders and reinforce supervision by administrators during the process.
 8. Strengthen the Group's internal audit system and audit compliance status concerning the Antimonopoly Law.
- etc.

[Specific Measures]

1. Prepare a Manual on Compliance with the Antimonopoly Law and a Compliance Guidebook, deliver them to each employee, and conduct practical training by utilizing the two documents.
2. Conduct e-learning training for employees to learn basic knowledge on the Antimonopoly Law.
3. Conduct the employees' awareness survey concerning general corporate ethics including the Antimonopoly Law.
4. Disseminate the Corporate Ethics Hotline to the full.

The JFE Group has set forth the promotion of CSR and establishment of corporate governance including "rigorous compliance" as one of basic policies under the Second Medium-Term Business Plan, and will continuously strive to prevent recurrence of Antimonopoly Law violations by consistently inspecting and improving the above-mentioned measures.

With Customers and Clients

JFE Group Quality Assurance System

■ JFE Steel's Quality Assurance System

JFE Steel has been awarded ISO 9001 and various other authentications such as API and Register of Shipping. The company endeavors to strengthen quality enhancement/management systems by ensuring the PDCA cycle under a standardized system based on quality manuals. At the same time, JFE Steel has been structured to produce high value-added products such as "Only One" and "Number One" products in a stable and reliable manner.

JFE Steel promotes product development together with customers, and supplies products which not only take into account each customers' unique environment and security, safety requirements, but also aim to make a positive contribution to the enhancement of customers' competitiveness.

Efforts with THiNK SMART

In November 2005, the Steel Research Laboratory, together with JFE R&D Corporation, became the industry's first 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 also to members of university and corporate research institutes.

^{*1} THiNK: Techno Hub INnovation Kawasaki

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



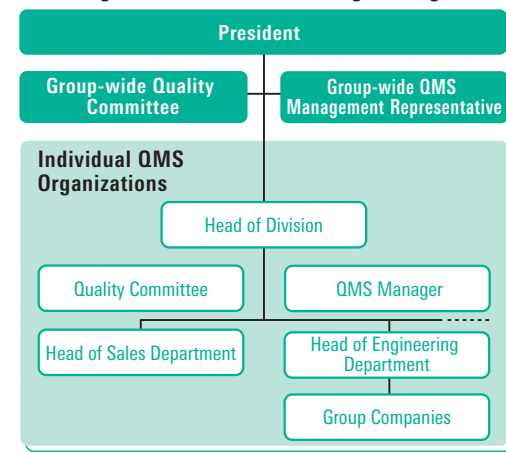
THiNK SMART

■ JFE Engineering's Quality Assurance System

JFE Engineering has acquired ISO 9001 and established a quality assurance system accommodating the characteristics of products by constructing Quality Management Systems (QMS) for each business department under the QMS of the whole group.

We endeavor to thoroughly assure quality through QMS from sales, design, and construction to backup services. Furthermore, we will enhance management of various business processes for ensuring stable quality in order to provide products and services which customers are fully satisfied with.

Basic Organization Chart of JFE Engineering's QMS



Improvement of Customer Satisfaction (CS)

The JFE Group promotes communication with customers to improve customer satisfaction. The Group is also committed to improving customers' evaluation on JFE through divisional activities ranging from product development and manufacturing to sales.

JFE Steel conducts questionnaire surveys and, based on the analyzed results, promotes CS improvement activities.

The ongoing after-service activity of JFE Urban Development is also aimed at the enhancement of customer satisfaction. The directly-managed Customer Center provides a full range of services in rapid response to customer needs, serving as a contact point for condominium after-sales services by the seller JFE Urban Development itself.

Adoption of Authentication System Based on Finger Vein Biometrics

To further strengthen the protection of personal information, JFE Urban Development has installed security doors that use a biometric authentication system (based on venous vessel patterns) at each of the two entrances of the room where customer information is stored. With access logs being also available, this system provides stronger security than the numeric keypad authentication in general use.



Authentication system based on finger vein biometrics



Customer Center

JFE Group Privacy Statement

JFE Holdings, Inc. and the JFE Group companies in Japan ("the JFE Group" hereinafter) have formulated the following policies on the handling of personal information to facilitate the smooth and appropriate administration of group operations.

1. Basic policies on the protection of personal information

- (1) The JFE Group will, in light of the growing use of personal information resulting from advances in data communications, endeavor to protect the rights and interests of the individual while also respecting the utility of the personal information it holds.
- (2) The JFE Group will observe the "Law concerning the Protection of Personal Information" and all other relevant laws and ordinances, and will endeavor to adhere to both the spirit and the letter of the law as it protects personal information.
- (3) The JFE Group will endeavor to appropriately protect personal information by formulating internal rules on the management of personal information and by informing, educating and training its employees on these rules and on all applicable Japanese laws and ordinances. The JFE Group will also review and improve this privacy statement and internal rules on an on-going basis.

2. Policies regarding the collection and use of personal information

- (1) Designation of purposes, appropriate collection and use activities

The JFE Group will, when handling personal information, endeavor to designate the purpose of use as specifically as possible and will not collect or use personal information beyond this purpose without the prior consent of the individual. The JFE Group will not use falsehoods or other illicit means to collect personal information.

- (2) Appropriate safety management

The JFE Group will endeavor to maintain the accuracy of the personal information it has collected and will take necessary and appropriate measures to prevent illicit access to personal information, disclosure, loss or modification of personal information and other forms of damage and injury. It will also provide necessary and appropriate supervision to employees and service providers handling personal information to ensure that personal information is managed in a safe and appropriate manner.

- (3) Provision to third parties and joint use with third parties

The JFE Group will not furnish personal information to third parties without the prior consent of the individual. In the event that the JFE Group uses personal information jointly with third parties, it will notify the individual and/or publish all matters required by applicable Japanese laws in advance.

- (4) Disclosure, correction, suspension of use and handling of complaints

The JFE Group will deal appropriately and as required by applicable Japanese laws with requests from the individual for the disclosure, correction, addition, deletion or suspension of use of personal information regarding him or her. The JFE Group will also deal appropriately and speedily with complaints regarding the use of personal information.

3. Contact

All inquiries regarding the handling of personal information should be addressed to the General Administration Dept. of JFE Holdings or to the responsible departments listed on the websites, etc., of individual JFE Group companies.

With Shareholders and Investors

Basic Policy for Returns to Shareholders

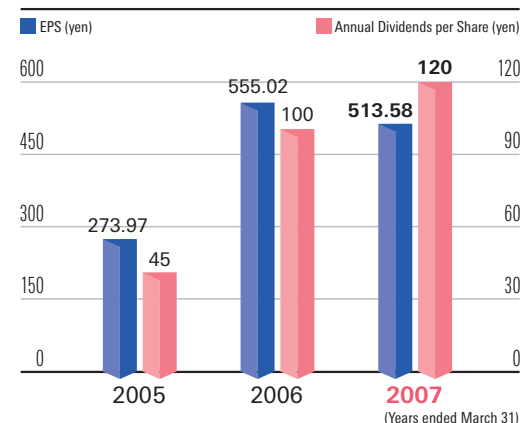
The JFE Group considers that generating returns to its shareholders is one of its top management policies, and pays dividends in consideration of the trends in its business performance, while striking a balance with internal reserves to prepare for aggressive business expansion in view of enhancing the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

The Second Medium-Term Business Plan (for the three fiscal years from April 1, 2006 through March 31, 2009) includes a basic dividend policy to increase its payout ratio to about 25%, and slates dividends of ¥200 billion to be paid out from net income of ¥800 billion on a consolidated basis during the three years. In the first year ended March 2007, we declared a dividend of ¥120 per share (payout ratio: 23.4%).

In addition to the dividends, JFE acquired treasury shares of ¥120 billion during the year ended March 2007, resulting in a total returns ratio of 64%.

It is our basic policy to continuously and proactively generate returns to our shareholders.

Trends in Earnings per Share (EPS) and Annual Dividends



Dividend payout ratio
25%
target

Total returns ratio for
the year ended March
2007
64%

Basic Policy for Information Disclosure

The JFE Group considers that timely and appropriate disclosure of corporate information to investors is the bedrock of a healthy securities market. We constantly endeavor to enhance our internal framework so as to disclose consistent corporate information in a prompt, precise, fair and appropriate manner from the viewpoint of investors.



IR website For shareholders

IR Calendar for the Year Ended March 2007

June 28, 2006	Annual shareholders' meeting
July 27, 2006	Announcement of summary of consolidated financial and operating results for 1Q of the year ended March 2007
September 7, 2006	Announcement of the revised financial forecast for the year ended March 2007
October 26, 2006	Announcement of the financial results for the 1st half of the year ended March 2007 and the financial forecast for the year ended March 2007
November 10, 2006	Notification of acquisition program of treasury shares (¥120 billion)
January 31, 2007	Announcement of summary of consolidated financial and operating results for 3Q of the year ended March 2007
February 14, 2007	Notification of completed acquisition of treasury shares (approximately ¥120 billion)
March 1, 2007	Announcement of the revised financial forecast for the year ended March 2007
April 26, 2007	Announcement of the financial results for the year ended March 2007

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.

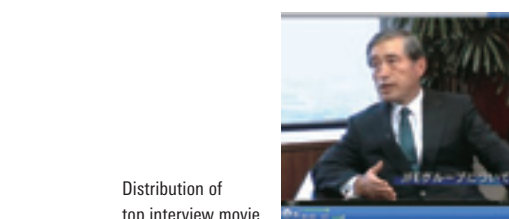
We also strive to provide the same level of information overseas as in Japan, such as having individual meetings overseas with overseas institutional investors and issuing key press releases simultaneously in both Japanese and English as a fundamental rule.

Based on the recognition that communication with retail 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 reports upon the semiannual and annual closing of accounts, and with respect to general investors, we promptly disclose



Briefing for institutional investors and security analysts



Distribution of top interview movie

various presentation materials on our website. 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.

In the year ended March 2007, we also sent a QUO Card to each shareholder who had exercised the right to vote in the 2006 annual shareholders' meeting, in addition to starting to organize guided tours at works for shareholders. Furthermore, a shareholder special benefit plan was established in order to enhance investment attractiveness of the Group and make more people hold JFE's shares for mid- and long-term period, as well as with the aim of appreciating and responding to support from our shareholders. (As a courtesy gift, JFE presents our shareholders with organic and washed vegetables "Eco-saku," which JFE LIFE CORPORATION, one of the JFE Group companies, produces and sells.)



QUO Card sent to each shareholder who exercised a voting right



Organic and washed vegetables "Eco-saku" sent as a courtesy gift to shareholders

Guided Tours at Works for Shareholders

To help our shareholders gain further understanding of the JFE Group, we started to organize guided tours at plants and corporate briefing sessions in the year ended March 2007.

More specifically, 2,530 shareholders participated in the 24 guided tours at JFE Steel's plants in total, having visited either the East Japan Works (Chiba, Keihin) or the West Japan Works (Kurashiki, Fukuyama) during the year ended March 2007.

We plan to maintain these tours for our shareholders from the year ending March 2008 onward.



Guided tours at works for shareholders



Without any use of agricultural chemicals, "Eco-saku" is a safe and clean washed vegetable grown in greenhouse of which hygiene is thoroughly controlled. Since this produce is not affected by daylight hours, weather conditions and seasonality, it can offer delicacies of the best season at any time throughout the year.

Number of participants for guided tours at works for shareholders

2,530
shareholders

With Local Communities

Total number of Grants for technical research

318
projects

Philanthropic Activities by the 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 2008 project expenses: ¥110 million). In addition, 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.



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 2007, 318 projects have received a cumulative total of ¥640 million in research grants, resulting in the Foundation's high rating among universities. In the year ended March 2007, the Foundation provided a total of ¥52 million in research grants to 17 research projects related to steel technology and 9 projects related to environmental technology (¥2 million per project), chosen from among 189 grant applications from 67 universities.



Recipients of grants for technical research

Grants for Asian History Studies

In the year ended March 2006, 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 second year ended March 2007, the Foundation received 41 grant applications from 27 universities and provided a total of ¥12 million in grants to eight projects (¥1.5 million per project).



Recipients of grants for Asian history studies

Donation of "University Education Materials—Steel Engineering"

The JFE 21st Century Foundation produced educational materials (two books and one CD-ROM) which introduce not only basic theories of steel engineering but also the latest technology and research by steel manufacturers in order to foster interest in steel materials and manufacturing technologies among engineering researchers and students at Japanese universities. A total of 800 or more copies of each material were donated to universities across the country.

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 named "Learn from the Earth" to elementary schools and public libraries. In the year ended March 2007, the Foundation donated the copies to 1,165 elementary schools, 595 junior high schools and 110 public libraries in 13 cities and 3 towns.

For these donations, the Foundation received letters of appreciation from the head of the education board of Fukuyama City, etc.

Assenting 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 in which many members of the general public participate.



Handa Community Industrial Festival

Donation and Assistance Activities

The JFE Group carries out various donation and assistance activities in a wide array of fields including casualty assistance, education, community, welfare, culture and art in order to contribute to both regional and international societies. In the year ended March 2007, the Group donated and endowed approximately ¥420 million in total.

Among them, we supported "the First All China Selection—China Japanese Speech Contest," the first Japanese speech contest for university students across China, as a means to support culture and international exchange. We are committed to continuously support the second contest, which is pledged to be held in the year ending March 2008.



The First All China Selection—China Japanese Speech Contest

Co-sponsored Activities and Events in the Year Ended March 2007

- Cho Chikun Cup: Go Competition (Chiba City)
- Chiba Prefectural Youth Go Competition (Chiba City, Funabashi City)
- Chiba Citizen Music Festival (Chiba City)
- The Ninth Symphony Special Concert by Chiba Citizens (Chiba City)
- Japanese Traditional Noh Drama at Night in Hibiya City (Chiyoda-ku, Tokyo)
- JFE Lunchtime Concert (Kawasaki City)
- Kawasaki Contemporary Sculpture Exhibition (Kawasaki City)
- Community Festival: Music Concert (Kawasaki City)
- Yokohama Children's International Peace Program (Yokohama City)
- Handa Community Industrial Festival (Handa City)
- Mie Prefecture High Schools' Robot Tournament (Tsu City)
- Kurashiki Music Festival (Kurashiki City)
- Fukuyama Rose Festival (Fukuyama City)
- Fukuyama's Best Entertainers (Fukuyama City)
- Noh Drama Performance on Noh Stage in Setouchi (Fukuyama City)

Open-day Events at Steelworks

For the local residents, JFE Steel holds open-day events every year at each of its steelworks.

The East Japan Works held "the 29th JFE Chiba Festival" and "the 2nd Community Festival (in Keihin)" in collaboration with local governments of Chiba City and Kawasaki City. There were 60,000 people in total visited and enjoyed those events.

Also, with the aim of supporting local sports promotion and development, JFE Steel hosts local sports events including tournaments of soccer, baseball and volleyball held in recreation facilities within its steelworks. A soccer tournament, hosted for elementary students at Chita Works (Handa City, Aichi Prefecture) has become one of the region's biggest events, with more than 1,000 participants from 48 teams compete for the championship.



