

Notice of the 18th Ordinary General Meeting of Shareholders

Materials Published on our Website

18th Fiscal Year

(From April 1, 2019 to March 31, 2020)

- **“Systems to Ensure the Propriety of Business Operations and the Status of Operation of Such Systems” in the Business Report**
- **“Consolidated Statement of Changes in Equity” and “Notes to the Consolidated Financial Statements” in the Consolidated Financial Statements <International Financial Reporting Standards (IFRS)>**
- **“Non-consolidated Statement of Changes in Equity” and “Notes to the Non-consolidated Financial Statements” in the Non-consolidated Financial Statements <Japanese Standards>**

JFE Holdings, Inc.

These Notes are published on our website (<https://www.jfe-holdings.co.jp/en/>) in accordance with the applicable laws and regulations and the Articles of Incorporation.

(Translation for reference only)

Systems to Ensure the Propriety of Business Operations and the Status of Operation of Such Systems

- (1) Substance of the resolution regarding the systems to ensure the propriety of business operations
Regarding the above systems, the Company, by resolution at a meeting of its Board of Directors, resolved the following “Basic Policies to Establish the Internal Control Systems,” based on Article 362 of the Companies Act and Article 100 of the Ordinance for Enforcement of the Companies Act.

Basic Policies to Establish the Internal Control Systems

JFE Holdings, Inc. shall establish its internal control systems as described below to comply with laws, regulations and the Articles of Incorporation and maximize its corporate value toward the realization of the Corporate Vision—“The JFE Group—contributing to society with the world’s most innovative technology”—and the goal of establishing a highly sustainable business structure. JFE Holdings, Inc. shall endeavor to review and improve the basic policies and the internal control systems established in accordance therewith on an ongoing basis.

1. Systems necessary for ensuring the propriety of business operations conducted by the corporate group consisting of the Company and its subsidiaries
 - (1) Systems to ensure compliance of the execution of duties by Directors and employees with laws, regulations and the Articles of Incorporation
 - (a) The authority of Directors, Corporate Officers and employees shall be clarified in the in-house rules for authority and responsibilities and other internal policy guidelines. Their respective duties shall be executed in compliance with the relevant rules and regulations.
 - (b) A Compliance Council shall be established. It shall deliberate and make decisions on the basic policies and important matters regarding the compliance of ethics, laws and regulations. The Compliance Council shall also supervise the progress of the measures implemented.
 - (c) A “Corporate Ethics Hotline” to help ensure that important information regarding the compliance of ethics, laws and regulations is directly communicated from the front lines to top management shall be provided, streamlined and appropriately operated.
 - (d) The internal auditing department shall audit the compliance conditions of the relevant laws, regulations and the Articles of Incorporation.
 - (2) Systems to ensure the efficient execution of Directors’ duties
 - (a) The Directors shall encourage in-depth deliberations at the meetings of the Board of Directors, the JFE Group Management Strategy Committee, and the Management Committee. The Directors shall also sufficiently deliberate before drawing conclusions at appropriate organizational bodies, as required.
 - (b) The internal auditing department shall audit the effectiveness and efficiency of the business.
 - (3) Systems to keep and manage information pertaining to the execution of duties by Directors
 - (a) The minutes of the Board of Directors meetings shall be prepared with regard to information on matters to be resolved by and reported to the Board of Directors, in accordance with the relevant laws and regulations. The board minutes shall be appropriately kept and managed.
 - (b) Information regarding organizational bodies, such as the JFE Group Management Strategy Committee and the Management Committee, that addresses important management matters shall be appropriately recorded, stored and managed.
 - (c) Important corporate documents, such as kessaisho (documents for approval), which are related to the execution of Directors’ duties, shall be appropriately recorded, stored and managed.

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- (4) Rules and other systems regarding loss risk management
 - (a) As for risk management of risks involving business activities, compliance with ethics, laws and regulations, financial reporting and information disclosure, the Corporate Officers in charge shall endeavor to recognize their respective risks. The appropriate organizational bodies shall check, identify and evaluate the risk factors, as required, and deliberate and make decisions on how to cope therewith.
 - (b) Important management matters shall be deliberated and decided in accordance with the decision-making procedures set forth in the Rules of the Board of Directors, etc.

- (5) Systems to ensure the propriety of business operations conducted by the corporate group
 - (a) The respective Group companies of the JFE Group shall streamline their in-house systems with regard to the matters specified in the basic policies, as required, by taking into account their corporate size, business lines, organizational design of the in-house body, and corporate individuality and characteristics.
 - (b) JFE Holdings, Inc. shall determine its decision-making procedures, etc., for important group management matters, as well as important matters (including matters with regard to loss risk management.) of the operating companies (significant subsidiaries being operating companies of which JFE Holdings, Inc., directly holds shares thereof) and their affiliated Group companies in accordance with the regulations of the Board of Directors, etc., then deliberate and make decisions on such matters at the appropriate organizational bodies or receive reports therefrom. Each operating company shall determine its decision-making procedures, etc., for important matters for itself and its affiliated Group companies in accordance with its regulations of the Board of Directors, etc., then deliberate and make decisions on such matters at the appropriate organizational bodies or receive reports therefrom.
 - (c) JFE Holdings, Inc. shall establish the JFE Group Compliance Council to deliberate and make decisions related to the Group's basic policy and important matters in regard to compliance with the code of ethics and laws and regulations, and supervise the status of the implementation of related measures. And, in order to promote its group management that is compliant with the code of ethics and laws and regulations, JFE Holdings, Inc. shall closely coordinate with the Compliance Councils of operating companies.

