

To Our Stakeholders

President and CEO
JFE Holdings, Inc.

Eiji Hayashida

■ Before beginning

I take this opportunity to express my sincere appreciation to our many stakeholders for your continue understanding and support of JFE.

■ Performance Overview

Fiscal year 2016 was another very difficult year for our core steel business. The past two years were underwhelming due to trends in China's economy and raw materials prices. China's economic slow-down prompted a strong increase in the country's steel exports, leading to continued stagnancy in the international market, reaching its lowest point in 10 years.

The international market gradually started to recover as Chinese steel exports began to slightly decline from the middle of 2016 due to domestic economic stimulus measures. However, the price of coal (coking coal), the main raw material for steel, skyrocketed from last summer and significantly raised steel-business costs. Consequently, we were obliged to revise down our earnings forecast for the fiscal year.

After that, vigorous efforts to improve sales prices enabled us to exceed our previous year's consolidated performance and maintain the same level of dividends. However, the results included one-time profits such as asset valuation gains, so operating performance actually declined.

Although our steel and trading businesses are faced with difficult business environments, we aim to improve this fiscal year's performance by actively enhancing our business efficiency while also raising sales prices.

In engineering, we are pivoting on steady earnings from our domestic business in recent years to



With the steel business facing difficult times, the collective strength of JFE is being tested.

expand overseas business, although infrastructure projects in Southeast Asia have not progressed at the expected speed. Consequently, overseas orders have been well below the levels anticipated in our medium-term plan. As such, the steady progress of each project under way has become especially important.

Japan Marine United, our equity-method shipbuilding company, is also facing challenges in terms of revenues as the demand for merchant vessels stagnates and ship prices weaken. Accordingly, the company aims to maintain revenue by improving its cost structure.

■ **Steel Business**

Although I anticipate the environment surrounding JFE to remain challenging, we are focusing on maximizing efforts to improve the profitability of our core steel business.

This includes the steady implementation of measures proposed in our medium-term business plan, such as facility upgrades, human resources development and transferring skills to younger personnel. The completion of our coke oven renovations in 2018 will enable the total self-feeding of cokes and thereby substantially reduce production costs.

Despite the challenging business environment, we are enhancing the JFE brand by upgrading facilities and refining our total strengths in technologies and products to become an increasingly trusted steel company.

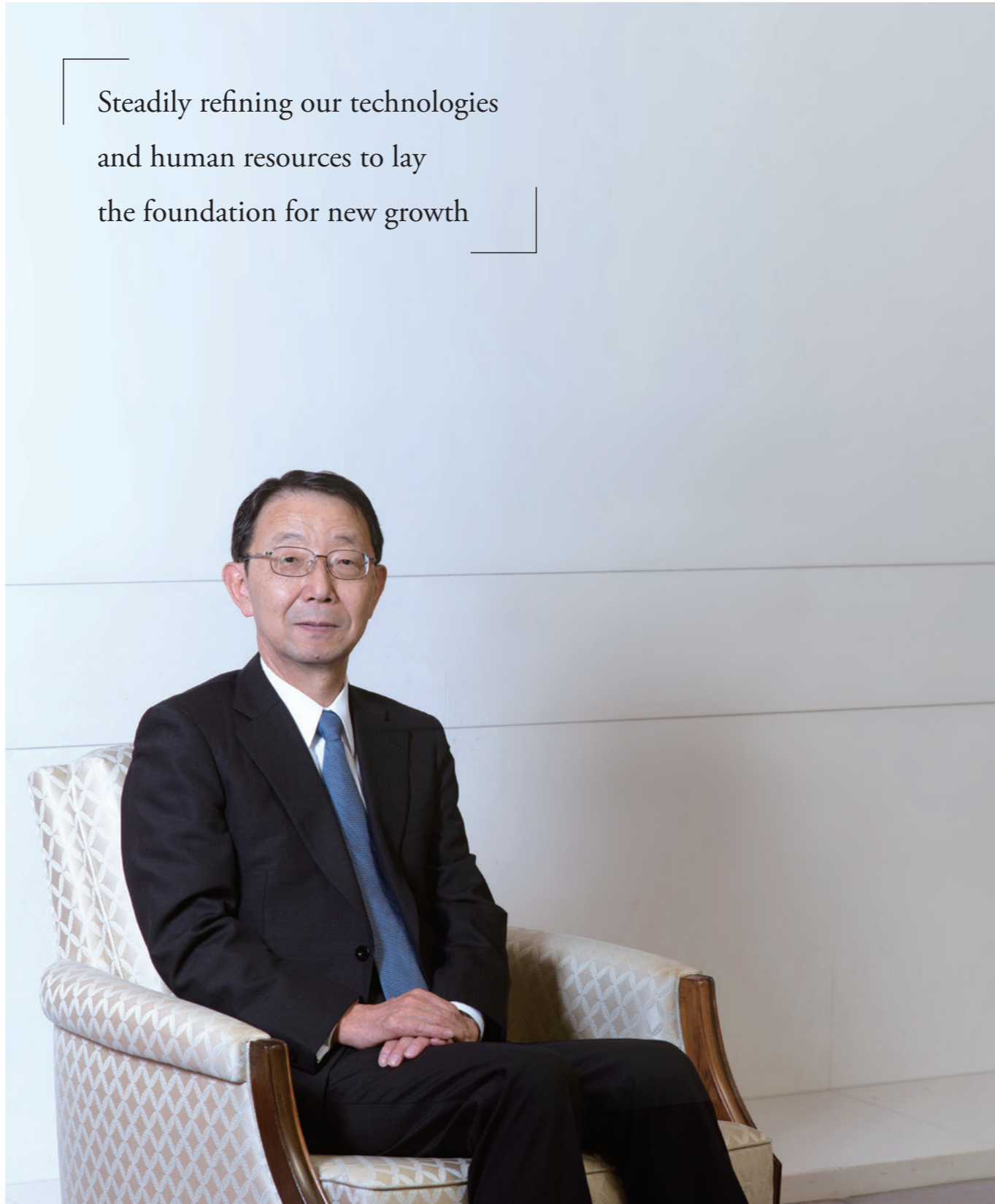
In terms of human resources, we continue to develop our future workforce through skills training and personnel diversification. In particular, we position work-style reform as an important business objective and are striving to ensure that all of our workplaces allow people to demonstrate their abilities to the fullest and feel fulfilled in doing so.

