



**【Message from the CEO】**  
**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 earnestly worked towards sustainable growth; the establishment of a highly transparent management system; and the strengthening and further broadening of the Group's overall revenue base.

### **Changing Business Environment (Response to Dramatic Change)**

The business environment surrounding our company has been undergoing dramatic change.

Global demand for steel has been increasing dramatically in recent years, thanks mainly to China, India, and other nations of Asia. Global production of crude steel leaped to 1.34 billion tons in 2007, up from 850 million tons in 2001. The production volume of crude steel in Japan's domestic market reached a record 121.51 million tons, toppling the previous record set 34 years ago in 1973. There is, however, a negative side to this dramatic growth: the skyrocketing cost of raw materials. Furthermore, increasingly frequent restructuring and consolidation on a global scale, as represented by the rise of ArcelorMittal and the acquisition of Corus by Tata Steel, is a process we will continue to follow closely. Additionally, the environment surrounding the steel industry is drastically changing, change that is reflected in increasing concern about economic stagnation

and global credit contraction rooted in the sub-prime mortgage crisis in the United States.

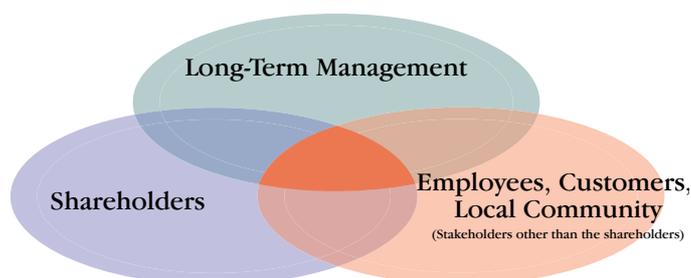
Winds of change, accelerating the selection and concentration of business fields, are blowing through the engineering industry, another of our core businesses; on the one hand, the decline in public works projects continues apace while, on the other, new business opportunities are emerging in the fields of energy and recycling.

In this environment, we recognize the need to carry out our corporate social responsibilities so that we can build relationships based on trust and to continue sustainable growth together with all of our stakeholders. This involves reinforcing compliance and corporate governance to achieve a highly transparent management system; contributing to solving global environment issues; and creating a rewarding workplace environment.

### **Final Year of Second Medium-Term Business Plan**

After the founding of our company, during the period of the First Medium-Term Business Plan (April 2003 - March 2006), we enacted a number of measures to swiftly realize the effects of integration. We worked to establish a management platform that would give us adequate footing as a global company, and were able to enhance our profit-earning capacity and make substantial improvements in our financial standing.

Continuing from there, our second Medium-Term Business Plan (April 2006 – March 2009)





involves timing and positioning ourselves for a global leap. This means a basic policy of (i) establishing a stable high-earning capability, (ii) taking a bold, flexible approach to strategic investment and enhancing our research and development capabilities, (iii) promoting CSR and establishing corporate governance, (iv) undertaking financial reforms, and (v) making committed returns to shareholders.

In the Second Medium-Term Business Plan, we are working on establishing a high-earning capability that will enable us to achieve a minimum consolidated ordinary income of 500 billion yen each fiscal year. In the year ended

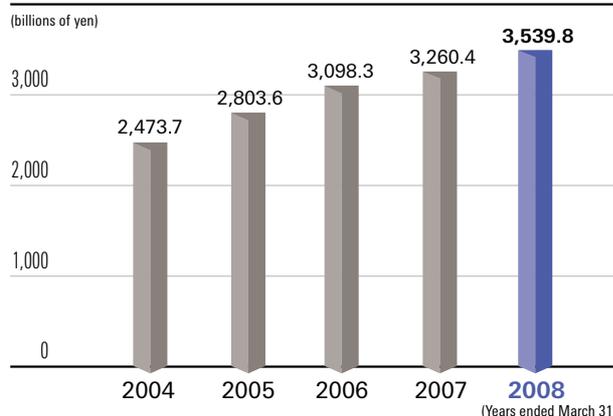
March 2007, we achieved a consolidated ordinary income of 513.5 billion yen and in the year ended March 2008, 502.9 billion, which, added to the 517.3 billion of March 2006 makes for an ordinary income in excess of 500 billion for three consecutive fiscal years. Our Group's strategy of striving for high-earning capability through production and sales of value-added products has been yielding steady results. However, the soaring cost of raw materials means that this year is a crucial one for ensuring continued sustainable growth.