Each operating company shall establish a Compliance Council to deliberate and make decisions related to the basic policy and important matters in regard to compliance with the code of ethics and laws and regulations for itself and its affiliated Group companies, and supervise the status of the implementation of related measures. JFE Holdings, Inc. shall streamline and appropriately operate the Corporate Ethics Hotline as a system to help ensure that important information of the entire Group regarding the compliance with the code of ethics, laws and regulations is directly communicated from the front lines to top management.
 - (d) The internal auditing department of JFE Holdings, Inc. shall audit the effectiveness and efficiency of the business and the compliance status with regard to the relevant laws, regulations and the Articles of Incorporation at the operating companies, or receive reports from the respective internal auditing departments of such operating companies. The internal auditing department of each operating company shall audit the effectiveness and efficiency of the business and the compliance status with regard to the relevant laws, regulations and the Articles of Incorporation at its affiliated Group companies, or receive reports from the respective internal auditing departments of such Group companies.
 - (e) The respective Group companies of the JFE Group shall streamline their required systems, which are necessary to ensure the reliability of their financial reporting, and disclose appropriate information at appropriate times.

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2. Systems necessary for the Company's Audit & Supervisory Board Members to execute their duties
 - (1) Matter regarding employees as assistants to support Audit & Supervisory Board Member's duties
Employees who support any Audit & Supervisory Board Member in conducting his/her duties shall be staff of the Audit & Supervisory Board Member's Secretariat.
 - (2) Matter regarding the independence of employees as assistant to support Audit & Supervisory Board Member's duties from Directors
The personnel affairs of the employees who serve as assistants to the Audit & Supervisory Board Members shall be consulted with the Audit & Supervisory Board Members.
 - (3) System for ensuring the effectiveness of the instructions given to employees as assistants to support Audit & Supervisory Board Member's duties
The employees who serve as assistants to the Audit & Supervisory Board Members shall perform their operations of supporting an Audit & Supervisory Board Member's duties under the supervision of said Audit & Supervisory Board Member.
 - (4) System for reporting to the Audit & Supervisory Board Members
 - (a) The Audit & Supervisory Board Members shall attend the meetings of the Board of Directors, the JFE Group Management Strategy Committee, the Management Committee and other important meetings and receive reports thereat.
 - (b) The Directors, Corporate Officers and employees shall report the execution of their duties (including important matters regarding the operating companies and their affiliated Group companies) to the Audit & Supervisory Board and/or any Audit & Supervisory Board Member as required or if so requested by the Audit & Supervisory Board or any Audit & Supervisory Board Member. The Directors, Corporate Officers and employees of the operating companies or their affiliated Group companies shall report the execution of their duties to the Audit & Supervisory Board and/or any Audit & Supervisory Board Member as required or if so requested by the Audit & Supervisory Board or any Audit & Supervisory Board Member.
 - (c) JFE Holdings, Inc. shall streamline the Corporate Ethics Hotline as a system that allows anyone to directly report to or consult with an Audit & Supervisory Board Member. The details of any violations that have been reported or discussed over the Corporate Ethics Hotline are handled by the department in charge thereof and shall then be reported to the Audit & Supervisory Board and/or the Audit & Supervisory Board Members, as they occur.
 - (5) System to ensure that anyone who has reported to an Audit & Supervisory Board Member does not suffer detrimental treatment for the reason of having made said report
JFE Holdings, Inc. shall stipulate in the relevant regulations that anyone who has reported any violations through the Corporate Ethics Hotline and that anyone who has reported or discussed any violations with the Audit & Supervisory Board and/or the Audit & Supervisory Board Members shall not be unfavorably treated, and shall appropriately operate said regulations.
 - (6) Policies with regard to expense prepayment and/or reimbursement procedures related to the execution of duties by the Audit & Supervisory Member, and the handling of any other expenses or obligations that derive from the execution of the relevant duties
JFE Holdings, Inc., shall respond to the request as soon as possible if a request is made with regard to the prepayment or reimbursement of expenses that are required for the execution of duties of Audit & Supervisory Board Members.

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- (7) Other systems to ensure effective audits by the Audit & Supervisory Board Members
 - (a) The Directors, Corporate Officers and employees shall cooperate with the Audit & Supervisory Board Members in improving the auditing environment so that various Audit & Supervisory Board Members' activities can be smoothly executed, including access to important documents, site examinations, exchanges of opinion with Directors and others, examination of subsidiaries and collaboration with the Audit & Supervisory Board Members of any subsidiaries, all of which are considered necessary for the audits executed by the Audit & Supervisory Board Members.
 - (b) The Audit & Supervisory Board Members shall receive reports from the Accounting Auditor and the internal auditing department on their audit results (including important matters regarding the operating companies and their affiliated Group companies) in an appropriate and timely manner and maintain a close working arrangement with the Accounting Auditor and the internal auditing department.
- (2) Outline of the status of operation of the systems to ensure the propriety of business operations
The Company has been improving and operating the systems to ensure the propriety of business operations as follows in accordance with the Basic Policies to Establish the Internal Control Systems.
 1. Systems concerning the execution of duties by Directors, etc., and the internal audit of the Company and the Group
 - (1) With regard to important matters concerning the management of the Group and important matters of the Company, its operating companies and their affiliated group companies, the Company clearly set forth the decision-making procedures in the Rules of the Board of Directors, the Rules of the JFE Group Management Strategy Committee, and the Rules of the Management Committee. In accordance with such decision-making procedures, such important matters shall be fully deliberated at respective meetings and decisions shall be made and reported.
 - (2) The authority of Directors, Corporate Officers and employees has been clarified in the in-house rules, which have been observed.
 - (3) The internal auditing department shall conduct appropriate audits on the effectiveness and efficiency of the business and the compliance conditions of the relevant laws, regulations and the Articles of Incorporation. The results of the internal audits conducted by each operating company's internal auditing department shall be reported regularly to the Company and verified.
 2. Systems concerning risk management and compliance of the Company and the Group
 - (1) The Company established the JFE Group CSR Council to deliberate on the JFE Group's CSR policies for its measures to address a broad range of areas including compliance, the environment, personnel and labor, safety and disaster prevention; supervise the implementation of such policies; and exchange related information. At the committees which are operated within the JFE Group CSR Council, specific issues are discussed. The following activities were carried out during the 18th term.
 - (a) During the 18th term, the JFE Group Compliance Council held four meetings to discuss reduction of extended working hours, work style reform, compliance with subcontracting-related laws and workplace management (countermeasures against harassment), and shared information on issues in the Company and operating companies and confirmed the implementation of related measures. In addition, the Council made report on the status of operation of the Corporate Ethics Hotline.
 - (b) During the 18th term, the JFE Group Environmental Committee held three meetings to deliberate on matters including editorial policies of the JFE Group's CSR Report to meet recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Committee discussed and decided contents of the Report, and confirmed the implementation of measures that were taken by operating companies in relation to