JFE Junior Soccer (Chita Soccer Tournament)



Community Festival (Keihin area)



Donated books

For further information

The JFE 21st Century Foundation

<http://www.jfe-21st-cf.or.jp/>

With Our Employees

Employment rates for disabled persons

■ JFE Steel

2.05%

■ JFE Engineering

2.29%

■ Kawasaki Microelectronics

2.21%

Employment of People with Disabilities

JFE Steel puts a great deal of effort into promoting employment of people with disabilities. In order to provide various disabled persons with workplaces where they can fully exercise their abilities, experience challenging and rewarding roles, we operate three subsidiaries; JFE Apple East Corporation, JFE Apple West Corporation and Mie Data Craft Co., Ltd. Not only to employ a great number of disabled people, but also we strive to create a worker-friendly environment at these subsidiaries.

At JFE Steel, JFE Engineering and Kawasaki Microelectronics, the employment rates for the disabled people are 2.05%, 2.29%, and 2.21% respectively that are much higher than the statutory rate (1.8%).



Mie Data Craft Co., Ltd.



Received Excellent Award (Mie Prefecture Governor Award) in Abilympics Mie

Creating a Worker-friendly Environment

JFE Steel endeavors to enhance its work system and welfare program so that its employees can keep working in comfortable condition. 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. JFE Steel and JFE Engineering obtained the Next Generation Certification Mark (accredited by the Minister of Health, Labour and Welfare) in 2007.

Moreover, the housing program will be dramatically revised in the year ending March 2008 as part of our effort to proactively respond to diversifying lifestyle of our employees.

All employees who have borne children in the year ended March 2007 took the child-care leave at JFE Steel Corporation and JFE Engineering Corporation.

Respecting Human Rights

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

More specifically, we are committed to (1) implement various training courses for human rights enlightenment steadily, (2) guarantee equal job opportunity and promotion of fair personnel administration, and (3) support toward group companies' relevant activities, in order to foster employees with proper understanding and awareness of various human rights issues who can take the right action as a business person and a member of society. (About 4,000 employees of JFE Steel in total participated in human rights training courses in the year ended March 2007.)

For the prevention of sexual harassment, our efforts include stipulating anti-sexual harassment clauses in work regulations, providing training courses, putting up posters, and establishing male and female counseling services at each office. We are also engaged in delivering officers' messages during the human rights week, soliciting human rights slogans (5,226 applications received), and posting various enlightenment information on our website related to human rights.

Labor-management Initiatives

The JFE Group endeavors to build up healthy and constructive labor-management relations. Under the recognition that open communication between labor and management is essential to this end, we are committed to proactive labor-management dialogue by creating opportunities for the President, the senior management and the union representatives to periodically exchange opinions on management issues and policies, etc. (quarterly labor-management conferences).

Furthermore, effective in the year ending March 2008, the Labor-management Committee Concerning Balance between Work and Life will be established for labor-management to frankly and broadly discuss how to balance work and life, which has been one of the social challenges of recent times.



Labor-management Committee

Internal Award System

In order to share the corporate vision of "contributing to society with the world's most innovative technology" across the company, JFE Steel has an internal award system to recognize employees and in-house groups who have achieved distinguished performances in the field of developing new technology or reforming the operation process and honor their achievements.

Every year, such distinguished performances are honored to receive technology awards, accomplishment awards or group awards, depending on the substance of the performances. Among them, exceptionally excellent accomplishments are honored to receive the JFE Steel President Award (8 Awards including 2 Highest Awards in 2006). Moreover, the New Product Development Award has been established for new product development to be recognized for its remarkable achievement contributing to expansion of Only One/Number One products (10 Awards including one Golden Award in 2006).

JFE Engineering honors excellent organizations and companies every year by presenting the Distinguished Accomplishment Award from the President for their remarkable achievements concerning the JFE Group's business activities and operations (a total of 20 in the years ended 2006 and 2007). We also offer awards to individuals who contribute to the business significantly, such as the Challenge Award for those who achieved very advanced operation targets and the Meister Award for those who have excellent manufacturing skills.



JFE Engineering: Distinguished Accomplishment Award from the President



Presentation of the JFE Steel President Award



Next Generation Certification Mark

Re-employment rate under the Senior Expert Program

68.9%

Patrimony of Skills and Techniques/ Re-employment of Senior Workers

To prepare for the inevitable dramatic generation shift in the workforce over the next decade, JFE Steel's steelworks have developed and implemented a personnel training system which encourages workers in novice or middle-levels to improve their skills, 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 re-employ workers beyond the retirement 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 re-employed. JFE Steel's policy is to gradually extend employment to the age of 65 and provide senior employees with more opportunities to play an active role in their workplaces.

JFE Engineering started an internal human resource bank system for former employees of each group company on October 1, 2006, when the JFE Human Resource Bank was established.

Under this system, former employees are enrolled in a way to categorize their expert skills/techniques, qualifications, and project experiences, etc., and sign an employment contract with a division which runs short of human resources such as engineers or with a division which needs skills passed down from skilled experts. We believe this will become a model case for measures of passing down skills and techniques to the next generation.

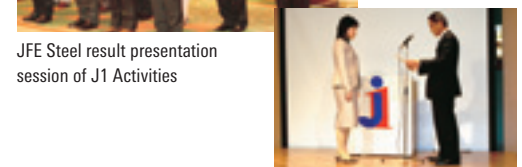
Creating Vibrant Work Environments through Small Group Activities

At JFE Steel, about 1,500 in-house groups across the company are engaged in small group activities dubbed "J1 Activities," where important issues concerning work environments such as improvement of quality and operation are tackled and a number of challenges are overcome. On top of this, the JFE Family Result Reporting Conference (a companywide conference) is held twice a year, with its participants including domestic and international group companies. Excellent groups are dispatched to our facilities in overseas as part of JFE Steel's effort to vitalize these activities. Such daily activities and result reporting conferences give employees abundant chances to demonstrate their creative ingenuities and practical abilities, and enhance individual capabilities. In this way, JFE Steel endeavors to create work environments where employees can increase their job satisfaction and a sense of achievement with fulfilling their own goals. We believe that these activities ultimately contribute to corporate growth.

Meanwhile, at JFE Engineering, more than 200 circles (including those of group companies) are engaged in "JE1 K-UP Activities" where "K" represents "Kaizen (improvement), Kouritsu (efficiency), Keiken (experience), Katsuryoku (vitality), and Kaeru (change)." Under this slogan, employees across workplaces are united to challenge important issues and meet such challenges by undergoing more creative ingenuities.



JFE Steel result presentation session of J1 Activities



JFE Engineering JE1 K-UP Activities

Industrial Health and Safety

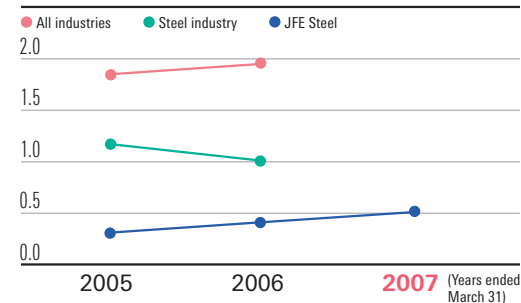
Ensuring safety and health of employees is fundamental to the manufacturing industry and is the basis of corporate sustainability.

During this year, JFE Steel has reconfirmed and ensured its fundamental belief that safety should have the first priority over any other things, endeavoring to reinforce safety measures.

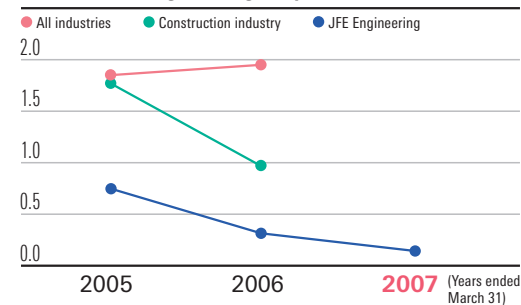
The rate of accidents causing absence from work had been on the decline since 1998, however the rate worsened over the past three years. We will continue to make improvements in all aspects of facilities, personnel, and operations. Starting in this year, we will especially enrich our education/training courses for administrative supervisors to improve their knowledge and leadership ability related to safety issues. Under this new leadership, we are determined to create safe workplaces.

JFE Engineering promotes flexible and detailed safety control, taking account of circumstances of construction sites and operation bases across the country as well as each manufacturing plant. We are striving to eliminate accidents causing absence from work by enhancing safety awareness of individual employees as well as carrying out united safety activities among group companies.

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



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



Data for the year ended March 2007 have not been announced yet for all industries and the steel industry (as of June 2007).

Efforts to Prevent Disasters

JFE Steel has established a companywide disaster prevention system in order to forestall business discontinuation that might be caused by natural disasters and system problems, etc., and ensure safety for local residents as well as for our employees. The system is also aimed to assure stable product supply to our customers.

In October 2006, we conducted disaster prevention training at all locations of our facilities. More specifically, on the assumption that an earthquake of intensity 6 has hit regions and caused disasters at steel works, a series of operations such as gathering, analyzing and reporting information were implemented. Separate training was also conducted at each location. We also checked whether internal and external communication tools, system backup, fuels and logistics to obtain foods and other commodities were all secured.

The second companywide disaster prevention training is slated for the year ending March 2008. We are preparing in order to check at the training whether such confirmation and communication via satellite phones would work well enough even on an assumed holiday, since the first training revealed that the confirmation of employees and their families' safety would be a challenge.



Disaster drill



ENVIRONMENTAL ASPECTS

Protecting the Global Environment

The JFE Group considers improvement of the global environment to be among the most important challenges facing management; to ensure a sustainable, prosperous society, the Group promotes business operations that exist in harmony with the environment. We will continue to strive to protect the global environment and to transform the JFE Group into an environment friendly enterprise.

For a more detailed environmental report, please access our website.

<http://www.jfe-holdings.co.jp/environment/index.html>

Message from Senior Management

Coordinating Corporate Growth, Environmental Conservation

The JFE Group is dedicated to implementing effective strategies for protecting the natural environment. To date we have invested substantial time and energy into energy saving production processes, green technologies and products, and cooperation both regionally and internationally. We will maintain these efforts in the years to come, guided by corporate standards of business conduct and an environmental policy that emphasize coexistence with and enhancement of the global environment.

The Kyoto Protocol will soon enter its first commitment period. Indeed, 2008 is just around the corner. With this milestone firmly in mind, the JFE Group has been promoting reduction of greenhouse gas emissions through various measures, including conservation of energy, reduced application of chemicals with substantial global warming coefficients, and introduction of new technologies. We are committed to assuming our social responsibility and achieving the reduction targets stipulated by the Japan Business Federation (Nippon Keidanren) in its voluntary action plan.

Senior Vice President
Eiji Hayashida



Development and maintenance of social infrastructure depends on JFE Group products and technologies such as steel products and energy/recycling technology. Determined to play an important role in supporting the global environment, JFE Group will continue to manufacture and innovate environmentally friendly products and technologies.

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 environmental influence in all business operations

JFE endeavors to reduce present and future environmental loads and promotes the development of innovative technologies for reducing environmental loads.

2. To make contributions through technologies and products

JFE contributes to the creation of a better environment through the development and supply of advanced technology, equipment, and ecological products.

3. To make contributions through conservation of resources and energy

JFE contributes to the creation of a resource and energy saving society through recycling and energy supply businesses which give priority to preservation of the global environment.

4. To promote communication with society

As a member of regional society, JFE contributes to a better environment at the regional level in cooperation with local citizens, government and administrative authorities, and other businesses.

5. To promote international cooperation

JFE contributes to environmental protection activities at the global level through active involvement in international cooperation in the form of technology transfer, etc.

JFE Steel's Activities to Prevent Global Warming

- For Compliance with the Japan Iron and Steel Federation's Voluntary Action Program -

Message from Senior Management

JFE Steel Corporation
Vice President
Takashi Sekita



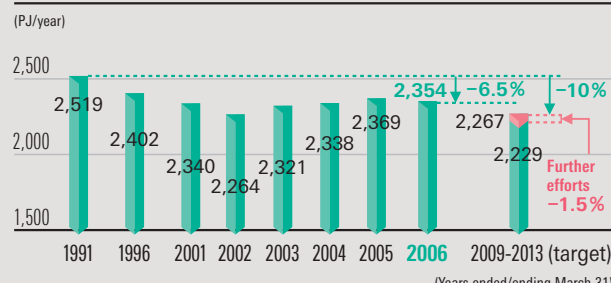
The year 2007 is a very important year as the first commitment period of the Kyoto Protocol starting 2008 is approaching. In light of expanding crude steel production in response to increasing customer needs for highly functional steel products and more energy consumption due to stricter environmental measures, goals of the Voluntary Action Program of the Japan Iron and Steel Federation (JISF) will not be easily attained. Nevertheless, we are determined to make all-out efforts to achieve those goals mainly by reducing CO₂ emissions through our technological measures, and partly by using the Kyoto Mechanisms as a complementary measure.

Efforts of Iron Industry (The JISF's Voluntary Action Program)

The JISF achieved a 6.5% reduction in energy consumption in the year ended March 2006 (6.9% reduction in CO₂ emissions) compared to the year ended March 1991 level. As a complementary measure, the JISF has made a purchase contract of the Kyoto Mechanisms (28 million tons).

Transition in Energy Consumption by the Iron and Steel Industry in Japan

Source: The Japan Iron and Steel Federation



The JISF's Voluntary Action Program
The JISF has set a 10% reduction in energy consumption as its goal for the year ending March 2011 compared to the year ended March 1991 level on the assumption that annual crude steel production would amount to the 100 million-ton level. It is also committed to effective use of waste plastics (equivalent to another 1.5% reduction).

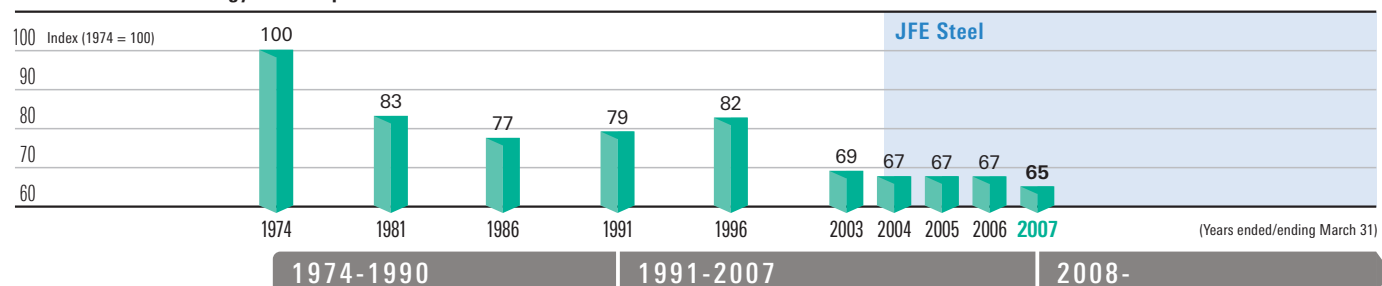
Energy Saving Activities

Iron and steel manufacturing uses coke as a reducing agent during the process of reducing iron ore. The reducing process leads to CO₂ emissions. Since the 1970s, JFE Steel has been recovering gases generated from each stage of various processes in coke ovens and BF, etc., in order to use them as fuel gas or gas for power generation and meet fuel demand at respective steelworks. JFE has also been striving to effectively reuse flue gas and waste heat. As a result of these efforts, we have achieved a 35% reduction in unit energy consumption

from the year ended March 1974 level, realizing the world's top-class efficiency of energy consumption.

