# JFE Holdings, Inc.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2023

August 3, 2022

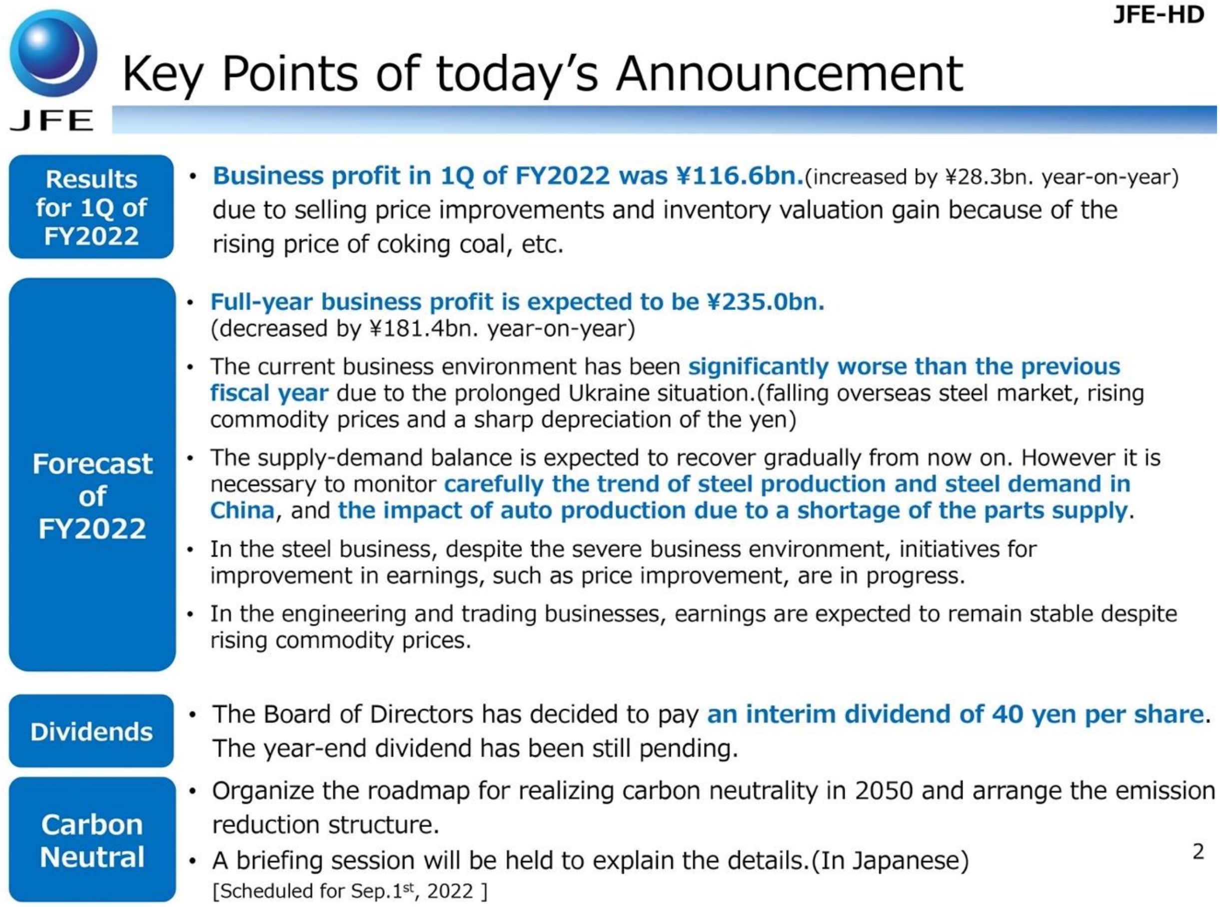
## Presentation

**Moderator**: Ladies and gentlemen, we would now like to begin the financial results briefing of JFE Holdings, Inc.

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

The duration of the briefing will be 60 minutes, consisting of a 30-minute presentation and a 30-minute Q&A session. Questions and answers will be received in a lump after the presentation.

First, Mr. Terahata, Representative Director and Executive Vice President, will give an overview of the financial results and business outlook announced today.




**Terahata**: I am Terahata. Thank you very much for joining us today. Let me briefly explain the key points.

First of all, Q1 financial results showed an increase of JPY116.6 billion from the same period of the previous year due to improved sales prices in the steel business and inventory valuation gains resulting from the impact of the sharp rise in coking coal prices.

For the full year of FY2022, we are projecting a business profit of JPY235 billion, a decrease of JPY181.4 billion from the previous year.

The current business environment has become very unfavorable due to the prolonged situation in Ukraine, softening of the overseas steel market, soaring commodity prices, and the sharp depreciation of the yen during this period.

On the other hand, we expect a gradual recovery in the supply and demand of steel products in the future. However, it is also true that there are some points that require close attention, such as trends in crude steel production and demand in China, and the future impact of restrictions on the supply of parts for automobile production.

Although the business environment is quite challenging, the steel business is implementing various measures to improve profitability, such as improving domestic sales prices.

In the engineering and trading businesses, earnings have remained stable, despite the impact of soaring prices.

As for dividends, the Board of Directors has resolved to pay an interim dividend of JPY40. The year-end dividend is undecided at this time, as the Company will consider this issue while also monitoring future performance trends.

At this investors meeting, we would like to make some supplementary explanations of carbon neutrality initiatives, a roadmap and process structure for carbon neutrality in 2050.

We are planning to hold another meeting on September 1 to explain the carbon neutral strategy from JFE Steel.

That is all for my explanation.

Now, I would like to hand over to Senior Vice President Tanaka.

# A table of contents





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**Tanaka**: My name is Tanaka. I will now give a detailed explanation of our financial results and outlook.

The table of contents is as shown.

# Financial Results and Forecast for Fiscal Year 2022

- **Business profit in 1Q of FY2022 was ¥116.6bn.**(increased by ¥28.3bn. year-on-year)
- Full-year revenue is expected to be **over ¥5 trillion.**, and full-year business profit is expected to be **¥235.0bn.**(decreased by ¥181.4bn. year-on-year)

| (billion yen) | FY2021 Actual | | | FY2022 Forecast | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q (Apr-Jun) | 1H | Full Year | 1Q (Apr-Jun) | 1H | Full Year | 1Q (Apr-Jun) | 1H | Full Year |
| Revenue | 888.9 | 1,942.9 | **4,365.1** | 1,253.6 | 2,610.0 | **5,370.0** | 364.7 | 667.1 | **1,004.9** |
| **Business Profit** | 88.3 | 198.8 | **416.4** | 116.6 | 165.0 | **235.0** | 28.3 | (33.8) | **(181.4)** |
| Finance Income/Costs | (2.9) | (5.6) | (11.6) | (3.2) | (10.0) | (15.0) | (0.3) | (4.4) | (3.4) |
| Segment Profit | 85.4 | 193.2 | **404.8** | 113.4 | 155.0 | **220.0** | 28.0 | (38.2) | **(184.8)** |
| Exceptional Items | - | - | (16.2) | - | - | - | - | - | 16.2 |
| Profit before Tax | 85.4 | 193.2 | **388.5** | 113.4 | 155.0 | **220.0** | 28.0 | (38.2) | **(168.5)** |
| Tax Expense and Profit (Loss) Attributable to Non-Controlling Interests | (23.4) | (52.4) | (100.4) | (29.5) | (55.0) | (80.0) | (6.1) | (2.6) | 20.4 |
| **Profit Attributable to Owners of Parent** | 61.9 | 140.7 | **288.0** | 83.8 | 100.0 | **140.0** | 21.9 | (40.7) | **(148.0)** |

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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First, I would like to present our financial results for Q1 and the outlook for the full year.