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- environmental issues.
 - (c) During the 18th term, the JFE Group Internal Control Committee held two meetings to check and verify the evaluation concerning the effectiveness of the internal controls relative to financial reporting by the Company and the Group.
In addition to the above, the Committee made reports on the status of work-related injuries within the Group and the FY2020 Policy for Safe Activities.
 - (2) The Company established the Public Disclosure Committee to ensure the lawfulness and appropriateness of the Company's public disclosure of documents as legally mandated by the Financial Instruments and Exchange Act and other laws. The Committee shall make necessary confirmations and publicly discloses such documents.
 - (3) The Company established the JFE Group Information Security Committee as a deliberative and decision-making body regarding key issues of information security. Based on the committee's decision, "JFE-SIRT (information security and incident response team)" formulates and implements related measures. These activities are reported at meetings of the JFE Group CSR Council as appropriate.
 - (4) The Company shall improve the "Corporate Ethics Hotline," an internal reporting system that officers and employees of the Company and the Group can use (including retired persons as well as employees of business partners), through which they can report to external lawyers. This system has been operated appropriately, including thorough prohibition of detrimental treatment of anyone who has reported and/or consulted on any violations. The details of any violations that have been reported to or consulted are reported regularly to full-time Audit & Supervisory Board Members. The status of operation of this system has been checked and verified by the JFE Group Compliance Council and the Board of Directors.
3. Systems to keep and manage information
- (1) The documents for deliberation and the minutes of meetings of the Board of Directors, the JFE Group Management Strategy Committee and the Management Committee shall be appropriately prepared, kept and managed in accordance with the relevant laws and regulations as well as internal rules.
 - (2) Kessaisho (documents for approval), which are prepared in-house, and other important documents pertaining to the execution of duties shall be appropriately prepared, kept and managed in accordance with the internal rules of the Company.
4. System regarding the Audit & Supervisory Board Members
- (1) The Company shall have employees as assistants to support Audit & Supervisory Board Members' duties under the direction of the Audit & Supervisory Board Members, ensuring the independence of such employees from the Directors.
 - (2) To ensure effective audits by the Audit & Supervisory Board Members, the Audit & Supervisory Board Members shall attend the Board of Directors meetings. Full-time Audit & Supervisory Board Members shall also attend meetings of the JFE Group Management Strategy Committee, the Management Committee and the JFE Group CSR Council, etc., so that they can verify the status of execution of duties. Furthermore, the status of execution of duties at each department shall be reported to the full-time Audit & Supervisory Board Members regularly.
 - (3) To cover the costs for the execution of duties of Audit & Supervisory Board Members, the Company shall provide the related budget to compensate for the necessary expenses.
 - (4) The Audit & Supervisory Board Members shall maintain a close working arrangement with both the internal auditing department and the Accounting Auditor. Specifically, the Audit & Supervisory Board Members shall receive reports regularly from the internal auditing department on its audit results and hear reports from and exchange opinions with the Accounting Auditor regularly and when necessary.

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Consolidated Statement of Changes in Equity

(From April 1, 2019 to March 31, 2020)

(Millions of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
					Remeasurements of defined benefit plans	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income
Balance as of April 1, 2019	147,143	646,793	1,241,420	(180,670)	—	90,730
Cumulative effects of changes in accounting policies	—	—	(1,302)	—	—	—
Retroactively adjusted balance	147,143	646,793	1,240,117	(180,670)	—	90,730
Loss	—	—	(197,744)	—	—	—
Other comprehensive income	—	—	—	—	(4,765)	(46,129)
Comprehensive income	—	—	(197,744)	—	(4,765)	(46,129)
Purchase of treasury shares	—	—	—	(73)	—	—
Disposal of treasury shares	—	(12)	—	17	—	—
Dividends	—	—	(40,363)	—	—	—
Share-based payment transactions	—	(34)	—	88	—	—
Changes in ownership interest in subsidiaries	—	5,684	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	67	—	4,765	(4,832)
Transfer to non-financial assets	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total transactions with owners	—	5,637	(40,296)	33	4,765	(4,832)
Balance as of March 31, 2020	147,143	652,430	1,002,076	(180,637)	—	39,768

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	Equity attributable to owners of parent				Non-controlling interests	Total equity
	Other components of equity			Total		
	Exchange differences on translation of foreign operations	Effective portion of cash flow hedges	Total			
Balance as of April 1, 2019	(16,547)	(2,532)	71,650	1,926,337	65,422	1,991,759
Cumulative effects of changes in accounting policies	—	—	—	(1,302)	—	(1,302)
Retroactively adjusted balance	(16,547)	(2,532)	71,650	1,925,034	65,422	1,990,456
Loss	—	—	—	(197,744)	4,454	(193,290)
Other comprehensive income	(15,393)	790	(65,498)	(65,498)	(384)	(65,882)
Comprehensive income	(15,393)	790	(65,498)	(263,243)	4,070	(259,172)
Purchase of treasury shares	—	—	—	(73)	—	(73)
Disposal of treasury shares	—	—	—	5	—	5
Dividends	—	—	—	(40,363)	(2,559)	(42,922)
Share-based payment transactions	—	—	—	54	—	54
Changes in ownership interest in subsidiaries	—	—	—	5,684	12,287	17,971
Transfer from other components of equity to retained earnings	—	—	(67)	—	—	—
Transfer to non-financial assets	—	(71)	(71)	(71)	—	(71)
Other	—	—	—	—	306	306
Total transactions with owners	—	(71)	(138)	(34,764)	10,034	(24,730)
Balance as of March 31, 2020	(31,941)	(1,813)	6,012	1,627,026	79,526	1,706,552

Note: Amounts are rounded down to the nearest million yen.

