



**Hajime Bada**  
President & CEO  
JFE Holdings, Inc.

## To All Stakeholders

From the time of its establishment, the JFE Group has remained committed to its mission of contributing to society through the world's most innovative technology and achieving sustainable growth by enhancing value to shareholders and other stakeholders.

We remain dedicated to meeting the expectations of stakeholders as an impartial, fair and transparent business guided by our belief in the principles of A challenging spirit, flexibility and sincerity, which define our corporate values.

### Medium- to Long-Term Growth Policy Unchanged

In April 2009, we announced a new medium- to long-term management policy. Although lackluster economic conditions and abrupt changes in the market have affected our business since 2008, we believe that our policy is geared appropriately for growth, and we will continue to proceed in this direction in the fiscal year ending March 31, 2011. As we carefully assess our operating environment going forward, we believe we are on course to accomplish our growth targets.

#### Five Pillars of Current Management Policy

- Develop innovative technologies looking 10 years ahead
- Secure footholds in markets offering growth and development
- Review management systems throughout the Group
- Enhance CSR and strengthen corporate governance
- Strengthen the Group's financial position and return profits to shareholders

### Meeting the Challenges of a Changing Market

Since unveiling our current management policy, economic conditions have changed considerably and developed nations including Japan have suffered sharp declines in economic growth. Emerging nations, particularly in Asia, however, have rebounded quickly since the Lehman collapse. From fiscal 2010, we are setting five priorities to address changes in the global market.:

#### Five Business Priorities

- Reinforce the strategic allocation of Group businesses
- Focus on the environmental and energy fields
- Expand business in Asia
- Pursue Group-wide synergies
- Balance investment in growth against financial standing

The JFE Group's pursuit of sustainable growth is underpinned by long-term relationships of trust with shareholders, customers, employees, local communities and other stakeholders.

To achieve our objectives, we will continue Group-wide efforts to enhance corporate governance and compliance, address global environmental issues and ensure safety—all of which, I believe, are essential to earning the trust of society.

I greatly appreciate your ongoing encouragement and support.

June 2010

**Q1. After announcing the current management policy in April 2009, what progress was made in fiscal 2009, and what is the outlook for fiscal 2010?**

In fiscal 2009 the Group implemented urgent cost cuts and quickly responded to the changing business environment by sharpening its focus on the growth of demand in the emerging countries of Asia. As a result, consolidated ordinary income rose to ¥69.2 billion.

Despite continued volatility in the market, the Group made steady gains with management-policy measures aimed at realizing significant progress for the Group in the future.

**Looking Ahead 10 Years with Innovative Technologies**

We renewed our research and development structure in April 2009, which included an extensive reorganization of JFE R&D Corporation. The aim is to accelerate development of innovative process and application technologies and revolutionary products looking 10 years ahead. In particular, this will include state-of-the-art, world-class technologies for the environment and energy/resource savings.

A good example is JFE Steel, which began constructing a pilot plant for an innovative Ferro-Coke manufacturing process at its East Japan Works (Keihin District) in December 2009. JFE Steel expects the process to enable significant reductions of CO2 emissions, increased energy savings and greater use of lower-quality coal and mineral resources.

We also participated with other steel manufacturers in the ongoing COURSE 50 project to jointly develop innovative technologies for steelmaking processes. It is hoped that these technologies will lead to cuts of some 30% in CO2 emissions, based on the capture, separation and recovery of CO2 from blast furnace gas. The goal is to establish these technologies by around 2030, and then commercialize and transfer them by 2050.

**Initiatives for Growth and Progress**

Each operating company in the Group is steadily moving forward with growth initiatives.

