

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%

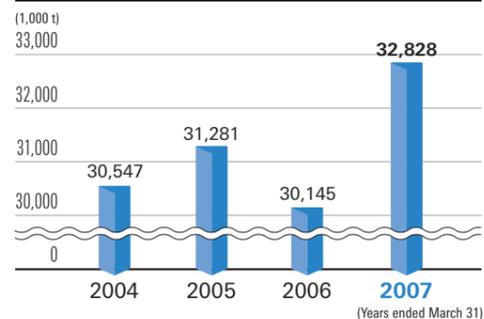
Business Overview for the Years Ended/Ending March 2007 and March 2008

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.

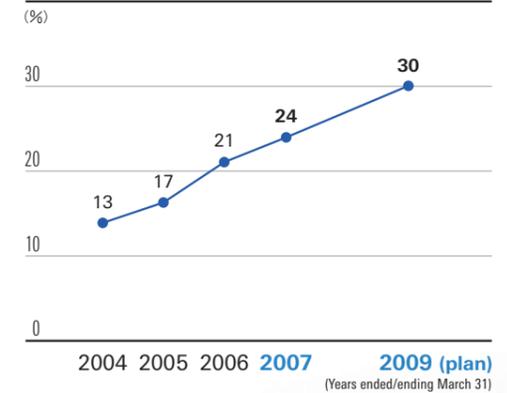
In the year ended March 2007, the first year under the Second Medium-Term Business Plan, JFE Steel strived to expand sales of high value-added products

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.

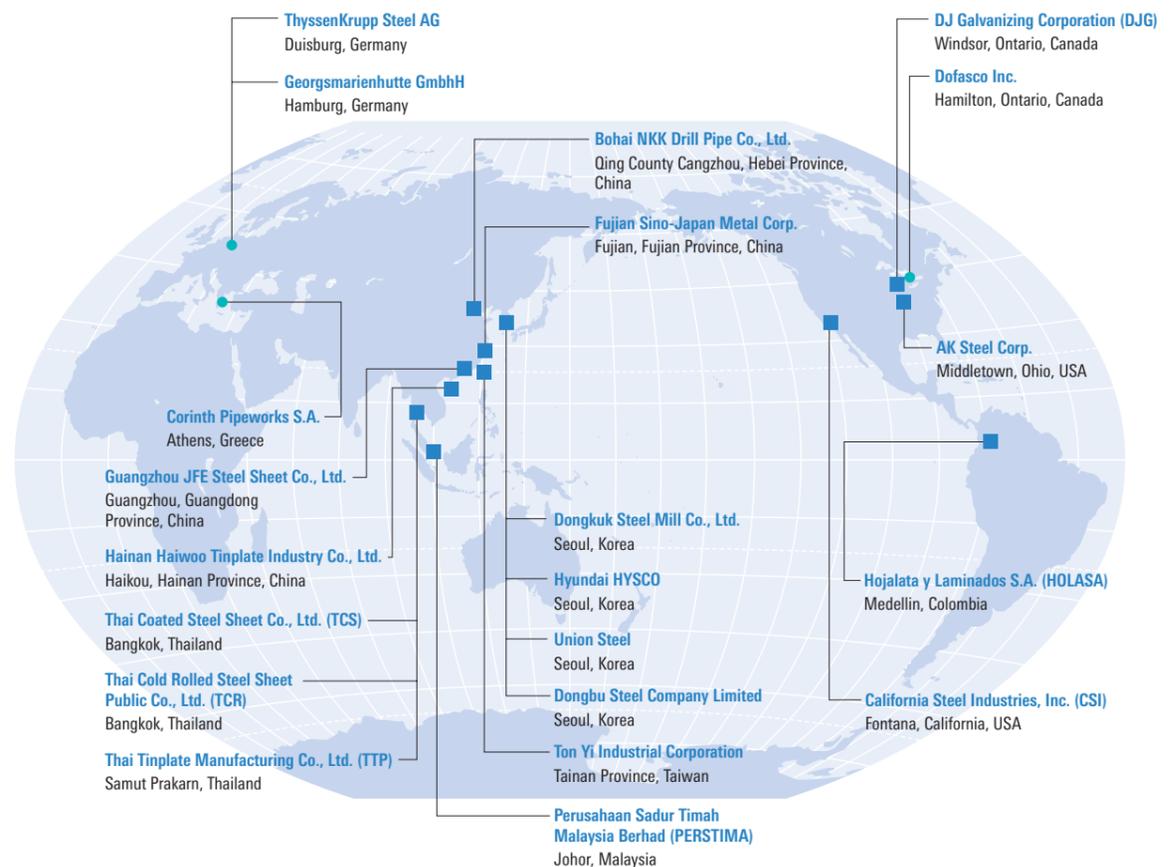
The two parent companies have reached agreement on future growth strategy at GJSS and construction of (1) a new production facility for cold-rolled steel sheets, (2) a continuous annealing line, and (3) a second hot-dip galvanizing line in order to meet anticipated growing demand for high-end steel sheets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