As shown in the table, business profit for Q1 was JPY116.6 billion.

As for the annual forecast, revenue is expected to exceed JPY5 trillion, reaching JPY5.37 trillion. Revenue is expected to increase by JPY1 trillion compared to last year.

On the other hand, business profit for the year is expected to be JPY235 billion, a JPY181.4 billion decrease from the previous year.

For the first half of the year, we forecast business profit of JPY165 billion. Net profit for the first half of the year is expected to be JPY100 billion, and for the full year JPY140 billion.

## Financial Results and Forecast for Fiscal Year 2022 (by Segment)

| (billion yen) | FY2021 Actual | | | FY2022 Forecast | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q (Apr-Jun) | 1H | Full Year | 1Q (Apr-Jun) | 1H | Full Year | 1Q (Apr-Jun) | 1H | Full Year |
| Steel Business | 638.5 | 1410.4 | **3,173.4** | 932.6 | 1975.0 | **4,100.0** | 294.1 | 564.6 | **926.6** |
| Engineering Business | 103.0 | 229.2 | **508.2** | 98.2 | 230.0 | **520.0** | (4.8) | .8 | **11.8** |
| Trading Business | 261.6 | 544.4 | **1,231.7** | 379.5 | 750.0 | **1,470.0** | 117.9 | 205.6 | **238.3** |
| Adjustments | (114.2) | (241.1) | (548.3) | (156.8) | (345.0) | (720.0) | (42.6) | (103.9) | (171.7) |
| **Revenue** | 888.9 | 1942.9 | **4,365.1** | 1,253.6 | 2610.0 | **5,370.0** | 364.7 | 667.1 | **1,004.9** |
| Business Profit (A) | 88.3 | 198.8 | 416.4 | 116.6 | 165.0 | 235.0 | 28.3 | (33.8) | (181.4) |
| Finance Income/Costs (B) | (2.9) | (5.6) | (11.6) | (3.2) | (10.0) | (15.0) | (0.3) | (4.4) | (3.4) |
| Steel Business | 69.7 | 158.5 | **323.7** | 93.0 | 120.0 | **150.0** | 23.3 | (38.5) | **(173.7)** |
| Engineering Business | 4.2 | 11.1 | **26.0** | (1.2) | 4.0 | **20.0** | (5.4) | (7.1) | **(6.0)** |
| Trading Business | 11.5 | 25.6 | **55.9** | 21.1 | 35.0 | **55.0** | 9.6 | 9.4 | **(0.9)** |
| Adjustments | (0.0) | (2.0) | (0.9) | 0.4 | (4.0) | (5.0) | 0.4 | (2.0) | (4.1) |
| **Segment Profit (A+B)** | 85.4 | 193.2 | **404.8** | 113.4 | 155.0 | **220.0** | 28.0 | (38.2) | **(184.8)** |

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Next are the figures by segment.

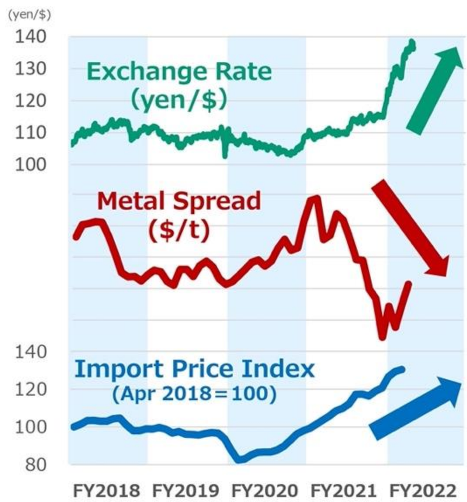
From the left side, you see figures for Q1, H1, and full year. The upper row shows the breakdown of revenue. The total segment profit is expected to be JPY220 billion for the year.

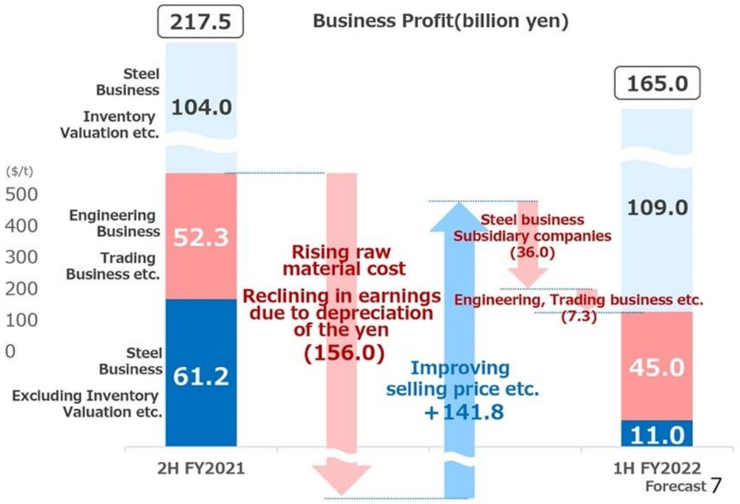
By business segment, profit of the steel business is expected to be JPY150 billion, the engineering business to be JPY20 billion, and the trading business to be JPY55 billion.

In Q1, the engineering business has posted a loss of JPY1.2 billion, which is for the first time in a long time. In Q1 of this fiscal year, we were affected by the rising cost of materials and equipment, which had a negative impact on the profit and loss of construction projects, as well as by the difference in the composition of construction projects. As I mentioned earlier, however, we plan to secure a profit of JPY20 billion for the full year.

## Business Environment and Earnings in the first Half of FY2022

- **The current business environment has been significantly worse** than the previous fiscal year when the steel market was strong.
  - ✓ Despite zero-COVID policy constraints on economic activity, maintaining high steel production in China has led increasing in inventory and a falling global steel market.
  - ✓ Further rising commodity prices due to the Ukraine situation and a sharp depreciation of the yen.
- Despite severe business environment, **initiatives for rising steel price are expected to reach significant level in the first half of FY2022.** Continuing initiatives for improving earnings in the second half and beyond.