■ **Engineering and Trading Businesses**

Our engineering business has grown steadily for the past few years, boosted by expansion into operations management mainly in the electricity, water and sewerage sectors. Despite a current leveling off, we aim to grow slowly but surely going forward.

Trading business is greatly influenced by the steel business, but patient efforts to improve the profitability of our processing services in China and elsewhere in Asia are coming to fruition, justifying our current focus on this sector.

Steadily refining our technologies
and human resources to lay
the foundation for new growth



■ **Financial Challenges**

In addition to augmenting the profitability of individual businesses, we improved cash flow through asset reduction and generally enhanced our consolidated financial structure while continuing to make strategic capital investments. Our balance sheet strengthened without increasing borrowings, bringing our debt-equity ratio to within 50%, one of our medium-term financial goals.

Although we might be delayed slightly in achieving earnings targets including ordinary income and ROE due to harsh external conditions, we will steadfastly continue to pursue these targets.

In the next medium-term business plan currently under discussion, we aim to combine growth-oriented investment and shareholder returns underpinned by financial soundness.

■ **Enhanced Corporate Governance**

In FY2015, we established our the Nomination Committee and the Remuneration committee in which outside executives (outside directors and audit & supervisory board members) account for majorities to ensure strong corporate governance. Outside executives enhance our efforts to ensure fairness, objectivity and transparency.

Furthermore, after evaluating the effectiveness of our Board of Directors since FY2016, we have decided to revise the board's composition, as was recommended after the evaluation. Presidents of JFE Steel, our core business, conventionally serve concurrently as directors of JFE Holdings. However, the Nomination Committee has decided to also appoint the presidents of JFE Engineering and JFE Shoji Trade as directors for improved governance and strengthened group management.

Further, we added another outside director to enhance the board's checks

and balances. In addition, we added an outside auditor to our Audit & Supervisory Board, which had received high marks in the evaluation, to five members. With outside auditors comprising the majority, we upgraded the neutrality and independence of our audit structure and functions, and we further increased our ratio of total outside executives.

■ **Conclusions**

In view of the great number of stakeholders that support JFE, we are is deeply committed to the following:

- ◎ Encouraging customers to increasingly choose our brand by offering them superior products and reliable services backed by technological strengths, and by maintaining a strong supply chain to purchase raw materials and equipment through close cooperation with business partners;
- ◎ Providing safe and rewarding workplaces for all employees in the JFE family, including group companies and contractors, to ensure work environments in which people can maximize their capabilities;
- ◎ Vitalizing regional economies and protecting the global environment for prosperous coexistence with local communities;
- ◎ Striving continuously to grow profits and satisfy shareholders with appropriate returns.

While business conditions are expected to remain harsh, we intend to inspire company-wide progress and work ever more closely with our stakeholders to meet their expectations.