

To Our Stakeholders

Hajime Bada
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CEO Message

Looking Back at Fiscal 2011

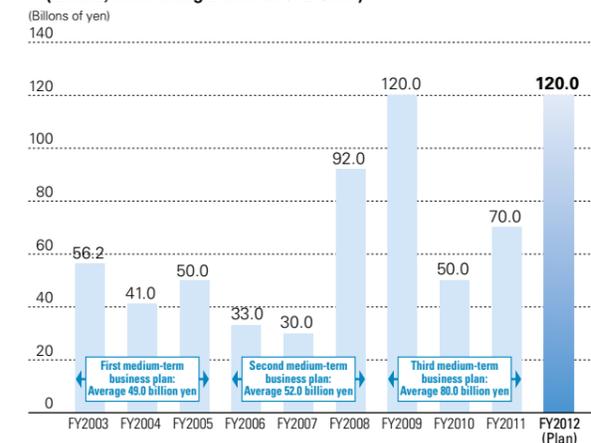
The business environment remained harsh in fiscal 2011 due to the impact of severe natural disasters, including the Great East Japan Earthquake and flooding in Thailand, in addition to slowdowns in overseas economies and the effects of the strong yen. Under these conditions, the JFE Group strengthened initiatives to improve earnings and enhance overseas sales bases to capture demand,

while also working strenuously to support reconstruction following the earthquake in northeastern Japan. Despite such efforts, however, Group business worsened from the previous year. Although consolidated ordinary income was secured, the Group posted an extraordinary loss and consolidated net loss.

Key Initiatives

In the face of a difficult business environment, the JFE Group implemented a variety of strategic measures, including reducing costs to improve earnings and laying the groundwork for future growth. At the same time, Group-wide efforts were coordinated to support recovery from the Great East Japan Earthquake.

Steel business cost reductions (annual, since inauguration of JFE Steel)



Key Initiatives

Business Restructuring

- Placed JFE Shoji Trade directly under JFE Holdings
- Integrated management of Universal Shipbuilding and IHI Marine United (IHIMU)
- Sold Kawasaki Microelectronics to MegaChips
- Integrated JFE Steel Group's electric furnace business

>> For details, see "JFE Group's Business Restructuring," pp. 21-24

Overseas Business Development

- Expanded a strategic alliance with JSW Steel, raising our share to 15% to turn the company into an equity-method affiliate.
- Commenced a feasibility study of constructing an integrated steelworks in Vietnam.
- Expanded and upgraded our overseas production bases and offices.

Support for Earthquake Reconstruction

- JFE Engineering, working under the direction of Miyagi Prefecture, disposed of 50% of the prefecture's earthquake-generated waste.
- In response to Japan's tightened electricity supply, we conserved electricity at our facilities and supplied the grid with power by operating power-generation facilities at our steelworks at full capacity.

JFE Group's 10th Anniversary

The JFE Group marked its 10th anniversary in the fiscal year starting in April 2012. To gear up for future growth and to further develop the Group, as well as to solidify our long-term vision covering the next 10 years, we formulated our Fourth Medium-Term Business Plan for the new three-year period. Under this plan, JFE will return to its origins to establish a corporate structure for sustainable growth, anchored by a strengthened domestic profit base and the development of innovative technologies and groundbreaking products. The Group also will pursue new growth in the global market by allocating resources strategically, mainly in emerging markets that are expected to achieve high growth over the medium to long term.

The business environment continues to evolve at a faster-than-anticipated rapid pace. Every employee in the Group must respond to such changes by firmly resolving to adapt themselves and the JFE Group to the new era. The Group will continue to implement thorough compliance to earn society's trust, address environmental concerns and assure the highest levels of safety. In doing so, we will strive for sustainable growth while making a concerted effort to maximize value for all stakeholders.

Q1 Could you briefly summarize your recently announced Fourth Medium-Term Business Plan?

A1 Under the Fourth Medium-Term Business Plan, we will implement the following five common measures throughout the JFE Group:

- 1) Restructure domestic profit base
- 2) Enhance corporate value through technological advantages
- 3) Continue large-scale investments in growth and cost reduction
- 4) Expand presence in global markets
- 5) Establish corporate structure for sustainable growth
 - Strengthen CSR and corporate governance
 - Strengthen environmental management
 - Nurture diversified human resources
 - Improve financial position and return profits to shareholders

●Targets for the Plan's Final Fiscal Year (Fiscal 2014)

Consolidated net sales

..... 4 trillion yen

ROS 10%

The JFE Group will strive to solidify its domestic profit base by thoroughly reducing costs, developing new business fields and strengthening competitiveness through alliances and M&A.