I would like to give you an overview of the business environment and our perception of the earnings situation in FY2022, especially in the first half of the year.

Compared to last year, when the steel market was extremely favorable, the business environment for the current fiscal year has deteriorated significantly.

As mentioned at the beginning of this report, high production in China under China's zero-COVID-19 policy continued, resulting in high inventories and softening overseas market conditions. In addition, commodity prices rose further due to the situation in Ukraine, and the yen depreciated sharply.

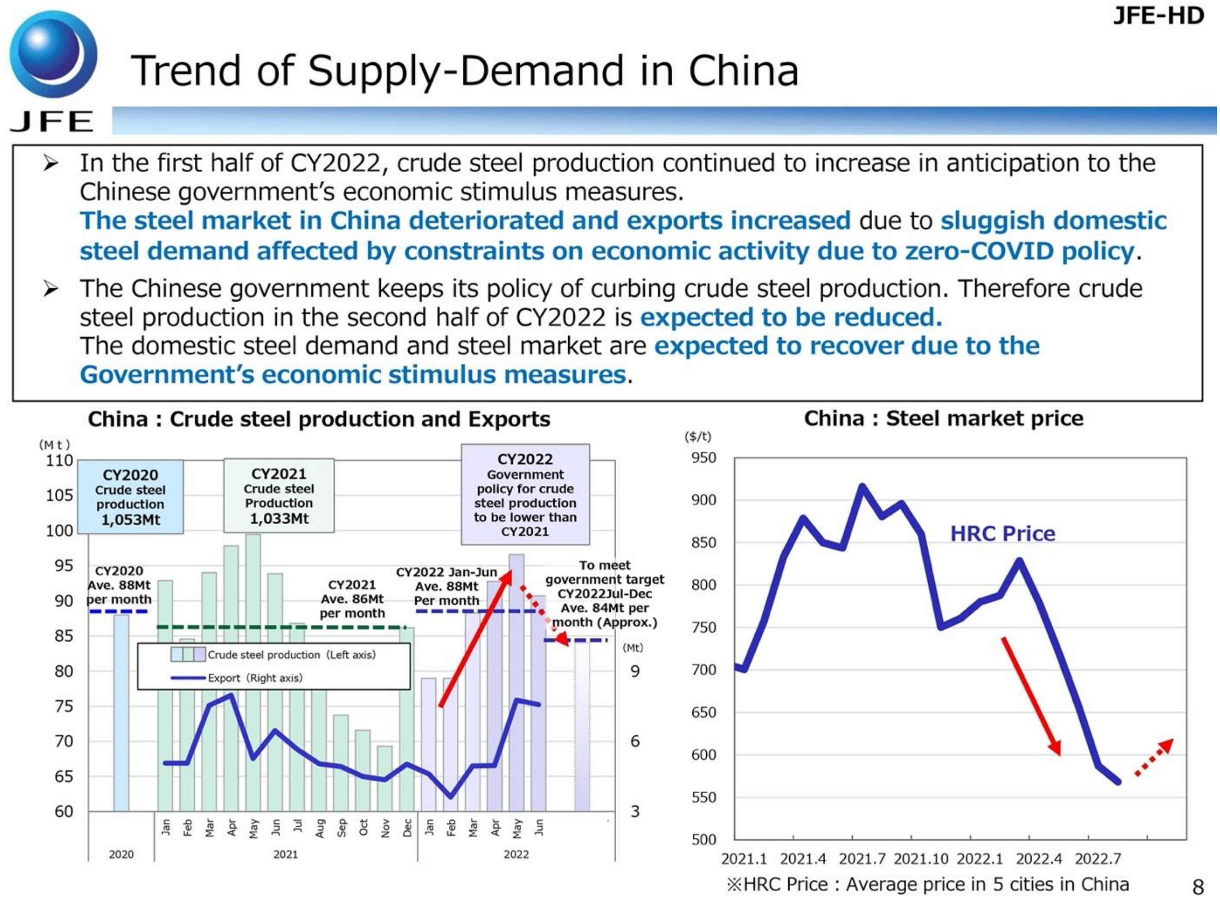
In terms of foreign exchange rates, the yen has depreciated by about JPY20 compared to last year, and in terms of overseas market conditions, the metal spread has fallen significantly as shown with the red line in the graph. In addition, the import price index at the bottom of the graph shows that prices have risen significantly.

Under such circumstances, we have been working on raising steel prices as a major theme since last year, and we expect to make considerable progress in H1 of this fiscal year as well.

As for the H1 situation, please look at the figure on the right. The bar graph standing on the left side indicates the profit/loss for H2 of FY2021. Consolidated business profit was JPY217.5 billion, of which JPY104 billion is the amount of inventory valuation difference in the steel business, etc. Excluding this, business profit for the engineering business was JPY52.3 billion and for the trading business was JPY61.2 billion. The increase in raw materials and other prices, as well as the cost increase due to the depreciation of the yen, had a large negative impact of JPY156 billion on business profit.

In contrast, the positive impact on earnings, mainly through sales price improvements, amounted to JPY141.8 billion, which has almost offset the impact of the cost increase, albeit not completely.

The profit and loss of group companies and the profit and loss of engineering and trading companies are added to this. In particular, the negative effect from the engineering business in the first half is unavoidable because of the seasonal nature of the business. In addition, the very favorable results of overseas group companies in the previous year had an adverse impact on the period under review.