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Notes to the Consolidated Financial Statements

Significant Matters on the Basis of the Preparation of the Consolidated Financial Statements, etc.

1. Standards for preparing the consolidated financial statements
The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“IFRS”) pursuant to the provisions under Article 120, Paragraph 1 of the Regulations on Corporate Accounting. Pursuant to the provisions of the latter part of the said Paragraph, certain disclosure items required under IFRS are omitted.
2. Matters of scope of consolidation and equity method
The number of consolidated subsidiaries is 321 and the number of equity method affiliates (affiliates, joint operations and joint ventures) is 74.
The names of significant consolidated subsidiaries and equity method affiliates, etc., are as stated in “Significant subsidiaries” of the Business Report. Accordingly, listing of these companies is omitted.
- 3 Accounting policies
 - (1) Financial assets
 - 1) Initial recognition and measurement
Financial assets are classified either as financial assets measured at amortized cost at the time of initial recognition or as financial assets measured at fair value. The Company and its subsidiaries (the Group) recognizes a financial asset on the transaction date on which it becomes a party to the contractual provisions of the financial asset.
Financial assets that meet the following conditions are classified as financial assets measured at amortized cost:
 - The asset is held in a business model of which the objective is to hold the asset in order to collect its contractual cash flows
 - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstandingFinancial assets other than financial assets measured at amortized cost are classified as financial assets measured at fair value.
With the exception of equity financial assets held for trading purposes that must be measured at fair value through profit or loss, equity financial assets measured at fair value are individually classified either as measured at fair value through profit or loss or as measured at fair value through other comprehensive income, with that classification being made when the asset is initially recognized and applying continuously thereafter.
With the exception of financial assets measured at fair value through profit or loss, financial assets are measured at fair value at initial recognition plus transaction costs directly attributable to the acquisition. Financial assets measured at fair value through profit or loss are measured at fair value at initial recognition, and transaction costs directly attributable to the transaction are recognized in profit or loss.
 - 2) Measurement subsequent to initial recognition
 - (a) Financial assets measured at amortized cost
After initial recognition, measurement is the amortized cost using the effective interest method.
 - (b) Financial assets measured at fair value through profit or loss
After initial recognition, measurement is the fair value with subsequent changes recognized in profit or loss.
 - (c) Equity financial assets measured at fair value through other comprehensive income
After initial recognition, measurement is the fair value with subsequent changes recognized in other comprehensive income.
Amounts recognized in other comprehensive income are transferred to retained earnings when an asset is derecognized or its fair value declines significantly (except when recovery

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is deemed probable); they are not transferred to profit or loss. Dividends derived from such financial assets are recognized as profit or loss.

3) Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows have expired or when the contractual rights to receive cash flows have been transferred and substantially all risks and rewards of ownership of the financial asset are transferred to another entity.

4) Impairment

For financial assets measured at amortized cost, the Company recognizes allowances for doubtful accounts based on expected credit losses.

Allowances for doubtful accounts are calculated as the present value of the difference between the contractual cash flows due to the Group and the cash flows that the Group expects to receive.

The Group determines whether the credit risk on each financial asset has increased significantly since initial recognition on each reporting date, and if the credit risk has not increased significantly since initial recognition, the amount of the allowance for doubtful accounts is assessed based on the expected credit losses (expected credit losses over 12 months) resulting from default events that may occur within 12 months. If, on the reporting date, credit risk on a financial asset has increased significantly since initial recognition, the amount of the allowance for doubtful accounts is assessed based on the expected credit losses arising from all possible default events over the expected lifetime of the financial asset (expected credit losses over full lifetime). However, in the case of trade receivables, contract assets, and lease receivables that do not contain a significant financing component, regardless of the above, the amount of the allowance for doubtful accounts is always measured using the expected credit losses for the instrument's full lifetime.

Provisions for allowances for loan losses on financial assets are recognized in profit or loss. If the case of events that reduce the allowance for loan losses, reversals of allowances for loan losses are recognized in profit or loss.

Estimates of allowances for doubtful accounts relating to financial assets reflect the following.

- Unbiased probability-weighted amounts calculated by evaluating a range of possible outcomes
- Time value of money
- Rational and supportable information about past events, current conditions, and forecasts of future economic conditions, available at the reporting date without undue cost or effort

(2) Derivative and hedge accounting

The Group enters into derivative transactions such as forward exchange contracts and interest rate swaps in order to hedge foreign exchange risk, interest rate risk, and the like.

At the inception of the hedge, the Group formally designates and documents the risk management purpose and strategy for the hedging relationship and the implementation of the hedge. This documentation identifies the hedging instrument, the item or transaction being hedged, the nature of the risk being hedged, and the method of evaluating the effectiveness of the hedging instrument in offsetting the exposure to changes in the fair value or cash flows of the hedged item due to the risk being hedged. The Group expects these hedges to be highly effective in offsetting changes in fair value or cash flows due to the risks being hedged; however, the hedges are assessed on an ongoing basis to determine whether they have actually been highly effective or not throughout the hedging periods.