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

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

Please visit our website at

JFE Engineering Corporation

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

JFE GROUP BUSINESS REPORT 2007

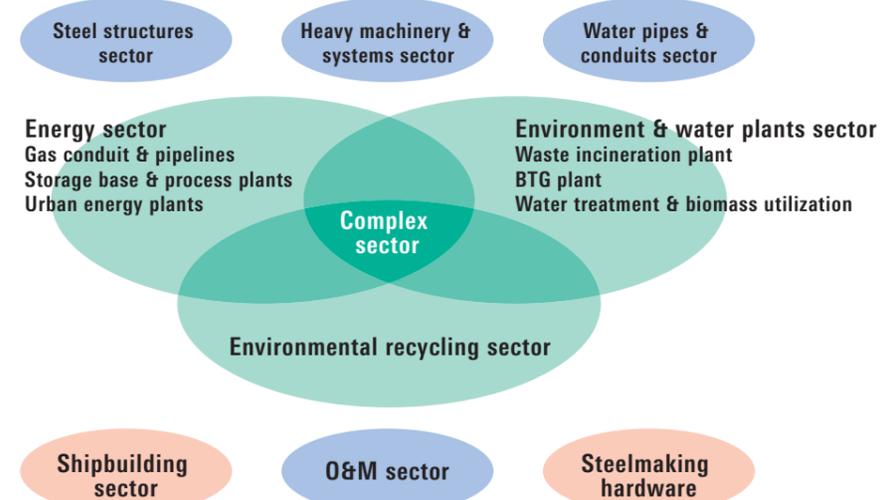


Biomass boiler (Rendu)

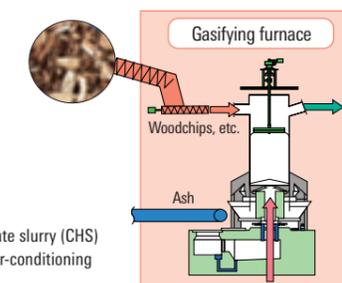


Inauguration ceremony for JFE Environmental Solutions Corporation

Business Portfolio



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



Woody biomass gasification power generation system

JFE Urban Development Corporation



President
Noriaki Shigemi

Net sales
34.3
billion yen

Ordinary income
3.6
billion yen

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.



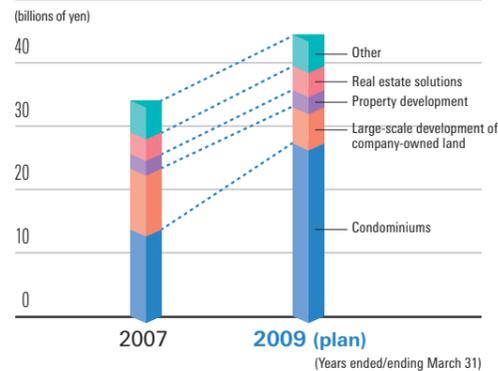
Yokohama Yamanouchi development (Cotton Harbor Area)

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/>

Kawasaki Microelectronics, Inc.



President & CEO
Yukio Yamauchi

Net sales
44.3
billion yen

Ordinary income
0.5
billion yen

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.

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.

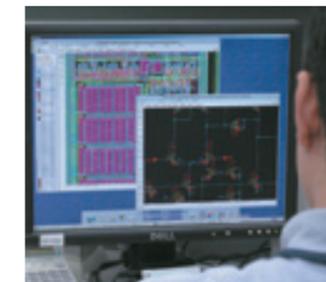
Turning to the outlook for the year ending March 2008, year-on-year declines are forecast to continue in both sales and profits due to continuously tough environments surrounding products destined for the LCD panel market. This negative factor in our priority field is more likely to outweigh a positive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



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

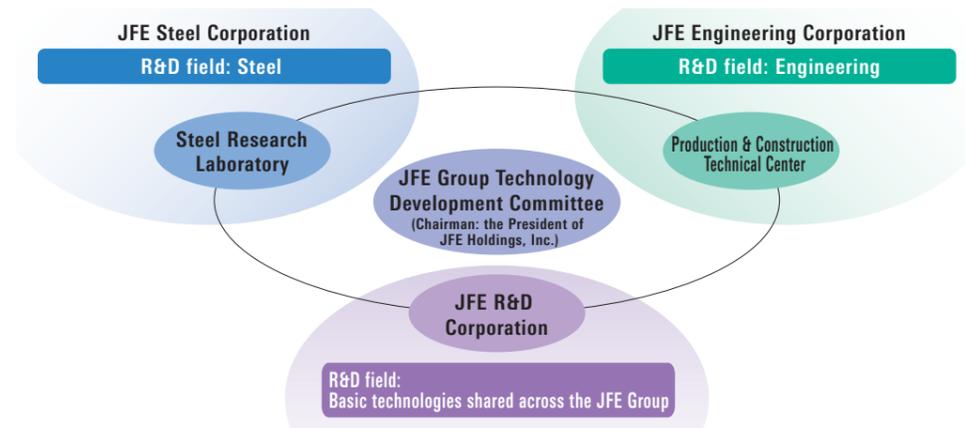
Patent applications
1,800
or more / year

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