### Formulating a New Strategy for Sustainable Growth

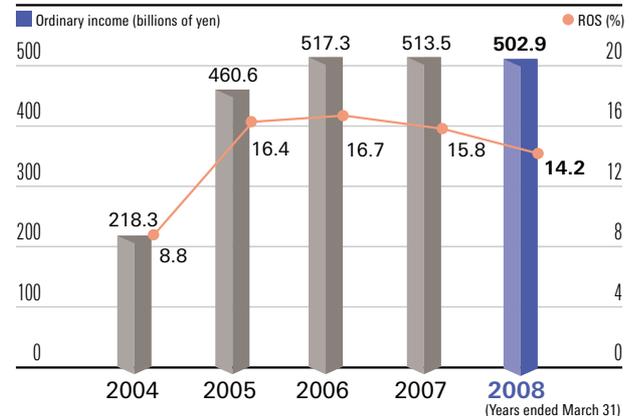
Steel production is the core business of the JFE Group, and we are aiming to increase both our revenue and our presence in the global steel market by: (i) increasing domestic production, (ii) enhancing our overseas production framework, and (iii) strengthening relations with overseas allies in order to increase production and sales of high-end steel, a field in which we have an overwhelming technological advantage.

In concrete terms, we will begin the process of raising domestic production of high-end steel by 10% (establishing a production system of 37 million tons of crude steel on a consolidated basis). Additionally, we will strengthen our

#### Trends for Net Sales



#### Trends for Ordinary Income/ROS (Return on Sales)





overseas alliances and will seriously consider the profitability of constructing an integrated steelworks in Brazil, in Thailand, and in other parts of Asia. Under our Third Medium-Term Business Plan, we will consider strategies for becoming a true global player and making the leap into the global market.

On March 17, we issued 300 billion yen of unsecured convertible share warrant bonds with conditions on acquisition through third-party allotment (so-called hybrid bonds). This was done to achieve financial agility for strategic investments and loans on the domestic and foreign markets, as mentioned above.

The engineering business continues to face a tough operating environment. To address this challenge, we are enhancing our competitiveness through selection, concentration and reduction

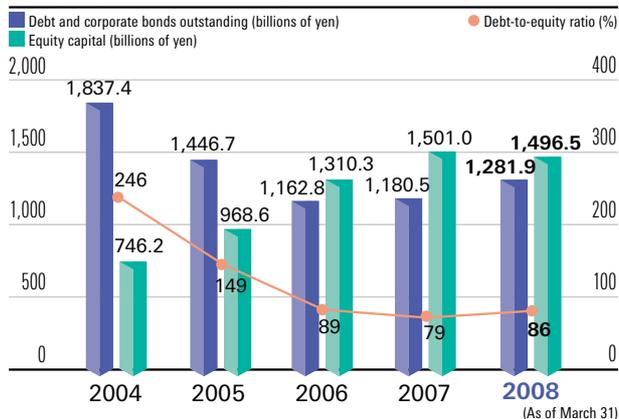
of fixed costs while actively engaging in such fields as recycling, energy conservation and new energy – all of which hold promise for future growth.

### Restructuring the Shipbuilding Business

On March 31, we acquired an 84.9% share of Universal Shipbuilding Corporation, making it a consolidated subsidiary. Universal Shipbuilding Corporation is one of the world's leading ship-building companies, with high technological capabilities. Its flagship products are large tankers, large bulk carriers and LPG/LNG carriers. On April 16, this company held a naming and launch ceremony for the icebreaker Shirase.

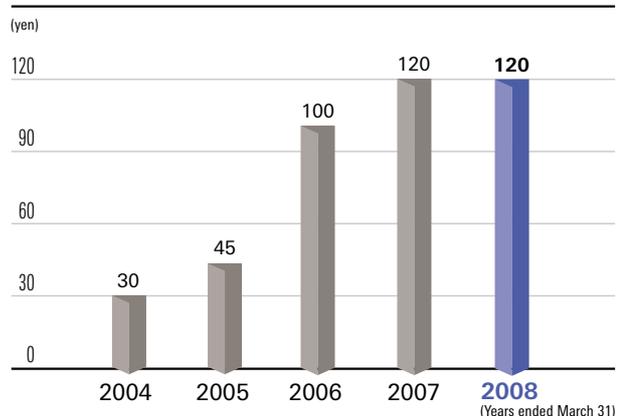
For the steel division – the core business of our

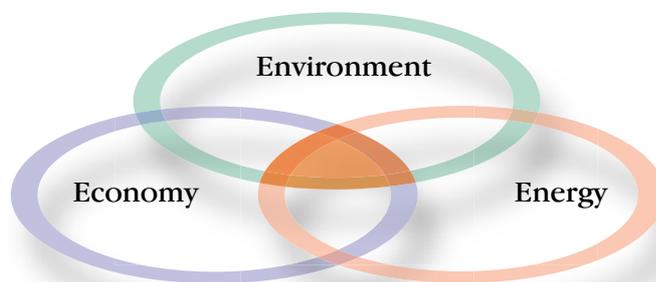
**Trends for Debt and Corporate Bonds Outstanding/ Equity Capital and Debt-to-equity Ratio**



The D/E ratio of the hybrid bonds, when 75% of the 300 billion yen is deemed capital, according to the rating of the two rating agencies: 61% as of March 2008.