Derivatives are initially recognized at fair value. After initial recognition, fair value is measured and subsequent changes are treated as shown immediately below.

1) Fair value hedges

Changes in the fair value of derivatives used as hedging instruments are recognized in profit or loss or other comprehensive income. Changes in the fair value of the hedged item corresponding to the hedged risk are recognized in profit or loss or other comprehensive

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income, with the carrying amount of the hedged item being adjusted.

2) Cash flow hedges

The portion of the change in the fair value of derivatives used as hedging instruments that is determined to be an effective hedge is recognized in other comprehensive income, and the cumulative amount is included in other components of equity. The portion of hedges that is ineffective is recognized in profit or loss. Amounts accumulated in other components of equity are reclassified from other components of equity to profit or loss in the accounting period in which the transaction being hedged affects profit or loss. However, if the forecast transaction being hedged subsequently results in the recognition of a non-financial asset or non-financial liability, the amount accumulated in other components of equity is treated as an adjustment to the initial book value of that non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the hedging instrument expires, is sold, or is terminated or exercised, or if the derivative no longer meets the requirements for hedge accounting. When the forecast transaction is no longer expected to occur, the amount accumulated in other components of equity is immediately reclassified from other components of equity to profit or loss.

3) Derivatives not designated as hedges

Changes in the fair value of such derivatives are recognized in profit or loss.

(3) Foreign currency translation

1) Translation of foreign currency transactions

Foreign currency transactions are translated into the functional currency of each company using the exchange rate or similar rate prevailing on the transaction date. Monetary items denominated in foreign currencies at the end of the reporting period are translated into the functional currency at the exchange rate prevailing at the end of the reporting period, and the resulting exchange differences are recognized in profit or loss. When the valuation difference of a non-monetary item is recognized in other comprehensive income, any exchange component is recognized in other comprehensive income, and when a non-monetary item is recognized in profit or loss, any exchange component is recognized in profit or loss.

2) Translation of foreign operations

Assets and liabilities of foreign operations are translated at the exchange rates prevailing at the end of the reporting period. In addition, revenues and expenses of foreign operations are translated at the average exchange rates for the reporting period unless exchange rates fluctuated significantly during the period. Exchange differences arising from translation are recognized in other comprehensive income, and the accumulated amount is included in other components of equity.

When disposing of foreign operations, the cumulative amount of exchange differences related to the foreign operations is recognized in profit or loss at the time of disposal.

(4) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost consists of material costs, direct labor costs, other direct costs, and an appropriate allocation of related manufacturing overhead costs. Net realizable value is calculated by deducting the estimated selling costs from the estimated selling price. Cost is mainly calculated based on the weighted-average method.

(5) Property, plant and equipment

The Group uses the cost model to measure the carrying value of property, plant and equipment subsequent to its recognition. Under this model, property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment other than land and construction in progress are mainly

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depreciated using the straight-line method.

The estimated useful lives of major asset items are as follow:

- Buildings and structures: 2-75 years
- Machinery and vehicles: 2-27 years

The estimated useful lives, depreciation methods, and residual values of property, plant and equipment are reviewed at the end of each fiscal year.

(6) Goodwill and intangible assets

1) Goodwill

Goodwill is not amortized; it is tested for impairment annually or whenever an indication of impairment exists. Impairment losses on goodwill are recognized in the consolidated statement of profit or loss and are not subsequently reversed.

Goodwill is carried at book value less accumulated impairment losses.

2) Intangible assets

Intangible assets acquired separately are measured at cost at the time of initial recognition. Intangible assets acquired in business combinations are measured at fair value as of the acquisition date.

The Group uses the cost model to measure the carrying value of intangible assets subsequent to their recognition. Under this model, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets whose useful lives can be determined are amortized using the straight-line method over their estimated useful lives. Intangible assets mainly comprise software for internal use and have estimated useful lives of 2–10 years.

(7) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is, or contains, a lease.

1) Leases as a lessee

At the commencement date, the Group recognizes right-of-use assets and lease liabilities. At the commencement date, right-of-use assets are initially measured at the amount of the initial measurement of lease liabilities adjusted for any initial direct costs, costs for restoration as required pursuant to the contract and other costs. After the commencement date, the Group uses the cost model to measure right-of-use assets. Under this model, right-of-use assets are measured at the acquisition price, less any accumulated depreciation and any accumulated impairment losses. Right-of-use assets are depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term, unless it is reasonably certain that the Group will acquire ownership of the leased assets at the end of the lease term. The lease term is determined as the non-cancellable period of leased assets, together with periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

Lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date, discounted using the lessee's incremental borrowing rate. After the commencement date, the Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made. In case of lease modifications, the Group remeasures the lease liability. For a lease modification that is not accounted for as a separate lease and decreases the scope of the lease, the Group decreases the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

However, we use the exemption for short-term leases and leases of low-value assets;

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instead of recognizing right-of-use assets and lease liabilities for such leases, it expenses the lease payments on a straight-line basis over the lease term.

2) Leases as a lessor

Leases entered into as a lessor are classified as either finance leases or operating leases according to the substance of the transaction rather than the form of the contract. Assets held under finance leases are presented as receivables in an amount equal to the net investment in the lease.

In the case of subleases, the intermediate lessor classifies the sublease with reference to the right-of-use asset arising from the head lease.

In the case of operating leases, we record the leased assets on the consolidated statement of financial position and recognize lease payments as income on a straight-line basis over the lease term.

(8) Investment property

Investment property is real estate held for the purpose of earning rental income, capital gains, or both.

The Group uses the cost model to measure the carrying value of investment property subsequent to its recognition. Under this model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property other than land is depreciated mainly using the straight-line method over the estimated useful life. The estimated useful life of the Company's main investment properties is 26 years.

