

JFE Group Investor Meeting
(FY2023 1Q Financial Results and FY2023 Earnings Forecasts)

Summary of Q&A Session on August 3, 2023

Moderator: We would now like to move on to the question-and-answer session. First question, please.

Participant: I would like to ask two questions. The price of main raw materials in 1H of FY2023, assuming an exchange rate of about JPY140, is probably down by JPY3,000 to JPY4,000 per ton of steel from 2H in FY2022. If the current spot prices in the raw material market continue, we can imagine a further decline of about JPY3,000 to JPY4,000 per ton from 1H of FY2023 to 2H of FY2023. Rather than achieving this widening of the spread by raising prices, would it be to maintain steel prices to some extent even as raw material prices fall? Please tell me if I am correct in assuming that the selling price of steel will not fall as much as it has in the past, although it will be linked to the main raw material price?

In addition, overseas steel market prices have recently dropped significantly, as have raw material prices. With the suspension of the upstream process in the Keihin area in September, do you see the spread widening in 2H as a result of not making contracts at unreasonably low prices? What can you tell us about the concept of these spreads? We have heard that some trading companies are looking to lower Steel product supply prices over 2H. My intention with this question is to confirm that even if those prices drop, the spread will not be a problem.

Second question. I understand that the land use policy after the suspension of upper process in Keihin will be announced in September, but how much will be disclosed when it is announced? Will there be a roadmap for the future cash flow and other factors such as land sale price, demolition costs, etc.? We would like to know what will be published in September, including those details. These are the two major points. Thank you.

JFE: Regarding raw material prices, in the current plan, the current raw material prices are expected to continue to a certain degree, even in 2H. On the other hand, regarding sales prices, overseas steel market conditions were quite poor this past July and August, but we assume that they will increase from September onward. As for the 2H average, we are looking at the assumption that it will recover to the 1H level, and we expect the export spread to gradually improve from the current level. As I have mentioned in the past, domestic prices for ferroalloys, energy, and other commodities are still at relatively high levels compared to the past. Therefore, we are negotiating considering future trends and hope to take the spreads in the future. We believe that we have gained some understanding of our customers, and we intend to continue these activities and take the spreads firmly in this plan.

Regarding the land use in Keihin, the City of Kawasaki issued the plan of its land use policy in June, and we will be issuing our own basic policy. Kawasaki City has provided certain estimates of, for example, demolition costs and investment, but we will be discussing this with the government in the future. Therefore, rather than announcing detailed costs and investment amounts in September, we will announce in September our basic policy on how we will approach this land and what form we will take in response to the City of Kawasaki's use policy. That's all.

Participant: I see. Regarding domestic steel prices, even if raw material prices decline, is it safe to assume that the policy is to raise prices in the base price portion that is not linked to raw material prices in order to increase

the spread, and that discussions with customers have been settled to some extent over the long term, up to around 2H?

JFE: To a certain extent, I believe they understand.

Participant: Regarding the cash out and cash in for Keihin land use, I heard that it would not be announced yet in September. In addition to the removal of buildings such as equipment, if plumbing, underground water pipes, etc., are to be removed, the cost would be enormous. Is it safe to assume that there is a considerable range of demolition costs?

JFE: Yes, that is right. According to the use policy released by Kawasaki City this time, the leading area will be used starting in 2028. Other areas will be dealt further down the road. In addition to that, only partial area out of the leading area will be used at first. There is also a large hinterland outside of the leading area that will be developed over time, and we expect significant fluctuations.

Moderator: Next question, please.

Participant: As to the first question, I would like to talk about the domestic market for store-bought products, where electric furnace makers are cutting prices significantly, imports are flowing in, etc. Please tell us about your thoughts on risks regarding this.

Second, please explain again how you view the export market environment.

Third, it has been announced that some automakers are introducing Gigacast, a one-piece aluminum molding process. What is the impact on your company's demand for steel products? That's all.

JFE: First, regarding the first point, as you mentioned, indeed, electric furnace makers have reduced their prices and imported materials have slightly increased in volume. I believe that mainly in the field of general-purpose products, electric furnace materials or imported materials may replace them. However, we ourselves are in the process of shifting from general-purpose products to high-value-added products as we reduce supply volume through structural reform. Therefore, we do not consider this area to be a major threat at this time. However, we will closely monitor future trends.

