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JFE Holdings, Inc.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2022

August 12, 2021

Presentation

Moderator: Ladies and gentlemen, thank you very much for your patience. We would now like to begin the Investor Meeting of JFE Holdings, Inc.

Today's speakers are Mr. Terahata, Representative Director and Executive Vice President, and Mr. Tanaka, Senior Vice President.

Mr. Terahata, Executive Vice President, would like to say a few words.

Terahata: I am Terahata. Thank you very much for attending our investor's meeting today, despite your busy schedule and the fact that the spread of the new coronavirus is still not under control.

We would like to take this opportunity to thank you again for your continued interest in our company.

Mr. Tanaka, Senior Vice President, will now explain the details of the financial results for the first quarter of fiscal year 2021 ending March 2022 and the earnings forecast announced today.

We will take your questions later.



Financial Results for First Quarter of Fiscal Year 2021

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- **Global economy has continued to recover** since 2H of FY2020.
- **Strong demand for steel and market prices** amid the improved global economic trends led to **a significant increase in profit**, particularly in the steel business.

(billion yen)	FY2020 1Q (Apr-Jun)	FY2021 1Q (Apr-Jun)	Change
Revenue	743.9	888.9	145.0
Business Profit	(47.2)	88.3	135.5
Finance Income/costs	(3.2)	(2.9)	0.3
Segment Profit	(50.4)	85.4	135.8
Exceptional Items	–	–	0.0
Profit before Tax	(50.4)	85.4	135.8
Tax Expense and Profit (Loss) Attributable to Non-Controlling Interests	11.2	(23.4)	(34.6)
Profit Attributable to Owners of Parent	(39.1)	61.9	101.0

Business profit is profit before tax excluding financial income and one-time items of a materially significant value. Segment profit is profit including financial income in business profit.

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Tanaka: My name is Tanaka. I will now explain based on the investor's meeting material which was posted on the website at 16:00 today.

First, let's look at the results for the first quarter. Please see page 4.

The economies of countries around the world have continued to pick up since the second half of last year. Against this backdrop, demand for steel has been strong and the steel market price has risen sharply in the period under review, resulting in a significant recovery in earnings, particularly in the steel business.

Revenue for the first quarter was JPY888.9 billion, business profit was JPY88.3 billion, total segment profit was JPY85.4 billion, and profit attributable to owners of parent was JPY61.9 billion. As you can see, revenue increased by JPY145 billion, or about 20%, and profits improved significantly by the level of JPY130 billion and JPY100 billion.



Financial Results for First Quarter of Fiscal Year 2021 (by Segment)

JFE-HD

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(billion yen)	FY2020 1Q (Apr-Jun)	FY2021 1Q (Apr-Jun)	Change
Revenue			
Steel Business	508.7	638.5	129.8
Engineering Business	105.0	103.0	(2.0)
Trading Business	238.0	261.6	23.6
Adjustments	(107.9)	(114.2)	(6.3)
Total	743.9	888.9	145.0
Business Profit (A)	(47.2)	88.3	135.5
Finance Income/Costs (B)	(3.2)	(2.9)	0.3
Segment Profit			
Steel Business	(57.8)	69.7	127.5
Engineering Business	1.5	4.2	2.7
Trading Business	4.4	11.5	7.1
Adjustments	1.3	(0.0)	(1.3)
Total (A+B)	(50.4)	85.4	135.8

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This page shows the results by segment. Revenue in the steel business increased by about JPY130 billion YoY, which is the main reason for the total increase. As for segment profit, of the overall JPY135.8 billion improvement, the steel business saw a significant JPY127.5 billion improvement and moved in to the black.

In addition, the engineering business and the trading business also saw an increased profit compared to the same period last year, resulting in increased profit in all segments.



Financial Forecast for Fiscal Year 2021

JFE-HD

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- Business profit in 1H is expected to get into **a significant surplus of 195.0 billion yen** mainly caused by demand recovery and market price increase in the steel business.
- **Full-year business profit is expected to be 350.0 billion yen, increased by 362.9 billion yen year-on-year**, due to recovery of steel demand and market price increase amid improved global economic trends.

(billion yen)	FY2020		FY2021(Forecast)		Change	
	1H	Full Year	1H	Full Year	1H	Full Year
Revenue	1,492.2	32,272	1,970.0	4,170.0	477.8	942.8
Business Profit	(114.3)	(12.9)	195.0	350.0	309.3	362.9
Finance Income/costs	(6.4)	(12.4)	(5.0)	(10.0)	1.4	2.4
Segment Profit	(120.7)	(25.4)	190.0	340.0	310.7	365.4
Exceptional Items	–	20.4	–	–	0.0	(20.4)
Profit before Tax	(120.7)	(4.9)	190.0	340.0	310.7	344.9
Tax Expense and Profit (Loss) Attributable to Non-Controlling Interests	15.0	(16.9)	(60.0)	(100.0)	(75.0)	(83.1)
Profit Attributable to Owners of Parent	(105.7)	(21.8)	130.0	240.0	235.7	261.8

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Next, I would like to explain our business forecast.

First, in the first half of the fiscal year, we expect business profit of JPY195 billion due to recovery in demand and rising market price in the steel business. For the full year, we forecast a similar recovery trend, with consolidated business profit of JPY350 billion. We expect profit attributable to owners of parent to be JPY130 billion for the first half and JPY240 billion for the full year.

This table compares the forecasts with the previous year's results. As we had a deficit in the previous fiscal year, we expect significant increases in profits for the full year compared to the previous year, as the first quarter results.



Financial Forecast for Fiscal Year 2021 (by Segment)

JFE-HD

(billion yen)	FY2020 Actual		FY2021 Forecast		Change	
	1H	Full Year	1H	Full Year	1H	Full Year
Revenue						
Steel Business	1,027.2	2,255.2	1,450.0	3,130.0	422.8	874.8
Engineering Business	221.9	485.7	240.0	520.0	18.1	34.3
Trading Business	451.7	932.5	560.0	1,150.0	108.3	217.5
Adjustments	(208.6)	(446.1)	(280.0)	(630.0)	(71.4)	(183.9)
Total	1,492.2	3,227.2	1,970.0	4,170.0	477.8	942.8
Business Profit (A)	(114.3)	(12.9)	195.0	350.0	309.3	362.9
Finance Income/Costs (B)	(6.4)	(12.4)	(5.0)	(10.0)	1.4	2.4
Segment Profit						
Steel Business	(136.2)	(65.4)	160.0	280.0	296.2	345.4
Engineering Business	8.7	24.0	10.0	25.0	1.3	1.0
Trading Business	7.2	20.0	23.0	38.0	15.8	18.0
Adjustments	(0.4)	(4.1)	(3.0)	(3.0)	(2.6)	1.1
Total (A+B)	(120.7)	(25.4)	190.0	340.0	310.7	365.4

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This table shows forecasts by segment.