Innovative technologies will be developed with an eye on the market 10 years from now, aiming to enhance corporate value by leveraging technological advantages. Additionally, we will pursue rapid development of groundbreaking products that meet customer needs promptly and precisely. Other key targets include process technologies that lead to deeper cost reductions, and both fundamental and applied technologies that strengthen the Group overall.

●Total investment (Fiscal 2012–2014)
..... 1 trillion yen

●Ratio of overseas investment
..... Around 50%

(up from 25% in previous plan)

The JFE Group will continue to strengthen operations through large-scale investment. To expand the Group's presence in global markets, the overseas investment ratio will be increased and overseas bases will be increased and upgraded. Also, the synergistic effects of JFE Shoji Trade Corporation's network will be maximized, aiming to penetrate growing global markets more deeply and to provide products and services that meet local needs.

Q2 What types of measures are you implementing in each business?

A2 Steel Business
JFE Steel aims to solidify its reputation as the world's leading global steel supplier and become a company that can be truly proud of its global status. In addition to focusing on high-end steel, JFE Steel will capture demand in promising emerging markets by engaging in technical cooperation and strategic alliances, as well as by enhancing product value, aiming to become the company that customers prefer. The goal is to grow annual business to 40 million tons in the coming five years and then eventually to 50 million tons. JFE Steel will pursue increased sales volume by leveraging technological advantages to develop

products that customers seek out. The cost competitiveness and productivity of upstream operations will be thoroughly strengthened to establish production frameworks capable of responding more flexibly to demand fluctuations. Closer collaboration with JFE Shoji Trade Corporation is expected to lead to enhanced efficiency and lower costs of domestic distribution. Overseas, a strategic priority will be placed on shifting from export-driven business to models that combine exports and local production, including aggressive expansion of production capabilities overseas. In Vietnam, we will undertake a full-scale feasibility study of a plan to build and operate

an integrated steelworks. For raw materials procurement, JFE Steel will increase its iron ore and coking coal self-sufficiency ratios to 30% and will develop the capability to adjust procurement volumes on a timely basis in response to fluctuating production.

Measures

- Execute strategies to expand sales by meeting customer needs
- Achieve world-leading technologies and cost competitiveness
- Accelerate expansion into overseas markets
- Realize competitive raw material procurement strategies

Engineering Business

JFE Engineering will further solidify its foundation, mainly in the environmental and energy fields, to become a leader in these areas.

For specialty operations, including waste-to-energy plants, waste-heat recovery boilers and wastewater treatment plants, relevant domestic sales and technical functions will be significantly shifted overseas, primarily to Europe and Asia, and global business will be expanded by responding to regional diversities.

JFE Engineering aims to win more orders for new technologies, such as its ballast water treatment system and "Cycle Tree" multi-level mechanical bicycle parking system, and in renewable energy fields, including geothermal power generation, supported by aggressive M&A mainly in the environmental field.

Measures

- Expand overseas business to more than 10% of total orders by fiscal 2014 (5% actual in fiscal 2011)
- Develop and launch new products that account for 8% of total sales by fiscal 2014 (2% actual in fiscal 2011)

Shipbuilding Business

To compete with major Korean and Chinese shipbuilding companies, Universal Shipbuilding will establish a comprehensive industry-leading position by promptly achieving the synergistic effects of its integration with IHI Marine United (IHIMU) in October 2012. Product development capabilities will be enhanced to expand the company's product portfolio and shorten new product development periods. Concurrently, to substantially reduce costs, productivity will be improved by aggregating ship types in shipyards and by strengthening capabilities to purchase materials and machinery. Universal Shipbuilding will focus on developing next-generation, environmentally friendly ships that offer world-leading fuel efficiency.

Measures

- Achieve synergistic effects of integration with IHIMU
- Expand product portfolio and improve productivity
- Develop next-generation, environmentally friendly ships



Q3 What measures are you taking in finance and to return profits to shareholders?

A3 The JFE Group, while investing in new growth initiatives, will continue to pursue improved earnings and cash flow to ensure financial strength deserving of A-grade

ratings by international credit rating agencies. Returning profits to shareholders is one of our top priorities, so we intend to maintain our 25% payout ratio.