JFE Steel will implement further energy savings by promoting operational upgrades such as the addition of CDQ, cutting reducing agents, and using cold iron sources. We will also contribute to the international prevention of global warming and environmental conservation through the Meeting for Environmental Protection and Energy-saving by the CISA and JISF and the Asia-Pacific Partnership based on the cultivated technologies.

Transition of Unit Energy Consumption Index at JFE Steel



Period	Activities
1974-1990	Introduction of energy saving equipment <ul style="list-style-type: none"> Reduction of reheating furnace fuel Large-scale waste heat recovery equipment BF top pressure recovery turbine (TRT), sintering waste heat recovery, etc. Process continuation Continuous casting line, continuous annealing line, etc.
1991-2007	Further promotion of energy saving <ul style="list-style-type: none"> Waste plastics feeding into BF Introduction of regenerative burner Endless rolling City gas blowing technology for BF High efficiency oxygen plant
2008-	Global warming prevention measures by energy saving <ul style="list-style-type: none"> New construction of shaft furnace (operation start scheduled in August 2008) Augmentation of CDQ (operation start scheduled in March 2009) Broader introduction of regenerative burner Augmentation of high efficiency oxygen plant BOF gas sensible heat recovery



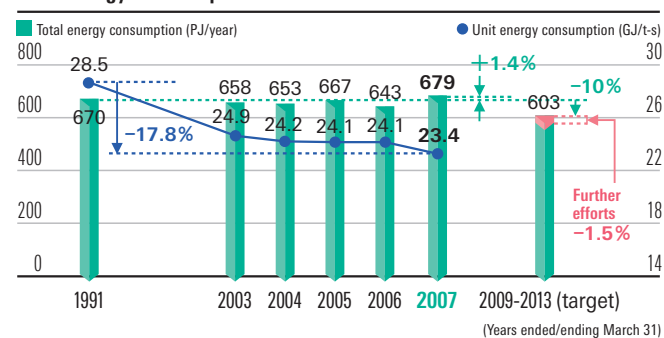
Achievements in the Year Ended March 2007*

In the wake of stronger demand for highly functional steel products from customers mainly in the automobile, electric appliance, and shipbuilding industries, JFE Steel has been increasing production to fulfill its supply responsibility. As a result, compared to the year ended March 1991 level, crude steel production increased 23% in the year ended March 2007.

Using the same comparison, energy consumption and CO₂ emissions recorded a 1.4% increase and a 0.9% increase, respectively. And yet, JFE Steel has substantially improved efficiency with an approximately 18% reduction in unit energy consumption and unit CO₂ emissions.

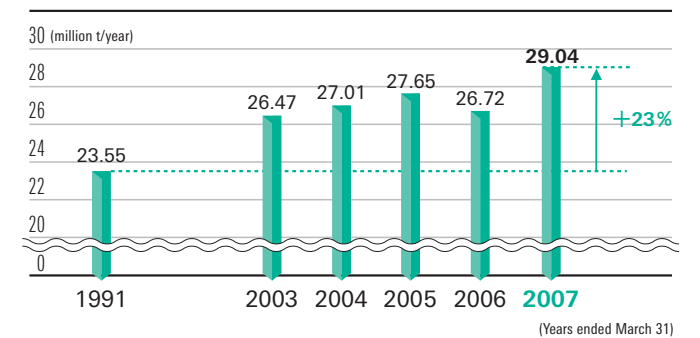
* The non-consolidated base calculation does not include electric furnace steel companies in the JFE Steel Group.

Transition of Total Energy Consumption and Unit Energy Consumption at JFE Steel

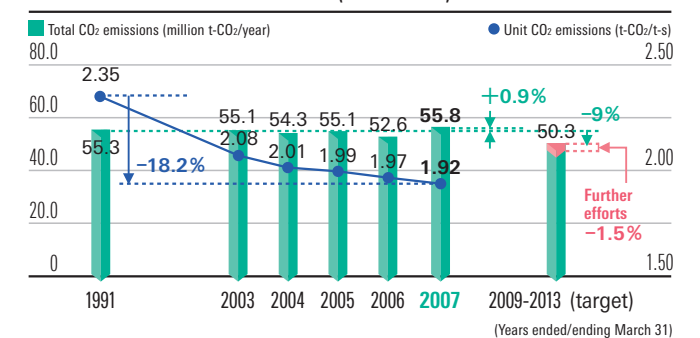


Unit energy consumption in comparison to the year ended March 1991 approx. **18% cut**

Transition of Crude Steel Production at JFE Steel



Transition of Total Energy Origin CO₂ Emissions and Unit CO₂ Emissions at JFE Steel (Estimation)



Unit CO₂ emissions in comparison to the year ended March 1991 approx. **18% cut**

For Compliance with the Voluntary Action Program

JFE Steel is determined to prevent global warming by promoting further energy saving (reduction of CO₂ emissions) activities in order to achieve the JISF's Voluntary Action Program with certainty even though crude steel production is increasing.

We will make concrete efforts such as improving operational efficiency (cutting the reducing agent ratio and utilizing more iron scraps), energy savings by streamlining equipment, and technological innovations through R&D.

Broader introduction of waste heat recovery equipment	<ul style="list-style-type: none"> • CDQ • Regenerative burner • BOF gas sensible heat recovery
Broader application of high efficiency equipment	<ul style="list-style-type: none"> • High efficiency oxygen equipment • High efficiency power generation equipment • High quality and high productivity sintering technology
Active use of cold iron source	<ul style="list-style-type: none"> • Shaft furnace
Reduction of BF reducing agency rate	<ul style="list-style-type: none"> • Containers and packaging plastics Pulverization plant

Use of the Kyoto Mechanisms

JFE Steel has been promoting the utilization of CO₂ emission rights according to the Kyoto Mechanisms as a complementary measure to reduce CO₂ emissions in addition to implementing technologies. This is being done so that we can achieve the goals of the Voluntary Action Program with certainty.

Implementation of CDM*	Power generation by PSC sintering waste heat recovery
Participation in funds	Japan Greenhouse Gas Reduction Fund The World Bank's Bio Carbon Fund
Purchase of CO ₂ emission rights	Purchase of CO ₂ emission rights approved by the United Nations

* CDM (Clean Development Mechanism)
This system is introduced in the Kyoto Protocol and allows the developed nations to use the reduced emissions when counting their own achievements by offering technologies and funds to developing nations.

CDM to PSC (Philippine Sinter Corporation)

In plants that manufacture sintered ore, which is used as a material for iron-making, steam is produced by utilizing waste heat diffused in the air and 18.6 kWh of power is generated. As a result, 62,000 tons of CO₂ are reduced per year. This project has been approved as CDM by the United Nations.



Panoramic view of PSC

Annual reduction in CO₂ emissions
62,000 tons

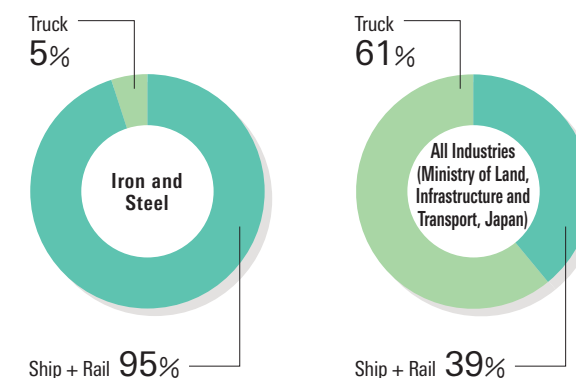
Energy Saving Measures at the Transportation Division

JFE Steel has been also striving to reduce the CO₂ and NO_x emissions inherent in production transportation. The enhancement of transportation efficiency as well as the streamlining of operating cars and ships have also been carried forward to promote modal shifts^{*1}. The modal shift rate in production transportation has reached 95%, including JFE Steel.

JFE Steel's CO₂ emissions caused by transportation as a cargo owner were estimated at approximately 400,000 tons^{*2} in the year ended March 2007.

*1 Modal shift: Switching transportation measures from trucks to railways or ships to promote streamlining of transportation and reduce the environmental load.

Modal Shift Rate of the Iron and Steel Industry in Japan



Source: The Japan Iron and Steel Federation

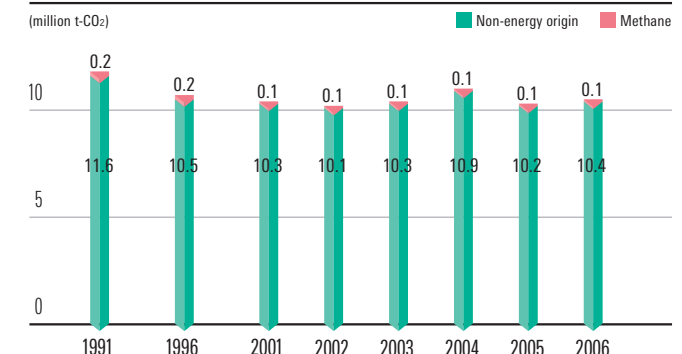
Non-energy Origin CO₂ Emissions

Limestone and dolomite used in BF, converters and the like are kinds of non-energy origins of CO₂ emissions. Methane is emitted in the process of manufacturing coke, and N₂O is emitted by fuel usage or from water treatment equipment and similar sources.

The total limestone/dolomite origin CO₂ and CO₂ equivalent of methane and N₂O emitted by JFE Steel reached 3.2 million tons^{*2} in the year ended March 2007.

*2 We started aggregate calculations from the year ended March 2007 under the Energy-Saving Law and the Global Warming Solutions Act.

Transition of Non-energy Origin GHG Emissions by the Iron and Steel Industry in Japan



Source: The Japan Iron and Steel Federation

(Years ended March 31)

CDQ equipment



CDQ (Coke Dry Quenching) is equipment to quench coke by exposing the dried/heated coke after the coke oven process to inert gas flowing in a cooling chamber. This equipment does not emit dust and realizes sensible heat recovery power generation, which contributes to energy saving. JFE Steel is now carrying forward broader utilization of CDQ into the Kurashiki area.

Installation status of regenerative burners



A regenerative burner alternately uses a pair of burners which are integrated with the thermal storage body, and thereby uses waste heat generated from one burner as preheat for the other burner's combustion air. This system excels in thermal efficiency and realizes substantial energy saving (CO₂ emission reduction) and NO_x emission reduction.

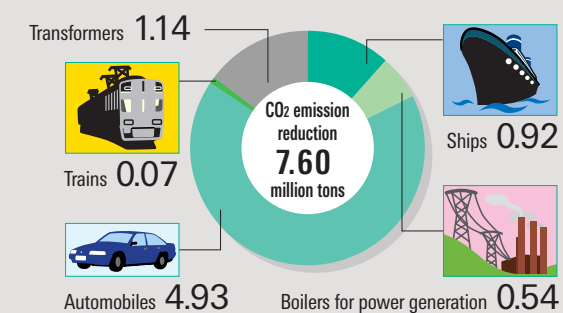
Social Contribution through Steel Products

Steel manufacturers are actively promoting development of highly functional steel products with properties of light weight, high efficiency and longevity, etc.

These steel products substantially contribute to energy saving when finished goods such as automobiles are practically used in society. Typical highly functional steel products manufactured from the year ended March 1991 to the year ended March 2006 are estimated to have deterred CO₂ emissions of approx. 7.6 million tons as of the year ended March 2006, proving a significant contribution to society.

Estimated effect of highly functional steel products approx. **7.6 million tons cut**

CO₂ Emission Reduction Effect at the Stage of Using Steel Products (As of the Year Ended March 2006)



Source: The Japan Iron and Steel Federation

JFE Engineering's Products/Technologies Which Contribute to Global Warming Prevention

JFE Engineering has been contributing to global warming prevention by providing its cutting-edge technologies to reduce CO₂ emissions, such as biomass technology, energy technology and CO₂ immobilization technology.

Babcock & Wilcox
Volund wood biomass
gas-fired power
generation system:
Comprehensive energy
utilizing efficiency rate

80%
or more

■ Clathrate Hydrate Slurry (CHS) Heat Storage Air-conditioning System

Using clathrate hydrate slurry instead of water, the Clathrate Hydrate Slurry (CHS) Heat Storage Air-conditioning System is a cooling system with excellent energy saving effects. This system substantially reduces power consumption and thereby contributes to global warming prevention. The Kawasaki shopping mall "Azalea" is one of our major clients who have adopted this system. The new air-conditioning system has been awarded the Prime Minister Prize of the 35th Japan Industrial Technology Grand Prix.



Clathrate Hydrate Slurry (CHS) Heat Storage Air-conditioning System

■ Babcock & Wilcox Volund Wood Biomass Gas-fired Power Generation System

Combining gasification furnace and gas engine, this system efficiently generates power from carbon-neutral biomass. It has realized comprehensive energy utilizing efficiency rate as high as 80% or more by not only generating power but also utilizing heat.



Wood biomass gas-fired power generation plant



Gas engine for power generation

■ Wind Power Generation System

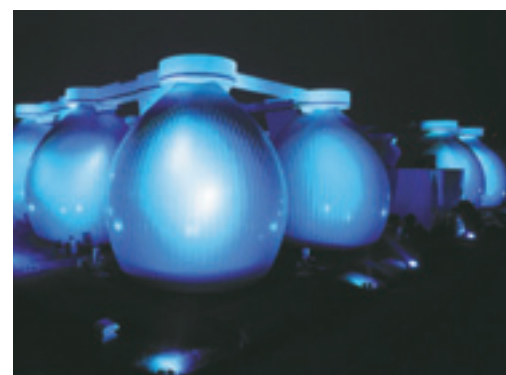
This system generates power by utilizing natural wind, and provides extremely clean energy with no CO₂ emissions at the time of power generation. JFE Engineering has installed 130 systems at 24 sites across Japan, reducing annual CO₂ emissions by approximately 60,000 tons.



Windmill for power generation

■ Sewerage Sludge Digestion Gas Power Generation

High-efficiency gas engine of this system converts digestion gas, which is generated from sludge digestion tank at a sewerage treatment plant, into electricity and thermal energy for power generation use.



Sewerage sludge digestion tank



■ Biomass Boiler System

This system uses a circulating fluidized bed boiler to efficiently generate power and supply heat from carbon-neutral biomass. The biomass boiler system has been adopted and used mainly by wood biomass power plants and paper-manufacturing companies and contributed to reduce CO₂ emission.



Biomass boiler system

■ VOC Recovery Equipment

This system recovers VOC (Volatile Organic Compounds) which are otherwise diffused into air at the time of crude oil shipment, removes odorous components and simultaneously uses the recovered VOC as energy. Some of the world's largest VOC recovery equipment has been in operation at the Kiire Oil Terminal (Kagoshima Prefecture) of Nippon Oil Staging Terminal Company, Limited.



VOC recovery equipment



Hiroyuki Shiga

Engineering Division
New Energy Saving
Air-conditioning
JFE Engineering Corporation

Clathrate Hydrate Slurry (CHS)

Clathrate hydrate slurry (CHS) is an accomplishment of joint development of JFE Engineering and NEDO (New Energy and Industrial Technology Development Organization), and contributes to reduction of CO₂ emissions through energy saving and electric-load leveling.