Revenue forecasts are as shown. Segment profit for steel is expected to be JPY160 billion for the first half and JPY280 billion for the full year. Segment profit for the engineering business is expected to be JPY25 billion, and for the trading business JPY38 billion. In terms of changes from the previous fiscal year, we expect a significant increase of JPY345 billion in steel.

In addition, the trading business also forecasts JPY38 billion in segment profit for the year, a significant JPY18 billion increase over the previous year.



Financial Forecast for Fiscal Year 2021 vs. Previous Forecast

Business profit is expected to be 350 billion yen, increased by 150 billion yen from the previous forecast.

(billion yen)	Previous Forecast (A)	Updated Forecast (B)	Change (B-A)
Revenue	3,930	4,170	240
Business Profit	200	350	150
Steel Business	140	280	140
Engineering Business	25	25	0
Trading Business	27	38	11
Segment Profit (including Adjustment)	190	340	150
Profit Attributable to Owner of Parent	130	240	110

Business profit is profit before tax excluding financial income and one-time items of a materially significant value. Segment profit is profit including financial income in business profit.

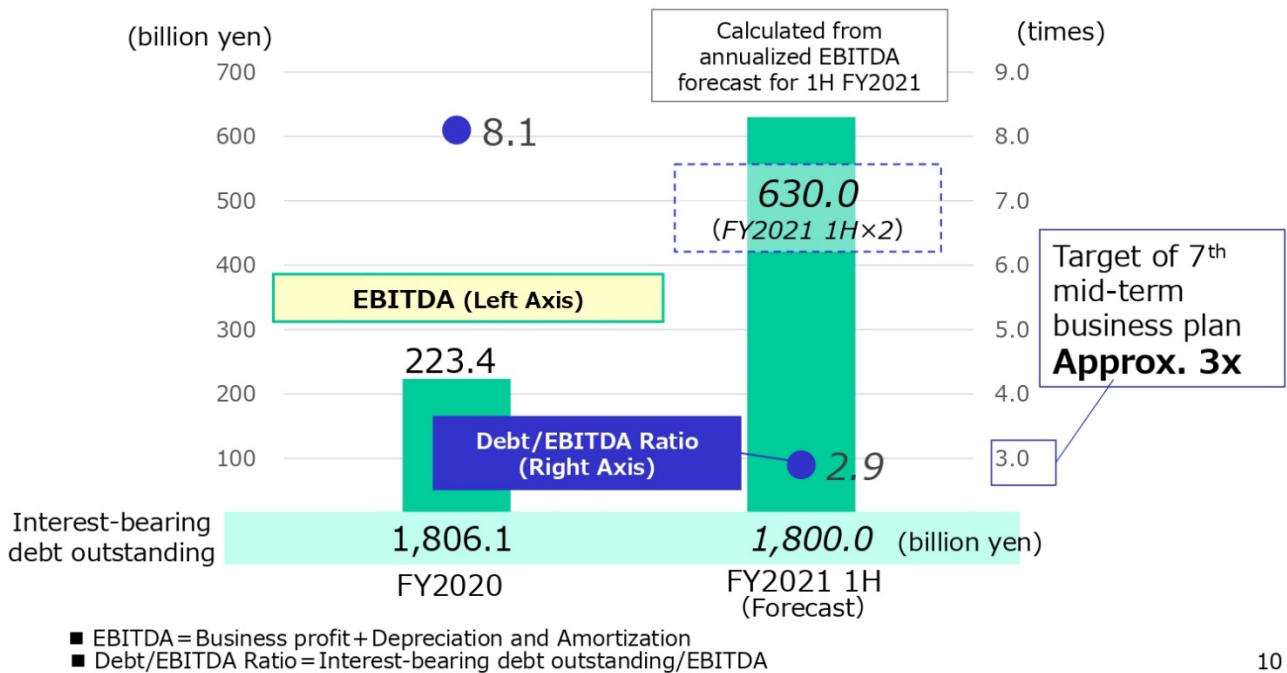
Here is a comparison with the previous forecast announced in May. In May, we announced our annual business profit forecast of JPY200 billion and annual profit attributable to owners of parent of JPY130 billion.

The current forecast is shown in column B. Compared to the previous forecast, the updated forecast for the full-year business profit is JPY350 billion, which is an upward revision of JPY150 billion. Total segment profit was also revised upward by JPY150 billion compared to the previous forecast. As you can see, forecast for steel segment profit doubled from JPY140 billion to JPY280 billion, which is an upward revision of JPY140 billion from the previous forecast. Segment profit also increases in the trading business. Profit attributable to owners of parent has also been revised upward by JPY110 billion.



Debt/EBITDA Ratio

Debt/EBITDA ratio in 1H of FY2021 (2.9x) is expected to be on par with the target of 7th mid-term business plan.



As for the debt/EBITDA ratio, the figures on the left are the figures as of the end of FY2020, and the figures on the right are the forecasts for the first half of this fiscal year. Interest-bearing debt outstanding at the end of the first half of FY2021 is expected to be around JPY1.8 trillion. On the other hand, in terms of the debt/EBITDA ratio, EBITDA will improve in the first half of the fiscal year, and the annualized debt/EBITDA ratio will be 2.9 times. The target for the seventh mid-term was set at about 3 times, so we have almost reached the mid-term target in this first half.



JFE Holdings has decided to pay an interim dividend of 60 yen per share at its Board of Directors.

A decision regarding the year-end dividend has been postponed while the company carefully monitors its ongoing performance.

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Next, dividends.

We will pay an interim dividend of JPY60 per share. Based on the forecast of profit attributable to owners of parent for the first half, the dividend payout ratio will be about 27%. As for the year-end dividend, we are undecided at this time, but we will consider it in line with the medium-term payout ratio policy of around 30%, while carefully monitoring future performance trends.



Financial Results for First Quarter of Fiscal Year 2021

JFE Steel

	Unit	FY2020					Full Year	FY2021
		1Q	2Q	3Q	4Q	1Q		
Revenue	billion yen	508.7	518.6	580.2	647.6	2,255.2	638.5	
Segment Profit	billion yen	(57.8)	(78.4)	34.3	36.4	(65.4)	69.7	
Excluding Inventory Valuation etc.*	billion yen	(34.8)	(33.4)	14.3	22.4	(31.4)	25.7	
Crude Steel (Standalone)	Mt	4.79	5.38	6.27	6.32	22.76	6.25	
Crude Steel (Consolidated)	Mt	5.09	5.68	6.59	6.60	23.96	6.59	
Shipment (Standalone)	Mt	4.59	4.75	5.42	5.72	20.49	5.26	
Export Ratio on Value Basis (Standalone)	%	44.2	40.2	40.3	44.3	42.3	43.2	
Average Sales Price (Standalone)	000 yen/ t	75.3	71.0	73.4	78.8	74.8	87.6	
Exchange Rate	¥/\$	107.7	105.9	104.8	104.7	105.8	109.8	
Exchange Rate (End of Term)	¥/\$	107.7	105.8	103.5	110.7	110.7	110.6	

* Excluding inventory valuation, carry over of raw materials and foreign exchange valuation from segment profit

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Here are the details of JFE Steel's financial results for the 1Q of FY 2021.

