JFE Holdings, Inc.

JFE Group Investor Meeting

((FY2021 3Q Financial Results and FY2021 Earnings Forecasts)

Summary of Q&A Session on February 8, 2022

Moderator: Now, we would like to move on to the Q&A session.

Participant: I have three questions.

The first question is about the assumption of your company's financial forecast. In the previous announcement in November, I think you assumed that hot coils for the second half of the year would be more than USD900 of around October, but now I assume that the sales price of your company's products is probably on the way down to a level close to USD800. In such a situation, the widening of the spread in the revised forecast gives an impression of a considerable increase in domestic selling prices against the lower export steel market prices.

I have the impression that you have made a lot of effort to revise the contracted prices this time. I would like to know about your feeling, efforts, and future plans for this.

Secondly, I would like to ask about dividends. This time, the dividend payout ratio is exactly 30%, and the annual dividend is JPY140, which is in line with your competitor. On the other hand, the competitor is holding down their dividend payout ratio. Their policy seems to be to avoid a dividend cut next year.

With respect to your company's business performance for the next fiscal year, assuming that the spread and other conditions remain unchanged, the JPY150 billion in inventory valuation gains will be removed from the current fiscal year's business profit, and business profit will be around JPY240 billion. In that case, will the dividend be reduced, if the payout ratio is 30%? Please let me know if the move will follow the dividend policy.

Thirdly, this time, with regard to your efforts toward carbon neutrality, you announced a target of reducing CO_2 emissions by at least 30% by FY2030. Since it is unlikely that super-innovative technologies such as CCU, CCUS, or carbon recycling blast furnace and hydrogen ironmaking will be established around 2030, I assumed that the combination of the direct reduction method and electric furnace will be the main means to achieve your goal. You mentioned that you have reached a certain level of technological clarity. What do you mean by this? Please tell us the progress of the technology as well.

Company Representative: Regarding the first point, the improvement of domestic sales prices, as you pointed out, we have been able to raise prices in the fourth quarter with a very firm response. However, even at present, the rise in ferroalloys and other prices has been significant. Therefore, we would like to continue to steadily improve our prices. For the next fiscal year, we would like to further improve sales prices and increase profits.

With regard to the second point, our current medium-term dividend policy is based on a dividend payout ratio of approximately 30%, and we would like to maintain a dividend payout ratio of 30% for the current fiscal year. From the next fiscal year onward, we will work to increase dividends through accumulating profit.

Lastly, I would like to answer your question about our CO_2 reduction target for FY2030, which is to become carbon neutral. The announced target of reducing CO_2 emissions by 30% or more by FY2030 is not based on the assumption of revolutionary new technologies such as carbon recycling blast furnaces. We include the expansion of the application of CO_2 reducing technologies in the existing facilities and progress of R&D that we are currently carrying out in multi-track. We have newly established several departments specific for the elemental technology development and Carbon Neutral Advancement Committee, which allows us to accelerate to expand the application of existing technologies and add new measures for CO_2 reductions. In concrete, we regard the following measures as our options to reduce CO_2: expanding the use of scrap in converter furnaces to reduce hot metal ratio, introducing environmental impact-reducing technologies in each process, and introducing new processes including electric arc furnaces.

We have received a certain level of response, and we recognize that the target of 30% is highly feasible.

That's all from me.

Participant: I understand. So, you are not saying that some ground-breaking technology will be established around 2030, but that you will achieve the goal with various existing technologies, such as increased use of ferro coke and scrap, or introduction of HBI like your competitor?

Company Representative: We are trying to achieve our goals with existing technologies.

Participant: I understand. Thank you very much.

Moderator: Thank you.

Participant: First, I have a question about the spread. In the Assumptions for Financial Forecast section on page 20, it is stated that "the quick reflection of raw material cost in sales prices has more widely been accepted than expected" regarding sales prices, and I assume that the upward revision of the spread in the earnings forecast is mainly due to the improvement in domestic sales prices. Regarding the improvement of domestic sales prices, please tell us whether the increase is due to this early reflection or to an increase in the base price.

The second point is about the Trading business. You said that your North American Group companies are doing well, but the market for steel sheets in North America has been falling. Is it correct to assume that Kelly Pipe, a pipe distributing subsidiary in North America, will not be affected by the decline in the steel market because it is linked to the oil market?

The third point is about CO_2 reduction. Could you tell us whether the new reduction target of 30% or more includes initiatives such as the use of electric furnaces to produce high-grade steel?

