

Accounts Settlement for First-Half Period of Fiscal 2008 (term ending March 2009) and Business Performance Forecasts for Fiscal 2008

October 31, 2008
JFE Shoji Holdings, Inc.

FY2008 First-Half Accounts Settlement: Key Points

- In the steel industry, demand for steel products for construction use weakened in Japan, but sales were firm to Japanese manufacturing companies, particularly shipbuilders, automakers, and industrial machinery manufacturers. Exports from East Asian countries, notably China, posted good figures. Prices of steel products rose sharply during the reporting six-month period, against the backdrop of high prices of the raw materials for steelmaking, including iron ore, coal, and ferrous scrap. As a result, sales rose by ¥311.6 billion year-on-year, to ¥1,503.8 billion, mainly due to the sharp increase in steel prices and the growth in the volume of steel raw materials and fuels handled.
- In ordinary income, our major subsidiary JSTC posted an increase of ¥4.6 billion, while other consolidated subsidiaries both in Japan and overseas recorded an aggregate gain of ¥7.3 billion. As a result, total ordinary income rose ¥11.1 billion year-on-year on a consolidated basis, to ¥30.8 billion.
- Net income for the six-month period was up ¥6.1 billion over the corresponding period of the previous year, at ¥17.8 billion.
- Total assets grew by ¥124.4 billion over the previous term-end, to ¥780.8 billion as a result of an increase in inventory assets and trade receivables, mainly due to the rise in unit selling prices. Interest-bearing liabilities rose by ¥30.5 billion over the previous term-end, to ¥126.9 billion, owing to growth in working capital accompanying a rise in unit selling prices in addition to the payment of income taxes.
- Despite the payment of dividends in the amount of ¥2.8 billion, the retirement of treasury stock in the amount of ¥5.1 billion, a decline in unrealized gains on available-for-sale securities of ¥1.8 billion caused by the fall in prices on the stock market, and a further deterioration of ¥1.6 billion in losses on exchange translation adjustments due to the appreciation of the yen, the consolidated net assets increased by ¥74.1 billion to ¥494.9 billion.

(Billions of yen)				
Consolidated statements of income	Reporting 1st half	Previous 1st half	YoY change	% change
Net sales	1,503.8	1,192.2	① 311.6	+26%
Gross profit on sales	58.3	44.1	② 14.2	+32%
(Gross profit margin)	(3.9%)	(3.7%)	(+0.2%)	
Selling, general and administrative expenses	28.7	26.7	③ 2.0	+7%
Operating income	29.6	17.4	④ 12.2	+70%
Interest income	0.5	0.7	(0.2)	
Interest expense	1.6	1.5	0.1	
(Interest income)	(1.1)	(0.8)	(0.3)	
Dividend income	0.9	0.6	0.3	
(Financial balance)	(0.2)	(0.2)	0.0	
Equity in earnings of unconsolidated subsidiaries and affiliates	0.9	1.3	(0.4)	
Other non-operating income	0.5	1.2	(0.7)	
Non-operating income	1.2	2.3	⑤ (1.1)	
Recurring profit	30.8	19.7	⑥ 11.1	+56%
Extraordinary income	-	0.7	⑦ (0.7)	
Extraordinary losses	0.9	0.7	⑧ 0.2	
Income taxes	11.1	7.6	3.5	
Minority interests	1.0	0.4	0.6	
Net income	17.8	11.7	6.1	+52%

① Net sales

JFE Shoji (nonconsolidated)	
Domestic steel	50.8
(Overseas steel)	62.5
(Raw materials/machinery and materials)	148.5
3 construction materials affiliates	40.7
Overseas coil centers	1.3
Other subsidiaries	37.9
Others	(30.1)
Total	311.6

② Gross profit on sales

Gross profit on sales increased: increase of ¥4.2 billion for JFE Shoji Trade (nonconsolidated); ¥2.2 billion for three construction materials affiliates in the domestic market; ¥1.8 billion for overseas coil centers; ¥6.0 billion for others

③ Selling, general and administrative expenses

Increases in depreciation expenses and other expenses

④ Operating income

An increase of ¥14.2 billion in gross profit on sales, minus a ¥2.0 billion increase in selling, general and administrative expenses, led to a year-on-year increase of ¥12.2 billion (70%) in operating income year-on-year, to ¥29.6 billion.