First of all, segment profit for the 1Q was JPY69.7 billion, moving into the black. The volume of standalone crude steel was 6.25 million tons.

The export ratio was about 43% in the 1Q. The average sales price was JPY87,600, which is about JPY12,000 higher than the 1Q of FY2020. Compared to the 4Q of FY2020, the increase was about JPY9,000.



127.5 Billion Yen Increase in JFE Steel's Segment Profit (FY2020.1Q (Actual) vs. FY2021.1Q (Actual))

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JFE Steel	FY2020					FY2021	(billion yen)
	1Q	2Q	3Q	4Q	Full Year	1Q	Change FY2020.1Q → FY2021.1Q
Segment Profit	(57.8)	(78.4)	34.3	36.4	(65.4)	69.7	+127.5

1. Cost	+15.0	<ul style="list-style-type: none"> • Capital investment effect • Reduction in cost increase due to production decline etc.
2. Volume and Mix	+25.0	<ul style="list-style-type: none"> • Production increase amid recovery of steel demand (Crude steel(Standalone): 4.79⇒6.25Mt +1.47Mt)
3. Sales and Raw materials	(11.0)	(-2,100yen/t-shipment) <ul style="list-style-type: none"> • Metal spread was deteriorated due to higher iron ore prices, despite improved sales prices.
4. Inventory valuation	+67.0	<ul style="list-style-type: none"> • Inventory valuation +49.0 (-21.0→+28.0) • Carry over of raw materials +15.0 (±0.0→+15.0) • Foreign exchange valuation +3.0(-2.0→+1.0)
5. Others	+31.5	<ul style="list-style-type: none"> • Increase in profit of domestic and overseas subsidiary companies etc.

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This is a breakdown of changes in segment profit.

Compared to the 1Q of FY2020, there was an improvement of JPY127.5 billion, from a negative JPY57.8 billion to a positive JPY69.7 billion. First of all, the cost increase of JPY15 billion was due to the effect of investment as well as the absence of the production cutback of about 30% in the 1Q of FY2020 due to the spread of COVID-19 infection.

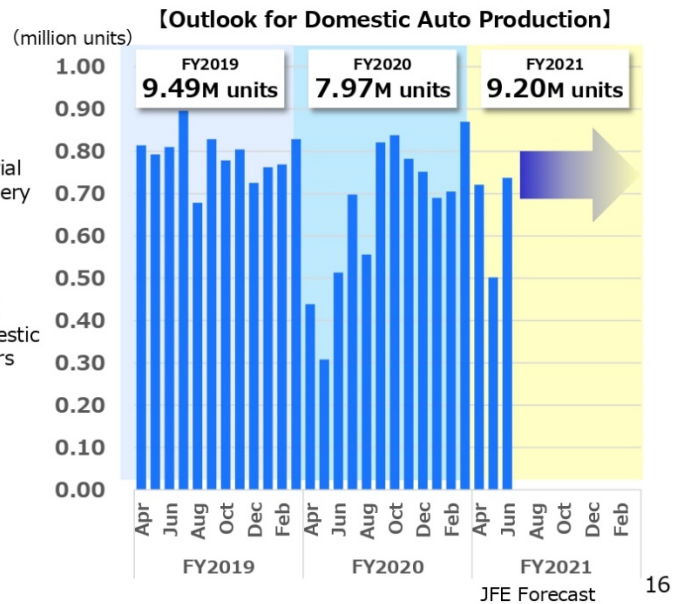
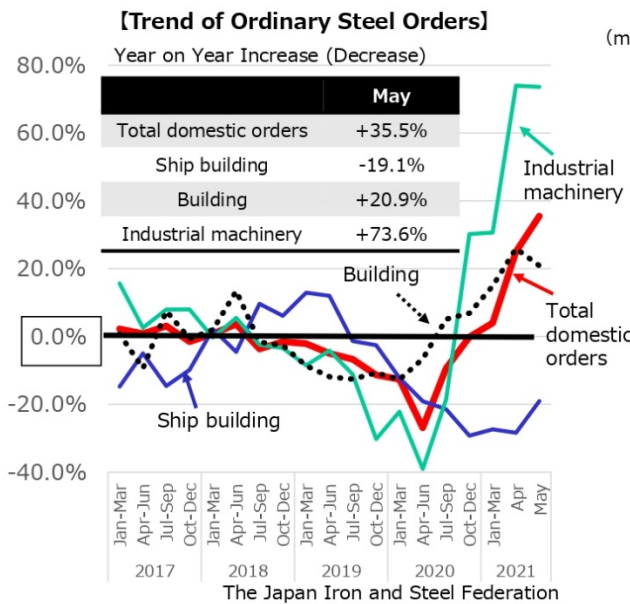
In terms of volume, crude steel production increased by 1.47 million tons from 4.79 million tons in the 1Q of FY2020, which resulted in a positive impact of about JPY25 billion. The metal spread, on the other hand, had a negative impact of JPY11 billion. As supply and demand has been improving, selling prices have improved significantly, but the price of iron ore has risen significantly, so the metal spread has worsened.

Next, as the price of raw materials has also risen significantly now, inventory valuation difference had a large positive impact. The impact of carry-over also made a contribution.

In the Others category, the improvement of profit of domestic and overseas group companies resulted in an increase of approximately JPY26 billion.

Current Business Environment (Domestic)

- Steel demand is expected to **continue to recover as demand mainly in the manufacturing industry remains solid.**
- Ordinary steel orders in May 2021 **increased by 35.5% year on year**, showing a significant recovery trend.
- Domestic automobile production currently decreases due to the semiconductor shortage. Although production is expected to recover after this summer, there are risks of prolonged impacts by a shortage of semiconductor and automobile components, which should carefully be monitored.



I will now briefly explain the current business environment.

First of all, in Japan, demand is strong, especially in the manufacturing industry, and the recovery trend of steel demand is continuing. Ordinary steel orders in May 2021 were on a significant recovery trend, with a 35.5% YoY increase. As you can see, there has been a steady increase in ordinary steel orders in recent years.