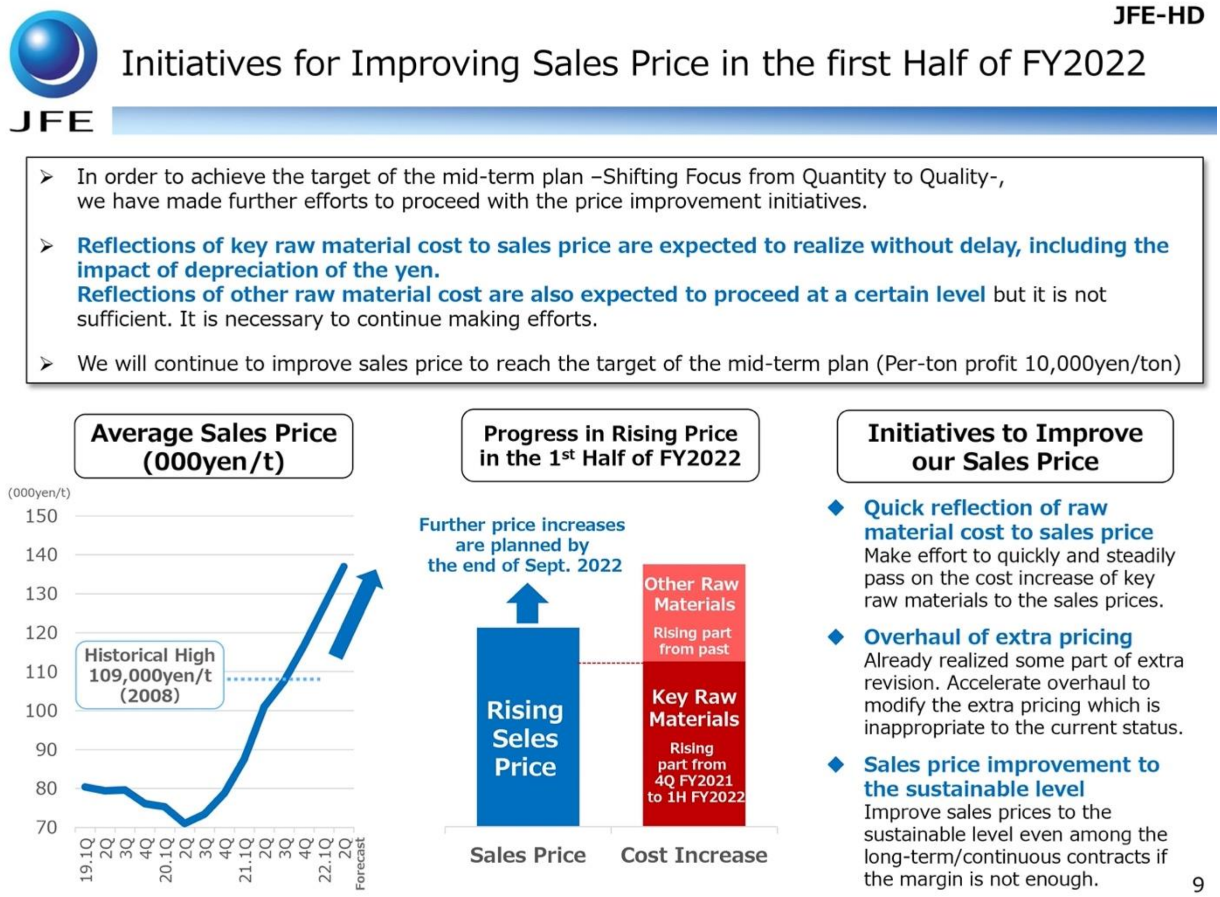

Next is the supply and demand trend in China, which is the most important point.

In H1 of this year, crude steel production continued to increase due to expectations of economic stimulus measures by the Chinese government.

The lower left-hand side shows crude steel production in China. The average for the January to June period of 2022 was 88 million tons, which is higher than last year's annual average of 86 million tons. However, the zero-COVID-19 policy and other factors have resulted in sluggish demand, deteriorating steel market conditions in China, and consequently an increase in exports.

As you can see from the steel market in China on the right, the price of hot-rolled coils has fallen significantly in H1 of this fiscal year.

Looking ahead, the Chinese government continues its policy of curbing crude steel production. Therefore, as shown in the figure on the left, the monthly average for the July to December period is expected to be around 84 million tons, assuming that crude steel production does not exceed last year's level. In addition, the market for steel products is expected to recover as a result of the government's economic stimulus measures to stimulate domestic demand.




Next, I would like to explain a little more about our efforts to raise sales prices in H1 of this fiscal year.

Since the announcement of our mid-term plan last year, we have been strongly promoting the improvement of sales prices to realize our goal of shifting from quantity to quality.

As I explained earlier, there was a large increase in costs in H1 of this fiscal year due to soaring prices of main raw materials and the impact of the weak yen. At this point in time, we expect to be able to pass on those impacts to the prices without delay.

Furthermore, as we have been saying since last year, the cost increase of other raw materials is also a major issue, but we are also promoting activities to pass on this. Although we expect to pass on a certain amount of the cost to our customers, there are still some items left over from the first half of the year, and we recognize that this will be an ongoing issue.

The bar graph in the middle below shows the image of sales price increase of the domestic and export products, excluding exports of so-called commodity products. The bar graph colored red  shows the material costs increases, divided into key raw materials and other raw materials. As for other materials, the graph shows not only the current period but also the cumulative increase. On the other hand, the blue graph shows the sales price increase, and this will grow by September 2022. The profit and loss plan for H1 of the fiscal year is based on this assumption.

We will continue to promote specific efforts to improve sales prices, as mentioned in our mid-term plan, which is also written on the right, in order to ultimately achieve a profit of JPY10,000 per ton of steel products.

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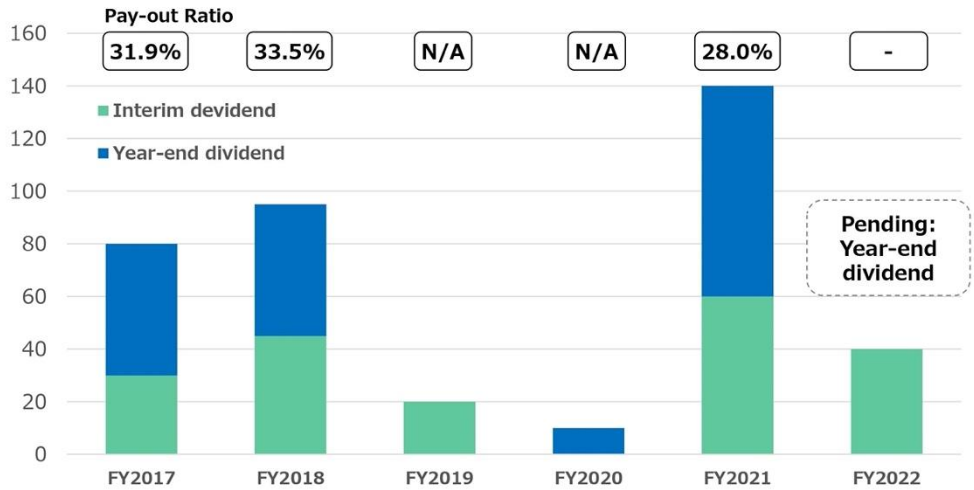
## Dividend

- JFE Holdings has decided to pay an interim dividend of **40 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, I will talk about dividends.

As mentioned at the beginning of this document, the Board of Directors has decided to pay an interim dividend of JPY40 per share for the current fiscal year.

The year-end dividend has not yet been decided, as it will be considered in light of future business performance trends.