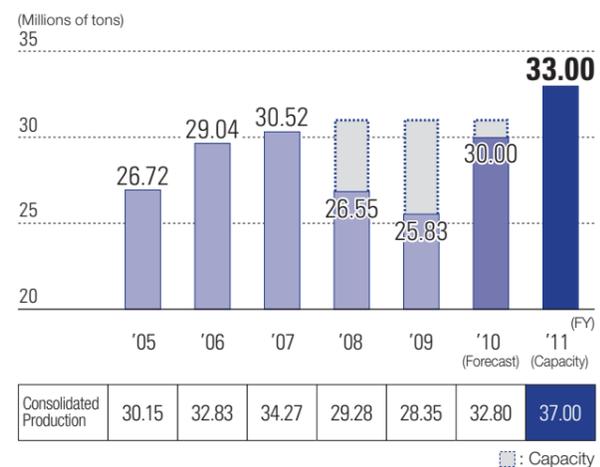
JFE Steel has increased the steelmaking capacity of its No. 7 Continuous Caster and other facilities at the West Japan Works (Fukuyama District), a move

aimed at capitalizing on expected increases in demand for high-end steel over the medium to long term. The facilities began operating in the first half of fiscal 2010. In spring 2011, the expansion of the Fukuyama No. 3 Blast Furnace will be completed, thereby raising non-consolidated domestic annual capacity to 33 million tons of crude steel.

Overseas, an agreement for comprehensive strategic cooperation with JSW Steel Limited, the largest private steel manufacturer in India, was signed in November 2009.

At JFE Engineering, increasing moves to address environmental problems worldwide are creating promising opportunities for more work orders. The company is accelerating its introduction of new products for the environmental and energy fields, including eco-minded products such as ballast-water processing equipment for ships, which will be launched in the current fiscal year.

**JFE Steel's Crude Steel Production (Non-Consolidated)**



**Ongoing Reorganization and Restructuring of the Group**

The JFE Group also continued to reorganize and restructure its business for enhanced operational efficiency.

In the steel business, JFE Refractories Corporation merged with Shinagawa Refractories Co., Ltd. to form a new company in October 2009 (the company name changed in Japanese but stayed the same in English). Reorganization of JFE Engineering included the integration of four Group affiliates in April 2009. Closure of the Utsunomiya Plant of Kawasaki Microelectronics, Inc. and the launch of fabless operations in February 2010 were among other measures taken.



**Q2. With the prices of raw materials for steelmaking continuing to rise, some have called for prices to be set on a shorter, quarterly basis. How do you intend to respond to this situation when you purchase raw materials and when you sell steel products?**

With the supply of raw materials expected to remain tight over the medium-to-long term due to rising steel demand in emerging countries such as China and India, and the formation of oligopolies among the major resource suppliers, raw material prices are likely to remain high. If the period for revising prices were shortened, prices may fluctuate widely over the long term. In view of this situation, we will pursue several pricing measures for both raw material procurements and steel sales, as follows.

**Securing Resource Interests to Raise Ownership Ratio**

To improve our ratio of raw material procurements in which we hold rights, we acquired a 20% interest in the Byerwen Coal project from QCoal Pty Ltd. of Australia in December 2009. When this project starts operating in 2012, it will provide a steady annual supply of 2 million tons of high-quality coking coal at affordable prices. For iron ore, in 2008 we acquired an interest in Brazil's Nacional Minérios S.A. (NAMISA)

via a Japanese-Korean consortium that includes JFE Steel.

Such acquisitions have boosted our ownership ratio to around 15% in total procurements of iron ore and coking coal. Going forward, we will continue to secure interests in competitive raw materials, aiming to increase the ratio to around 30% each for iron ore and coking coal in around two years.

**Technologies for Using Low-Grade Raw Materials**

We will continue to pursue efforts to develop and utilize new technologies for purposes such as Ferro-Coke, aiming to strengthen our ability to replace more costly higher-grade raw materials with cheaper lower-grade substitutes.