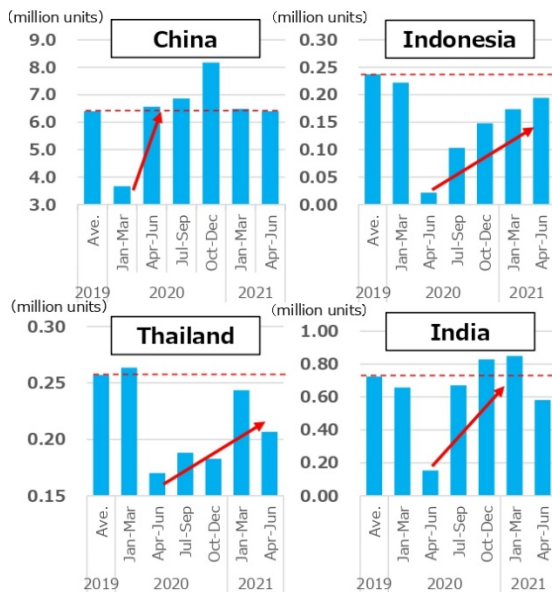
Orders for industrial machinery and building are rising at the moment. Only ship building saw a YoY decline in orders, but is on a recovery track compared to our initial expectations.

The forecast for automobile production is shown on the right side of the slide. The production volume for FY2021 is expected to be 9.2 million units. However, there has been a decline in production due to a shortage of semiconductors. We expect the production to recover after summer. However, in addition to the shortage of semiconductors that I mentioned earlier, we are also facing the effects of automobile components supply shortages due to the spread of coronavirus infection and other factors, and we believe that there are risks associated with these factors. We will continue to monitor the situation closely.

Current Business Environment (Overseas)

- **Steel demand in most regions is expected to continue to recover.**
- However, it is essential to monitor the impact of re-spread of COVID19 in India and ASEAN.
- Steel supply and demand in the Southeast Asian market are expected to be stable because steel exports from China, India, and Russian mills to Southeast Asia are limited.

【Automobile Sales by Quarter】



【Real GDP Growth Forecast in 2021】

(Arrows indicate changes from the previous forecast)

	World	US	China	India	ASEAN-5
2020 Actual	-3.3%	-3.5%	2.3%	-8.0%	-3.4%
Apr. 2021 Forecast	6.0%	6.4%	8.4%	12.5%	4.9%
Jul. 2021 Forecast	6.0%	7.0%	8.1%	9.5%	4.3%

Source: IMF World Economic Outlook Update March 23, 2021, July 27, 2021

*ASEAN-5 : Thailand, Malaysia, Indonesia, Philippine, and Vietnam

【Steel Export Trend】

	Trend by Country
China	<ul style="list-style-type: none"> Chinese government is vigorously stimulating the domestic demand. Chinese government has decided to reduce crude steel production in 2021, compared to that in 2020, which will maintain the supply-demand balance. China cancel VAT refunds for most of the steel exports. (China announced to cancel VAT refunds for additional steel exports from August 1.)
India Russia	<ul style="list-style-type: none"> Domestic steel demand in each country shows recovery trends due to economic recovery. Export to Southeast Asia is expected to be limited because the production capacity of Indian and Russian mills is directed to the domestic market and exports to other regions such as the EU.

Next is overseas demand for steel.

Overseas, we expect the recovery trend to continue in general. In India and ASEAN, however, we will continue to closely monitor the situation due to the reemergence of COVID-19 infection.

On the bottom left of the slide, we have graphs of automobile sales by country. As you can see, there is a very strong trend in China. We believe Indonesia is recovering from the effects of the COVID-19 better than expected.

On the other hand, it is said that Thailand will recover within FY2021, but we have to keep a close eye on the trends.

As for India, the lockdown in May 2021 had a considerable impact, but since June 2021, we have seen a recovery trend and the volume has been returning.

The IMF's GDP growth forecast is shown on the right side of the slide. Compared to the April 2021 forecast, the US is expected to recover further, China will remain almost flat, and the pace of recovery in India and ASEAN will be a little slower than in April 2021 forecast. As I mentioned earlier, we need to keep a close eye on these trends.

On the other hand, as for the export trend of steel of each country, as you know, China is actively implementing measures to stimulate domestic demand, and the government has also announced that it will reduce crude steel production compared to 2020. In such a situation, the value-added tax refund has been

abolished for most of the steel exported, so we do not think that there will be many Chinese materials coming to Asia.

In addition, for India and Russia, domestic demand is recovering due to the economic recovery in their own countries, and steel prices are very high in the EU and other regions, so we expect that exports to those regions will be prioritized, and not much will be exported to Asia.

Considering all of these factors, I believe that supply and demand in the Asian market will be stable.



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Assumptions for Financial Forecast

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Forecast of crude steel production

- Standalone crude steel production in FY2021 is expected to be **approximately 26.50 Mt.** (1H: less than 13.00Mt. 2H: more than 13.50Mt. Full-year forecast of production volume is the same as the previous forecast.)

Metal Spread

- **Raw material prices**
Raw material prices are expected to **remain at the current high level** due to the strong steel demand.
- **Export steel prices**
The market prices are expected to remain high because **the steel demand** is expected to **continue to recover**, and supply and demand in the Asian market are expected to **keep balanced**.
- **Domestic and overseas metal spread** is expected to **improve by 28.0 billion yen from the previous forecast.**

Metals and Scrap

- Prices of almost all metals are **currently soaring** due to tighter supply and demand.

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Next, I would like to explain the assumptions behind our business forecast. First of all, the standalone crude steel production in FY2021 will be around 26.5 million tons. There is no change from the figures we mentioned in our previous forecast announcement. The forecast for the 1H of FY2021 is just under 13 million tons, and for the 2H is over 13.5 million tons.

Regarding the metal spread, first of all, the price of raw materials is extremely high right now, and we believe that it will remain at a high level for the time being. In the recent past, the price of iron ore has fallen sharply this week, but in our view, the price is expected to remain at a high level.

As for export market prices, as I mentioned earlier in the section on overseas demand, steel demand is continuing to recover, and we believe that supply and demand in the Asian market will remain very balanced. Therefore, we assume that the steel market price will continue to be at a high level.

As a result, the total spread is expected to improve by JPY28.0 billion from the previous forecast.

On the other hand, the current concern in terms of manufacturing costs is the price of metals and scrap. Due to the tightening of supply and demand, the prices of almost all metals are rising, and this is having a significant impact on manufacturing costs.



Initiatives and Progress (1)

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Initiatives to Improve our Sales Price

- The following initiatives enable us to **expand the understanding of our customers in each business field**, and we steadily execute sales price improvement.
- We will **make further efforts** to proceed with the price improvement initiatives as raw material prices continue to rise.