JFE: Regarding the second point, in terms of export mill scale prices this time, if we look at it by quarter, the average price has not yet fallen that much in 1Q of H1. We expect the 2Q average to reverse and rise slightly from September. It is particularly bad in July and August, falling below the 1Q average. The 3Q average incorporates the recovery from September but is not much different from the 2Q average. The recovery from the beginning of the year that I mentioned in the presentation means that it will be recovered in 4Q from the 3Q average, or 2Q average price. As a result, for 2H, it is assumed to be at the H1 average level.

JFE: Also, regarding the third point, Gigacast, we do not have a clear view of the impact at this time. However, according to the announcement by the automaker, Gigacast will be used for 1.7 million vehicles worldwide by 2030, and we believe that domestic portion will be mainly affected, but the direct impact will be limited and the time frame is still far off.

For our part, we would rather capture new demand for steel materials by taking advantage of the workability, strength, and other strengths of steel as EVs and the structure of cars change in various ways in the future. The advantage of using steel is that it can be made lighter and stronger by mixing strong and weak parts according to the customer's needs, rather than forming it into large pieces like Gigacast. When changing to electric vehicles, new parts will be needed, such as protective parts for batteries and battery cases. So, we would like to use, make proposals on, and develop steel materials in this area with customers. That's all.

Moderator: Next question, please.

Participant: I have two questions. First, let me ask you about the establishment of a joint venture company for grain-oriented electrical steel sheets (GO) with JSW, which you explained today. Originally, for such eco-friendly products, the Company has announced this year the expansion of its production capacity of non-oriented electrical steel sheet (NO) in Kurashiki, and in terms of volume, an index of three times the conventional level for the high-end NO.

It was mentioned that the project in India this time is for the manufacture of grain-oriented electrical steel sheets (GO), and that the investment ratio with JSW is 50-50. The grain-oriented electrical steel sheets are mainly used in motor cores for transformers. In terms of specific manufacturing processes, what kind of production lines will be set up and what will be the supply system for base materials? Also, is it correct to think that as far as profit capture is concerned, 50% of the equity interest will be recorded separately from JSW's share? You also explained that the quantity will be added in response to demand growth in the future, but since full operation is scheduled for 2027, which is not that far away considering the acquisition of certification, I think it is necessary to move ahead of schedule. Could you please explain a little more about how this business works?

The second question is about JGreeX. The material states that the premium is increased by 40% of regular steel. We feel that this is a very interesting business model, in which the shipbuilding company does not bear the 40% increase in the cost of thick plates, but rather the entire value chain shares this premium. I believe that this business model is an indication of the trend toward society as a whole bearing the cost of this carbon neutrality, rather than a particular company or a particular industry being solely responsible for it.

I think this model was built rather user-driven, but as we aim to expand JGreeX volume in the future, is it safe to assume that this kind of pricing structure, where the entire value chain bears the burden and successfully captures the premium, will become the standard? Or could there be some further initiatives? I would appreciate a more detailed explanation of the background behind the creation of the premium sharing mechanism in this area. Thank you in advance.

JFE: Regarding the first point about JSW, especially in relation to electrical steel sheets, I cannot give you details about the production line, production volume, etc., but basically, electrical steel sheets will be made in JSW's steel mill in Vijayanagar, based on base materials manufactured by JSW. The grain-oriented electrical steel sheets are used in transformers for power transmission and distribution, and demand for these sheets is expected to increase in the future as India develops its infrastructure.

Regarding the second point, JGreeX, you mentioned that it is user-driven, but our company is a supplier of steel products and a user at the same time in this supply chain. We believe that it would be difficult to have any one party bear the brunt of the cost of selling green steel, so we have proposed a model in which the entire supply chain bears a certain amount of the cost. We have started this initiative in the belief that green steel materials will not spread unless the entire supply chain bears the burden.