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## Financial Forecast for Fiscal Year 2022

| | Unit | FY2021 1Q | FY2021 Full year | FY2022 Forecast 1Q | FY2022 Forecast 2Q | FY2022 Forecast 1H | FY2022 Forecast 2H | FY2022 Forecast Full year | Change Year-on-Year 1Q | Change Year-on-Year Full year |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | billion yen | 638.5 | 3,173.4 | 932.6 | 1,042.4 | 1,975.0 | 2,125.0 | 4,100.0 | 294.1 | (926.6) |
| Segment Profit | billion yen | 69.7 | 323.7 | 93.0 | 27.0 | 120.0 | 30.0 | 150.0 | (23.3) | (173.7) |
| Excluding Inventory Valuation etc.* | billion yen | 25.7 | 129.7 | (230) | 34.0 | 11.0 | 17.0 | 28.0 | (48.7) | (101.7) |
| Crude Steel (Standalone) | Mt | 6.25 | 25.88 | 6.43 | Approx. 6.50 | Less than 13.0 | Less than 13.0 | Less than 26.00 | 1.8 | – |
| Crude Steel (Consolidated) | Mt | 6.59 | 27.26 | 6.77 | Approx. 6.90 | Approx. 13.70 | | | 1.8 | |
| Shipment (Standalone) | Mt | 5.26 | 22.38 | 5.54 | Approx. 6.00 | Approx. 11.50 | | | 2.8 | |
| Export Ratio on Value Basis (Standalone) | % | 43.2 | 45.5 | 48.5 | Approx. 47 | Approx. 48 | | | 5.3 | |
| Average Sales Price (Standalone) | 000 yen / t | 87.6 | 103.7 | 126.7 | Approx. 134 | Approx. 130 | | | 39.1 | |
| Exchange Rate | ¥/$ | 109.8 | 112.1 | 126.5 | Approx. 136 | Approx. 131 | Approx. 135 | Approx. 133 | 16.7 | Approx. 21 |

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

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I will now explain the specifics by operating company.

First, JFE Steel. The page shows steel's Q1 results and the main factors behind the forecast for the fiscal year.

As I mentioned earlier, we are forecasting segment profit of JPY150 billion for the full year, and the breakdown for the April to June period is JPY93 billion, and JPY120 billion for the first half of the year.

The non-consolidated crude steel production volume in Q1, April to June, was 6.43 million tons. The profit forecast is based on the assumption that the first half of the year will be just under 13 million tons, and the full year will be just under 26 million tons.

The second line from the bottom shows the average sales price of steel products, which was JPY126,700 in Q1. Although there is no indication on the left, it was JPY116,700 in Q4 of FY2021. So, it has increased exactly by JPY10,000.

The last line shows the exchange rate. Last year, the average exchange rate for the year was JPY112, but this time, the exchange rate will be JPY135 from August onward. Based on this, the average rate for the year will be JPY133, a drop of JPY21 from the previous year.

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## 23.3bn. Increase in JFE Steel's Segment Profit (FY2021.1Q (Actual) vs. FY2022.1Q (Actual))

( billion yen )

| JFE Steel | FY2021 | | | | | FY2022 | Change |
|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | Full Year | 1Q | FY2021.1Q → FY2022.1Q |
| Segment Profit | 69.7 | 88.8 | 93.5 | 71.7 | 323.7 | 93.0 | +23.3 |

| | | |
|---|---|---|
| **1. Cost** | **+5.0** | • Capital investment effect etc. |
| **2. Volume and Mix** | **+1.0** | |
| **3. Sales and Raw materials** | **±0.0** | |
| **4. Inventory valuation** | **+72.0** | • Inventory valuation+33.0 (+28.0→+61.0)<br>• Carry over of raw materials +22.0 (+15.0→+37.0)<br>• Foreign exchange valuation +17.0 (+1.0→+18.0) |
| **5. Others** | **(54.7)** | • Foreign exchange effects on trade -20.0 etc. |

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Based on this assumption, I would like to start with a breakdown of the change in profit for the April to June period compared to the same period of last year.

Last year's April to June quarter, segment profit was JPY69.7 billion, and in this quarter, it was JPY93 billion, so the increase is JPY23.3 billion. As you can see, the breakdown is as follows: JPY5 billion in cost, JPY1 billion in volume, and zero in sales price and raw materials. In fact, sales prices have increased significantly for both domesticand export markets.

As for the raw material costs, iron ore price was lower than last year, which is also a positive factor, but this was offset by the large increase in coking coal prices.

In addition, we have made a change to include metals and scrap metals in this sales and raw materials section, starting from the current fiscal year. In the past, metals and scrap were presented in the others section, while the sales and raw materials section focused only on changes in the cost of iron ore and coking coal.

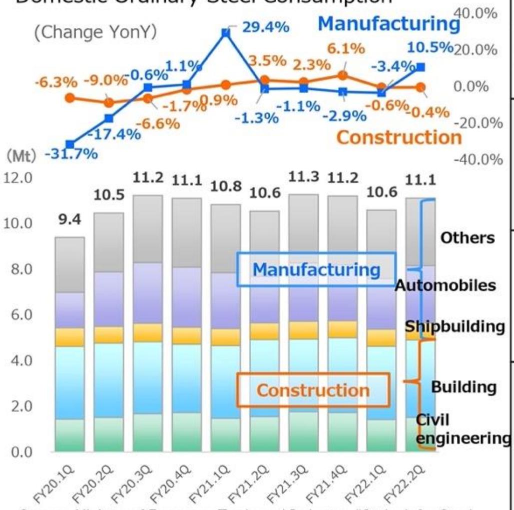
The spread came out even, including an increase in metals, but the JPY72 billion increase in inventory valuation difference was a major contributor to the YoY increase.

The others category includes what we call the foreign exchange effects on trade, which corresponds to the cost increase due to the weaker yen.

# Current Business Environment (Domestic)

- In the automotive sector, **the decline in auto production has been prolonged** due to the remaining constraints on parts supply.
- The COVID-19 has gradually subsided in China, the supply chain activity level is expected to gradually recover toward the second half of FY2022, and **steel supply and demand is expected to become tight**.
- It is necessary to carefully monitor **whether soaring prices will delay demand** in each sector.

Outlook for Domestic Ordinary Steel Consumption




Source: Ministry of Economy, Trade and Industry, "Outlook for Steel Consumption" 14 July 2022. (FY2021.3Q and after is estimated results)

| | Trends |
|---|---|
| Auto-mobile | • Although **product demand itself is firm**, **production activities have been restrained** due to supply constraints of components such as semiconductors.<br>• **Supply constraints are expected to ease** gradually toward the second half of FY2022. |
| Shipbuilding | • Demand for steel products will remain firm but will only **recover moderately**.<br>• Maritime trade volume and charter fees remain firm.<br>• Domestic shipbuilding companies have recovered their contract balance, but **due to rising material costs and labor shortages**, they build with their current capabilities. |
| Building | • Steel demand is expected **to recover moderately**.<br>• Demand for non-residential products remain strong, supported by **demand from distribution warehouses and semiconductor plants**.<br>• Housing use is expected to decline slightly due to the suspension of housing acquisition support measures and rising material costs. |
| Civil engineering | • Steel demand is expected to **decrease slightly** from the previous year.<br>• In the public sector, **activity levels are expected to be maintained at a high level** by securing a high level of budget, but steel consumption is expected to decrease slightly from the previous year.<br>• Activity levels in the private sector are expected to rise on the back of **a recovery in capital investment**. |

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Now, I would like to discuss our perception of the business environment, which is the premise for our annual forecast.