◆ Quick reflection of raw material cost to sales price

Make effort to quickly and steadily pass on the cost increase of raw materials to the sales prices

- Sales contracts linked to raw materials cost change: [Shorten the period of referencing raw material cost reflected in the sales price](#)
- Sales contracts based on individual negotiation: [Pass on the raw material costs to the sales prices approx. 1 month after deciding the raw material term-contract cost](#)
- Accelerate [reflection of increased costs of metals and scraps to the sales prices](#).

◆ Reduction of price difference between domestic and overseas sales price

Regarding the products which are highly linked to the market price, we have already achieved [sales price increase way over the cost rise of raw materials](#).

◆ Overhaul of extra pricing

[Already realized some part of extra revision](#). Accelerate extra overhaul to modify the extra pricing which is inappropriate to the current status.

◆ Sales price improvement to the sustainable level

[Improve sales price to the sustainable level](#) even among the long-term/continuous contracts if the margin is not enough.

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In this context, I would like to introduce some of our specific initiatives. First, I would like to talk about our efforts to improve selling prices.

We are steadily improving our selling prices as our customers' understanding of these issues is growing, regardless of the field.

We will promote these measures even more vigorously as the cost of raw materials continues to rise.

One of the first things we will do is to reflect the cost of raw materials in our prices as soon as possible.

In the case of contracts in which the selling price is linked to the price of raw materials, we are working to shorten the period of referencing raw material costs as much as possible and to promote early price pass-on to meet the rising cost of raw materials.

In addition, for contracts in which the selling price is determined through individual negotiations, we are working to reflect the determined cost of raw materials in the selling price in the following month.

In addition, as I mentioned earlier, the cost of metals and scrap is rising, and we are working to accelerate the process of reflecting this in steel selling prices.

The second initiative is to reduce the price difference between domestic and overseas sales prices. In the domestic market as well, we are working to improve the prices of products that are highly linked to market prices more than the increase in raw material costs, by gaining the recognition of customers that overseas market prices are extremely high. As a result, we have been able to increase our sales price.

The third initiative, which we have mentioned in our mid-term plan, is to overhaul of extra pricing. We are taking time to comprehensively proceed with this process, and some part of extra revision has already been realized. We want to further accelerate the overhaul.

And finally, we will improve sales price to a sustainable level. To be honest, there are some parts of our ongoing business that do not provide stable revenue. As our steel production will be reduced in the future, we will promote the improvement of prices to a sustainable level and a level that will generate profits. On the other hand, if the price does not reach such a level, it may be necessary to review the contracts itself.



Initiatives and Progress (2)

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Product-mix enhancement (Shifting focus from quantity to quality)

By steadily proceed with the following initiatives referred in the 7th mid-term business plan, we will **increase the mix of highly value-added products** and **enhance our earning basis**.

- **Production capacity enhancement of heavy, extra-thick steel plate for offshore wind-power applications**
(Started operation of No.7 continuous casting machine in Kurashiki district in June 2021)
Released on June 16, 2021
Reference : p.31-32
- **Strategies of electrical steel sheet**
 - Expand production capacity of non-oriented electrical steel sheets (N/O) in Kurashiki district
Released on April 1, 2021
 - Feasibility study of production and sales JV with India's JSW for grain-oriented electrical steel sheets (G/O)
Released on May 7, 2021
- **Developed the world's first hot-continuous-rolling for high-tensile-strength steel sheets**
Released on May 6, 2021
Greatly contribute to the stable and productive manufacturing of high-tensile steel to capture the growing demand for high-tensile-strength steel sheets.

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One more thing, as mentioned in the mid-term plan, is the product mix enhancement. I would like to introduce the perspective of the so-called shift from quantity to quality. Since the mid-term plan period has just started, we still have a long way to go before we see any real results, but we would like to steadily advance the initiatives set forth in the mid-term plan, increase the ratio of high value-added products, and strengthen our profit base.

The first example is the production capacity enhancement of heavy, extra-thick plate for offshore wind power applications. We started operation of No.7 continuous casting machine in Kurashiki district in June 2021.

Secondly, we are working to expand production capacity of non-oriented electrical steel sheets (N/O) in Kurashiki, and we are also carrying out a feasibility study for a JV with JSW in India for grain-oriented electrical steel sheets (G/O).

The third point is the development of the world's first hot-continuous-rolling for high-tensile-strength steel sheets. This technology has already been applied in Chiba since 2019. By making this continuous rolling possible, we believe that this technology will be a key in terms of stable production of high tensile strength steel, improving productivity, and meeting the increasing demand for high tensile strength steel sheets in the future. As described above, we will promote a shift from quantity to quality.

The next page shows graphs indicating raw material and steel market prices, but I will skip it.



Financial Forecast for Fiscal Year 2021

JFE Steel

	Unit	FY2020 Full Year	FY2021 Updated Forecast					FY2021 Full Year Previous Forecast
			1Q	2Q	1H	2H	Full year	
Revenue	billion yen	2,255.2	638.5	811.5	1,450.0	1,680.0	3,130.0	
Segment Profit	billion yen	(65.4)	69.7	90.3	160.0	120.0	280.0	140.0
Excluding Inventory Valuation etc.*	billion yen	(31.4)	25.7	49.3	75.0	48.0	123.0	84.0
Crude Steel (Standalone)	Mt	22.76	6.25	Approx. 6.70	Less than 13.00	More than 13.50	Approx. 26.50	Approx. 26.50
Crude Steel (Consolidated)	Mt	23.96	6.59	Approx. 7.00	Less than 13.60			
Shipment (Standalone)	Mt	20.49	5.26	Approx. 6.20	Approx. 11.40			
Export Ratio on Value Basis (Standalone)	%	42.3	43.2	Approx. 50	Approx. 47			
Average Sales Price (Standalone)	000 yen/ t	74.8	87.6	Approx. 100	Approx. 95			
Exchange Rate	¥/\$	105.8	109.8	Approx. 110	Approx. 110	Approx. 110	Approx. 110	Approx. 105

* Excluding inventory valuation, carry over of raw materials and foreign exchange valuation from segment profit

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Next, I will explain the assumptions for JFE Steel's full-year forecast and the breakdown of profit and loss.

As for profit and loss, segment profit is expected to be JPY160 billion in the 1H of FY2021 and JPY120 billion in the 2H, for a total of JPY280 billion for the fiscal year, double the previous forecast of JPY140 billion.

Crude steel production is also expected to be about 26.5 million tons for the fiscal year.