Yasunori Kanamaru

Planning Department,
Environment Planning
Division
JFE Environmental Solutions
Corporation

Wood Biomass

We are proposing local production for local consumption-type high efficient power generation system, which efficiently uses wood materials such as thinned wood. When adopted, it assists global warming prevention.

International Contribution by Providing Environment/Energy Technologies

***1 CDM:**
Clean Development Mechanism. Under CDM, signatory nations implement projects which reduce GHG emissions in the signatory developing nation, and the signatory advanced nation uses the reduction achieved by the project to achieve its target.

***2 JI:**
Joint Implementation. Under this mechanism, a signatory advanced nation carries out a reduction project in another advanced nation, and counts part of the emission reduction as its own reduction.

***3 APP:**
Asia-Pacific Partnership.

***4 FS:**
Feasibility Study.

JFE has been achieving international cooperation by implementing many projects based on its accumulated technologies for energy saving and GHG emission reduction in order to contribute to sustainable growth in developing nations. The JFE Group is also actively involved in CDM^{*1} and JI^{*2} projects, which ensure JFE's contribution to global warming prevention.

■ APP^{*3}/Steel Task Force

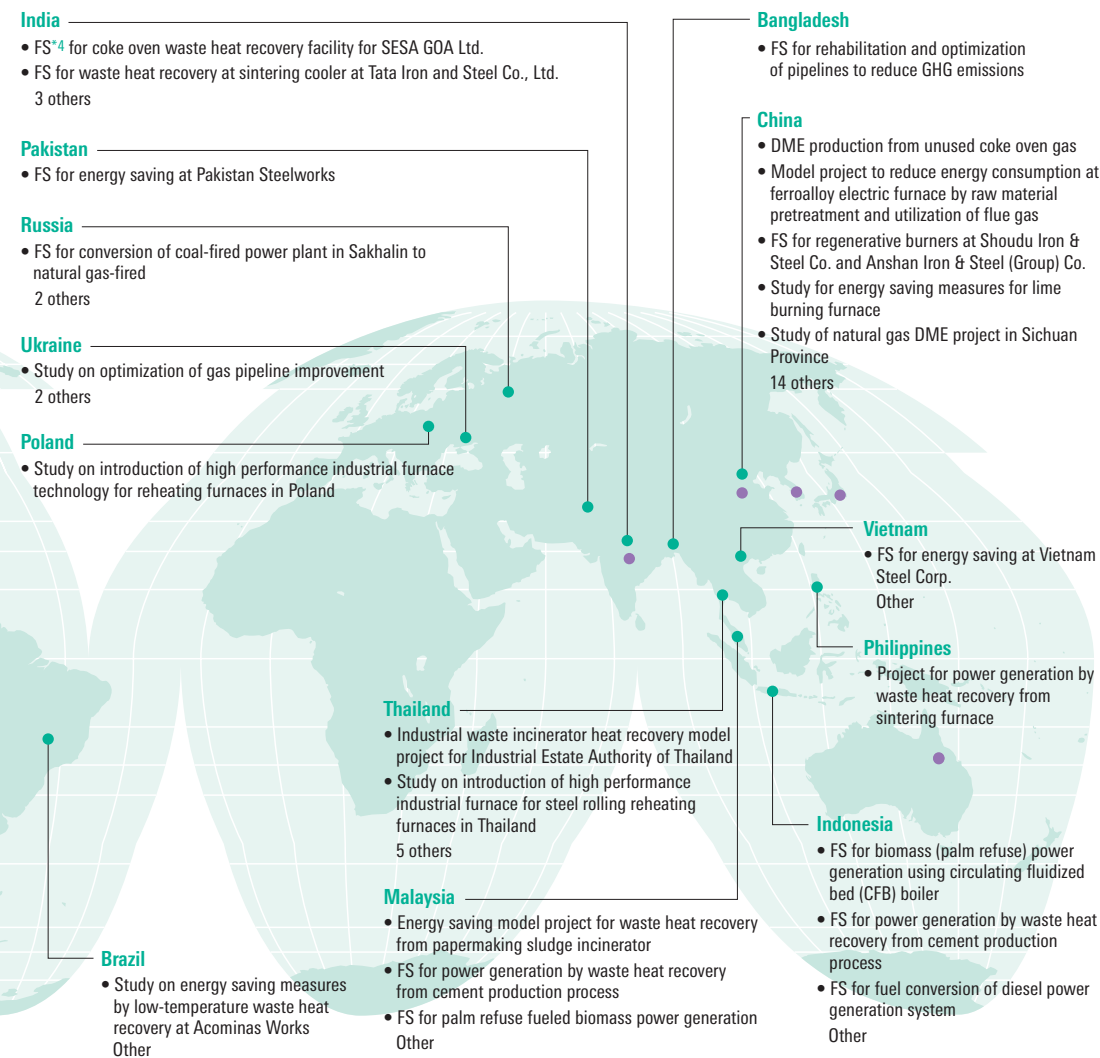
This partnership was launched in January 2006 by the private and public sectors among the six nations of Japan, the United States, China, India, South Korea, and Australia. It is tackling issues of global warming and environmental problems through development, permeation, and transfer of energy and environmental technologies in the eight main industries. Japan is a

presidency holder of the Steel Task Force and is promoting this activity.

■ The Advanced Technology Exchange Meeting for Environmental Protection and Energy-saving Co-sponsored by the China Iron and Steel Association and the Japan Iron and Steel Federation

This meeting was launched by Japan Iron and Steel Federation and China Iron and Steel Association. It aims to reduce the environmental load from the iron and steel industry of China by Japan's excellent energy-saving and environment-preservation technologies. JFE Steel is participating in this activity proactively through expert meetings, etc.

World Map of International Cooperation Projects by the JFE Group

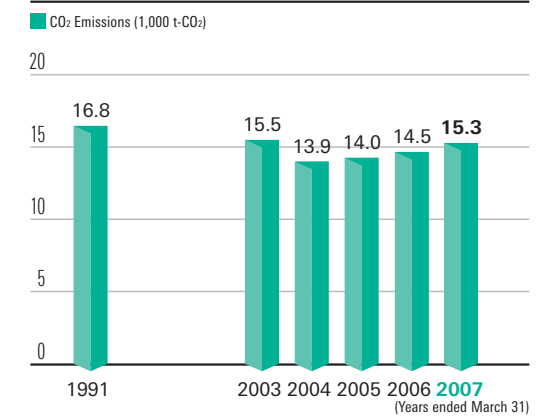


Operating Companies' Activities to Reduce Environmental Loads

JFE Engineering Corporation's Activities to Reduce Environmental Loads

JFE Engineering is engaging in comprehensive energy-saving activities. In the office department, we have introduced highly efficient clathrate hydrate slurry (CHS) heat storage air-conditioning and turn off the lights during lunch breaks. In the manufacturing department, energy saving patrols and idling stop campaign are conducted. Its CO₂ emissions totaled 153,000 tons in the year ended March 2007, down 8.9% 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.

Transition of CO₂ Emissions



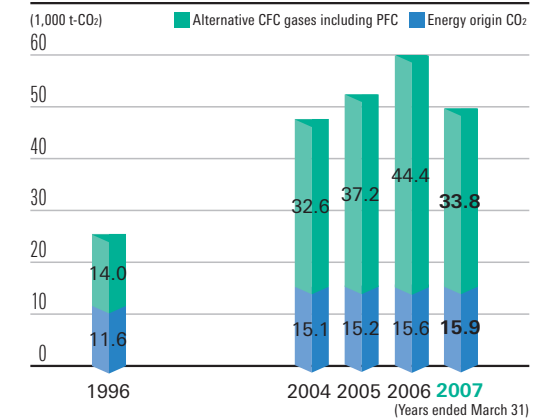
CO₂ emissions in comparison to the year ended March 1991 levels
down

8.9%

Kawasaki Microelectronics Inc.'s Activities to Reduce Environmental Loads

The Utsunomiya Works of Kawasaki Microelectronics has been considering adoption of substitutes for C₂F₆, which accounts for about 70% of total emissions of PFC gases (by CO₂ conversion). Having completed pre-investigation in the year ended March 2007, the Utsunomiya Works plans to put the consideration into practical use in the year ended March 2007. In energy saving activities, the Works achieved an energy saving rate of 0.78% mainly as a result of introduction of inverter control for compressors. It also successfully reduced industrial wastes by converting used packaging materials into valuable substances, as well as achieved a reduction in the number of PRTR substances (from 2 to 1).

Transition of CO₂ Emissions



Energy saving rate

0.78%
achieved

JFE Urban Development Corporation's Activities to Reduce Environmental Loads

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. Orto Yokohama operated by JFE Urban Development has adopted cogeneration systems and also Techno Hub Innovation Kawasaki (THINK) operated by JFE Urban Development has adopted Air-Conditioning System Using Clathrate Hydrate Slurry developed by JFE engineering.



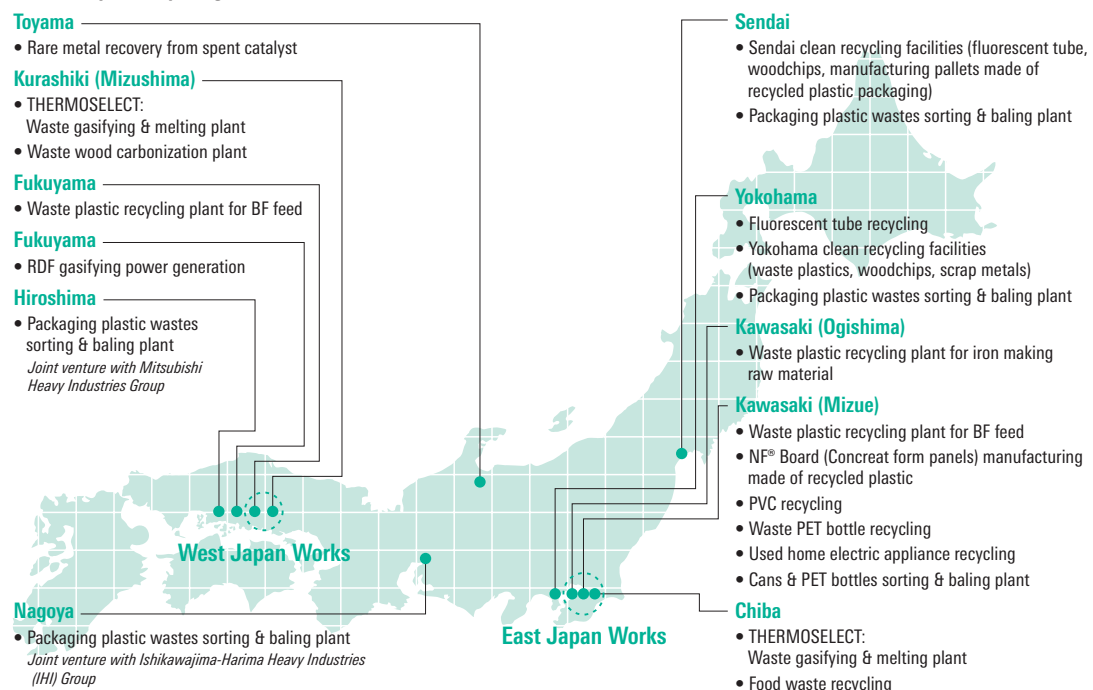
Example of rooftop gardening: Grand Scena Tamagawa

Recycling Technology Contributing to a Sustainable Society

The JFE Group is engaged in a wide range of waste recycling businesses by combining with 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 raw material 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



Customers' Comments

Matsushita Electric Works, Ltd.
Our company provides Light and Trust Service, where service companies of Panasonic offer total services from "renting" fluorescent lamps to collecting and appropriately treating used fluorescent tubes. In other words, we provide "functions of light" as "package service." Our company trusts JFE KANKYO Corporation's recycling factory for used fluorescent tubes as an important treatment base for our Kanto area's Light and Trust Service, because of its excellent treatment process as evidenced by its safety operation and high recycling rate.
■ For further information on Light and Trust Service, please refer to our website at <http://biz.national.jp/Ebox/akarianshin/index.html>.



Masatoshi Miyaki
General Manager in charge of Environment & Maintenance Business Promotion (Light and Trust Service), Solution Group, Customer Create Center, Electronic Materials Marketing Headquarters, Matsushita Electric Works, Ltd.

Sumida Office, Kao Corporation
Efforts at Sumida Office, Kao Corporation
Our company has a companywide-shared waste control system, which enables us to check and confirm treatment approval status, contract details and expiry dates, etc. concerning waste treatment companies. This serves our purpose of making operations appropriate and efficient. Our Sumida Office achieved Kao's standard target of zero emission (less than 0.5%) in the year ended March 2006, partly thanks to cooperation from JFE KANKYO Corporation.



Kyoichi Iizuka
Safety Environment Group Sumida Service Center Kao Corporation

The year ending March 2008:
Successful bidding of packaging plastic wastes
96,000 tons / year

The year ended March 2007:
Used fluorescent tubes treated (by 40w direct tube conversion)
20 million tubes / year

The year ended March 2007:
4 items of waste home appliances treated
710,000 units / year

Recycle overview

JFE KANKYO Corporation
<http://www.jfe-kankyo.co.jp/>

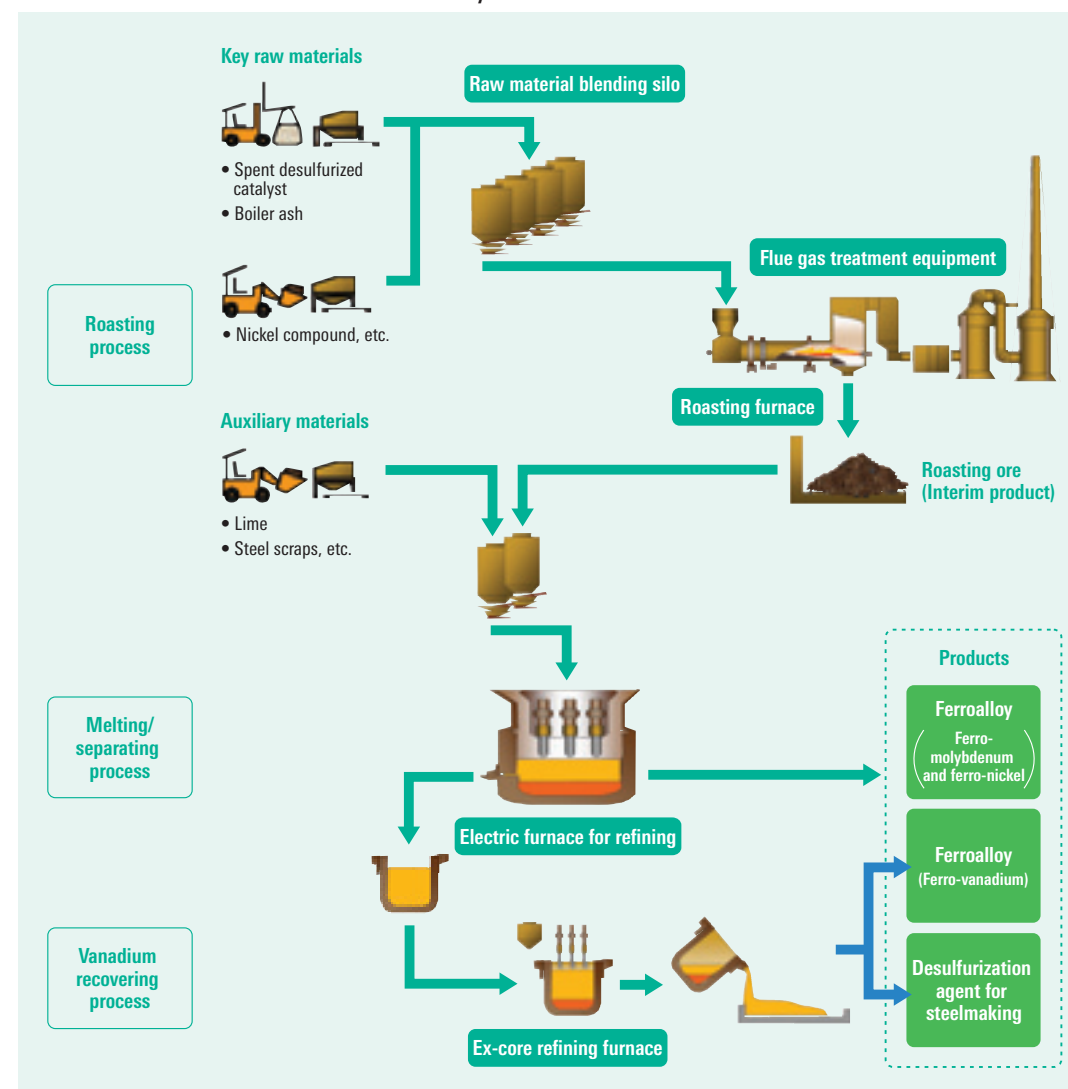
Rare Metal Recovery from Spent Catalyst, etc.