Participant: Thank you very much. Regarding JGreeX, just about two weeks ago, there was also a release about the signing of memorandum of understanding on a reduced iron in the UAE. Am I correct in thinking that the utilization of off-take rights for UAE reduced iron projects and other projects is the next step? Please let me also check with you the timing of future JGreeX volume changes.

JFE: We have been promoting activities to reduce CO₂ emissions toward 2030. The biggest effect now is still the use of scrap in converter furnaces. Activities are underway to increase the ratio of scrap and reduce the hot metal blending ratio. While there is a viewpoint of using reduced iron, we are also considering various measures to reduce CO₂ emissions, such as replacing the blast furnace in Kurashiki with an electric furnace.

Therefore, we believe that changes in the supply volume of JGreeX will also occur in the progress of those efforts.

Moderator: Next question, please.

Participant: The first point is that the spread has improved by +JPY70 billion compared to the previous plan this time, and the forecast for profit per ton has also been revised upward. Does this mean that price pass-on is progressing more than expected? Or does it mean that the market price of raw materials just went down more than expected? What is your view on whether this improved outlook for spreads can be sustained in the future?

Regarding the second question, it is true that the demand for steel itself is a bit weak domestically. However, inventories of the three thin sheet products are decreasing, while automobile production is recovering. As for the inventory cycle, is there a possibility of recovery in the future? What is your company's view in this regard? That is all from me.

JFE: Regarding your first question about the spread, in comparison to the previous announcement, based on our assumptions, the selling price was lower than expected, especially the export price. On the other hand, raw materials have also fallen much lower than assumed.

Domestic prices, on the other hand, maintained. In that sense, rather than raising the price, we maintained the domestic price, thereby securing the spread for the decline of raw material prices. As for continuity, as we have been talking about, we believe that we will have to pass on further to some customers in the future. We have been discussing and agreeing with our customers on these matters, and we believe that we will be able to continue to do so.

JFE: It is difficult to say about inventory, but I believe that the recovery of automobile production is progressing well. Looking at the domestic automobile production volume accumulated by each company, it has already reached a level of over 9 million units, up from 8.1 million units last year. In line with the conventional trend, I believe that inventories will be eliminated to some extent as the recovery of the automobile industry progresses.

Moderator: Next question, please.

Participant: I have two questions. First question. Related to the spread in the previous question, I think you said that in the previous and current comparisons, exports were lower than expected, but raw materials were also lower, and that domestic sales prices were maintained despite the drop in raw materials.

Regarding the response in the area of being able to maintain the sales price, is the Company now doing better than before in terms of negotiating with customers and having them agreeing? I am hoping that you can provide some clarification in this area.



91.3bn. Increase in JFE Steel's Segment Profit (FY2022.4Q (Actual) vs. FY2023.1Q (Actual))

JFE Steel

JFE

JFE Steel	FY2022					FY2023	Change
	1Q	2Q	3Q	4Q	Full year	1Q	
Segment Profit	93.0	55.2	21.8	(23.2)	146.8	68.1	91.3
Excluding Inventory Valuation etc.	(23.0)	55.2	22.8	18.8	73.8	59.1	40.3

(billion yen)

1. Cost	+10.0	<ul style="list-style-type: none"> Operational improvement Disappearance of blast furnace refurbishment impact
2. Volume and Mix	+1.0	<ul style="list-style-type: none"> Crude Steel Production 5.97Mt⇒6.05Mt
3. Sales and Raw materials	+10.0	<ul style="list-style-type: none"> Improved spreads due to the reflection of high prices of main raw materials, metals, and other commodities in selling prices
4. Inventory valuation	+51.0	<ul style="list-style-type: none"> Inventory valuation +13.0 (-18.0→-5.0) Carry over+29.0 (-24.0→+5.0) Foreign exchange valuation+9.0 (±0.0→+9.0)
5. Others	+19.3	<ul style="list-style-type: none"> Group companies +7.0 Disposal of fixed assets+6.0 etc.