140.0 Billion Yen Increase in JFE Steel's Segment Profit (FY2021 (Previous Forecast) vs. FY2021(Updated Forecast))

JFE

- Although the raw material prices are expected to remain at the current high level for a certain period, the steel prices are expected to increase due to improvement of the export market price and the reflection of raw material prices to the domestic steel price. As a result, the metal spread is expected to improve.
- Compared with the previous forecast, the segment profit is expected to improve mainly because of the inventory valuation, etc.

JFE Steel	FY2021 Previous Forecast	FY2021 Updated Forecast	Change (billion yen)
Segment Profit	140.0	280.0	+140.0
1. Cost	±0.0	(Year-on-year cost reduction to be 30.0 billion yen)	
2. Volume and Mix	±0.0	• Crude steel (Standalone) Approx. 26.50Mt	
3. Sales and Raw materials	+28.0	(+1,200yen/t-shipment) • Although raw material price is expected to continue to be at a recent high level, the spread is expected to improve due to the rising steel price.	
4. Inventory valuation	+101.0	• Inventory valuation +75.0 (+39.0→+114.0) • Carry over of raw materials +25.0 (+17.0→+42.0) • Foreign exchange valuation +1.0 (±0.0→+1.0)	
5. Others	+11.0	• Increase in profit of domestic and overseas subsidiary companies • Rising in price of scrap and metals etc.	

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Next, let's look at the breakdown of changes in profit and loss. First, I would like to explain the breakdown of our annual earnings forecast, which has improved by JPY140 billion from the previous forecast of JPY140 billion to the current forecast of JPY280 billion.

There is no change in the cost and volume and mix from the previous forecast. Forecast for the impact of the spread has improved by JPY28 billion. We are steadily working to improve sales prices in Japan as well as for exports through the measures I mentioned earlier.

On the other hand, the cost of raw materials, both iron ore and coking coal, is at a very high level, and the increase in iron ore prices has a particularly large impact.

The other major factor is the inventory valuation. The breakdown of the JPY101 billion in inventory valuation difference, JPY75 billion is in inventory valuation, and JPY25 billion is in carry-over. As the price of raw materials has risen significantly, the positive impact of such valuation difference and carry-over is making a significant contribution.

The segment profit increase due to other factors was revised upward by JPY11 billion. With regard to the improvement in earnings of domestic and overseas group companies, the contribution of overseas group companies is very large, and the total improvement will be approximately JPY57 billion.

On the other hand, this was offset by the price hikes in scrap metal and other commodities that I mentioned earlier.



345.4 Billion Yen Increase in JFE Steel's Segment Profit (FY2020 (Actual) vs. FY2021 (Forecast))

JFE Steel

JFE

- The steel demand is expected to recover significantly from FY2020, which was greatly affected by COVID-19.
- Segment profit is expected to improve significantly from FY2020 due to the increase in steel price in overseas market and production volume as well as the increase in profit of domestic and overseas subsidiary companies.

JFE Steel	FY2020 Actual	FY2021 Forecast	Change (billion yen)
Segment Profit	(65.4)	280.0	+345.4
1. Cost	+30.0	• Capital investment effect etc.	
2. Volume and Mix	+70.0	• Production increase amid recovery of steel demand (Crude steel(Standalone) 22.76 ⇒ approx. 26.50Mt)	
3. Sales and Raw materials	+43.0	(+1,800yen/t-shipment) • Although raw material price is expected to continue to be at a recent high level, the spread is expected to improve due to the rising steel price	
4. Inventory valuation	+191.0	• Inventory valuation +151.0 (-37.0→+114.0) • Carry over of raw materials +39.0 (+3.0→+42.0) • Foreign exchange valuation +1.0 (±0.0→+1.0)	
5. Others	+11.4	• Increase in profit of domestic and overseas subsidiary companies. • Rising in price of scrap and metals etc.	

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This is the comparison with the previous year.

The forecast for the current fiscal year is JPY280 billion, and the result for FY2020 was minus JPY65.4 billion, so the change is approximately JPY345 billion. As for the breakdown, cost factor will contribute to an increase by JPY30 billion, and the volume will increase by JPY70 billion as crude steel production will increase by over 3.7 million tons.

The spread will have a positive impact of JPY43 billion. Sales prices will have a large positive impact due to the significant increase in both domestic and export prices. On the other hand, as for raw materials, the increase in iron ore prices has been very large. As a result, sales prices and raw material prices combined will contribute to an increase of JPY43 billion.

Of the comparisons with the previous fiscal year, the impact of inventory valuation is very large. The breakdown is as shown. The situation is as I explained in the comparison with the previous forecast.

As for the other factors, the trend is also as I explained. The improvement in earnings of domestic and overseas group companies will be over JPY80 billion, which is a very significant contribution. On the other hand, there are factors that will increase costs, such as higher scrap metal prices and increased depreciation expenses, and the total of these factors will result in an increase of JPY11.4 billion.



40.0 Billion Yen Decrease in JFE Steel's Segment Profit (FY2021.1H vs. FY2021.2H)

JFE Steel

JFE

- Crude steel production is expected to increase in 2H and cost reductions are also expected to improve.
- Raw materials and other material costs are expected to rise because the supply-demand balance will remain tight.
- Segment profit for 2H is expected to decrease from 1H.

JFE Steel	FY2021 Forecast			Change (billion yen)
	1H	2H	Full Year	
Segment Profit	160.0	120.0	280.0	(40.0)
1. Cost	+15.0	<ul style="list-style-type: none"> • Capital investment effect etc. • Variable cost and repairing cost reduction etc. 		
2. Volume and Mix	+13.0	<ul style="list-style-type: none"> • Steel demand is expected to recover gradually amid domestic and overseas economic recovery. • Increase in production volume due to completion of the refit of Kurashiki No.4 BF (Crude steel (standalone) Less than 13.00Mt⇒More than 13.50Mt) 		
3. Sales and Raw materials	±0.0	<ul style="list-style-type: none"> • Although raw material price is expected to remain at a recent high level, further steel price improvement is expected to be promoted in the 2H. 		
4. Inventory valuation	(13.0)	<ul style="list-style-type: none"> • Inventory valuation +6.0 (+54.0→+60.0) • Carry over of raw materials -18.0 (+30.0→+12.0) • Foreign exchange valuation -1.0(+1.0→±0.0) 		
5. Others	(55.0)	<ul style="list-style-type: none"> • Profit of overseas subsidiary companies in 1H is higher than 2H. • Depreciation and company expenses • Rising in price of scrap and metals etc. 		

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Next, I would like to explain the difference between the 1H and the 2H of FY2021. Segment profit is expected to be JPY160 billion in the 1H and JPY120 billion in the 2H, so the 2H will be worse by JPY40 billion. Cost reduction will have a positive impact of JPY15 billion, and volume of JPY13 billion, including the production volume of No.4 blast furnace in Kurashiki, which will start production after completion of renovation work in December.