The estimated useful lives, depreciation methods, and residual values of investment properties are reviewed at the end of each fiscal year.

(9) Impairment of non-financial assets

For property, plant and equipment and intangible assets, if there is any indication at the end of each reporting period that an asset may be impaired, the asset is assessed based on its recoverable value, being the higher of fair value less costs to sell and its value in use; if the carrying value of the asset exceeds its recoverable value, then the asset is impaired and is written down to its recoverable value.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and whenever there is any indication of impairment.

Impairment losses recognized on assets other than goodwill in previous years are assessed at the end of each reporting period to determine whether there is any indication that the recognized impairment loss may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated, and if the recoverable amount exceeds the carrying amount of the asset or the cash-generating unit to which the asset belongs, an impairment reversal is recognized and the carrying amount is increased to the recoverable amount subject to the condition that the carrying amount of the asset may not exceed the carrying amount (net of accumulated depreciation or accumulated amortization) that would have been determined had no impairment loss been previously recognized. Impairment losses recognized on goodwill are not reversed in subsequent periods.

(10) Post-employment benefits

1) Defined benefit plans

Defined benefit plans are any retirement benefit plans other than defined contribution plans. For each separate plan, the defined benefit obligation is calculated by estimating the future benefits earned as compensation for services provided by employees in previous and current fiscal years, and discounting that amount to the present value. The fair value of plan assets is deducted from the result of that calculation. The discount rate is determined with reference to the market yields of high quality corporate bonds that are denominated in the same currency as the expected benefit payment and that have approximately the same maturity as the Group's defined benefit obligation.

(Translation for reference only)

If a retirement benefit plan is revised, costs related to the variable portion of benefits related to employees' past service are immediately recognized in profit or loss.

The Group recognizes changes in net defined benefit liability (asset) due to remeasurement in other comprehensive income and immediately transfers the amounts to retained earnings.

2) Defined contribution plans

Expenses related to defined contribution plans are recognized as expenses in the period in which the employees provide the services.

(11) Provisions

Provisions are recognized when the Company has a present obligation (legal obligation or constructive obligation) resulting from past events, it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

If the impact of the time value of money is material, provisions are recorded at a discounted amount calculated using a discount rate that reflects the risks specific to the liability.

(12) Revenue

With the exception of interest, dividend income, etc., under IFRS 9 Financial Instruments, the Group uses the following five-step approach in recognizing revenue that reflects the amount of consideration to which the Company expects to be entitled in exchange for the transfer of goods and services to customers:

Step 1: Identify the contract with the customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to a distinct performance obligation of the contract

Step 5: Recognize revenue when the performance obligation is fulfilled (or as it is fulfilled).

With respect to sales of steel products, etc. in the steel business, revenues mainly are recognized at the point of shipment, when the customer assumes the significant risk and economic value of ownership of the product being physically transferred and the right to receive payment is confirmed.

With regard to construction contracts, etc. in the engineering business, we mainly estimate the progress of fulfilling performance obligations, and revenue is recognized over a fixed period based on the degree of progress.

With respect to the sale of steel products, etc. in the trading business, revenues are recognized at the point of physical transferring ownership rights and physical ownership of the product to the customer, and the significant risk and economic value associated with ownership, and the right to receive payment is confirmed. In addition, for certain transactions in the trading business, the company has the responsibility to carry out work as an agent.

Revenue is measured at the amount that deducts price reduction and rebates, etc. from the promised value in the contract with the customer.

When the Group is engaged in a transaction as a party to the transaction, revenue is presented as the total consideration received from the customer. When the Group is engaged in transactions as an agent for a third party, revenue is presented as a fee, calculated as the total amount of consideration received from the customer minus the amount collected for the third party.

(13) Business profit

Business profit is profit before income taxes excluding financial income and one-time items of materially significant value. It is a benchmark indicator of the Company's consolidated earnings.

(Translation for reference only)

(14) Other significant matters for the preparation of the consolidated financial statements

1) Accounting for consumption taxes, etc.

Transactions subject to the consumption tax and the local consumption tax are recorded at amounts exclusive of the consumption tax.

2) Application of consolidated tax reporting

Consolidated tax reporting is applied.

Changes in Accounting Policies

Effective from the fiscal year ended March 31, 2020, we have adopted IFRS 16 Leases (issued January 2016).

In applying IFRS 16, we use the transition method described in paragraph C5(b) of IFRS 16 and thus recognize the cumulative effects of initially applying the standard at the date of initial application (April 1, 2019).

In applying IFRS 16, we selected the practical expedient detailed in paragraph C3 of IFRS 16 for the purpose of assessing whether a contract is, or contains, a lease and thus continue to use the assessments previously made under IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. For such assessments made on or after the date of initial application, we apply the provisions of IFRS 16.

The adoption of IFRS 16 resulted in a 104,408-million-yen increase in total assets, a 105,711-million-yen increase in total liabilities and a 1,302-million-yen decrease in retained earnings as of the beginning of the fiscal year ended March 31, 2020.

The weighted average of the lessee's incremental borrowing rate applied to lease liabilities at the date of initial application (April 1, 2019) is 0.6%.

The following shows the adjustments between total future minimum lease payments under non-cancellable operating lease agreements as of the end of the fiscal year ended March 31, 2019 disclosed in accordance with IAS 17 and lease liabilities recognized on the consolidated statement of financial position at the date of initial application.

	(Millions of yen)
Future minimum lease payments under non-cancellable operating lease agreements as of March 31, 2019 (after discount at the incremental borrowing rate)	32,974
Finance lease liabilities recognized as of March 31, 2019	51,375
Operating lease agreements, etc. that are not non-cancellable, recognized as of the date of initial application	72,738
Lease liabilities recognized on the condensed quarterly consolidated statement of financial position as of the date of initial application	157,087

We use the following practical expedients in applying IFRS 16.

