JFE Holdings, Inc.

JFE Group Investor Meeting
(FY2020 1Q Financial Results and FY2020 Earnings Forecasts)
Summary of Q&A Session on August 12, 2020

Q. Comparing your forecasts with those of other companies, is it reasonable to say that there are no major differences in earnings levels when the effects of inventory valuation differences are excluded?
A. We are not in a position to comment on assumptions underlying the earnings forecasts of ~~the~~ other companies, but we believe there are no major differences in our views regarding overall trends, such as the demand outlook.

Q. What factors are behind the projected 29.4 billion yen drop in the Steel Business's segment profit in 2Q vs. 1Q? What are your assumptions for key raw materials prices and hot coil export prices in 2H?
A. Please see Page 36 of the presentation materials for a breakdown of factors behind projected changes in Steel Business profit in 2Q vs. 1Q. We expect +15.0 billion yen from cost reductions, which reflects the effects of capital investments and the suppression of cost increases related to reduced production. In terms of volumes, we forecast crude steel production to rise by 420kt, but we expect shipment levels to be largely unchanged and the mix to worsen, netting +2.0 billion yen overall. Despite a decline in the coking coal price, we expect -17.0 billion yen from a narrowing of metal spreads as domestic and export prices for steel both fall. We anticipate -17.0 billion yen from inventory valuation, with around -10.0 billion yen due to the lower of cost or market valuation. Of the -12.4 billion yen we anticipate from other factors, around -6.0 billion yen is attributable to declining group company earnings.
Turning to the price of key raw materials in 2H, the 2Q iron ore contract price is $83 per ton, and while we do not expect the price to exceed the recent level of $100 per ton, we have factored in an increase to some degree. The price of coking coal has fallen recently, but as the global economy recovers from the effects of COVID-19, we expect it to transition toward the 1Q level. As for the hot coil export price, we expect the 1H metal spread to be largely flat due to the just-mentioned costs of key raw materials.

Q. Please outline your plans for production in the event that it continues to track at around FY2020 2H levels. Will you, for example, cancel the banking of the No. 4 blast furnace in Fukuyama district in this case? And will you refit the No. 6 blast furnace in Chiba as scheduled in FY2023?
A. Crude steel output in FY2020 2H is tracking at around 24 million tons per year. This is below the figure of 25–26 million tons for annual domestic crude steel production capacity that was envisioned on the basis of the structural reforms we announced in March. If output remains at this level, we will need to look at our production operations, including upstream processes, depending on which product types are set to decline.
Fukuyama has high exposure to production for automotive applications, so we are keeping a close eye on demand trends in the automotive space as we prepare to restart the blast furnace. The Chiba district produces a wide range of products, including stainless steel, iron powder and high-grade seamless pipe base material, with a focus on automotive steel sheet, a priority field for JFE. We intend to refit Chiba's blast furnace on schedule.

Q. What are you doing to realize steel product price levels that are commensurate with the added value you provide?
A. Although we enjoy good recognition among customers for our added value, our pricing levels are still not generating earning levels conducive to sustained growth. We will continue to work closely with each of our customers on a product-by-product basis to improve pricing in view of our total

added value, which includes functionality, service and cost of development.

Q. Regarding your forecast of a sharp drop in group company earnings, how is the situation in each of your main group companies?
A. At domestic group companies involved in steelworks operations, we expect earnings to decline sharply owing to a large drop in steel production volumes. We also forecast earnings to weaken at other domestic group companies because of the extremely widespread impact of COVID-19. Turning to overseas markets, we expect earnings to remain firm at group companies in China. For example, Guangzhou JFE Steel Sheet Co., Ltd. should remain profitable as auto production recovers. The situation outside of China, however, is highly unclear. In Southeast Asia, we expect earnings to worsen at group companies including JFE Steel Galvanizing (Thailand) and JFE Steel Galvanizing Indonesia due to steep declines in auto production. In India, too, JSW is seeing production volumes decline substantially and earnings worsen due to the spread of COVID-19. Middle East-based AGPC started up last year, but operating rates have been low due to order delays, etc. NJSM in Mexico is still unable to operate because of the spread of COVID-19, so the employees whom we dispatched to NJSM have been evacuated abroad.

Q. What are the plans for improving your product mix, including after the COVID-19 situation eases?
A. Under the structural reforms we announced in March, we plan to reduce our exposure to commodity-steel exports, where competition is set to intensify, and this approach remains unchanged even in light of the current situation in China and Southeast Asia. We cannot provide details on our future product mix, but even after the COVID-19 situation eases, we intend to continue improving our product mix by reducing exposure to commodity-focused exports and shifting toward areas of higher added value.

Q. What is the domestic/export breakdown of the 10-billion-yen narrowing of the metal spread between FY2020 1H and FY2019 2H?
A. The downturn in the metal spread between FY2019 2H and FY2020 1H will be split roughly 50-50 between domestic and export markets.

Q. Your forecast for FY2020 2H segment profit excluding inventory valuation, etc. is -19.0 billion yen, so you are projecting a loss in real terms even at crude steel output of 6 million tons per quarter, a level you say could generate a profit in FY2021. What is your assessment of FY2020 2H profit levels? Volumes are down from FY2019 2H but cost levels have improved, so one might think you could generate a little more profit. Or are factors like weaker group earnings at play?
A. As you point out, group companies' contribution to profits is currently low, and this is the biggest difference from our past earnings levels. We will need to look carefully at crude steel output levels ahead, but assuming crude steel output of 6 million tons per quarter, we will achieve a profit in FY2021 as new capital investment projects go into operation and as we further reduce variable costs and revise fixed costs.

Q. You forecast 100 billion yen in cost reductions over the full year, including the increase in costs due to reduced production. Please tell us how this breaks down into fixed-cost reductions, variable-cost reductions and cost increases due to reduced production, both in terms of actual 1Q figures and your forecast for the full year.
A. The 100 billion yen in cost reductions is attributable roughly 50-50 to variable and fixed costs. Assuming that production volumes decline from FY2019 2H to current-fiscal-year levels, variable costs could increase by around 30 billion yen, but we will cover this through measures that realize more efficient operations leading to lower variable costs. On a quarter-by-quarter basis, measures to curb variable costs did not fully make up for the effect of reduced output in 1Q, but we will offset the effects fully from 2Q through 2H.

Q. Are inventory adjustments the reason why the ratio of shipments to crude steel production volume in 1Q was higher than the normal level? What is your outlook for the balance between crude steel output and shipment volumes in 2H?

A. The focus is on reducing inventories to generate cash flows rather than adjust inventory. We expect to reach the target level during 1H, and then achieve a more normal balance between crude steel output and shipment volumes in 2H.