In order to effectively use resources, JFE has been engaged in recovering rate metals such as nickel, molybdenum and vanadium from spent desulfurized catalyst generated in Japanese oil refineries and boiler ash emitted in domestic thermal power plants, and producing/supplying ferroalloy from the recovered rate metals.

Spent desulfurized catalyst and boiler ash transported from oil refineries or power plants receive primary treatment such as removal of water, oil content and sulfur content in roasting furnace. After the first-

step treatment, they are separated into nickel, molybdenum and oxidized vanadium in electric furnaces. Thereafter, vanadium receives reduction treatment, while nickel and molybdenum receive treatment to remove impurities. Having gone through these processes, main rate metals, i.e., nickel, molybdenum and vanadium are recovered. Amid increasing worldwide demand for rate metals, JFE contributes to forming a recycle-oriented society through its rare metal recovery operation from wastes.

Outlined Production Processes of Metal Recovery Business

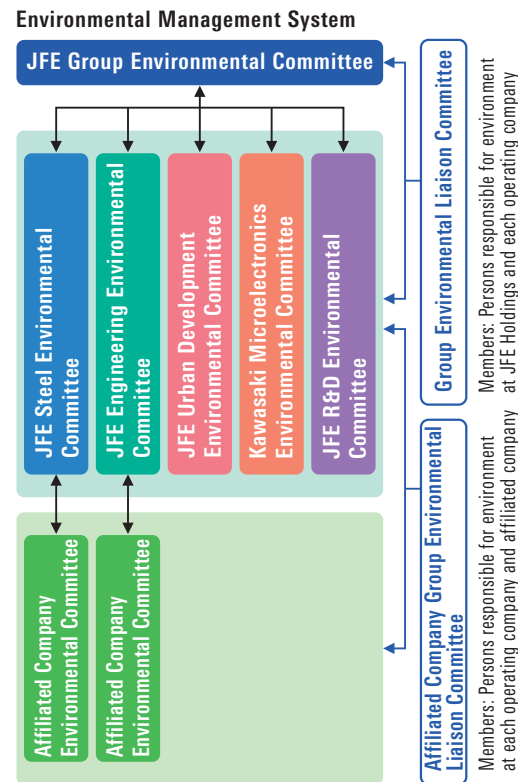


The above business is operated by Metal Technology Co., Ltd., in which JFE Material Co., Ltd. has taken a stake.

Environmental Management

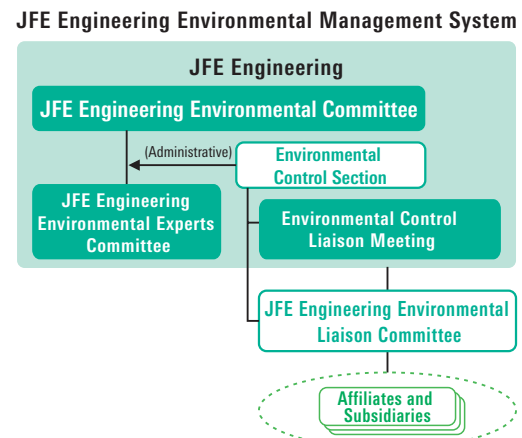
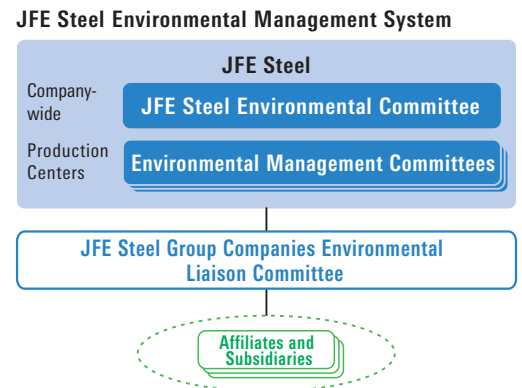
Construction and Operation of Environmental Management System

Under the Group CSR Convention, the JFE Group has set up not only the Group Environmental Committee chaired by the President of JFE Holdings but also an Environmental Committee in each of the Group's operating companies and affiliated companies. With this multi-tiered committee system, JFE has been dealing with environment-related issues such as setting objectives for environmental protection activities, progress check of those activities, and evaluation on environmental performance as a whole group.



- 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

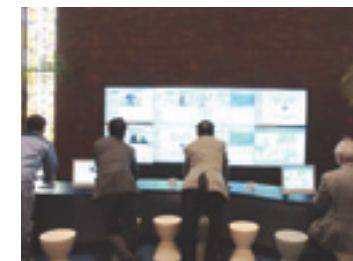
JFE has also established the Group Environmental Liaison Committee made up of persons responsible for environmental matters at JFE Holdings and the five operating companies in order to spread environmental activities within the Group evenly and improve the level of activities. In March 2007, "Environmental Management Guideline for preventing pollution by enterprises" was issued by the Ministry of Economy, Trade and Industry and the Ministry of the Environment. JFE aims to improve environment management system by evaluating our efforts based on the guideline.



JFE Steel Group Companies Environmental Liaison Committee

Environmental Abnormality Prevention System (Publication of Environmental Information)

JFE Steel has strived to drastically restructure the environmental management system since December 2004, when the water quality problems were recognized at its East Japan Works (Chiba). As part of these efforts, the environmental abnormality prevention system has been under the construction based on our accumulated expertise. Moreover, real-time information disclosure system on environment was completed in March 2007, and is now open to the general public.



Environmental abnormality prevention system

Location: Visitors' Center at JFE Steel's East Japan Works (Chiba)

- Environmental initiatives: Presentation on JFE Steel's activities to cope with the environmental problems since the incidence
- Environmental Data
 - Measurement results of air environment NOx, SOx (12 stacks)
 - Measurement results of wastewater quality COD, wastewater volume (7 wastewater treatment plants)



Example of disclosed data

Environmental Accounting

In the year ended March 2007, environment-related capital investment totaled ¥13.5 billion and expenses amounted to ¥74.8 billion. The ratio of environment-related capital investment against total capital

investment is approximately 10%. As a result of activities during the year ended March 2007, the effects of energy conservation were valued at ¥1.4 billion by estimation.

Environmental Protection Costs

	Description	(billions of yen)	
		Amount of Investment	Amount of Expenses
Environmental investment & expenses related to JFE's own business	Management	—	2.3
	Prevention of global warming	3.3	15.2
	Effective use of resources	1.2	17.5
	Environmental protection	9.0	33.0
	Miscellaneous	—	1.7
Environmental investment & expenses related to customers and society	Research & development	—	4.5
	Social activities	—	0.6
Total		13.5	74.8

Environmental accounting data stated above were calculated on the basis of the following assumptions.
 Period subject to accounting: April 1, 2006 to March 31, 2007
 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 were 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.

Open Tour for the Real-time Information Disclosure System

- Operating hours:** 9:00 a.m. to 5:00 p.m. (excluding Saturdays and holidays)
- Contact/Application:** Environmental Management Department, East Japan Works (Chiba), JFE Steel Corporation
Tel: +81-43-262-2371
Fax: +81-43-262-2756

For further information

About environmental problems concerning water quality, please refer to the following:
<http://www.jfe-steel.co.jp/works/east/chiba/environment2.html>

The year ended March 2007:
Environmental investment

13.5
billion yen

The year ended March 2007:
Environmental cost

74.8
billion yen

Priority Environmental Targets and Results

Priority Environmental Targets and Results

(Year ended / ending March 31)

	2007 Priority Environmental Targets	2007 Results	2008 Priority Environmental Targets
JFE Steel	Promote measures to prevent global warming <ul style="list-style-type: none"> Promote measures to prevent global warming based on Japan Iron and Steel Federation's Voluntary Action Plan. (Achieve a 10% reduction in energy consumption by the year ending March 2011, compared to the year ended March 1991 level.) 	<ul style="list-style-type: none"> Reduced unit energy consumption by approximate 18% compared to the year ended March 1991 level. Implemented CDM. (In Philippines: obtained approval from the UN in May 2007.) Installed more CDQ. 	Promote measures to prevent global warming <ul style="list-style-type: none"> Promote measures to prevent global warming based on Japan Iron and Steel Federation's Voluntary Action Plan. (Achieve a 10% reduction in energy consumption amount during the period from the year ended 2009 to the year ending March 2013, compared to the year ended March 1991 level, and another 1.5% reduction (additional target) through effective usage of waste plastics, etc.)
	Promote byproduct recycling <ul style="list-style-type: none"> Look at developing and applying technologies for recycling dust and slag. (Maintain the year ended March 2006 target.) Reduce final disposal of waste bricks by 20% in a year-to-year comparison. 	<ul style="list-style-type: none"> Ongoing development of technologies for recycling dust and slag. Dust treatment technology by Hi-QIP method. Recycling technology for stainless acid detergent. Final disposal rate of waste bricks: Achieved targets by sorting out and recycling bricks based on each usage and recovered almost all. 	Promote byproduct recycling <ul style="list-style-type: none"> Continuously look at developing and applying technologies for recycling dust and slag. Reduce landfill of slag by 20%.
	Strive to reduce environmental risks <ul style="list-style-type: none"> Comply with new regulations. Promote voluntary environmental conservation activities. 	<ul style="list-style-type: none"> Complied with new regulations. Promoted voluntary environmental conservation activities. Wastewater control activity by manufacturing line. Installation of monitoring sensors. Implementation of voluntary administrative activity to reduce VOC. 	Continuously strive to reduce environmental risks <ul style="list-style-type: none"> Comply with new regulations. Promote voluntary environmental conservation activities.
JFE Engineering	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. At Tsurumi, the target is calculated based on electricity usage per hour of operation. At Shimizu and Tsu, the target is calculated based on electricity usage per unit volume of production.	<ul style="list-style-type: none"> Targets were fulfilled at Tsurumi and Shimizu but not at Tsu. Tsurumi Engineering & Manufacturing Center: 10% reduction compared to the year ended March 1998 level. Shimizu Works: 17% reduction compared to the year ended March 1998 level. Tsu Works: 10% reduction compared to the year ended March 1998 level. 	Promote energy-saving activities in production divisions Tsurumi Engineering & Manufacturing Center: 11% reduction compared to the year ended March 1998 level. Shimizu Works: 17% reduction compared to the year ended March 1998 level. Tsu Works: 11% reduction compared to the year ended March 1998 level.
	Promote reduction of construction site waste <ul style="list-style-type: none"> Reduce final disposal rate*1 to 35% or less in three years ending March 2008. 	<ul style="list-style-type: none"> The year ended March 2007 final disposal rate: 32.4%. (Total waste volume: 1,960 tons) 	Promote reduction of construction site waste <ul style="list-style-type: none"> Reduce final disposal rate to 35% or less in three years ending March 2008.
	Promote resource-saving and environmentally friendly office activities <ul style="list-style-type: none"> 4% increase in green procurement rate of office supplies compared to the year ended March 2005 level. 	<ul style="list-style-type: none"> Targets were fulfilled at Tsurumi and Tsu but not at Shimizu. Tsurumi Engineering & Manufacturing Center: Up 9.2%. Shimizu Works: Up 0.0%. Tsu Works: Up 4.0%. 	Promote resource-saving and environmentally friendly office activities <ul style="list-style-type: none"> 6% increase in green procurement rate of office supplies compared to the year ended March 2005 level.
Kawasaki Microelectronics	Promote measures to prevent global warming <ul style="list-style-type: none"> Energy saving rate: 1.0% or higher. Carry forward experiments to reduce PFC gas*2 by 70%. 	<ul style="list-style-type: none"> Energy saving rate: 0.78%. Completed basic evaluation on C2F6 (PFC gas) reduction and consideration on practical application of alternatives. 	Promote measures to prevent global warming <ul style="list-style-type: none"> Energy saving rate: 1.0% or higher. Complete alternatives for C2F6 and commence specific reduction measures aiming at 10% reduction of PFC emissions compared to the year March 1996 level.
	Reduce chemical substances <ul style="list-style-type: none"> Reduce PRTR substances by one type. Reduce notification substances from two types to one type. 	<ul style="list-style-type: none"> Terminated the use of acetic acid 2-ethoxyethyl. Reduced notification substances from two types to one type (hydrogen fluoride and its water-soluble salt). 	Reduce consumption of chemical substances <ul style="list-style-type: none"> Reduce consumption of the notification substance.
	Reduce waste <ul style="list-style-type: none"> Reduce waste generation by 4% or more. 	<ul style="list-style-type: none"> Achieved reduction of 4% or more. 	Reduce industrial waste <ul style="list-style-type: none"> Reduce wastewater treatment-origin dehydrated sludge by 10%.

*1 Final disposal rate = (total waste volume - (volume recycled + volume reduced)) / total waste volume
 *2 PFC: Perfluorocarbon

Regarding the JFE Group's Social and Environmental Efforts



Yuko Sakita
 (Journalist,
 Environmental Counselor)

JFE GROUP BUSINESS REPORT 2007, which encompasses economical, social and environmental aspects, is first of all commendable for having clearly shown JFE's stance of striving to meet accountability to society by disclosing main CSR data/information in the first section titled "Business Highlights."

Specifically speaking, in the environmental aspects, disclosure related to "CO₂ emissions" deserves special mention. CO₂ emissions from the steel business increased by 0.9% compared to the year ended March 1991 levels as a result of a 23% increase in crude steel output in the wake of rapid growth in steel demand. The Report also clearly describes JFE's technological capability to have reduced unit CO₂ generation by 18%, and contribution to reduction of environmental loads in Asia and Kyoto Mechanisms. Now that the commitment period of the Kyoto Protocol is about to start, I would like to see JFE further striving to reduce CO₂ emissions by coping with energy source issues as part of various measures.