- We adopt a single discount rate for portfolios of leases that have reasonably similar characteristics
- We exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application
- We use hindsight when, for example, calculating the lease term for contracts that include an extension or cancellation option

With the adoption of IFRS 16, we have renamed "Bonds payable, borrowings, and lease obligations" on the consolidated statement of financial position for the previous fiscal year as "Bonds payable, borrowings, and lease liabilities."

(Translation for reference only)

Notes to the Consolidated Statement of Financial Position

1. Assets pledged as collateral and corresponding secured obligations

(1) Assets pledged as collateral	
Cash and cash equivalents	¥852 million
Trade and other receivables	¥10,300 million
Property, plant and equipment	¥12,644 million
Right-of-use asset	¥161 million
Investments accounted for using equity method	¥2,332 million
Other financial assets (non-current)	¥679 million
(Note) Industrial foundation's assets of property, plant and equipment as mortgage	¥10,351 million

In addition, shares of consolidated subsidiaries (553 million yen book value posted on the consolidated subsidiaries' consolidated financial statements) have been pledged as collateral.

(2) Corresponding secured obligations	
Trade and other payables	¥164 million
Bonds payable, borrowings, and lease obligations (current)	¥960 million
Bonds payable, borrowings, and lease obligations (non-current)	¥12,427 million
(Note) Those of above corresponding to the industrial foundation's assets	
Bonds payable, borrowings, and lease obligations (current)	¥559 million
Bonds payable, borrowings, and lease obligations (non-current)	¥5,574 million

2. Allowance for doubtful accounts deducted directly from assets

Trade and other receivables	¥1,570 million
Other financial assets (non-current)	¥552 million

3. Accumulated depreciation for property, plant and equipment, right-of-use asset and investment property

Accumulated depreciation for property, plant and equipment and right-of-use asset	¥7,075,653 million
Accumulated depreciation for investment property	¥52,088 million

4. Contingent liability

Guarantees for loans to companies other than subsidiaries which are provided from financial institutes are as follows.

Joint ventures	¥15,146 million
Affiliates	¥938 million
Other	¥26,869 million
Total	¥42,953 million

In addition to the above, the Company offers guarantees for obligations that may arise in the future in relation to its affiliates.

Guarantee limit for the fiscal year under review	¥9,322 million
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Notes to the Consolidated Statement of Profit or Loss

1. Impairment losses

Major impairment losses recorded during the fiscal year under review are as follows.

JFE Steel Corporation, a consolidated subsidiary of the Company engaged in the steel business, faces an unprecedented difficult business environment including a decline in demand for steel primarily in the manufacturing sector caused by the U.S.-China trade friction, soaring material prices due to China's growing crude steel output, and increases in auxiliary and other materials and logistics costs. Over the medium to long term, a decline in demand is anticipated in the Japanese market against the backdrop of the decreasing population. Moreover, overseas markets will become increasingly competitive due to expansion in steel

(Translation for reference only)

production capacity in emerging nations and an increase in exports from China given a decline in domestic demand. In such a climate, JFE Steel has endeavored to improve its works and manufacturing bases in Japan and strengthen manufacturing capabilities by positioning them as key measures under the Medium-Term Business Plan. However, it is expected that a significant amount of investment must be made to renovate aged facilities over a long period.

In consideration of these structural changes in the environment, JFE Steel strives to focus business resources thoroughly and selectively on products and areas that are competitive with a view to maintaining and increasing its competitive advantage in the global market and aiming to become a streamlined, resilient company. For that purpose, JFE Steel decided to shut down a blast furnace at the East Japan Works which is heavily burdened with fixed costs and implement structural reforms toward establishing an optimal production system in Japan. On the premise of the structural reforms to be implemented at Chiba and Keihin under the East Japan Works, JFE Steel calculated future cash flows of both sites in light of the current difficult business climate. As a result, the recoverable amounts based on use values were lower than the carrying amount of business assets owned by the East Japan Works. Therefore, the carrying amount was reduced to the present value of future cash flows, and the amount of decrease of 232,418 million yen (Chiba: 146,652 million yen, Keihin: 85,766 million yen) was recorded as impairment losses.

Additionally, due to an economic slowdown caused by COVID-19, a significant decline in demand for steel materials was anticipated in Japan and overseas at the end of the fiscal year under review. Accordingly, future cash flows were calculated on the assumption that such effect will continue for approximately six months.

Notes to the Consolidated Statement of Changes in Equity

1. Type and total number of issued shares as of the end of the fiscal year under review
Common stock 614,438,399

2. Dividends

- (1) Amounts of dividends paid

Date of resolution	Type of share	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 21, 2019	Common stock	28,831	50	March 31, 2019	June 24, 2019

Note: The common stock dividends of 28,831 million yen includes dividends of the Company shares held in trust accounts for employee stock ownership plans of 30 million yen.

Date of proposal for resolution	Type of share	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting held on November 12, 2019	Common stock	11,532	20	September 30, 2019	December 6, 2019

Note: The common stock dividends of 11,532 million yen includes dividends of the Company shares held in trust accounts for employee stock ownership plans of 11 million yen.

- (2) Of the dividends for which the record date belongs to the fiscal year under review, those dividends for which the effective date will be after the end of the fiscal year under review
Not applicable.

(Translation for reference only)

Notes to Financial Instruments

1. Status of financial instruments

(1) Policy on treatment of financial instruments

The Group raises the necessary funds mainly through bank loans, commercial papers and bond issuance, taking into consideration the stability and cost of funds. Temporary surplus funds are being managed with short-term financial instruments. The Group uses derivatives as a hedge against risks described below and not for speculative transactions.

(2) Content and risks of financial instruments, and the risk management systems relating to financial instruments

Notes and accounts receivable - trade, which are trade claims, are exposed to the credit risks of customers. To manage such risks, each company of the JFE Group conducts regular reassessments of the financial standing of business partners. In addition, some of the claims were sold before due dates.