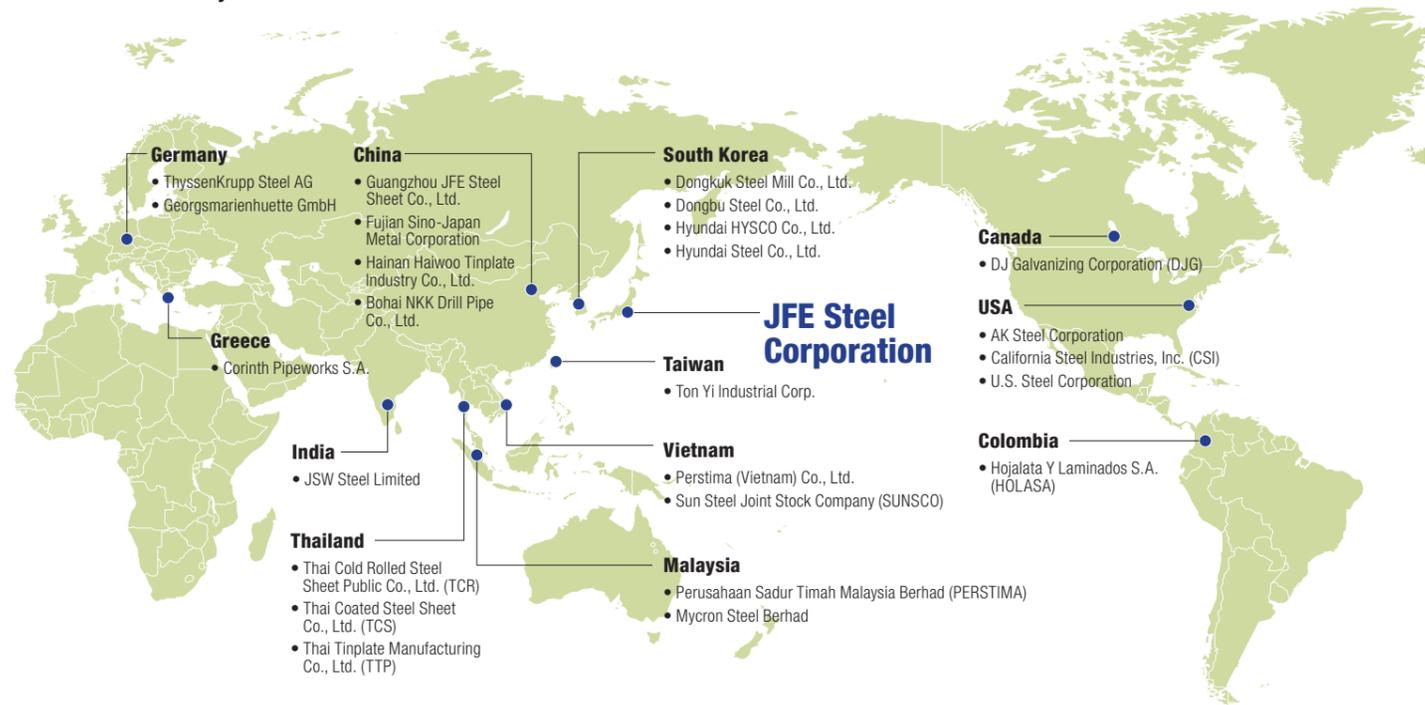
**Cost Cuts and Timely Pricing for Steel Products**

JFE Steel already has taken a variety of measures to reduce costs, but considering the unabated trend of rising raw materials prices, the company will implement additional measures in fiscal 2010.

Although steel prices are not determined by input costs alone, JFE Steel will ask all customers in Japan and overseas to accept upwardly revised steel prices to cover increased costs that JFE Steel cannot absorb on its own.

If the time for revising raw material prices were shortened, we would need to reconsider the length of time between revisions in our steel prices.

JFE Steel's Major Sales-Alliance Partners



**Q3. Given that BRIC countries such as China and India are experiencing remarkable growth, what is your strategy for the steel business overseas, including the establishment of blast furnaces?**

Steel demand cannot be expected to increase significantly in Japan, where the birthrate is declining and the population is aging. In emerging countries where populations are growing and economies are developing, however, the demand for steel is likely to grow.

The World Steel Association in April 2010 forecast that global demand would hit a record 1.24 billion tons in 2010 and then exceed 1.3 billion tons in 2011. Although demand in Japan and other advanced countries is not foreseen surpassing 2007 levels, emerging countries in Asia are expected to experience substantial recoveries in demand.

The key to growth for the JFE Group is to capture Asia's expanding demand. This is why we intend to continue focusing on efforts to increase exports centered on high-end steel, as well as to proceed with strategies for production overseas.