CO₂ emissions from the engineering business also increased. I would like JFE to contribute to warming prevention by developing cutting-edge technologies such as recyclable energy technology and CO₂ immobilization technology. In the recycling area, they are proposing new points of view including local community-centered cooperation. I hope JFE will play an important role in creating sustainable recycling-oriented communities. With regard to Kawasaki Microelectronics, the company has been endeavoring to reduce CO₂ emissions, waste and harmful substances, etc. I would like them to promptly implement measures under consideration, such as the one to reduce alternative CFC (chlorofluorocarbon) gas, of which the warming coefficient is high.

The JFE Group also prepares the Online Environmental Report, which incorporates separate articles such as "Biodiversity" to complement environmental aspect information. I would like to suggest a tie-up between the two reports by describing such articles in the Business Report as well.

As for the first section data related to social aspects, the JFE Group has disclosed "the employment rate for disabled persons." They have achieved the legal employment rate of 1.80%. From now on, I would like to see the Group reporting the status of creating a worker-friendly environment based on diversified points of view including that of "employees taking childcare leaves" as part of measures to combat the decreasing birthrate. In the main text, JFE has discussed "Measures to Prevent Recurrence of Antimonopoly Law Violations," disclosing so-called negative information. The aftermath of environmental problems associated with wastewater at JFE Steel's East Japan Works (Chiba) has also been described. The Group's care for building trust with society is commendable, and I would like to see the JFE Group continuously promote dialogues with stakeholders as well as further environmental communications.



Yoshinao Kozuma
 (Professor of Accounting,
 Faculty of Economics, Sophia University)

Starting with the 2006 edition, the JFE Group has annually been preparing Business Report, an enhanced annual report with environmental and social reporting, disclosing both financial and non-financial information based on the triple bottom line approach. Some factors such as environment and compliance have been focused in the report as material CSR issues for recent years. It also appears a new measure in this year to reinforce corporate governance whereby internal control is embedded in the business processes. These activities are organized in an integrated fashion under JFE Group CSR Council in accordance with clear CEO's commitment to carry out them thoroughly. It would be easy to find the group's strong enthusiasm to understand CSR as an essential management policy for the entire group and to grapple with its related activities squarely.

Regardless of the conversion from Environmental Report into Business Report, current environment reporting has been free from deterioration which often occurs when different types of reports are combined, thanks to the PDF version of online environmental report which contains enough information in quantity and quality. From the year of 2007, many KPIs (key performance indicators) begin to be disclosed in almost every page, together with information on biodiversity particularly in the online environmental report. Thus the report leaves us a good impression of continuous progress.

However, credibility of information has been seriously impaired by the recent series of revelations of illegal waste water draining and related data manipulation, several cases violating Antitrust Law and the latest forced correction of corporate tax return. In such circumstances, it is hard to wipe out doubts whether the report reflects actual business activities in spite of improvement of reporting practices. Considering the group's corporate culture of sincerity which has been shown by timely disclosure of investigation results and thorough measures to prevent recurrence, it is a matter for regret that such an affairs should happen so frequently.

It must be certain that present efforts for CSR and organizational structures have been fostered on remorse for those past incidents. For the time being, it would be desirable for the JFE Group to accumulate steady efforts in daily environmental protection activities and compliance with laws and regulations and to continue such efforts from now on.

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>

FIVE-YEAR FINANCIAL SUMMARY

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

	Millions of yen				
	2007	2006	2005	2004	2003
Operating Results (For the Year)					
Net sales	¥3,260,447	¥3,098,374	¥2,803,699	¥2,473,725	¥2,426,886
Operating income	503,938	517,171	467,237	253,605	146,879
Ordinary income before interest and discount expenses ^{*1*2}	528,919	533,114	482,451	246,668	143,476
Ordinary income ^{*1}	513,520	517,313	460,684	218,372	104,670
Net income	299,683	325,996	160,057	106,872	15,951
Cash Flows (For the Year)					
Cash flows from operating activities	417,645	401,973	462,535	357,077	240,691
Cash flows from investing activities	(292,750)	(116,224)	(109,518)	(135,068)	(126,871)
Free cash flows ^{*3}	124,895	285,749	353,017	222,009	113,820
Cash flows from financing activities	(113,304)	316,127	(369,873)	(229,258)	(183,746)
Financial Position (At the Year End)					
Total assets	3,872,142	3,630,322	3,656,389	3,724,441	3,831,643
Property, plant and equipment, net	1,816,514	1,827,342	1,846,109	2,013,638	2,078,037
Net assets ^{*4}	1,539,621	1,310,381	968,614	746,298	594,563
Debt outstanding	1,180,534	1,162,857	1,446,785	1,837,404	2,057,105
Capital Investment and Others					
Capital investment	193,596	178,358	157,235	160,826	137,410
Depreciation and amortization	176,794	175,057	179,770	185,684	173,219
R&D expenses	38,149	38,193	37,192	36,529	33,116
Crude steel output (thousand tons)	32,828	30,145	31,281	30,547	29,957
Employees	53,610	53,111	52,503	52,557	54,100
Ratio					
Return on sales (ROS) ^{*5}	15.8%	16.7%	16.4%	8.8%	4.3%
Return on assets (ROA) ^{*6}	14.1%	14.6%	13.1%	6.5%	3.7%
Return on equity (ROE) ^{*7}	21.3%	28.6%	18.7%	15.9%	2.7%
Equity capital ratio ^{*8}	38.8%	36.1%	26.5%	20.0%	15.5%
Debt-to-equity ratio ^{*9}	78.6%	88.7%	149.4%	246.2%	346.0%
Yen					
Per Share Data					
Net income	¥ 513.58	¥ 555.02	¥ 273.97	¥ 185.84	¥ 27.74
Net assets ^{*4}	2,548.09	2,236.32	1,652.31	1,289.54	1,035.98
Cash dividends	120.00	100.00	45.00	30.00	15.00

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} Figures for the year ended March 31, 2006 and earlier represent "shareholders' equity" prior to adoption of ASBJ Statement No.5, "Accounting Standard for Presentation of Net Assets in the Balance Sheet."

^{*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

^{*7} Return on equity (ROE) = Net income/total shareholders' equity** x 100

As for the calculation for the year ended March 2006 and earlier, Return on Equity = net income/average shareholders' equity for the term x 100

** (Total shareholders' equity at beginning of term + total shareholders' equity at end of term) / 2

^{*8} Figures for the year ended March 2006 and earlier represent "shareholders' equity ratio."

^{*9} Debt-to-equity ratio = debt outstanding/total shareholders' equity x 100

As for the calculation for the year ended March 2006 and earlier, debt-to-equity ratio = debt outstanding/total shareholders' equity x 100

CONSOLIDATED BALANCE SHEETS

JFE Holdings, Inc. and Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
ASSETS			
CURRENT ASSETS:			
Cash and deposits (Note 3)	¥ 45,170	¥ 32,567	\$ 382,634
Notes and accounts receivable	530,164	477,663	4,491,012
Allowance for doubtful accounts	(1,108)	(1,607)	(9,385)
Inventories	582,015	545,878	4,930,241
Deferred tax assets (Note 13)	44,907	43,630	380,406
Other current assets	65,769	66,714	557,128
TOTAL CURRENT ASSETS	1,266,919	1,164,847	10,732,054
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land (Note 7)	508,868	514,251	4,310,614
Buildings and structures	1,620,367	1,628,563	13,726,107
Machinery and equipment	5,064,684	5,009,099	42,902,871
Construction in progress	45,848	64,452	388,377
SUBTOTAL	7,239,769	7,216,367	61,327,988
Accumulated depreciation	(5,423,254)	(5,389,024)	(45,940,313)
PROPERTY, PLANT AND EQUIPMENT, NET	1,816,514	1,827,342	15,387,666
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries and affiliates	175,136	140,551	1,483,574
Investments in securities (Notes 4 and 6)	443,171	311,024	3,754,095
Allowance for doubtful accounts	(10,874)	(8,124)	(92,113)
Deferred tax assets (Note 13)	12,763	32,471	108,115
Other assets (Note 6)	168,511	162,209	1,427,454
TOTAL INVESTMENTS AND OTHER ASSETS	788,707	638,132	6,681,126
TOTAL ASSETS	¥3,872,142	¥3,630,322	\$32,800,864

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
LIABILITIES			
CURRENT LIABILITIES:			
Short-term borrowings	¥ 21,393	¥ 14,328	\$ 181,219
Current portion of long-term debt (Note 5)	296,688	282,173	2,513,240
Commercial paper	62,937	–	533,138
Notes and accounts payable	435,220	396,396	3,686,742
Accrued income taxes	74,917	82,465	634,620
Other current liabilities	352,617	344,615	2,987,013
TOTAL CURRENT LIABILITIES	1,243,774	1,119,979	10,535,993
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	799,515	866,356	6,772,681
Accrued retirement benefits (Note 8)	152,303	156,427	1,290,156
Reserve for rebuilding furnaces	40,954	47,117	346,920
Deferred tax liabilities (Notes 7 and 13)	25,461	17,995	215,679
Other long-term liabilities	70,511	74,453	597,297
TOTAL LONG-TERM LIABILITIES	1,088,746	1,162,350	9,222,753
TOTAL LIABILITIES	2,332,520	2,282,330	19,758,746
MINORITY INTERESTS (Note 7)	–	37,609	–
CONTINGENCIES (Note 9)			
SHAREHOLDERS' EQUITY:			
Common stock			
Authorized 2,298,000,000 shares			
Issued 587,235,278 shares as of March 31, 2006	–	100,000	–
Capital surplus	–	610,403	–
Retained earnings	–	502,943	–
Revaluation reserve for land, net of tax (Note 7)	–	5,599	–
Net unrealized gain on securities	–	117,602	–
Translation adjustments	–	(21,907)	–
Treasury stock, at cost:			
1,682,000 shares as of March 31, 2006	–	(4,260)	–
TOTAL SHAREHOLDERS' EQUITY	–	1,310,381	–
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	–	¥3,630,322	–
NET ASSETS			
Shareholders' equity:			
Common stock			
Authorized 2,298,000,000 shares			
Issued 611,663,662 shares as of March 31, 2007	142,334	–	1,205,709
Capital surplus	652,820	–	5,530,029
Retained earnings	713,381	–	6,043,041
Treasury stock, at cost:			
22,558,219 shares as of March 31, 2007	(127,372)	–	(1,078,966)
Total shareholders' equity	1,381,164	–	11,699,822
Valuation and translation adjustments:			
Net unrealized gains on securities	132,985	–	1,126,514
Net unrealized gains on hedges	920	–	7,793
Revaluation reserve for land, net of tax (Note 7)	5,713	–	48,394
Translation adjustments	(19,689)	–	(166,785)
Total valuation and translation adjustments	119,929	–	1,015,916
Minority interests (Note 7)	38,527	–	326,361
TOTAL NET ASSETS	1,539,621	–	13,042,109
TOTAL LIABILITIES AND NET ASSETS	¥3,872,142	–	\$32,800,864

CONSOLIDATED STATEMENTS OF INCOME

JFE Holdings, Inc. and Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
NET SALES	¥3,260,447	¥3,098,374	\$27,619,203
COST OF SALES	2,449,824	2,284,855	20,752,426
Gross profit	810,623	813,519	6,866,776
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	306,685	296,347	2,597,924
Operating income	503,938	517,171	4,268,852
NON-OPERATING INCOME (EXPENSES):			
Interest income	1,784	1,340	15,112
Interest expense	(15,398)	(15,801)	(130,436)
Dividends received	6,647	5,871	56,306
Equity in earnings of affiliates	26,563	17,302	225,014
Other, net	(10,015)	(8,572)	(84,836)
Ordinary income	513,520	517,313	4,350,021
EXTRAORDINARY PROFIT (LOSS) (Note 15)	4,879	(8,053)	41,329
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	508,640	509,261	4,308,682
INCOME TAXES (Note 13):			
Current	191,293	179,791	1,620,440
Deferred	15,537	(428)	131,613
	206,830	179,362	1,752,054
INCOME BEFORE MINORITY INTERESTS	301,810	329,899	2,556,628
MINORITY INTERESTS	(2,127)	(3,901)	(18,017)
NET INCOME	¥ 299,683	¥ 325,996	\$ 2,538,610

	Yen		U.S. dollars (Note 1)
	2007	2006	2007
BASIC NET INCOME PER SHARE	¥ 513.58	¥ 555.02	\$ 4.35
CASH DIVIDENDS PER SHARE	120.00	100.00	1.01

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

JFE Holdings, Inc. and Subsidiaries
Years ended March 31, 2006

	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, 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				
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)				
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.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

JFE Holdings, Inc. and Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2006	¥100,000	¥610,403	¥502,943	¥ (4,260)	¥1,209,087
Issuance of common stock	42,334	42,310			84,644
Cash dividends			(87,825)		(87,825)
Directors' and corporate auditors' bonuses from appropriation			(897)		(897)
Net income			299,683		299,683
Acquisition of treasury stock				(123,392)	(123,392)
Disposal of treasury stock		106		280	387
Increase by newly consolidated or deconsolidated subsidiaries			132		132
Decrease by newly consolidated or deconsolidated subsidiaries			(17)		(17)
Transfer from land revaluation account			(113)		(113)
Decrease due to assets revaluation of a subsidiary in Thailand			(523)		(523)
Net changes in items other than shareholders' equity					
Total changes in items during the year	42,334	42,417	210,437	(123,112)	172,076
Balance at March 31, 2007	¥142,334	¥652,820	¥713,381	¥(127,372)	¥1,381,164

	Millions of yen						
	Valuation and translation adjustments						
	Net unrealized gains on securities	Net unrealized gains on hedges	Revaluation reserve for land, net of tax	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	¥117,602	¥ -	¥5,599	¥(21,907)	¥101,294	¥37,609	¥1,347,991
Issuance of common stock							84,644
Cash dividends							(87,825)
Directors' and corporate auditors' bonuses from appropriation							(897)
Net income							299,683
Acquisition of treasury stock							(123,392)
Disposal of treasury stock							387
Increase by newly consolidated or deconsolidated subsidiaries							132
Decrease by newly consolidated or deconsolidated subsidiaries							(17)
Transfer from land revaluation account							(113)
Decrease due to assets revaluation of a subsidiary in Thailand							(523)
Net changes in items other than shareholders' equity	15,383	920	113	2,217	18,635	917	19,552
Total changes in items during the year	15,383	920	113	2,217	18,635	917	191,629
Balance at March 31, 2007	¥132,985	¥920	¥5,713	¥(19,689)	¥119,929	¥38,527	¥1,539,621

The accompanying notes are an integral part of these statements.