Company Representative: With regard to sales prices, we have been working to reflect the cost of main raw materials in sales prices as early as possible in order to avoid reflecting the impact of volatile raw material prices on earnings. This early reflection has been effective, and we have also been revising base prices to reflect the increase in prices of ferroalloys and other commodities in sales prices. To answer your question, it is the combined result of both efforts.

With regard to the outlook for the Trading business, as you pointed out, Kelly Pipe is the core of the North American Group companies with strong earnings. The market in North America is lower than it was at its peak. However, in the midst of this, we have implemented a very wide range of measures such as selective order taking and inventory management, and as a result we have maintained a certain spread and revised our earnings upward.

Although the overall market index has been declining compared to last summer, we expect to be able to maintain a certain level of spread during the current fiscal year, which is why we have revised the result forecast of the Trading business upward. For next year, I know we have the next challenge.

As for CO_2 reduction, as you pointed out, we are also participating in the development of manufacturing technology for high-grade steel in electric furnaces as part of the GI Fund, and we have factored in the fact that we expect to establish the technology to some extent.

That's all from me.

Participant: I understand. Thank you very much.

Moderator: Now, the next questioner, please.

Participant: Thank you very much. I have two questions.

First, I would like to ask about the effect of early reflection of main raw material costs in sales prices. The cumulative effect of the improvement in the spread from the first quarter to the third quarter is explained to be JPY1,000 per ton of steel, although this may be because the raw material price difference is calculated based on the period when the main raw material index is highest.

JFE Steel

353.9 Billion Yen Increase in JFE Steel's Segment Profit (FY2020 Apr-Dec vs. FY2021 Apr-Dec)

JFE

Segment profit increased by 353.9 billion yen due to an improvement of selling price, an increase in crude steel production, and profit improvement of both domestic and overseas subsidiaries.

(billion yen)

JFE Steel	FY2020 Apr-Dec	FY2021 1Q	FY2021 2Q	FY2021 3Q	FY2021 Apr-Dec	Change
Segment profit	(101.9)	69.7	88.8	93.5	252.0	+353.9

1. Cost	+23.0	• Capital investment effects etc.
2. Volume and Mix	+56.0	• Production increase amid recovery of steel demand (Crude steel (Standalone) 16.44Mt⇒19.20Mt)
3. Sales and Raw materials	+17.0	(1,000 yen/t-shipment) • Although raw material prices increased, the metal spread improved amid the supply-demand of steel and steel market prices in domestic and overseas markets.
4. Inventory valuation	+235.0	• Inventory valuation +164.0 (-41.0→+123.0) • Carry over of raw materials +62.0 (-2.0→+60.0) • Foreign exchange valuation +9.0(-5.0→+4.0)
5. Others	+22.9	• Increase in profit of domestic and overseas subsidiary companies • Rising in price of metals and scrap etc.

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On the other hand, from the third quarter to the fourth quarter, the improvement in the metal spread was JPY16,000 per ton of steel, which means that there is a large step difference in the amount of improvement in the metal spread from the first half to the second half, and the effect of the improvement in the metal spread is becoming larger as the early reflection of the cost of main raw materials becomes more widespread.

JFE Steel

42.5 Billion Yen Decrease in JFE Steel's Segment Profit (FY2021.3Q (Actual) vs. FY2021.4Q (Forecast))

JFE

JFE Steel	FY2021 1Q Actual	FY2021 2Q Actual	FY2021 3Q Actual	FY2021 4Q Forecast	FY2021 Full Year Forecast	Change (billion yen)
Segment Profit	69.7	88.8	93.5	51.0	303.0	(42.5)

1. Cost	±0.0	
2. Volume and Mix	+8.0	• Crude steel (Standalone) 6.49⇒6.80Mt +0.31Mt
3. Sales and Raw materials	+100.0	(+16,000 yen/t-shipment) • Expected metal spread improvement by quickly reflecting the coking coal price which soared in the 3Q in the selling price, in addition to falling price of iron ore.
4. Inventory valuation	(108.0)	• Inventory valuation -36.0(+64.0→+28.0) • Carry over of raw material -69.0 (+30.0→-39.0) • Foreign exchange valuation -3.0 (+3.0→±0.0)
5. Others	(42.5)	• Increase in depreciation cost and other expenses etc.