The impact of the spread will be the same. In terms of comparison with the 1H of the FY2021, the cost of raw materials will increase due to the continued high prices of raw materials in the 2H. On the other hand, the sales price will also be increased, offsetting the increase in raw materials prices.

Inventory valuation will have a negative impact due to the carry-over effect, which will be greater in the first half than in the second half.

Other factors will have a negative impact of JPY55 billion. With regard to our overseas group companies, we have factored in a very good performance forecast for the 1H, but we do not expect the 2H to be at that level. In addition, some of the amortization and other expenses will be concentrated in the 2H of the FY2021. There are also cost increase factors such as rising prices of metals.



Financial Forecast for Fiscal Year 2021

JFE

Current Business Environment/ Overview of Financial Status

- Domestic demand both in the [environment & energy sector](#) and [infrastructure sector](#) is expected to remain solid.
- Regarding the overseas market, demand [in Europe](#) is expected to [remain solid](#)
- Due to an increase in revenue from M&A, etc., we expect stable segment profit for the full fiscal year, [exceeding the results of the previous fiscal year](#).

Financial Forecast

(billion yen)	FY2020(Actual)		FY2021(Forecast)		Change (Y on Y)		Previous Forecast (Full Year)
	1H	Full Year	1H	Full Year	1H	Full Year	
Orders	298.9	501.1	300.0	550.0	1.1	48.9	550.0
Revenue	221.9	485.7	240.0	520.0	18.1	34.3	
Segment Profit	8.7	24.0	10.0	25.0	1.3	1.0	25.0

Compared to FY2020

<Full Year>

- Orders +48.9 M&A*, increase in large-scale orders in carbon neutral area
- Revenue +34.3 Increase in orders in previous year, increase from M&A
- Segment profit +1.0 Increase in revenue

*Completed acquisition of shares of Mitsui E&S Environment Engineering Company, Limited in April 1, 2021. New company is named JFE Environment Technology Co., Ltd

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Next is the JFE Engineering.

As for the situation of Engineering, in Japan, both the environment and energy sector and the infrastructure sector are performing well. Overseas, the environmental sector, especially in Europe, continues to be strong, and we are forecasting orders of JPY300 billion for the first half of the current fiscal year and JPY550 billion for the full year.

We expect segment profit to exceed the previous fiscal year's figure by JPY1 billion, thanks to the contribution of increased revenue and profits from corporate acquisitions, and we plan to post a segment profit of JPY25 billion.



Financial Forecast for Fiscal Year 2021

JFE

Current Business Environment/ Overview of Financial Status

- In 1H, segment profit is expected to significantly increase due to rapid **rise in steel market price**, in addition to the **demand recovery** from the impact of the spread of COVID-19 **both in domestic and overseas markets**.
- In 2H, the **metal spread is expected to shrink to the normal level** because of the rise in procurement cost, while the steel market price is expected to remain on par with that in 1H.
- Segment profit is expected to **increase by ¥18 billion year-on-year to ¥38 billion**.

	FY2020 (Actual)		FY2021(Forecast)		Change (Y on Y)		Previous Forecast
	1H	Full Year	1H	Full Year	1H	Full Year	Full Year
(billion yen)							
Revenue	451.7	932.5	560.0	1,150.0	108.3	217.5	
Segment	7.2	20.0	23.0	38.0	15.8	18.0	27.0

Compared to FY2020

<Full Year>

- Segment Profit +18.0 Expansion of metal spread due to demand recovery and sharp rise in steel price both in domestic and overseas market.
Significant profit increase in domestic affiliated companies manufacturing steel sheets and overseas affiliated companies mainly in US

Compared to the previous forecast

<Full Year>

- Segment Profit +11.0 Expansion of metal spread due to increase in steel market price in 1H etc.

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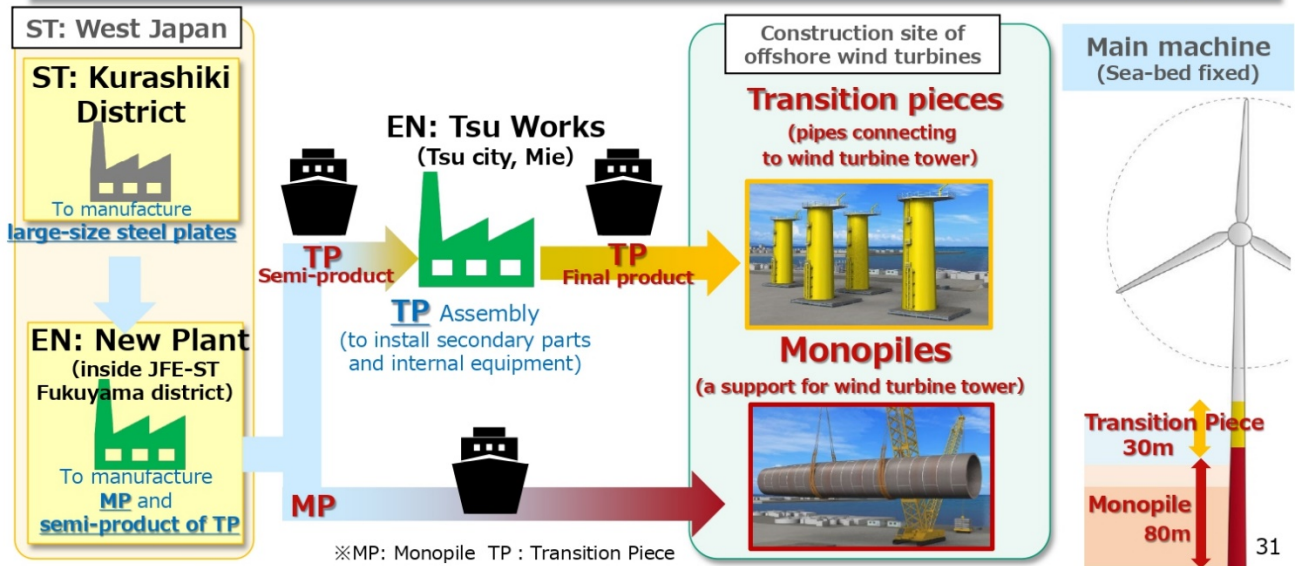
Next is JFE Shoji.

The business environment of JFE Shoji is similar to what I mentioned earlier in the steel business. In the first half of the year in particular, due to the recovery in demand in Japan and overseas and the extremely high steel market prices, not only Shoji itself but also the domestic and overseas group companies have seen their earnings expand greatly, and we expect a very large increase in profits. Segment profit for the first half is expected to be JPY23 billion, which is a significant increase of JPY15.8 billion compared to the same period last year.

