

Accounts Settlement for Fiscal 2007 (term ended March 2008) and Business Performance Forecasts for Fiscal 2008

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JFE Shoji Holdings, Inc.

FY2007 Accounts Settlement: Key points

- In the steel industry, slack demand for steel in Japan -- due to a decrease in the number of housing construction starts -- was counterbalanced by increased export demand, mainly from the manufacturing sector, notably the automotive, shipbuilding, and industrial machinery industries. Within this export demand, particularly strong exports were seen of high-quality steel, mainly to East Asian countries. Against this backdrop, Japan's total crude steel production hit an all-time record of 120.2 million metric tonnes.
 - Sales of JFE Shoji Trade Corporation for fiscal 2007, on a non-consolidated basis, showed increases in the categories of steel and steel raw materials, as well as processed steel products and machinery. Total sales of JFE Shoji Holdings rose by ¥189.4 billion year-on-year to ¥2,404.7 billion.
 - Despite a decline in gains on equity-method investments, ordinary income of JFE Shoji Trade on a non-consolidated basis posted an increase of ¥4.9 billion, pushing up the total ordinary income of JFE Shoji Holdings by ¥4.0 billion year-on-year to ¥39.2 billion.
 - JFE Shoji Trade recorded an increase in net income (non-consolidated basis) of ¥3.6 billion. In addition, there was no repetition of the ¥2.9 billion in unrealized losses reported for the previous term on valuation of real estate held for sale. As a result, net income of JFE Shoji Holdings was up ¥5.9 billion year-on-year, at ¥23.4 billion on a consolidated basis.
 - Total assets at term-end were up by ¥29.6 billion over the previous term-end, at ¥656.4 billion. This is largely attributable to an increase in trade receivables accompanying growth in trading volume.
 - Despite the Company's increased need for funds accompanying growth in the volume of trade conducted by overseas steel processing centers, interest-bearing liabilities declined by ¥1.5 billion year-on-year to ¥96.4 billion, owing to a fall in the balance of outstanding interest-bearing liabilities at JFE Shoji Trade on a non-consolidated basis.
 - Total net assets rose by ¥11.7 billion over the previous term-end to ¥117.2 billion (¥111.2 billion after exclusion of minority interests). This was due to the posting of ¥23.4 billion in net income which increased retained earnings despite decreases of ¥2.0 billion for dividend payments and ¥3.3 billion in retirement of treasury shares.
 - The JFE Shoji Group's business performance exceeded its targets under the medium-term management plan from April 2005 to March 2008 by a wide margin.
- (Reference) Targets under final year of the medium-term management plan (FY2008): sales: ¥2,000 billion, ordinary income: ¥29 billion, net assets: ¥90 billion, interest-bearing liabilities: ¥1

Consolidated statements of income	FY2007	FY2006	YoY change	% change
Net sales	2404.7	2215.3	① 189.4	+9%
Gross profit on sales	91.3	84.1	② 7.2	+9%
(Gross profit margin)	(3.8%)	(3.8%)	(+0.0%)	
Selling, general and administrative expenses	53.9	51.6	③ 2.3	+4%
Operating income	37.4	32.5	④ 4.9	+15%
Interest income	1.2	1.2	0.0	
Interest expense	3.2	2.9	0.3	
(Interest income)	(2.0)	(1.7)	(0.3)	
Dividend income	1.1	1.2	(0.1)	
(Financial balance)	(0.9)	(0.5)	(0.4)	
Equity in earnings of unconsolidated subsidiaries and affiliates	1.7	2.5	(0.8)	
Other non-operating income	1.0	0.7	0.3	
Non-operating income	1.8	2.7	⑤ (0.9)	
Ordinary income	39.2	35.2	⑥ 4.0	+11%
Extraordinary income	1.7	0.9	⑦ 0.8	
Extraordinary losses	0.7	5.6	⑧ (4.9)	
Income taxes	15.9	12.2	3.7	
Minority interests	0.9	0.8	0.1	
Net income	23.4	17.5	5.9	+34%

① Net sales

JFE Shoji Trade (nonconsolidated)	
(Domestic steel)	31.7
(Overseas steel)	44.8
(Raw materials/machinery and materials)	69.4
3 construction materials affiliates	20.6
Other domestic affiliates	15.3
Overseas steel processing center	11.0
Others	(3.4)
Total	189.4

② Gross profit on sales

As a result of an increase in gross profit on sales of JFE Shoji Trade in the amount of ¥5 billion, the gross profit on sales of JFE Shoji Holdings rose by ¥7.2 billion year-on-year.