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2006	\$847,098	\$5,170,715	\$4,260,423	\$ (36,086)	\$10,242,160
Issuance of common stock	358,610	358,407			717,018
Cash dividends			(743,964)		(743,964)
Directors' and corporate auditors' bonuses from appropriation			(7,598)		(7,598)
Net income			2,538,610		2,538,610
Acquisition of treasury stock				(1,045,252)	(1,045,252)
Disposal of treasury stock		897		2,371	3,278
Increase by newly consolidated or deconsolidated subsidiaries			1,118		1,118
Decrease by newly consolidated or deconsolidated subsidiaries			(144)		(144)
Transfer from land revaluation account			(957)		(957)
Decrease due to assets revaluation of a subsidiary in Thailand			(4,430)		(4,430)
Net changes in items other than shareholders' equity					
Total changes in items during the year	358,610	359,313	1,782,609	(1,042,880)	1,457,653
Balance at March 31, 2007	\$1,205,709	\$5,530,029	\$6,043,041	\$(1,078,966)	\$11,699,822

	Thousands of U.S. dollars (Note 1)						
	Valuation and translation adjustments						
	Net unrealized gains on securities	Net unrealized gains on hedges	Revaluation reserve for land, net of tax	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	\$ 996,204	\$ -	\$47,429	\$(185,573)	\$ 858,060	\$318,585	\$11,418,814
Issuance of common stock							717,018
Cash dividends							(743,964)
Directors' and corporate auditors' bonuses from appropriation							(7,598)
Net income							2,538,610
Acquisition of treasury stock							(1,045,252)
Disposal of treasury stock							3,278
Increase by newly consolidated or deconsolidated subsidiaries							1,118
Decrease by newly consolidated or deconsolidated subsidiaries							(144)
Transfer from land revaluation account							(957)
Decrease due to assets revaluation of a subsidiary in Thailand							(4,430)
Net changes in items other than shareholders' equity	130,309	7,793	957	18,780	157,856	7,767	165,624
Total changes in items during the year	130,309	7,793	957	18,780	157,856	7,767	1,623,286
Balance at March 31, 2007	\$1,126,514	\$7,793	\$48,394	\$(166,785)	\$1,015,916	\$326,361	\$13,042,109

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

JFE Holdings, Inc. and Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥508,640	¥509,261	\$4,308,682
Adjustments for:			
Depreciation and amortization	176,794	175,057	1,497,619
Decrease in reserves	(6,286)	(143)	(53,248)
Interest and dividend income	(8,432)	(7,212)	(71,427)
Interest expense	15,398	15,801	130,436
Profit on sales of investments in securities	(5,981)	(20,726)	(50,664)
Loss on inventory evaluation	-	9,850	-
Loss on disposal of property, plant and equipment, etc.	4,997	-	42,329
Write-down of investments in securities	1,158	1,444	9,809
Provision of allowance for doubtful accounts	1,223	-	10,360
Cost of treatment of PCB waste	-	12,611	-
Additional charges for early-retirement plan	1,112	2,557	9,419
Surcharge on violation of the Antimonopoly Act	1,333	2,315	11,291
Cost of voluntary dismantlement of snow melting equipment	1,036	-	8,775
Changes in assets and liabilities:			
Changes in notes and accounts receivable	(50,657)	39,920	(429,114)
Changes in inventories	(33,189)	(38,568)	(281,143)
Changes in notes and accounts payable	42,894	(45,087)	363,354
Other, net	(33,254)	(25,251)	(281,694)
Subtotal	616,788	631,829	5,224,803
Interest and dividend income received	16,533	12,027	140,050
Interest paid	(16,509)	(16,790)	(139,847)
Income taxes paid	(182,790)	(232,110)	(1,548,411)
Other, net	(16,375)	7,016	(138,712)
NET CASH PROVIDED BY OPERATING ACTIVITIES	417,645	401,973	3,537,865
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property, plant and equipment	(186,874)	(176,324)	(1,583,007)
Proceeds from sales of property, plant and equipment	14,217	12,724	120,432
Payments for purchases of investments in securities	(130,852)	(6,270)	(1,108,445)
Proceeds from sales of investments in securities	7,446	43,980	63,074
Other, net	3,313	9,665	28,064
NET CASH USED IN INVESTING ACTIVITIES	(292,750)	(116,224)	(2,479,881)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in short-term borrowings, net	6,293	4,518	53,307
Increase in long-term debt	331,881	141,338	2,811,359
Repayments of long-term debt	(302,167)	(430,521)	(2,559,652)
Payments for purchases of treasury stock	(123,392)	-	(1,045,252)
Payments for dividends by parent company	(87,494)	(26,243)	(741,160)
Other, net	(1,361)	(5,220)	(11,529)
NET CASH USED IN FINANCING ACTIVITIES	(113,304)	(316,127)	(959,796)
Effect of exchange rate change on cash and cash equivalents	98	3,125	830
Net increase (decrease) in cash and cash equivalents	11,688	(27,253)	99,008
Cash and cash equivalents at beginning of the year	32,464	59,866	275,002
Increase (decrease) in cash and cash equivalents at beginning of the year by newly consolidated or deconsolidated subsidiaries	907	(148)	7,683
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 3)	¥ 45,061	¥ 32,464	\$ 381,711

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JFE Holdings, Inc. and Subsidiaries
Years ended March 31, 2007 and 2006

1. Basis of Presentation

The accompanying consolidated financial statements of JFE Holdings, Inc. (the "Company") 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, 2007, which was ¥118.05 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 213 domestic and foreign subsidiaries (the "Group" as JFE Holdings, Inc. consolidated group, hereinafter). All significant inter-company transactions and accounts are eliminated in consolidation.

41 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 net assets 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 as net unrealized gains on securities, net of tax, in net assets in 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 Principle

(i) Recognition of revenues from construction-type contracts
Prior to April 1, 2006, revenues from construction-type contracts in the Engineering was recorded on the percentage-of-completion method for contracts with more than 1-year scheduled term and a contract price of ¥500 million or more, and on the completed contract method for other contracts. However, for the purpose of more accurate revenues and costs calculation for the period, we decided to record revenues on the percentage-of-completion method for contracts with more than 1-year scheduled term and a contract price of ¥100 million or more of which orders were newly received during the year ended March 31, 2007.

The impact of this change on net sales, operating income, ordinary income, and net income before tax and minority interests for the year ended March 31, 2007 is insignificant.

(ii) Accounting standard for presentation of net assets in the balance sheet
Effective the year ended March 31, 2007, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standard Board of Japan "ASBJ" Statement No.5 issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8 issued on December 9, 2005). In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity.

Total shareholders' equity prior to the adoption of this standard is ¥1,500,173 million (\$12,707,945 thousand).

(iii) Accounting standard for business combinations and accounting standard for business divestitures

Effective the year ended March 31, 2007, the Company has adopted "Accounting Standard for Business Combinations" (issued by Business Accounting Council on October 31, 2003), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 issued on December 27, 2005), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on December 27, 2005).

(iv) Tentative solution on accounting for deferred assets and accounting standard for financial instruments

Effective the year ended March 31, 2007, the Company has adopted "Tentative Solution on Accounting for Deferred Assets" (ASBJ Practical Solution No. 19 issued on August 11, 2006) and "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 issued on August 11, 2006).

There is no impact on income or loss due to this change for the year ended March 31, 2007.

(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 for Long-Term Construction-Type Contracts

Construction-Type Contracts

The revenue of long-term construction-type contracts, in respect of over 1-year duration and ¥100 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 ¥299,683 million (\$2,538,610 thousand) and ¥325,098 million, the average number of shares used in the computation was 583,513 thousand and 585,741 thousand for the years ended March 31, 2007 and 2006, 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, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and deposits	¥45,170	¥32,567	\$382,634
Time deposits with a maturity of more than three months	(108)	(103)	(914)
	¥45,061	¥32,464	\$381,711

4. Securities

The following is a summary of held-to-maturity securities and available-for-sale securities at March 31, 2007 and 2006:

Marketable:

	Millions of yen					
	Held-to-maturity securities					
	2007			2006		
	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	¥223	¥224	¥0	¥ 23	¥ 24	¥ 0
Book value exceeding estimated fair value:						
Bonds	0	0	0	199	190	(9)
Total	¥223	¥224	¥0	¥223	¥214	¥(8)

	Millions of yen					
	Available-for-sale securities					
	2007			2006		
	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	¥181,408	¥397,298	¥215,889	¥78,652	¥269,946	¥191,293
Bonds	-	-	-	-	-	-
Subtotal	181,408	397,298	215,889	78,652	269,946	191,293
Cost exceeding book value:						
Equity securities	8,371	7,524	(847)	1,594	1,244	(349)
Bonds	45	45	(0)	45	44	(1)
Subtotal	8,416	7,569	(847)	1,639	1,289	(350)
Total	¥189,825	¥404,867	¥215,042	¥80,292	¥271,235	¥190,942

	Thousands of U.S. dollars		
	Held-to-maturity debt securities		
	2007		
	Book value (Carrying amount)	Estimated fair value	Unrealized gain (loss)
Book value lower than estimated fair value:			
Bonds	\$1,889	\$1,897	\$0
Book value exceeding estimated fair value:			
Bonds	0	0	0
Total	\$1,889	\$1,897	\$0

	Thousands of U.S. dollars		
	Available-for-sale securities		
	2007		
	Cost	Book value (Estimated fair value)	Unrealized gain (loss)
Cost lower than book value:			
Equity securities	\$1,536,704	\$3,365,506	\$1,828,792
Bonds	-	-	-
Subtotal	1,536,704	3,365,506	1,828,792
Cost exceeding book value:			
Equity securities	70,910	63,735	(7,174)
Bonds	381	381	(0)
Subtotal	71,291	64,116	(7,174)
Total	\$1,608,005	\$3,429,623	\$1,821,617

Non-marketable: Available-for-sale securities:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Unlisted stocks, except OTC-traded stock	¥37,935	¥39,338	\$321,346
Unlisted bonds	131	204	1,109
Subscription certificates	12	22	101

5. Long-term Debt

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
0.74% yen bonds, due November 2007	¥ 30,000	¥ 30,000	\$ 254,129
0.89% yen bonds, due October 2008	20,000	20,000	169,419
0.75% yen bonds, due February 2009	20,000	20,000	169,419
1.00% yen bonds, due July 2010	20,000	20,000	169,419
0.64% yen bonds, due July 2010	30,000	30,000	254,129
0.98% yen bonds, due November 2010	20,000	20,000	169,419
1.44% yen bonds, due October 2011	20,000	–	169,419
Euro Yen Zero Coupon Guaranteed Convertible Bonds, due June 2009 (Note 1)	17,612	100,000	149,191
2.10% yen bonds (issued by JFE Steel), due May 2006	–	10,000	–
0.87% yen bonds (issued by JFE Steel), due June 2006	–	10,000	–
2.10% yen bonds (issued by JFE Steel), due June 2006	–	10,000	–
0.94% yen bonds (issued by JFE Steel), due August 2006	–	10,000	–
0.90% yen bonds (issued by JFE Steel), due November 2006	–	30,000	–
3.10% yen bonds (issued by JFE Steel), due May 2007	20,000	20,000	169,419
3.225% yen bonds (issued by JFE Steel), due June 2007	10,000	10,000	84,709
0.93% yen bonds (issued by JFE Steel), due August 2007	10,000	10,000	84,709
Yen bonds (issued by JFE Steel), due December 2007 (Note 2)	10,000	10,000	84,709
0.83% yen bonds (issued by JFE Steel), due February 2008	40,000	40,000	338,839
3.00% yen bonds (issued by JFE Steel), due February 2008	10,000	10,000	84,709
2.70% yen bonds (issued by JFE Steel), due April 2008	10,000	10,000	84,709
2.70% yen bonds (issued by JFE Steel), due April 2008	10,000	10,000	84,709
2.50% yen bonds (issued by JFE Steel), due June 2008	10,000	10,000	84,709
1.03% yen bonds (issued by JFE Steel), due June 2008	10,000	10,000	84,709
Yen bonds (issued by JFE Steel), due May 2009 (Note 3)	–	20,000	–
2.375% yen bonds (issued by JFE Steel), due November 2009	10,000	10,000	84,709
3.27% yen bonds (issued by JFE Steel), due November 2009	10,000	10,000	84,709
3.00% yen bonds (issued by JFE Steel), due January 2010	10,000	10,000	84,709
1.06% yen bonds (issued by JFE Steel), due March 2010	10,000	10,000	84,709
3.50% yen bonds (issued by JFE Steel), due May 2012	20,000	20,000	169,419
Loans, principally from banks and insurance companies, due 2006 – 2022	718,590	618,530	6,087,166
Less current portion	(296,688)	(282,173)	(2,513,240)
Total long-term debt	¥ 799,515	¥ 866,356	\$ 6,772,681

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, 2007 and 2006, pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Property, plant and equipment	¥46,027	¥58,647	\$389,894
Investments in securities	9,786	13,014	82,897
Others	478	39	4,049

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 [\$19,779,000] at March 31, 2007 and 2006), 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 net assets.

The fair value of these lands is lower than the revaluated book-value, and the difference was ¥17,544 million (\$148,614,000) and ¥15,473 million on March 31, 2007 and 2006, 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, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Retirement benefit obligation	¥(504,791)	¥(517,770)	\$(4,276,077)
Fair value of plan assets	381,447	359,785	3,231,232
Unfunded retirement benefit obligation	(123,343)	(157,984)	(1,044,836)
Unrecognized net retirement benefit obligation at transition	1,043	1,174	8,835
Unrecognized actuarial losses	20,888	39,528	176,941
Unrecognized prior service cost	(10,014)	(11,933)	(84,828)
Net amount	(111,427)	(129,215)	(943,896)
Prepaid cost	40,876	27,211	346,260
Accrued retirement benefits	¥(152,303)	¥(156,427)	\$(1,290,156)

Retirement and pension costs of the Company and its subsidiaries included the following components for the years ended March 31, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost (Note 1)	¥16,763	¥17,550	\$141,999
Interest cost	7,663	7,719	64,913
Expected return on plan assets	(6,187)	(5,364)	(52,409)
Amortization:			
Net retirement benefit obligation at transition	130	131	1,101
Actuarial losses	8,561	12,015	72,520
Prior service cost	(1,563)	(1,605)	(13,240)
Accrued retirement benefit cost	25,368	30,447	214,891
Other (Note 2)	93	25	787
Total	¥25,461	¥30,473	\$215,679

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, ¥1,112 million (\$9,419,000) is included in extraordinary loss in 2007 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, 2007 and 2006 is as follows:

	2007	2006
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 1.7%	Primarily 1.6%
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.)

9. Contingencies

At March 31, 2007 and 2006, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Guarantees of debt	¥26,499	¥31,847	\$224,472
Trade notes discounted	840	786	7,115
Trade notes endorsed	181	—	1,533
Other contingencies	6	17	50

At March 31, 2006 and 2007, commitments outstanding for loan commitments were ¥500 million (\$4,235,000).