For notes and accounts payable - trade, which are trade obligations, payment due dates are usually within one year.

Trade claims and obligations in foreign currencies are exposed to risks of currency fluctuations. Hedge transactions, including forward exchange contracts, are conducted as necessary for the parts that were not balanced out by the offsets between receipts of foreign currencies through transactions denominated in the relevant foreign currencies (exports of products, etc.), and payments of foreign currencies through transactions denominated in the relevant foreign currencies (imports of raw materials, etc.).

Equity instruments are exposed to risks of market price fluctuations. Equity instruments denominated in foreign currencies are exposed to risks of currency fluctuations. Most of the equity instruments are equities of the companies with which business relationships are maintained, and the fair values of such equities are regularly determined.

Taking into consideration the liquidity risk of loans and bonds payable, due dates of these obligations are set not to fall on the same day. Loans and bonds payable with floating interest rates are exposed to risks of interest-rate fluctuations. Some loans and bonds payable are hedged through interest rate swaps, etc., to cope with risks of interest-rate fluctuations and to reduce interest payments.

Derivative transactions used by the JFE Group carry risks of market price fluctuations in the future, including that of currencies, interest-rates, etc. The JFE Group uses derivatives that are only based on actual demand, such as export and import transactions, loans and bonds payable. Accordingly, these risks are limited within the scope of loss of opportunity gains.

Furthermore, as the JFE Group only conducts derivative transactions primarily with financial institutions with high credit ratings, the credit risk of failure to perform contracts due to bankruptcy of the counterparty, etc., is considered to be close to non-existent. The Company has established the internal rule on derivative transactions, and conducts transactions related to derivatives pursuant to the rule. On each actual transaction, the Company conducts a transaction upon authority by the Corporate Officer for Finance pursuant to the rule stated above. Balances, fair values and losses/gains on valuation of derivatives are to be reported to the management council regularly. The consolidated subsidiaries also conduct derivative transactions pursuant to the respective internal rules.

(3) Supplemental explanation for matters relating to fair values, etc., of financial instruments

Fair values of financial instruments include values based on market prices and values reasonably calculated if they have no market prices. Since calculations of the relevant values adopt certain assumptions, etc., the relevant values may vary depending on the assumptions applied.

(Translation for reference only)

2. Fair values, etc., of financial instruments

Amounts on the consolidated statement of financial position and fair values as of March 31, 2020 are shown as follows.

(Millions of yen)

	Amounts on the consolidated statement of financial position	Fair value
Bonds payable	230,066	229,226
Long-term borrowings	1,097,012	1,104,809

Fair values of financial assets and financial liabilities measured at amortized cost excluding bonds payable and long-term borrowings are not included as they are close to their book values. Financial instruments measured ordinarily at fair value are also not included as the fair values and book values are equal.

The fair value of long-term borrowings payable is determined by discounting the total of principal and interest by the estimated interest rate on similar new loans payable.

The fair value of bonds payable is based on market values.

Notes to Investment properties

1. Status of investment properties

The Group owns rental warehouses and other properties in Chiba and other regions.

2. Fair value of investment properties

Amounts on the consolidated statement of financial position and fair values as of March 31, 2020 are shown as follows.

(Millions of yen)

	Amounts on the consolidated statement of financial position	Fair value
Investment property	58,158	136,545

Notes: 1. Amounts on the consolidated statement of financial position are acquisition costs less any accumulated depreciation and any accumulated impairment losses.

2. Fair value is principally based on the real estate appraisal values provided by independent licensed real estate appraisers.

Notes to Per-share Information

1. Equity attributable to owners of parent per share	¥2,825.50
2. Basic losses per share	¥(343.39)

Note: The Company shares held in trust accounts for employee stock ownership plans are included in treasury shares, which are excluded from the calculation of the number of outstanding shares at the end of the term and the weighted average number of shares used in the calculation of equity attributable to owners of parent and basic losses per share. The number of treasury shares at the end of the term excluded from the calculation of equity attributable to owners of parent per share for the current consolidated fiscal year is 578,000 and the weighted average number of treasury shares excluded from the calculation of basic losses per share for the consolidated fiscal year under review is 589,000.

(Translation for reference only)

Non-consolidated Statement of Changes in Equity

From April 1, 2019 to March 31, 2020

(Millions of yen)

	Shareholders' equity							Valuation and translation adjustments		Total net assets
	Capital stock	Capital surplus			Retained earnings	Treasury shares	Total shareholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments	
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward					
Balance at April 1, 2019	147,143	772,574	-	772,574	194,489	(85,138)	1,029,068	(735)	(735)	1,028,332
Changes of items during period										
Dividends of surplus					(40,363)		(40,363)			(40,363)
Profit					25,866		25,866			25,866
Purchase of treasury shares						(73)	(73)			(73)
Disposal of treasury shares					(3)	8	5			5
Share-based payment transactions						88	88			88
Net changes of items other than shareholders' equity								258	258	258
Total changes of items during period	-	-	-	-	(14,500)	23	(14,476)	258	258	(14,218)
Balance at March 31, 2020	147,143	772,574	-	772,574	179,988	(85,114)	1,014,591	(476)	(476)	1,014,114

Note: Amounts are rounded down to the nearest million yen.

(Translation for reference only)

of outstanding shares at the end of the term and the average number of shares during the term used in the calculation of net assets per share and profit per share. The number of treasury shares at the end of the term excluded from the calculation of net assets per share for the fiscal year under review is 578,000. The average number of shares during the term excluded from the calculation of profit per share for the fiscal year under review is 589,000.

(English Translation of the Japanese original)

This translation has been prepared for reference only. The Japanese language version will control if any discrepancy arises.