First, domestic.

With regard to the automotive sector, the supply of parts is still constrained, and the production cutback is prolonged.

However, the COVID-19 infection in China is gradually calming down, and the supply chain activity level is expected to gradually recover toward the latter half of the second half of 2022, and the supply-demand balance for steel products is expected to start tightening.

However, we have to keep a close watch on the postponement of demand in various fields due to the effects of soaring prices.

The left-hand side shows the domestic steel consumption forecast. The consumption in Q1, second from the right, shows a slight decline, followed by a recovery from Q2.

As I have already mentioned, the automobile industry is currently experiencing a prolonged production cutback, but we expect this to gradually dissipate.

As for shipbuilding, we believe that demand for steel products will remain strong, but we expect it to be only a gradual recovery.

As for building, the overall recovery will be moderate. As for civil engineering, the public sector is expected to maintain a high level, but overall, we expect a slight decrease.

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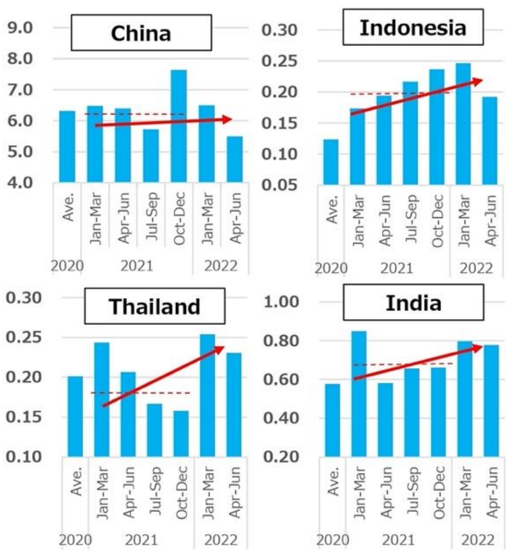
# Current Business Environment (Overseas)

- As the global economy recovers, **overseas demand for steel products continues to recover**.
- **Demand for steel products is currently weak**, but due to the end of the rainy season in Asia and economic stimulus measures by the Chinese government, **demand for steel products is expected to recover a certain degree, and market conditions are expected to improve**.

**Automobile Sales by Quarter**
(million units)




**Real GDP Growth Forecast in 2022**
(Arrows indicate changes from the previous forecast)

| | World | US | China | India | ASEAN-5 |
|---|---|---|---|---|---|
| 2021 Actual | 6.1% | +5.7% | 8.1% | 8.7% | +3.4% |
| Apr. 2022 Forecast | 3.6% | 3.7% | 4.4% | 8.2% | 5.3% |
| Jul. 2022 Forecast | 3.2% | 2.3% | 3.3% | 7.4% | 5.3% |

Source: IMF World Economic Outlook Update April 19, 2022, July 26, 2022

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

**Steel Export Trend**

| | Trend by Country |
|---|---|
| China | ・**Exports increased** due to the timing gap of increased production in anticipation of economic stimulus measures and recovery in domestic demand.<br>・**The government's policy (Control of crude steel and economic stimulus measures)** and the recovery of domestic demand is monitored carefully. |
| India | ・Exports to Europe decreased due to a decline in demand and falling market conditions, in addition to the non-demand period caused by the rainy season. As a result, **exports to Southeast Asia increased**.<br>・This trend is expected to end after the rainy season. |
| Russia | ・Steel products, which had nowhere to go due to economic sanctions, have flowed into Turkey and Middle and Near East at low prices, **worsening the supply and demand of steel products and the steel market in each country**. |

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Next is overseas.

In general, we believe that the recovery trend will continue overseas, but the current demand for steel products is weakening. However, we believe that the market conditions will improve along with a certain recovery in demand for steel products as the rainy season in Asia starts to end or as a result of the economic stimulus measures in China that we have been talking about.

On the left side, we have listed the number of automobiles sold in each country, and it is clear that there is a trend of a slight decline in this most recent Q1.

Also, in the lower right-hand corner, we have included steel export trends for each country. As for China, as I have mentioned, exports have increased recently, but we expect exports to fall as domestic demand recovers toward the second half of the year. In India, exports to Southeast Asia have increased due to the recent low-demand period caused by the rainy season, but once the rainy season is over, domestic demand will return and the situation will be slightly settled.

In such a situation, what must be watched closely is the movement of Russian materials. Materials have been exported at quite low prices to Turkey and the Middle East. It is necessary to keep a close eye on this area.

# Raw materials（Steel Business）

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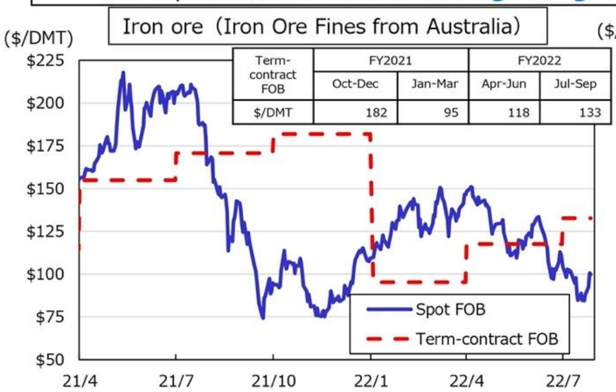
## Key raw material

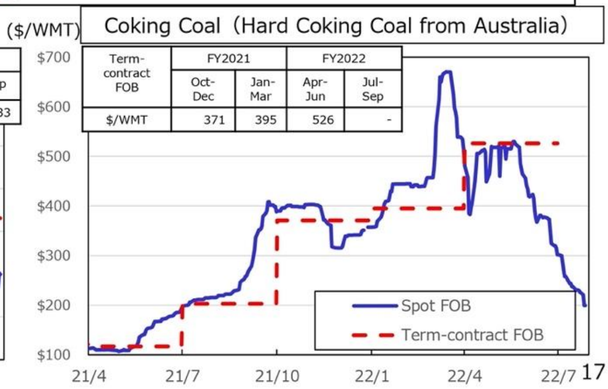
- Iron ore remained **weak due to sluggish demand for steel products** in China.
- Coking coal prices **are on a downward trend from their recent peak** due to the recent deterioration in overseas steel prices.
- As the supply and demand of steel products tightens due to the Chinese government's economic stimulus measures, **the raw material market is expected to rise from the current level by the second half of FY2022**.

## Metal and scrap

- **Almost all metal prices rose sharply** due to tight supply and demand for alloy iron, which is highly dependent on Russia and Ukraine, as well as a rise in electricity prices due to a rise in the fuel market. Although the market is currently on a downward trend, it is expected to **remain in the high range**.




| Term-contract FOB | FY2021 | | FY2022 | |
|---|---|---|---|---|
| | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep |
| $/DMT | 182 | 95 | 118 | 133 |




| Term-contract FOB | FY2021 | | FY2022 | |
|---|---|---|---|---|
| | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep |
| $/WMT | 371 | 395 | 526 | - |

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Trend of raw materials.