③ Selling, general and administrative expenses

Increase registered in payroll and other expenses

④ Operating income

As a result of the ¥7.2 billion increase in gross profit on sales and the ¥2.3 billion increase in SG&A expenses, operating income posted a year-on-year growth of ¥4.9 billion (15%) to ¥37.4 billion.

⑤ Non-operating income

As a result of a decrease of ¥800 million in income from dividends on equity investments, non-operating income posted a year-on-year decline of ¥900 million.

⑥ Ordinary income

As a combined result of the ¥4.9 billion increase in operating income and the ¥900 million decrease in non-operating income, ordinary income posted a year-on-year increase of ¥4.0 billion (11%) to ¥39.2 billion.

⑦ Extraordinary income

Reporting term Reversal of allowance for doubtful accounts	0.9
Gain on sales of property and equipment	0.7
Previous term Gain on sales of property and equipment	0.9

⑧ Extraordinary losses

Reporting term Impairment losses on property and equipment	(0.5)
Retirement benefits for directors	(0.2)
Previous term Loss on valuation of land for sale	(2.9)
Loss on liquidation of consolidated subsidiaries and affiliates	(1.4)
Loss on sale of property and equipment	(0.6)
Impairment losses on property and equipment	(0.4)

Others

Balance sheets	FY2007 term-end	Previous term-end	YoY change
Total liabilities and net assets	656.4	626.8	29.6 ①
Total net assets	117.2	105.5	11.7 ②
Interest-bearing liabilities	96.4	97.9	(1.5) ③
D/E ratio	0.87	0.98	(0.11) ④
Equity ratio	17.0%	16.0%	+1.0% ⑤

- ① Trade notes and accounts receivable: +35.2 (JFE Shoji Trade: +15.9, other domestic affiliates: +8.2, overseas coil centers: +4.6, 3 affiliates: +4.4), investments in securities: -10.3
- ② Retained earnings: +18.1 (earnings: 23.4, dividends: -2.0, treasury stock cancellation: -3.3), valuation and translation adjustments: -7.1, minority interests: +0.7
- ③ JFE Shoji Trade: -4.6 (CP: +7.0), domestic: -1.2, overseas: +4.3
- ④ Interest-bearing liabilities/(net assets - minority interests)
- ⑤ (Net assets - minority interests)/total assets

Statements of cash flows	FY2007 term-end
Cash flows from operating activities	8.8
Cash flows from investing activities	(5.6)
Free cash flow	3.2
Cash flows from financing activities	(6.7)
Cash and cash equivalents at end of year	26.3

- Income before income taxes and minority interests: 40.2, depreciation expenses: 4.0, increase in trade notes and accounts payable: 10.5, increase in trade notes and accounts receivable: -34.9, income taxes paid: -12.1
- Purchases of property and equipment: -8.1 (JFE Shoji Trade: -1.7, overseas coil centers: -2.7, other domestic affiliates: -3.4), sale of property and equipment: +1.5 (JFE Shoji Trade: +1.1)
- JFE Shoji Trade: -4.6 (CP: +7.0), domestic: -1.2, overseas: +4.3, purchases of treasury stock: -3.3, dividends: -2.0

Segment information

Segment	Net sales			Operating income			Major breakdown
	FY2007	FY2006	YoY change	FY2007	FY2006	YoY change	
Steel and steel-peripheral	2347.0	2164.4	182.6	36.9	32.2	4.7	Mainly as a result of the ¥145.9 billion increase in revenues and the ¥4.0 billion increase in earnings registered by JFE Shoji Trade on a non-consolidated basis.
Food	41.4	37.3	4.1	0.3	0.4	(0.1)	Sales increased due to expansion of canned food business, mainly in the Middle East and West Africa. Operating income declined due to a fall in transaction volumes of seafood and Chinese food products.
Semiconductor	15.2	13.0	2.2	0.3	0.1	0.2	In our mainline ASICs business (synchronization of strategies with Kawasaki Microelectronics), sales grew both to customers in Japan and in other Asian countries, while sales and operating income increased thanks to business with new customers for product development and sales.
Real estate	1.1	0.7	0.4	(0.1)	(0.3)	0.2	The Group is making efforts to speedily dispose of real estate holdings.
Total	2404.7	2215.3	189.4	37.4	32.5	4.9	

