

Message from the CFO

Focusing on the cash flow, our goal is to maintain both sound financial standing and investment for sustainable growth.



Representative Director, Executive Vice President and CFO, JFE Holdings, Inc.
Masashi Terahata

procurement, we aim to achieve stability and low costs, using diverse means including loans from financial institutions, corporate bonds and commercial papers. Additionally, the company made a decision in FY2016 to reduce its strategic

shareholdings by approximately 100.0 billion yen, and since then has sold a cumulative total of 140.0 billion yen of shares (on a market value basis).

Financial measures against risk of business environment deterioration

The steel industry requires vast amount of funding yet is subject to comparatively large swings in profits, necessitating the establishment of stable shareholders' equity and cash flow. The Medium-term Business Plan has a target of achieving the three-year average of 290.0 billion yen in business profit in order to secure stable cash flow. However, a substantial fall in profits is expected in the business forecast for FY2019 (announced in August) due to the steel business affected by the heavy negative impact from factors such as rising prices of primary raw materials, despite the positive impact of the increase in production and shipping volume and reduced cost compared to the previous year. The business profit is forecasted at 140.0 billion yen (down 92.0 billion yen year-on-year), and profit attributable to owners of the parent company at 90.0 billion yen (down 73.5 billion yen year-on-year). As a result, the two-year average of business profit based on actual FY2018 results and forecasted FY2019 results is projected to be approximately 190.0 billion yen, unfortunately falling short of our targeted profit level, while interest-bearing liabilities are also increasing. The main reasons for this shortfall were

natural disasters and operational trouble in the steel business in FY2018, as well as the impact of increased costs due to the substantial price increase in auxiliary raw materials such as metals and other materials, and logistics costs over what could be expected when formulating the Medium-term Business Plan. Regarding the operational trouble, we are engaging in capital investments on a scale of 10 billion yen, involving the use of AI and IoT technologies for permanent measures to stabilize the blast furnace operations. To combat the price increase in primary raw materials as well as auxiliary raw materials and other materials, logistics costs, and other costs, we are continuing with cost reductions and other efforts on our part. For price increases we can not absorb ourselves, we are continuing with sales activities to gain the understanding of our customers. Through these efforts we aim to secure a profit level capable of sustainable growth.

Though demand for steel in Japan is expected to stay firm in general for the time being, the level of demand is beginning to vary depending on the field. Overseas, a slowdown in demand for steel and market situation in certain fields can be observed due to the impact of the US-China trade friction. As the business environment for the steel industry is becoming severe, the company will maintain a sound financial standing while limiting the increase in interest-bearing liabilities through measures including improvement of CCC* by reducing inventory, asset reductions such as further disposal of shareholdings, and reexamination of priorities for capital investment and loans and investments.

Major figures for the Sixth Medium-term Business Plan (IFRS basis*)

Business profit	290 billion yen/year
Profit attributable to owners of the parent company	200 billion yen/year
Debt/EBITDA ratio	Approx. 3 times
Total Group investments	1.2 trillion yen/3 years
Of which, domestic capital investment, steel business	1 trillion yen/3 years

* The company voluntarily adopted the IFRS from financial results for the fiscal year ended March 2019 to improve the international comparability of financial statements in the capital markets as Group business operations expand globally, and to raise the level of the Group's business management by standardizing our accounting procedures.

* Cash Conversion Cycle (CCC) refers to the number of days from investment such as for purchasing materials or products to the final point of cash inflow, and serves as an indicator of fund efficiency.

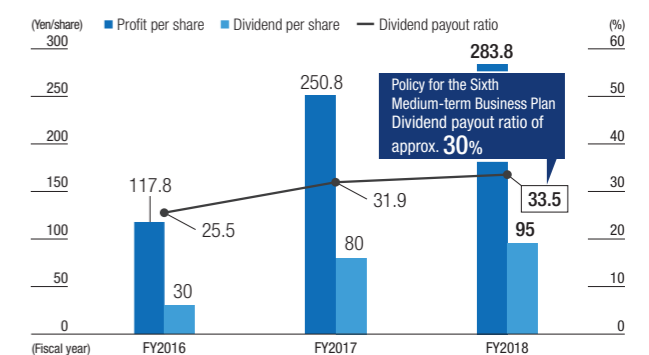
Returns to shareholders

Returns to our shareholders are positioned as one of the most important aspects of our business management. The Sixth Medium-term Business Plan adopts a shareholder return policy of a consolidated payout ratio of approximately 30%, taking into account a balance between sound financial standing and investment for growth.

The FY2018 annual dividend was 95 yen per share, and the consolidated payout ratio was 33.5%.

In light of the current profit/loss status, the company plans to pay an interim dividend for FY2019 of 20 yen per share (announced in August). The annual dividend will be decided by closely observing trends in business performance.