**Trends for Annual Dividends per Share**





Group – the shipbuilding business is not only a source of demand, but also a valuable partner in developing new materials and processing technology. This makes it a valuable partner when it comes to further enhancing our product and technology development capabilities. Having a sound and competitive shipbuilding division is therefore very meaningful for our Group. By making Universal Shipbuilding Corporation a subsidiary, we once again confirmed the central role played by our Group's shipbuilding division. As we announced on April 8, we also have decided to commence concrete discussions with IHI Corporation concerning the consolidation of IHI Marine United Inc. and Universal Shipbuilding Corporation.

The global shipbuilding market is enjoying active demand for marine transport, and ordering and building continue unabated. Chinese and

industry is not an optimistic one.

Under the circumstances, both companies agreed that in order to realize further sustainable growth in Japan's shipbuilding industry, there is a need to reinforce management bases through merger. This would provide an opportunity to reconstruct the existing system with a focus on production optimization while revising facility investment and reviewing the types of ship being built. Concrete discussions concerning management consolidation were therefore decided upon.

We will thoroughly discuss and consider the form the merger should take, taking into account postmerger reduction in procurement costs through enlargement of scale, serial construction, and improvements in product development capacity.

### **Maintaining, Enhancing Corporate Value and Common Shareholder Interests**

The JFE Group aims to establish a high-earning capability, targeting steady achievement of 500 billion yen in ordinary income per year. The JFE Group will steadily promote the enhancement and maintenance of corporate value and common interests of shareholders in tandem with the establishment of this stable and profitable structure.

#### **1. Reinforcing Corporate Governance**

Enhanced corporate governance is one of the basic policies stressed in the Second Medium-Term Business Plan. To ensure transparency and fairness and further reinforce corporate governance on a continuing basis, the JFE Group introduced outside directors in 2007 while simultaneously reducing directorship terms.

We also have been progressively implementing measures to establish internal controls. The JFE



Korean shipbuilding companies have broadened their order intake and are upgrading their facilities, which is expected to lead to a further escalation of international competition. There also is a sense of uncertainty about currency exchange rates and material procurement, meaning that the outlook for the shipbuilding

Group Internal Control Committee, a new entity, was set up under the JFE Group CSR Council for the purpose of deliberating over basic policies relating to Group-wide internal controls and their application, and generally strengthening internal governance.

## **2. Response to Large-scale Purchases of JFE Shares**

JFE Holdings, Inc. adopted a "Response Policy toward Large-scale Purchases of JFE Shares" at a meeting of its board of directors in March 2007. This Policy was subsequently approved for the next two years 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. Shareholders can thereby carefully evaluate the potential effects of the proposal on JFE's corporate value and their common interests.

## **3. Proactively Generating Shareholder Returns**

Returning profits to the shareholders is our most important management issue. Bearing in mind the basic principles concerning shareholder return (25%) indicated in the Second Medium-Term Business Plan, we decided that the return in the year ended March 2008 will be the same as in March 2007, i.e. 120 yen per share. Furthermore, in the spirit of proactive shareholder returns, from November 2006 we twice repurchased shares totaling 240 billion yen. Similarly, from March 18 to May 1 we repurchased shares totaling 120 billion yen. Thus the dividend ratio in the year ended March 2008 reached 26.6%, a total shareholder return ratio of 80.2%.

## **Environment and Compliance**

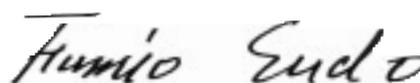
The JFE Group endeavors to maintain high standards in its response to society's expectations by promoting business activities firmly grounded in our commitment to coexist in harmony with the global environment and to maintain corporate ethical standards.

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, promotes business activities that maintain harmony with the environment. This environmental philosophy commits the JFE Group to reducing our impact on the environment and expanding our efforts to conserve energy in every area of our business. We are also dedicated to developing and delivering environmentally friendly products and technologies.

Turning to compliance, the JFE Group Compliance Committee is 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 promotion of public awareness of the 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 2008



President & CEO  
JFE Holdings, Inc.