⑤ Non-operating income and expenses

A decline of ¥400 million in profits on equity in investments, as well as a decline in gains on forward exchange contracts, caused the posting of a ¥700 million fall in other non-operating income and expenses.

⑥ Recurring profit

Subtracting the decline of ¥1.1 billion in net non-operating income from the gain of ¥12.2 billion in operating income gives recurring profit of ¥30.8 billion, for a year-on-year rise of ¥11.1 billion, or 56%.

⑦ Extraordinary income

Previous term	Gain on sale of fixed assets	0.7
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⑧ Extraordinary losses

Reporting term	Loss on devaluation of inventories	(0.5)
Reporting term	Loss on impairment of fixed assets	(0.4)
Previous term	Loss on impairment of fixed assets	(0.5)
Previous term	Retirement benefits for directors	(0.2)

(Billions of yen)			
Balance sheets	Reporting 1st half-end	Previous term-end	YoY change
Total liabilities and net assets	780.8	656.4	124.4 (A)
Total net assets	124.3	117.2	7.1 (B)
Interest-bearing liabilities	126.9	96.4	30.5 (C)
D/E ratio	1.08	0.87	0.21 (D)
Equity ratio	15.1%	17.0%	(1.9%) (E)

(A) Trade notes and accounts receivable: +84.4 (JFE Shoji Trade: +49.8, three construction materials affiliates in the domestic market: +20.5, others), cash and deposits: +16.5, inventories +15.3 (JFE Shoji Trade: +10.4, others)

(B) Retained earnings: +9.9 (earnings: +17.8, dividends: -2.8, retirement of treasury stock: -5.1), valuation and translation adjustments: -3.4 (shares: -1.8, foreign exchange: -1.6), minority interests: +0.6

(C) JFE Shoji Trade: +31.8 (CP: +23.0, borrowings: +8.8), effects of changes in exchange rates: -1.8, others

(D) Interest-bearing liabilities/(net assets - minority interests)

(E) (Net assets - minority interests)/total assets

(Billions of yen)			
Statements of cash flows	Reporting 1st half	Previous 1st half	YoY change
Cash flows from operating activities	1.8	1.8	0.0
Cash flows from investing activities	(8.5)	(8.5)	0.0
Free cash flow	(6.7)	(6.7)	0.0
Cash flows from financing activities	24.2	24.2	0.0
Cash and cash equivalents at end of year	16.7	16.7	0.0

Income before income taxes and minority interests: +29.9, depreciation expenses: +2.8, trade notes and accounts receivable: -4.0, increase in inventories: -16.0, payments of income taxes: -12.3, other: -

Purchases of property and equipment: -5.4 (JFE Shoji Trade: -1.9, Tochigi Shearing: -1.7, others), other: -

CP: +23.0, borrowings: +8.9, purchases of treasury stock: -4.3, dividends: -2.8, other: -

Segment information

Segment	Net sales			Operating income			Breakdown
	Reporting 1st half	Previous 1st half	YoY change	Reporting 1st half	Previous 1st half	YoY change	
Steel and steel-peripheral	1,481.2	1,163.4	317.8	29.3	17.2	12.1	Rise in steel prices caused by higher raw materials prices. An increase in the volume of imported steel raw materials and higher selling prices (JSTC).
Food	16.7	20.6	(3.9)	0.3	0.1	0.2	A decline in the volume of seafood and Chinese canned foods handled, leading to a fall in sales. Operating income rose thanks to increase in volume handled of Prime Draft, Nozaki Corned Beef (60th anniversary), and GEISHA brand canned food.
Semiconductor	5.7	7.9	(2.2)	0.1	0.2	(0.1)	Sales decline posted in ASICs for digital cameras and game consoles, leading to declines in segment sales and operating income.
Real estate	0.2	0.3	(0.1)	(0.1)	(0.1)	0.0	Steps taken to facilitate speedy disposal of real estate holdings.
Total	1,503.8	1,192.2	311.6	29.6	17.4	12.2	