Iron ore prices have been weak due to factors including slightly weak demand, and coking coal prices soared to USD526 in the April to June period but have been on a downward trend since the latest period due to the deteriorating overseas steel market.

As for the future, we expect raw material market prices to rise from current prices in the second half of the year as the supply-demand balance for steel products tightens. Although both iron ore and coking coal prices have fallen sharply, we are assuming that raw material prices will rise in line with a recovery in steel demand and market conditions in the second half of the year. We do not expect the price of raw materials to rise sharply, but to rise in line with the steel market conditions.

On the other hand, the prices of metals and scraps are currently on a downward trend but are expected to remain in a high price range.

JFE Steel

## 173.7bn. Decrease in JFE Steel's Segment Profit (FY2021 (Actual) vs. FY2022 (Forecast))

| JFE Steel | FY2021 (Actual) | FY2022 (Forecast) | Change (billion yen) |
|---|---|---|---|
| Segment Profit | 323.7 | 150.0 | (173.7) |

| | | |
|---|---|---|
| **1. Cost** | **+10.0** | • Cost reductions +23.0<br>• Chiba No.6 blast furnace refurbishment -13.0 |
| **2. Volume and Mix** | **±0.0** | |
| **3. Sales and Raw materials** | **+70.0** | • Improved spreads due to higher selling prices (despite more costly raw materials and metals) |
| **4. Foreign exchange effects on trade** | **(100.0)** | • 1USD=112.1yen→1USD=133yen (about) |
| **5. Inventory valuation** | **(72.0)** | • Inventory valuation-85.0(+160.0→+75.0)<br>• Carry over of raw +7.0 (+23.0→+30.0)<br>• Foreign exchange valuation +6.0 (+11.0→+17.0) |
| **6. Others** | **(81.7)** | • Group companies -45.0, etc. |

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With that in mind, here is a comparison of the segment profit forecast of JPY150 billion with the previous year. Since the amount was JPY323.7 billion last fiscal year, this means a decrease of JPY173.7 billion.

As I mentioned in May, we are planning to post costs of JPY10 billion. The volume will be almost the same level as last year.

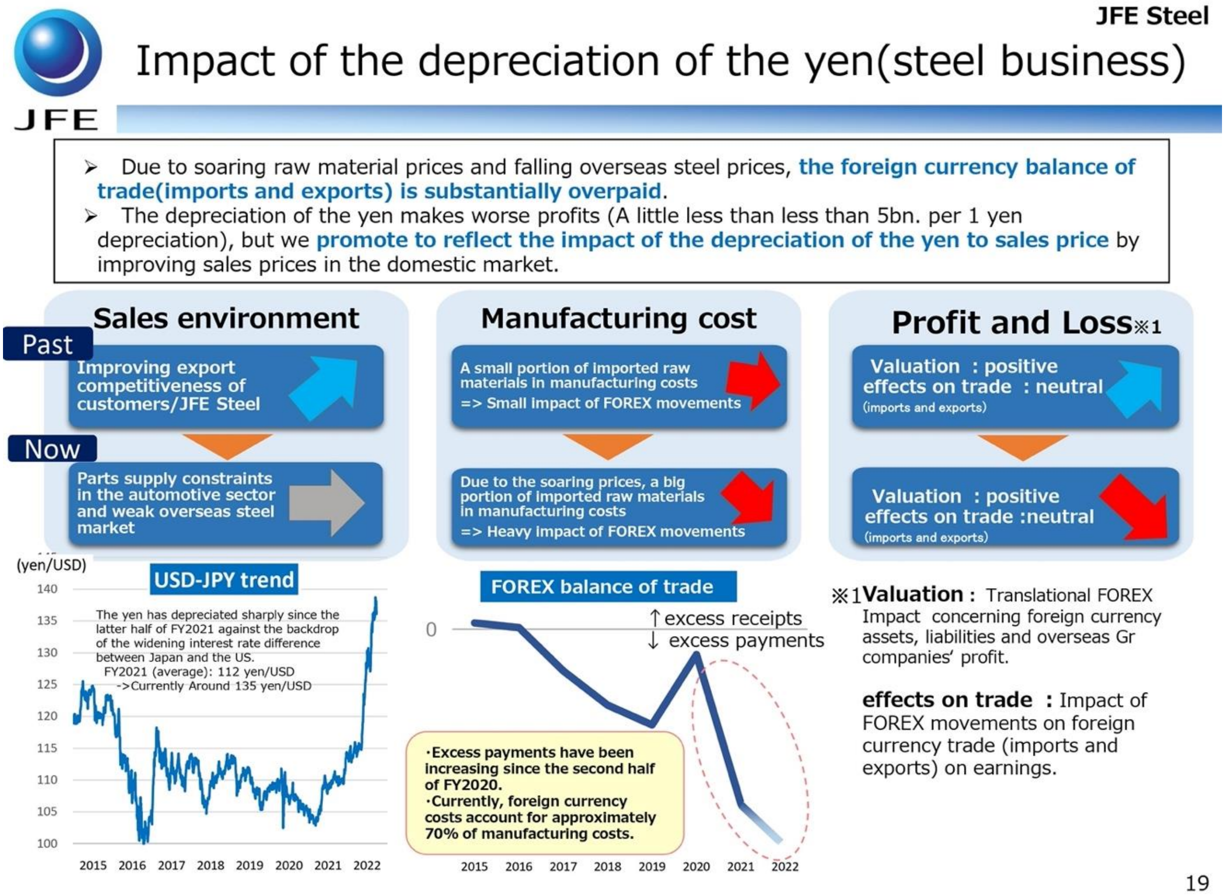
The metal spreads will have a positive impact of JPY70 billion. Iron ore is expected to decrease from the previous year, but coking coal is expected to rise significantly, and metals are also expected to rise.

Under such circumstances, we have incorporated improvements in selling prices. Especially when compared YoY, the improvement in domestic selling prices will make a significant contribution.

On the other hand, we have a new item for the impact of foreign exchange fluctuations, called foreign exchange effects on trade, which we expect will have an impact of about JPY100 billion. Including this cost increase, even if the metal spread is improved by JPY70 billion, there will still be a portion of JPY30 billion that cannot be offset this year.

Inventory valuation is also a negative factor. The absolute value is positive because of the sharp rise in prices of raw materials and other commodities, but there was a very large valuation gain last year, so compared with that, it will decline.

In addition, we have also included the profit and loss of group companies in the others section. The profit of overseas group companies such as JSW and CSI, which performed very well last year, is expected to decrease this year.