Trends in dividend payout



FY2018 Results

In FY2018, the first year of the Medium-term Business Plan, revenue was 3,873.6 billion yen, while business profit* was 232.0 billion yen, an increase in both revenue and profit compared to the previous year. Profit attributable to owners of the parent company after tax and other expenses was 163.5 billion yen. ROE also improved to 8.6% compared to the previous year.

As for cash flow, the investment cash flow exceeded the

operating cash flow due to active capital investments in Japan to strengthen the manufacturing capabilities of the steel business. The balance of interest-bearing liabilities at the end of March 2019 was 1,523.8 billion yen, an increase of 132.6 billion yen compared to the previous year. As a result, debt/EBITDA ratio, a key indicator of sound financial standing for the company, increased from the previous year to 3.6 times.

* Business profit is profit before tax excluding financial income and one-time items of materially significant value.

Major financial indicators

	JGAAP (Japanese Generally Accepted Accounting Principles)			IFRS (International Financial Reporting Standards)
	FY2015	FY2016	FY2017	FY2018
ROE (%)	1.8	3.7	7.6	8.6
Ordinary income / Business profit (billion yen)	64.2	84.7	216.3	232.0
Capital investment (billion yen; construction basis)	212.5	234.7	257.2	329.5
Debt/EBITDA ratio (times)	5.4	4.9	3.4	3.6
D/E ratio (%)	56.9	51.4	58.1	68.2
Net income per share / earnings per share (yen)	58	118	251	284
Payout ratio (%)	51.4	25.5	31.9	33.5

Initiatives for sustainable growth

The JFE Group strives to maintain a sound financial standing together with investments, emphasizing its ability to generate profits and cash flow in order to continue investing toward future sustainable growth. The steel business that is our core business requires significant funds in order to maintain and upgrade the massive equipment and machinery we possess. Strengthening our manufacturing capabilities in the steel business is a key initiative of our Sixth Medium-term Business Plan. We plan to invest a total of 1 trillion yen over three years to achieve stable production and world-class cost competitiveness. From the second half of FY2019 and onward, large machinery and equipment are set to go into operation primarily in upstream processes at the West Japan Works, raising

production output while reducing costs (at a cumulative total of 105.0 billion yen for three years in the Medium-term Business Plan).

In our engineering business, we will steadily expand our operating businesses to build up profit. Our trading business is progressing toward the medium-term profit targets as planned, continuously working to build a stable profit base through both trading and other business activities. We maintain a balance between ongoing investments and sound financial standing through an array of initiatives by each operating company to build up sales profits and improve the debt/EBITDA ratio. Our target is to achieve ROE of 10%, which matches our estimated shareholders' equity cost. As for fund

The JFE Group adopted International Financial Reporting Standards (IFRS) from FY2018, in place of the generally accepted accounting principles in Japan (JGAAP).