Breakdown of statements of income

(Billions of yen)				
Net sales	Reporting 1st half	Previous 1st half	YoY change	% change
JFE Shoji Trade (nonconsolidated)	1,190.6	928.8	261.8	+28%
(Steel)	688.5	575.2	113.3	+20%
(Raw materials, machinery & materials, and others)	502.1	353.6	148.5	+42%
(3 new affiliates)	220.9	180.2	40.7	+23%
(Overseas coil centers)	48.5	47.2	1.3	+3%
(Other subsidiaries)	210.8	167.3	43.5	+26%
Consolidated subsidiaries	480.2	394.7	85.5	+22%
Consolidation adjustments	(187.2)	(157.0)	(30.2)	
JFE Shoji Trade (consolidated)	1,483.6	1,166.5	317.1	+27%
3 new affiliates, others	20.2	25.7	(5.5)	-21%
JFE Shoji Holdings (consolidated)	1,503.8	1,192.2	311.6	+26%

(Billions of yen)				
Recurring profit	Reporting 1st half	Previous 1st half	YoY change	% change
JFE Shoji Trade (nonconsolidated)	17.8	13.2	4.6	+35%
(3 new affiliates)	3.4	2.2	1.2	+55%
(Overseas coil centers)	2.7	1.0	1.7	+170%
(Other subsidiaries)	8.1	3.7	4.4	+119%
Consolidated subsidiaries	14.2	6.9	7.3	+106%
Equity-method affiliates	0.9	1.3	(0.4)	-31%
Consolidation adjustments	(2.5)	(2.0)	(0.5)	
JFE Shoji Trade (consolidated)	30.4	19.4	11.0	+57%
3 new affiliates, others	0.4	0.3	0.1	+33%
JFE Shoji Holdings (consolidated)	30.8	19.7	11.1	+56%

(Billions of yen)				
Net income	Reporting 1st half	Previous 1st half	YoY change	% change
JFE Shoji Trade (nonconsolidated)	12.0	8.3	3.7	+45%
(3 new affiliates)	1.7	1.3	0.4	+31%
(Overseas coil centers)	2.1	0.7	1.4	+200%
(Other subsidiaries)	4.9	2.4	2.5	+104%
Consolidated subsidiaries	8.7	4.4	4.3	+98%
Equity-method affiliates	0.9	1.3	(0.4)	-31%
Consolidation adjustments	(3.5)	(2.4)	(1.1)	
JFE Shoji Trade (consolidated)	18.1	11.6	6.5	+56%
3 new affiliates, others	(0.3)	0.1	(0.4)	-
JFE Shoji Holdings (consolidated)	17.8	11.7	6.1	+52%

Forecasts for business performance and dividend for FY2008

(Billions of yen)				
Consolidated business performance	Revised forecast (October 31)	Previous forecast (July 31)	Initial forecast (released on April 28)	FY2007 results
Net sales (YoY change)	2,860.0 (+18.9%)		2,740.0	2,404.7
Operating income (YoY change)	50.0 (+33.5%)		43.5	37.4
Recurring profit (YoY change)	50.0 (+27.4%)		43.0	39.2
Net income (YoY change)	28.5 (+21.7%)		24.5	23.4

Dividend per share (ordinary share)

Revised forecast (October 31)	¥10*	Previous forecast (July 31)	¥10	Initial forecast (released on April 28)	¥10
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* Interim dividend: ¥5

(Exchange rates: first half average rate: ¥105.13/US\$1.00, projected second-half rate: ¥100/US\$1.00)

Overview

Regarding prospects in the steel industry, a decline in production volumes is already being seen in certain customer manufacturing industries such as the automakers, in response to the economic slowdown in Japan and overseas, and the outlook is more uncertain than ever. Steel prices, too, will have to be watched carefully, as indications of a decline in the market have already been observed.

For the fiscal 2008 full term, in view of the uncertain prospects for both demand and product prices in Japan and overseas, the Company faces a difficult situation in the latter half. However, in light of the fact that the first-half business performance was good, we are forecasting full-term sales of ¥2,860 billion, operating income of ¥50 billion, and recurring profit of ¥50 billion. Net income should hit a record ¥28.5 billion.