Breakdown of statements of income

Net sales	FY2007	FY2006	YoY change	% change
JFE Shoji Trade (nonconsolidated)	1854.9	1709.0	145.9	+9%
(Steel)	1161.9	1085.5	76.4	+7%
(Raw materials, machinery & materials, and others)	693.0	623.6	69.4	+11%
(3 construction material affiliate)	370.7	350.1	20.6	+6%
(Overseas steel processing centers)	94.2	83.2	11.0	+13%
(Other subsidiaries)	342.0	345.2	(3.2)	-1%
Consolidated subsidiaries	806.9	778.5	28.4	+4%
Consolidation adjustments	(308.9)	(315.8)	6.9	
JFE Shoji Trade (consolidated)	2352.9	2171.7	181.2	+8%
others	51.8	43.6	8.2	+19%
JFE Shoji Holdings (consolidated)	2404.7	2215.3	189.4	+9%

Ordinary income	FY2007	FY2006	YoY change	% change
JFE Shoji Trade (nonconsolidated)	25.7	20.8	4.9	+24%
(3 construction material affiliate)	4.8	4.2	0.6	+14%
(Overseas steel processing centers)	2.0	1.3	0.7	+54%
(Other subsidiaries)	7.2	8.3	(1.1)	-13%
Consolidated subsidiaries	14.0	13.8	0.2	+1%
Equity-method affiliates	1.7	2.5	(0.8)	-32%
Consolidation adjustments	(2.6)	(2.2)	(0.4)	
JFE Shoji Trade (consolidated)	38.8	34.9	3.9	+11%
others	0.4	0.3	0.1	+33%
JFE Shoji Holdings (consolidated)	39.2	35.2	4.0	+11%

Net income	FY2007	FY2006	YoY change	% change
JFE Shoji Trade (nonconsolidated)	16.5	12.9	3.6	+28%
(3 construction material affiliate)	2.8	2.5	0.3	+12%
(Overseas steel processing centers)	1.5	1.0	0.5	+50%
(Other subsidiaries)	4.3	4.5	(0.2)	-4%
Consolidated subsidiaries	8.6	8.0	0.6	+8%
Equity-method affiliates	1.7	2.5	(0.8)	-32%
Consolidation adjustments	(3.5)	(2.6)	(0.9)	
JFE Shoji Trade (consolidated)	23.3	20.8	2.5	+12%
others	0.1	(3.3)	3.4	-
JFE Shoji Holdings (consolidated)	23.4	17.5	5.9	+34%

Forecasts for business performance and dividend for FY2008

Consolidated business performance	FY2008 forecasts	FY2007 results	YoY change	% change
Net sales	2740.0	2404.7	335.3	+14%
Operating income	43.5	37.4	6.1	+16%
Ordinary income	43.0	39.2	3.8	+10%
Net income	24.5	23.4	1.1	+5%

Dividend per share (ordinary share) ¥10

Average exchange rate for reporting term = ¥115.6/US\$1 Average exchange rate forecast for the current term, ending March 2009 = ¥100/US\$1

Overview

The Japanese steel industry during the current term will be supported by strong demand from domestic customers in the automotive, shipbuilding, construction and industrial machinery sectors, while demand for exports of high-grade steel (mainly from customers in East Asia) is also expected to be high. This robust level of demand is expected to persist during the current term.

The Group expects to make progress in pushing through raises in its selling prices to deal with increased costs stemming from higher prices of raw materials.

For the current term, ending March 2009, we forecast sales of ¥2,740 billion, operating income of ¥43.5 billion, ordinary income of ¥43.0 billion, and net income of ¥24.5 billion.

The JFE Shoji Group's next medium-term management plan, starting April 2009, will be coordinated with the strategies of our parent company JFE Steel so as to complement the latter's own medium-term plan.

No medium-term plan has yet been drawn up for the JFE Shoji Group, and business activities during the current term will follow a single-year plan. This year will thus serve the purpose of a preparation period for the next medium-term plan. Efforts will be focused on expanding earnings and raising efficiency levels so as to realize sustainable growth over the long term. This is in line with our management vision of "becoming one of the leading steel trading companies in the world."

Dividends

The Company's dividend policy makes dividend payments to shareholders a priority, while giving full consideration to the Company's earnings trends, as well as the need to retain sufficient earnings to strengthen the business foundation of the Group as a whole and redeem preferred shares.

We are examining our options regarding the payment of an interim dividend to common stock shareholders. At the present moment, our plan is to pay a ¥5 per share for both interim and term-end dividends, giving a full-term dividend payment of ¥10 per share.