10. Leases

The Group leases certain buildings and structures, machinery and equipment, office space and other assets. Total lease payments under these leases were ¥7,769 million (\$65,811,000) and ¥8,194 million for the years ended March 31, 2007 and 2006, 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, 2007 and 2006 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total
Acquisition costs	¥44,733	¥7,695	¥52,429	¥52,232	¥9,533	¥61,765	\$378,932	\$65,184	\$444,125
Accumulated depreciation	23,638	4,274	27,913	29,369	5,848	35,218	200,237	36,204	236,450
Net book value	¥21,094	¥3,421	¥24,516	¥22,862	¥3,684	¥26,547	\$178,686	\$28,979	\$207,674

Future minimum lease payments under finance leases as of March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 7,479	¥ 7,233	\$ 63,354
Due after one year	17,037	19,314	144,320
Total	¥24,516	¥26,547	\$207,674

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 ¥7,769 million (\$65,811,000) and ¥8,194 million for the years ended March 31, 2007 and 2006, 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, 2007 and 2006 were as follows:

	Millions of yen				Thousands of U.S. dollars
	2007		2006		2007
	Contracted amount	Recognized loss	Contracted amount	Recognized loss	Recognized loss
Interest rate swap agreements:					
To receive floating and pay fixed rates	¥8,900	¥(619)	¥11,860	¥(798)	\$(5,243)
Total		¥(619)		¥(798)	\$(5,243)

12. Research and Development Expenses

Research and development expenses charged to income were ¥38,149 million (\$323,159,000) and ¥38,193 million for the years ended March 31, 2007 and 2006, respectively.

13. Income Taxes

The reconciliation of the difference between the statutory tax rate and the effective tax rate is omitted since the difference is less than 5%.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2007 and 2006 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Accrued retirement benefits	¥ 42,743	¥ 43,780	\$ 362,075
Loss on impairment of property, plant and equipment, etc.	25,340	25,823	214,654
Accrued expenses	23,089	23,788	195,586
Deferred tax assets recorded at subsidiaries in the United States	22,554	21,899	191,054
Reserve for rebuilding furnaces	15,467	18,094	131,020
Elimination of unrealized profits	—	17,246	—
Loss carry-forwards	16,900	—	143,159
Others	58,847	64,265	498,492
Total deferred tax assets	204,943	214,899	1,736,069
Valuation allowance	(36,462)	(33,218)	(308,869)
Valuation allowance at subsidiaries in the United States	(21,845)	(21,190)	(185,048)
Deferred tax assets net of valuation allowances	146,635	160,489	1,242,143
Deferred tax liabilities:			
Unrealized gain on securities	(84,744)	(74,809)	(717,865)
Others	(15,190)	(13,063)	(128,674)
Total deferred tax liabilities	(99,934)	(87,872)	(846,539)
Net deferred tax assets	¥ 46,700	¥ 72,617	\$ 395,595

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, 2007 and 2006 was as follows:

(1) Industry Segments

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Sales:			
Steel			
Sales to customers	¥2,903,196	¥2,726,383	\$24,592,935
Inter-segment	21,914	27,480	185,633
Total sales	¥2,925,110	¥2,753,864	\$24,778,568
Engineering			
Sales to customers	¥ 279,991	¥ 298,740	\$ 2,371,800
Inter-segment	12,171	7,340	103,100
Total sales	¥ 292,163	¥ 306,080	\$ 2,474,908
Urban Development			
Sales to customers	¥ 32,921	¥ 27,077	\$ 278,873
Inter-segment	1,400	1,513	11,859
Total sales	¥ 34,322	¥ 28,590	\$ 290,741
LSI			
Sales to customers	¥ 44,338	¥ 46,172	\$ 375,586
Inter-segment	—	—	—
Total sales	¥ 44,338	¥ 46,172	\$ 375,586
Elimination / Corporate			
Sales to customers	¥ —	¥ —	\$ —
Inter-segment	(35,487)	(36,334)	(300,609)
Total sales	¥ (35,487)	¥ (36,334)	\$ (300,609)
Consolidated total			
Sales to customers	¥3,260,447	¥3,098,374	\$27,619,203
Inter-segment	—	—	—
Total sales	¥3,260,447	¥3,098,374	\$27,619,203

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Operating Expenses:			
Steel	¥2,425,199	¥2,240,072	\$(20,543,828)
Engineering	294,137	309,458	2,491,630
Urban Development	30,379	25,592	257,340
LSI	43,490	44,037	368,403
Elimination / Corporate	(36,697)	(37,957)	(310,859)
Consolidated total	¥2,756,509	¥2,581,202	\$ 23,350,351

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Operating Income:			
Steel	¥499,911	¥513,791	\$4,234,739
Engineering	(1,974)	(3,377)	(16,721)
Urban Development	3,942	2,998	33,392
LSI	847	2,135	7,174
Elimination / Corporate	1,210	1,623	10,249
Consolidated total	¥503,938	¥517,171	\$4,268,852

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Ordinary Income:			
Steel	¥503,945	¥510,709	\$4,268,911
Engineering	5,882	928	49,826
Urban Development	3,655	2,810	30,961
LSI	514	2,022	4,354
Elimination / Corporate	(476)	843	(4,032)
Consolidated total	¥513,520	¥517,313	\$4,350,021

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Assets:			
Steel	¥3,562,734	¥3,304,473	\$30,179,872
Engineering	322,868	337,975	2,735,010
Urban Development	39,033	36,700	330,648
LSI	35,289	36,982	298,932
Elimination / Corporate	(87,784)	(85,809)	(743,617)
Consolidated total	¥3,872,142	¥3,630,322	\$32,800,864

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Depreciation and amortization:			
Steel	¥166,577	¥164,722	\$1,411,071
Engineering	5,338	5,427	45,218
Urban Development	409	404	3,464
LSI	4,420	4,434	37,441
Elimination / Corporate	49	69	415
Consolidated total	¥176,794	¥175,057	\$1,497,619

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Capital expenditures:			
Steel	¥185,138	¥168,913	\$1,568,301
Engineering	3,659	3,338	30,995
Urban Development	654	435	5,540
LSI	3,989	5,561	33,790
Elimination / Corporate	154	110	1,304
Consolidated total	¥193,596	¥178,358	\$1,639,949

(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, 2007 and 2006 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, 2007 and 2006 amounted to ¥1,047,852 million (\$8,876,340,000) and ¥949,061 million, respectively.

15. Extraordinary Profit (Loss)

For the years ended March 31, 2007 and 2006, extraordinary profit (loss) consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Profit on sales of investments in securities	¥5,981	¥20,726	\$50,664
Loss on inventory evaluation	—	(9,850)	—
Loss on sales of property, plant and equipment	(4,997)	—	(42,329)
Write-down of investments in securities	(1,158)	(1,444)	(9,809)
Provision of allowance for bad debts	(1,223)	—	(10,360)
PCB disposal	—	(12,611)	—
Additional charges for early-retirement plan	(1,112)	(2,557)	(9,419)
Penalties	(1,333)	(2,315)	(11,291)
Cost of voluntary dismantlement of snow melting equipment	(1,036)	—	(8,775)

16. Supplemental Cash Flow Information

For the year ended March 31, 2007, increases in common stock and additional paid-in capital, and a decrease in premium arising from conversion of convertible bonds amounted to ¥42,334 million (\$358,610 thousand), ¥42,310 million (\$358,407 thousand) and ¥2,064 million (\$17,484 thousand), respectively.

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, 2007 and 2006, and the related consolidated statements of income and cash flows for the years then ended, changes in net assets for the year ended March 31, 2007 and shareholders' equity for the year ended March 31, 2006, 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, 2007 and 2006, 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, 2007 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.

June 27, 2007

Ernst & Young Shin Nihon

MAJOR CONSOLIDATED SUBSIDIARIES AND EQUITY METHOD AFFILIATES

(As of March 31, 2007)

Name	Paid-in Capital**	Main Business Operations	Voting Shares (%)
JFE Steel Corporation	239,644	Steel Business	100.0
JFE PRECISION CORPORATION	3,400	Resources/Raw Materials	100.0
JFE MINERAL COMPANY, LTD.	2,000	Resources/Raw Materials	99.5
MIZUSHIMA FERROALLOY CO., LTD.	1,257	Resources/Raw Materials	93.8
JFE Refractories Corporation	948	Resources/Raw Materials	99.0
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
Toyohira Steel Corporation	1,560	Electric Furnaces/Shape Steel Makers	51.3
Tohoku Steel Corporation	300	Electric Furnaces/Shape Steel Makers	94.2
JFE Galvanizing & Coating Co., Ltd.	5,000	Steel Product Processing/Processed Products	98.4
JFE Metal Products & Engineering Inc.	5,000	Steel Product Processing/Processed Products	96.4
JFE CONTAINER Co., Ltd.	2,365	Steel Product Processing/Processed Products	54.4
JFE Welded Pipe Manufacturing Co., Ltd.	1,437	Steel Product Processing/Processed Products	98.4
JFE Pipe Fitting Mfg. Co., Ltd.	958	Steel Product Processing/Processed Products	86.6
River Steel Co., Ltd.	450	Steel Product Processing/Processed Products	90.0
JFE KOHNAN STEEL CENTER CO., LTD.	250	Steel Product Processing/Processed Products	89.2
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
GECOSS CORPORATION*	4,397	Steel Structures/Temporary Construction	39.4
JFE LOGISTICS CORPORATION	4,000	Logistics/Contracting	88.9
JFE Systems, Inc.	1,390	Information Systems	67.7
EXA CORPORATION*	1,250	Information Systems	49.0
Setouchi Joint Thermal Power Co., Ltd.*	5,000	Electric Power/Utilities	50.0
K.K. JFE SANSO CENTER	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	39.5
NKK U.S.A. Corporation	US\$347,446 thousand	Investment & Loan	100.0
NKK Capital of America, Inc.	US\$208,869 thousand	Group Finance	100.0
Thai Coated Steel Sheet Co., Ltd.	THB 2,206 million	Steel Product	81.4
GUANGZHOU JFE STEEL SHEET COMPANY LTD.	RMB 625 million	Steel Product	51.0
California Steel Industries, Inc.*	US\$40,000 thousand	Steel Product	50.0
Thai Cold Rolled Steel Sheet Public Co., Ltd.*	THB 10,703 million	Steel Product	38.4
DONGKUK STEEL MILL Co., Ltd.*	KRW 421,185 million	Steel Product	15.0
Philippine Sinter Corporation	PHP 500 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 Environmental Solutions Corporation	1,360	Machinery Construction/Plant Construction	100.0
JP Steel Plantech Co.*	1,995	Machinery Construction/Plant Construction	25.6
JFE KANKYO Corporation	650	Environment & Recycling	90.8
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 174 consolidated subsidiaries and 29 equity method affiliates

SHAREHOLDER INFORMATION

(As of March 31, 2007)

Corporate Data

Company Name: JFE Holdings, Inc.
(Trade Name)
Head Office Address: 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6527
Tel: +81-3-3217-4049 (main)
URL: <http://www.jfe-holdings.co.jp/>

Date of Establishment: September 27, 2002
Paid-in Capital: ¥142.3 billion
Number of Outstanding Shares: 611,663,662
Number of Shareholders: 345,249

Investor Information

Securities Traded: 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

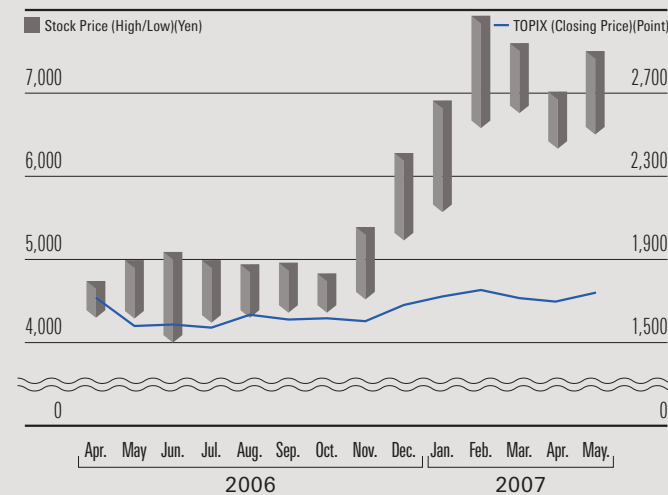
Business Office of Transfer Agent: Stock Transfer Agency Dept. of Mizuho Trust & Banking Co., Ltd. 17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722
 Tel: +81-120-288-324 (toll-free)

Principal Shareholders

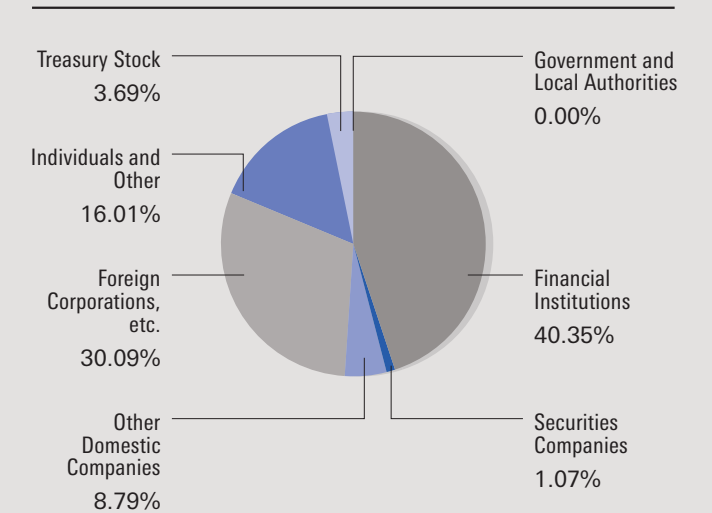
Name of Shareholder	Number of Shares Held (Thousand Shares)	Percentage of Voting Rights (%)
The Master Trust Bank of Japan, Ltd. (trust account)	46,918	8.0
Japan Trustee Services Bank, Ltd. (trust account)	36,248	6.2
Nippon Life Insurance Company	22,139	3.8
The Dai-ichi Mutual Life Insurance Company	15,985	2.7
Mizuho Corporate Bank, Ltd.	13,351	2.3
State Street Bank & Trust Company	11,838	2.0
State Street Bank & Trust Company 505103	11,802	2.0
Tokio Marine and Nichido Fire Insurance Co., Ltd.	9,975	1.7
Japan Trustee Services Bank, Ltd. (trust account 4)	9,213	1.6
Sompo Japan Insurance Inc.	8,419	1.4

Other than the above, we conduct capitalization by excluding our own shares in the calculation of investment ratio, as we have 22,552,843 of our own shares.

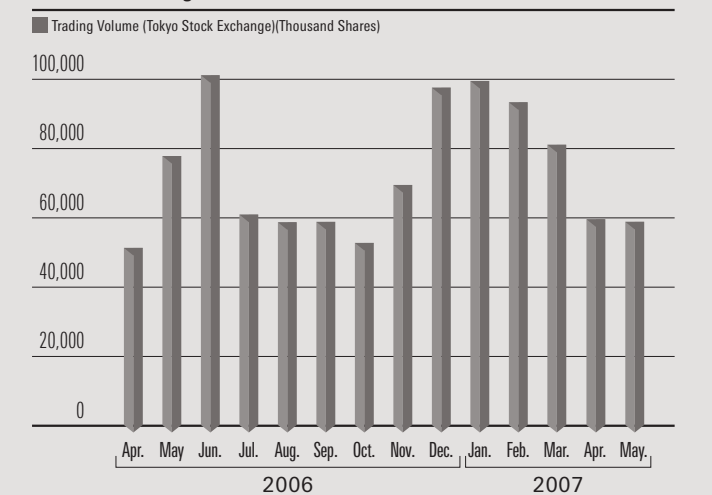
Trends in Stock Price



Composition of Shareholders



Trends in Trading Volume





JFE Holdings, Inc.

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