For the second half of the year, we expect the steel market price to remain at the same level as the first half. On the other hand, as a trading company, purchase prices are expected to increase compared to the first half, and the metal spread is expected to narrow slightly compared to the first half. The term "shrink to the normal level" implies such a prospect.

As a result, segment profit for the second half of the fiscal year is expected to be JPY15 billion, and the annual segment profit forecast is JPY38 billion.

- JFE Engineering has decided to invest in establishing a new plant for monopile foundation structure of offshore windmills.
- Total capital investment is estimated around 40 billion yen, which is both for a new monopile plant in Okayama prefecture and a transition piece assembly plant in Mie prefecture. (A monopile plant is planned to be built in the part of the JFE Steel Fukuyama district in West Japan Works.)
- By quickly establishing a manufacturing basis of monopiles and embarking on Jacket-style foundation as well, JFE Engineering will provide a full lineup of sea-bed fixed foundation structures. It will capture the demand for offshore wind-power mill construction, which will eventually contribute to realizing Carbon Neutrality.



Now, I would like to talk about a few topics.

The first, which I touched on briefly earlier, is a topic related to offshore wind power. In terms of the commercialization of the manufacturing monopile foundation structures, JFE Engineering has decided to build a new monopile plant in Kasaoka City, Okayama Prefecture.

See the figure below. The first step is to manufacture large-size steel plates, which will be used as materials, in the Kurashiki district of the West Japan Works of JFE Steel. The new monopile plant to be set up by Engineering will be located in the Fukuyama district of the same West Japan Works of JFE Steel. After transporting the large-size steel plates manufactured by JFE Steel in the Kurashiki district to the new plant constructed in the same West Japan Works, monopiles and semi-product of transition piece will be manufactured, and the monopiles will be shipped as is. The semi-product transition piece manufactured at the new plant will be transported to JFE Engineering Tsu Works, where secondary parts and internal equipment will be installed and shipped as finished products.

The total investment is expected to be around JPY40 billion. In addition to the prompt construction and operation of the monopile manufacturing foundation, we plan to add jacketed foundations to our lineup of offshore wind-power machine to meet the demand for offshore wind power generation in the future.

- JFE Steel started the operation of two upstream facilities in West Japan Works, which are for strengthening its domestic manufacturing.
- A new continuous casting machine can provide **a large amount of high-quality large-size steel plates for offshore wind-power generation.**

1. Kurashiki No.7 Continuous Casting Machine

- **High-efficiency casting of large cross-sectional slabs**
- **Combined with a plate mill in Kurashiki district, JFE can provide world-class large-size steel plates**

Start of Operation : June 2021
 Production Capacity : 2 million tons / year
 Investment : 53.0 billion yen
 Products : Plates and Sheets

Plates are to be provided to the new monopile plant which will be built in JFE Steel's Fukuyama district.



2. Fukuyama Battery B No.3 Coke Oven

- **Higher efficiency of coke production**
- **Realization of eco-friendly operation with no dust generation and low NOx emissions**

Start of Operation : June 2021
 Production Capacity : Approx. 360,000 tons/year
 Investment : 14 billion yen



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The next topic related to the previous one is the operation of facilities at the West Japan Works. The first item is the start of operation of the Kurashiki No.7 continuous casting machine, as I have mentioned earlier. This has started operation in June.

It can produce large cross-sectional slabs with high efficiency, and can provide the world's largest class of large-sized steel plates. From here, as I mentioned earlier, we will also provide materials to the monopile plant of JFE Engineering.

Secondly, the operation of the No 3 coke oven in Fukuyama. The production efficiency will be improved, but the operation will also be environmentally friendly by preventing dust emission and reducing NOx emissions, etc. This plant also started operation in June.

Included in leading ESG investment indices, “**FTSE4Good Index Series**”^{**} and “**FTSE Blossom Japan Index**”^{***} for the second consecutive year

Released on 8th July 2021



FTSE4Good

***FTSE4Good Index Series**

<https://www.ftserussell.com/ja/products/indices/ftse4good>

The index is developed by FTSE Russell, a member of London Stock Exchange Group, and selects companies demonstrating strong Environmental, Social and Governance (ESG) practices. It's used by a wide variety of market participants when creating or assessing sustainable investment products.



FTSE Blossom Japan

****FTSE Blossom Japan Index**

<https://www.ftserussell.com/ja/products/indices/blossom-japan>

The index is developed by FTSE Russell, and selects Japanese companies demonstrating strong Environmental, Social and Governance (ESG) practices.

Of the various ESG investment indices used by the world's largest pension fund, Japan's Government Pension Investment Fund (GPIF), JFE Holdings is a constituent of three, namely, the **FTSE Blossom Japan Index**, the **MSCI Japan Empowering Women Index (WIN)**, and the **S&P/JPX Carbon Efficient Index**.

JFE contributes to the development of sustainable society by continuously promoting initiatives to address ESG issues such as climate change, safety, and compliance, etc., being committed to achieving sustainable business growth.

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The next topic is that we were included in leading ESG investment indices.

We have been selected for the FTSE4Good Index Series and the FTSE Blossom Japan Index for 2 consecutive years. Companies with outstanding environmental, social and governance performance are selected. We will continue to contribute to a sustainable society through our continued initiatives.



External Recognition regarding DX

JFE

JFE Group has been selected as “DX Stock 2021” for the 7th consecutive year

Released on June 8th, 2021

- JFE Group has been selected as a company which competitively promotes digital transformation strategies for 7th consecutive year.
- Competitive IT Strategy Company Stock Selection has been changed to DX Stock Selection with a focus on digital transformation (DX) to realize new growth and enhance competitive strength by fundamentally transforming business models based on digital technology.

JFE Steel was awarded as second prize of “IT Japan Award 2021”

Released on June 8th, 2021

- JFE Steel was awarded as second prize of “IT Japan Award 2021” held by Nikkei Computer, evaluated well for “**Cyber-Physical System used in Blast Furnace**” and “**J-mAIster®**”*
- *J-mAIster is the system to support recovery from control failures.

JFE promotes DX initiatives in every business area such as advancing productivity through innovation, transforming existing businesses and creating new businesses.

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Lastly, regarding DX.

In terms of external evaluation, we have been selected as a DX Stock 2021 for 7 consecutive years. This year, the steel business, in particular, was recognized for its innovation in technology and utilization of data assets through the proactive introduction of IoT, AI, data science, etcetera.

Our engineering business was also recognized for its data analysis platform and the use of our proprietary AI engine. These initiatives are the reasons to be selected for this issue for 7 consecutive years

In addition, below this is the second prize of IT Japan Award 2021, which is an award for outstanding IT utilization cases. JFE Steel was awarded the second prize for our CPS, Cyber-Physical System, used in the blast furnace, and for J-mAIster, a control support system.

[END]

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