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49.2bn. Decrease in JFE Steel's Segment Profit (FY2023.1Q (Actual) vs. FY2023.2Q (Forecast))

JFE Steel

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JFE Steel	FY2023 Forecast			Change
	1Q(Actual)	2Q(Forecast)	1H	
Segment Profit	68.1	18.9	87.0	(49.2)
Excluding Inventory Valuation etc.	59.1	43.9	103.0	(15.2)

(billion yen)

1. Cost	±0.0	
2. Volume and Mix	+5.0	<ul style="list-style-type: none"> Crude Steel Production 6.05Mt⇒approx.6.30Mt
3. Sales and Raw materials	±0.0	
4. Inventory valuation	(34.0)	<ul style="list-style-type: none"> Inventory valuation +7.0 (-5.0+2.0) Carry over-29.0 (+5.0→-24.0) Foreign exchange valuation-12.0 (+9.0→-3.0)
5. Others	(20.2)	<ul style="list-style-type: none"> Group companies -11.0 Disposal of fixed assets -5.0 Foreign exchange effects on trade -4.0 etc.

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My second question is about pages 40 and 41 of the document. The analysis item "Other" has profit/loss increase/decrease of group companies. Page 40 has positive JPY7 billion, and page 41 has the forecast of JPY11 billion deterioration from April to June and from July to September. What is the breakdown of this? That's all.

JFE: Regarding the spread, there is certainly a portion that is linked to the main raw materials, so while taking this fluctuation into account to some extent, we have been persistently negotiating for the portion of cost increases that had not been fully covered, and I have heard that we have gained considerable understanding from our customers. Therefore, we have the feeling that we can get a certain spread for sure.

JFE: Regarding your question about the group companies, the main impact is the increase/decrease in income of the overseas group companies, especially JSW and CSI. First, let's talk about page 40. As for JSW, their October to December and January to March financial results are incorporated into our January to March and April to June financial results which means that there is the three-month shift in the reflection of their results in our financial results.

In the case of JSW, profit/loss improved significantly in the January to March period versus the October to December period. We have taken in that improvement in the April to June period, which means that we have seen positive results in the April to June period.

On the other hand, CSI is synchronized with our fiscal period. April to June was a very good market timing for the US. Thus, CSI's profit was also favorable. Both JSW and CSI's performance in the April to June period was very good compared to the January to March period.

On the other hand, in the comparison between April to June and July to September on page 41, financial results have already been announced with respect to JSW. The JSW standard comparison between January to March and April to June shows a decrease in profits due to a decline in volume and other factors, and the profit decline is included in the figures.

Also, the CSI was very good from April to June, but from July to September, the market is still falling a bit. We have taken this situation into account in generating our profit/loss and expect a deterioration in comparison. We hope you understand that the red and black of the two companies are mainly manifested in the differences between the two group companies. That's all.

Moderator: As the scheduled end time is approaching, the next person will be the last to ask a question. Please go ahead.

Participant: I have just one question. There was a question earlier about JGreeX on page 33. The selling price will be increased by 40%, but since the cost of CO₂ reduction will be added to the JGreeX steel products, the cost will also increase considerably. If the price is set at a 40% increase, does that mean that the cost has also increased by the same amount? Or would the calculation be that the cost increase would be about 30%, if not 40%? I believe that the cost is expected to increase, but I would like to know what the breakdown of the increase will be. For example, do you mean that the expansion of the use of steel scraps from converter furnaces and coking coal are significant? Or, if there are various other cost items that would increase, I would appreciate your comments on the big picture, if you don't mind.

JFE: As for how much it has gone up in cost, I can't give you a figure. As for carbon neutrality, in general terms, capital investment must be made to reduce CO₂ emissions while producing the same product. Therefore, I believe that the largest cost increase is still in the area of making investments that were not necessary in the past. It is a very important issue that the cost of that investment must be passed on to the sales price and recovered. CR blast furnaces and electric furnaces are also to be built in the future, so it may not appear that huge investments are being made now. However, we have been making investments in individual cases, such

as expanding the use of scrap in converter furnaces, as I mentioned earlier, to make them available. We hope you will consider such cost increases to be the most significant. That's all.

Moderator: Thank you very much. With that, we would like to conclude the question-and-answer session. We will now conclude this briefing. Thank you very much for joining us today. Please leave the meeting.

[END]

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