	JGAAP										IFRS	
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2018
Operating results												
Net sales (JGAAP) / Revenue (IFRS)	3,908	2,844	3,195	3,166	3,189	3,666	3,850	3,431	3,308	3,678	3,961	3,873
Ordinary income (JGAAP) / Business profit*1 (IFRS)	400	69	165	52	52	173	231	64	84	216	221	232
Income before income taxes (JGAAP) / Profit before tax (IFRS)	331	70	115	(71)	75	160	226	74	105	213	209	209
EBITDA*2 (JGAAP) / EBITDA*3 (IFRS)	670	337	428	306	260	368	421	254	279	388	405	428
Profit attributable to owners of parent	194	45	58	(36)	39	102	139	33	67	144	164	163
Capital expenditures (construction basis)	289	225	180	197	179	175	225	212	234	257	287	329
Depreciation and amortization	247	248	246	238	194	181	176	177	182	159	172	196
Research and development expenses	41	36	33	34	33	31	32	35	35	34	37	37
Financial position												
Total assets	4,328	3,918	3,976	4,007	4,107	4,241	4,639	4,234	4,336	4,440	4,648	4,709
Property, plant and equipment	1,843	1,800	1,712	1,644	1,606	1,599	1,629	1,627	1,650	1,702	1,782	1,835
Shareholders' equity (JGAAP)/ Equity attributable to owners of parent (IFRS)	1,335	1,422	1,437	1,414	1,558	1,702	1,938	1,804	1,865	1,949	2,012	1,926
Net assets (JGAAP) / Equity (IFRS)	1,378	1,465	1,478	1,456	1,596	1,745	1,990	1,857	1,921	2,009	2,079	1,991
Debt outstanding (JGAAP)/ Interest-bearing debt outstanding (IFRS)	1,768	1,468	1,496	1,593	1,596	1,534	1,501	1,379	1,375	1,330	1,449	1,523
Cash flows												
Cash flows from operating activities	243	389	302	110	287	254	297	267	185	298	235	268
Cash flows from investing activities	(350)	(236)	(302)	(205)	(163)	(164)	(216)	(137)	(163)	(194)	(284)	(313)
Free cash flow*4	(106)	152	0	(95)	123	90	81	129	21	103	(48)	(45)
Cash flows from financing activities	260	(321)	23	96	(147)	(105)	(78)	(144)	(18)	(90)	56	51
Per share data												
Profit attributable to owners of parent (yen/share)	356	86	111	(69)	71	177	242	58	118	251	285	284
Net assets (JGAAP)/ Equity attributable to owners of parent (IFRS) (yen/share)	2,526	2,690	2,709	2,628	2,701	2,951	3,362	3,128	3,236	3,382	3,495	3,345
Dividends (yen/share)	90	20	35	20	20	40	60	30	30	80	95	95
Payout ratio (%)	25.3	23.2	31.6	—	28.1	22.5	24.8	51.4	25.5	31.9	33.3	33.5
Financial indicators												
Debt/EBITDA ratio*5 (JGAAP) / Debt/EBITDA ratio*6 (IFRS) (times)	2.6	4.4	3.5	5.2	6.1	4.2	3.6	5.4	4.9	3.4	3.6	3.6
ROE*7 (JGAAP) / ROE*8 (IFRS) (%)	13.7	3.3	4.1	(2.6)	2.7	6.3	7.7	1.8	3.7	7.6	8.3	8.6
ROA*9 (JGAAP) / ROA*10 (IFRS) (%)	10.0	2.2	4.6	1.7	1.6	4.5	5.5	1.7	2.3	5.2	5.1	5.0
Equity ratio (%)	30.9	36.3	36.2	35.3	37.9	40.1	41.8	42.6	43.0	43.9	43.3	40.9
D/E ratio*11 (JGAAP) / D/E ratio*12 (IFRS) (%)	98.9	75.5	76.5	83.5	76.9	67.9	59.0	56.9	51.4	58.1	62.0	68.2
Year-end share price (yen/share)	2,145	3,765	2,434	1,778	1,767	1,943	2,654	1,516	1,909	2,144	1,879	1,879
Segment information												
Net sales (JGAAP) / Revenue (IFRS)												
Steel	3,423	2,281	2,747	2,714	2,499	2,691	2,873	2,445	2,349	2,715	2,808	2,830
Engineering	338	294	265	278	267	284	367	397	426	391	485	485
Trading					785	1,781	1,934	1,756	1,671	1,907	2,060	1,125
Ordinary income (JGAAP) / Segment profit*13 (IFRS)												
Steel	412	32	134	25	15	126	188	27	40	198	164	161
Engineering	9	13	12	14	16	18	18	20	26	19	20	20
Trading					7	21	24	15	21	33	35	35
Others												
Crude steel production (JFE Steel on a non-consolidated basis) (million t)	26.55	25.83	28.80	26.90	27.97	28.67	28.44	27.36	28.14	28.46	26.31	26.31
Crude steel production (JFE Steel on a consolidated basis) (million t)	29.28	28.35	31.47	29.24	30.69	31.58	31.04	29.75	30.41	30.06	27.88	27.88
Shipment (JFE Steel on a non-consolidated basis) (million t)	25.06	23.18	26.25	24.67	25.23	25.52	26.07	25.39	25.70	25.30	23.78	23.78
Average selling price (JFE Steel on a non-consolidated basis) (thousand yen/t)	100.8	70.2	77.9	82.0	70.6	75.7	77.1	66.8	62.8	75.3	81.5	81.5
Export ratio on a value basis (JFE Steel on a non-consolidated basis) (%)	41.6	45.6	46.5	45.0	49.9	48.4	48.1	45.8	44.0	44.4	41.7	41.7
Employees (JFE Holdings on a consolidated basis) (persons)	56,547	53,892	54,400	54,133	57,044	57,210	58,856	59,460	60,439	61,234	62,076	62,083

*1 Business profit: Profit before tax excluding finance income and one-time items of a materially significant value

*2 EBITDA (JGAAP): Ordinary income + Interest expenses + Depreciation and amortization

*3 EBITDA (IFRS): Business profit + Depreciation and amortization

*4 Free cash flow: Cash flows from operating activities + Cash flows from investing activities

*5 Debt/EBITDA ratio (JGAAP): Debt outstanding / EBITDA

*6 Debt/EBITDA ratio (IFRS): Interest-bearing debt outstanding / EBITDA

*7 ROE (JGAAP): Profit attributable to owners of parent / Shareholders' equity

*8 ROE (IFRS): Profit attributable to owners of parent / Equity attributable to owners of parent

*9 ROA (JGAAP): (Ordinary income + Interest expenses) / Total assets (average)

*10 ROA (IFRS): Business profit / Total assets

*11 D/E ratio (JGAAP): Debt outstanding / Shareholders' equity

For debt having a capital component, a portion of its issue price is deemed to be capital, as assessed by rating agencies.

*12 D/E ratio (IFRS): Interest-bearing debt outstanding / Equity attributable to owners of parent

For debt having a capital component, a portion of its issue price is deemed to be capital, as assessed by rating agencies.

*13 Segment profit: Profit including finance income in business profit