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Under the new formula for determining sales prices, we expect to settle sales price negotiations on the premise of the recent surge in raw material prices, mainly in the main raw material-linked sectors other than the Automotive sector, as soon as April of the next fiscal year. I would like to confirm whether it is correct to assume that the domestic sales price will reflect the increase in the price of raw materials from the beginning of the fiscal year without any time lag.

The second point is about the Engineering business. The revenue forecast is unchanged, and orders are slightly behind schedule, but the orders received this fiscal year itself are at a level that exceeds revenue, so can we expect a continued trend of increased revenue and profit toward the next fiscal year? You have also commented that you are receiving an increasing number of orders for large-scale projects in the carbon-neutral field. How do you expect these carbon-neutral projects to contribute to your earnings? It may still take some time for this to be reflected in sales immediately, but I would like to know if you could explain the trend, including the profitability of this area.

Company Representative: First of all, I would like to answer about the sales price. The current level of coking coal prices continues to be high, and iron ore prices are also rising, so we expect that main raw material prices will be reflected vertically on domestic sales prices from April next year. Furthermore, we would like to negotiate more with our customers to increase our prices, including the portion of the increase in various material prices.

As for the Engineering business, I will refrain from giving a detailed answer, but as you pointed out, it is not always the case that orders are immediately linked to profits. However, in our mid-term plan, we have come up with a plan to significantly expand revenue and increase profits. Next year will be the second year of the current mid-term plan, so we will put even more effort into it than we did this year.

Participant: I understand. Thank you very much.

Moderator: Thank you.

Next person, please.

Participant: Firstly, regarding the JPY43 billion improvement in the spread of JFE Steel from the first half to the second half, could you give us a breakdown of the spread between domestic and export, and between contracted and spot sales?

Secondly, with regard to the lowering of the non-consolidated crude steel production forecast by 500,000 tons, were there no particular production problems? Please explain in detail about selective orders with emphasis on profitability as well.

Company Representative: As for the improvement in the spread from the first half to the second half, the major improvement is in Japan. The amount of improvement is probably about three to four times greater in Japan than overseas. In addition, both domestic contracted and spot sales have improved.

It is true that there were some minor production problems in the third quarter, but the current situation in the fourth quarter is that while steel sheets are decreasing due to reduced production of automobiles, thick plates and other products are near full capacity. In light of this situation, we have not shifted our facility construction plans or other measures to recover the volume, but rather, we have rearranged our production plan so that we can proceed with the facility construction scheduled for the second half of the fiscal year as planned and do it naturally.

Moderator: Thank you. The next question will be the last one.

Participant: First of all, you plan for a considerable improvement in profits from the third quarter to the fourth quarter, but could you explain the profit fluctuations? What are your assumptions for the price of coking coal in the fourth quarter?

Secondly, you mentioned that the earnings of domestic and overseas Group companies have improved considerably compared to the previous forecast. Please tell us about the specific companies that have improved.

JFE Steel

42.5 Billion Yen Decrease in JFE Steel's Segment Profit (FY2021.3Q (Actual) vs. FY2021.4Q (Forecast))

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Company Representative: Regarding the first point, JFE Steel's profit for the fourth quarter will decrease by JPY42.5 billion from the third quarter, but the main reason for this is the JPY108 billion negative inventory valuation difference, etcetera. Excluding this, the actual profit will improve by JPY65.5 billion. The biggest positive factor is JPY100 billion in sales price and raw materials. The improvement of domestic prices is expected to have an effect, while overseas market conditions are weakening. In addition, the price of iron ore is expected to fall in the fourth quarter, which will have a significant impact, and we will be able to recover some of the large increase in raw material costs in the third quarter through sales prices in the fourth quarter, which will result in a significant improvement in actual profit and loss.

The price of coking coal for the fourth quarter is the expected average market price from December to February, based on the recent market high and the assumption that the current level continues until the end of February.

Regarding your second question about the earnings improvement of JFE Steel's domestic and overseas Group companies, there are domestic Group companies that handle manganese and chromium, and their earnings have increased due to higher market prices. As I explained that the main reason for the improvement in earnings of the Trading business is that the subsidiaries in North America have increased profits, JFE steel's group company in North America, California Steel, is also doing well and the surface treatment companies in Thailand and Indonesia are also doing very well.

Participant: Thank you very much.

Moderator: Thank you. We would like to conclude the question-and-answer session. This concludes today's briefing. Thank you very much for joining us today.

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