**Expansion of Vertically Specialized Alliances**

JFE Steel has captured growing overseas demand in part by developing vertically specialized business models for its alliances in East and Southeast Asia.

Guangzhou JFE Steel Sheet Co., Ltd., a joint venture with Guangzhou Iron and Steel Enterprises Holdings Ltd., is constructing the second phase of a cold-rolling facility that will launch in 2011.

In February 2010, we acquired stakes in Mycron Steel Berhad., a major cold-rolled steel manufacturer in Malaysia, and Sun Steel Joint Stock Company (Sunsco), a leading manufacturer of galvanized steel sheets and steel pipes in Vietnam. Both investments will help to secure stable, long-term customers for our steel products and also to capture additional local demand.

With conditions having changed in South Korea, where new blast furnaces have been constructed and self-sufficiency in steel products is expected to rise, JFE Steel will continue to expand its vertical specialization business model in other markets to further accelerate global business development.

**Other Efforts to Develop Business Overseas**

JFE Steel agreed on comprehensive strategic cooperation with JSW Steel Limited, the largest private steel manufacturer in India, in November 2009. That same year, India overtook Japan as the world's number-three consumer of steel. Demand in India is expected to expand rapidly, centering on construction and automobile production as the country's middle class grows. Under the cooperation agreement, JFE Steel will supply substrate and transfer technologies for the manufacture of automotive steel. We also are considering opportunities in fields such as energy efficiency, environmental management and cooperation on JSW Steel's envisioned steel plant in West Bengal, as well as a possible capital tie-up.

To further capitalize on overseas growth opportunities for long-term success, we are considering the construction of full-scale steel plants in Southeast Asia and Brazil based on prospects for raw materials procurement and steel consumption in these regions. We intend to build the plants if prospects for return on investment and other key factors are appropriate.

**Q4. The engineering and shipbuilding businesses were profitable in fiscal 2009. What is the outlook in fiscal 2010?**

**Record Profits in Fiscal 2009**

In fiscal 2009 we took measures to improve earnings in our engineering and shipbuilding businesses, resulting in ordinary income of ¥13.3 billion and ¥21.5 billion, respectively. Both businesses are now positioned to generate steady earnings even under harsh economic conditions, as shown by their highest-ever profits since the JFE Group was formed.

**Steadily Achieving Success in a Harsh Business Environment**

Although domestic demand for engineering business has been sluggish and is expected to remain harsh, JFE Engineering is developing overseas markets and introducing new products by leveraging its expertise in environmental and energy technologies and products, in particular to capitalize on increasing initiatives

to address environmental problems around the world.

In shipbuilding, where the market for new vessels remains lackluster and competition with South Korean and Chinese manufacturers is stiffening, Universal Shipbuilding Corporation nevertheless has secured sufficient orders to maintain construction volume at a high level for about two and a half years. The company is developing next-generation ships that offer energy-efficient designs for reduced environmental impact, including lower CO<sub>2</sub> emissions.

Opportunities to further strengthen shipbuilding operations through tie-ups or consolidation continue to be examined.

**Q5. As the JFE Group strives to boost its corporate value, what are your thoughts on improving the balance sheet and returning profits to shareholders?**

**Targeting 50% D/E Ratio and Stronger Balance Sheet**

Our interest-bearing liabilities at the end of March 2010 totaled ¥1,468.4 billion, down about ¥300 billion from the previous year, and our debt/equity ratio improved significantly to 75.5%. We now are aiming for a D/E ratio of 50% and a stronger balance sheet to support our growth strategies while maintaining a high credit rating.

**Priority on Returns to Shareholders**

Returning profit to shareholders is one of our top priorities, as seen in our target of a basic dividend payout ratio of about 25%. However, faced with the need for aggressive investments to support our future growth, we currently are giving priority to maintaining and improving our financial position.

**Conclusion**

As part of maintaining strong relationships with stakeholders, the JFE Group will continue to strive for sustainable growth while enhancing corporate value in cooperation with stakeholders.

To this end, candid opinions and ideas regarding our activities are highly welcomed.