Here is another summary of the impact of the yen's depreciation on the steel business.

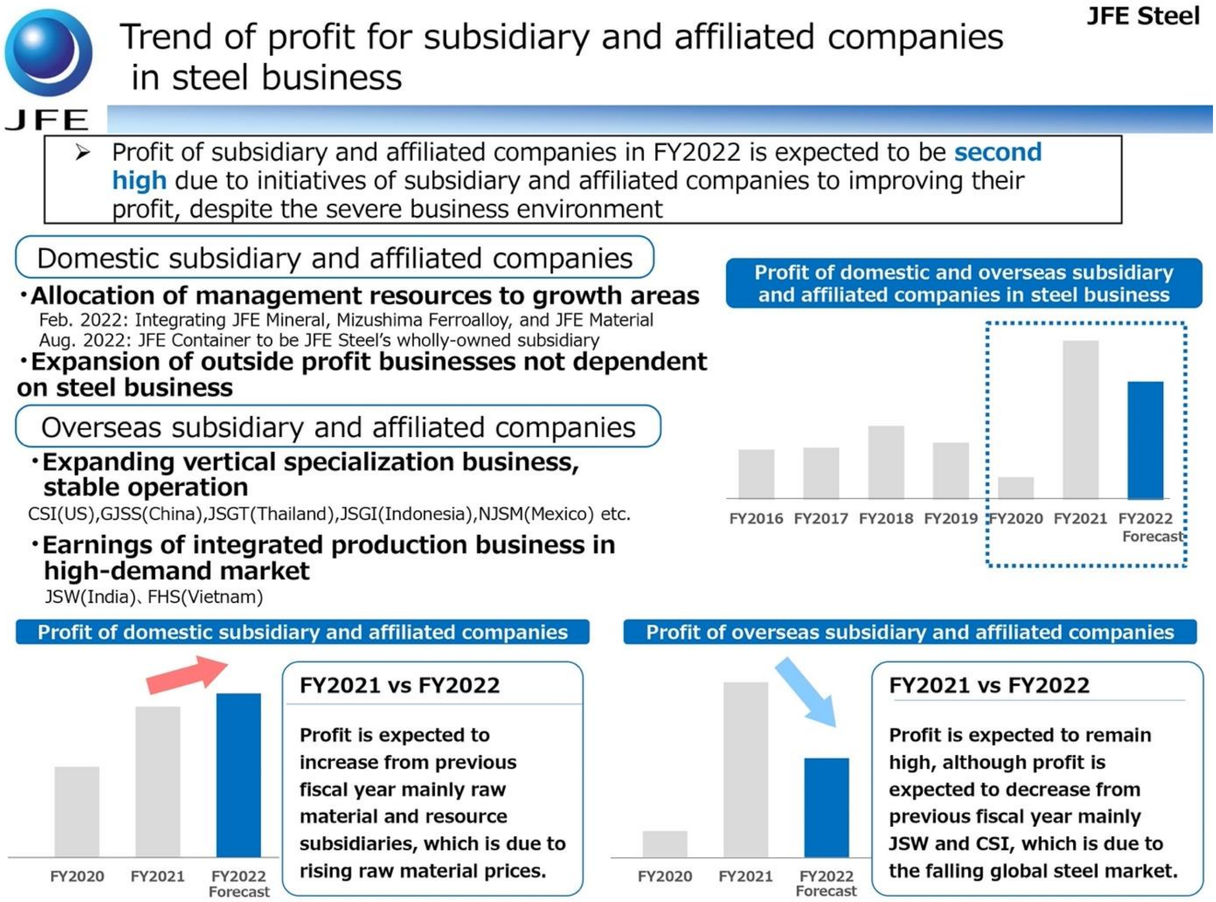
As described in the upper part, the balance of foreign currency payments has fallen into a large excess of payments due to soaring raw material market prices and sluggish overseas steel market conditions.

As for the foreign exchange effects on trade, JPY1 depreciation will worsen profit by just under JPY5 billion, which means the excess payment of just under USD5 billion. Of course, this is being reflected in product prices through domestic sales price improvement activities.

We have given some structural points below. For example, in the past, a weaker yen had the effect of increasing sales volume by improving the competitiveness of our customers and our company's exports, but the current situation is that this has not been translated into an increase in sales volume due to the supply constraints of parts in the automotive sector and the sluggish overseas market for our direct exports.

However, due to the current sharp rise in the market price of raw materials, the ratio of imported raw materials to total production costs has risen to approximately 70%. As a result, the foreign currency balance has recently been significantly in excess of payments.

As you can see, in 2015 and 2016, receipts and payments were almost even, so profit and loss were basically neutral even if the exchange rate fluctuated. In the current situation, however, the positive impact of valuation, which is the impact of converting our foreign currency-denominated assets and the profits and losses of overseas group companies into yen basis, was surpassed by the negative effects on trade.




The trend of group companies in the steel business.

As mentioned at the top, the overall business environment is difficult, but as a result of the efforts of each company to increase earnings, we expect the earnings of group companies for the current fiscal year to be the second highest in our history, although they will be slightly lower than last year, when they were very strong.

In terms of the profit/loss image in the graph on the right above, it will be a bit lower than in FY2021, but still quite high in FY2022. Divided into domestic and overseas, we actually expect profit of domestic companies to be even better this year than last year, when they did well. One of the major factors behind this is that raw-material and resource-related subsidiaries have considerably increased their earnings against the backdrop of rising raw material prices.

Overseas, we expect a decline in profits, especially for JSW and CSI, due to falling market conditions, but the level of profits is still expected to be high.

JFE Engineering

# Financial Forecast for Fiscal Year 2022

### Current Business Environment/Overview of Financial Status

- Domestic demand both in the **environment & energy sector** and **infrastructure sector** is expected to remain solid.
- Segment profit is expected to decrease by **¥6.0bn. year-on-year to ¥20.0bn.**, due to **rising prices of materials and equipment**.

### Financial Forecast

| | FY2021 Actual | | FY2022 Forecast | | Change | |
|---|---|---|---|---|---|---|
| (billion yen) | 1 H | Full Year | 1 H | Full Year | 1 H | Full Year |
| Orders | 252.3 | 505.8 | **310.0** | **550.0** | 57.7 | 44.2 |
| Revenue | 229.2 | 508.2 | **230.0** | **520.0** | 0.8 | 11.8 |
| Segment Profit | 11.1 | 26.0 | **4.0** | **20.0** | (7.1) | (6.0) |

**<1H>**
- ・Orders +57.7 Increase in large-scale orders in carbon-neutral area
- ・Segment profit (7.1) Construction mix and rising price of material and equipment.

**<Full Year>**
- ・Orders +44.2 Increase in overseas projects due to changes in contract schedule.
- ・Revenue +11.8 Construction mix
- ・Segment profit (6.0) Rising price of material and equipment.

Next is JFE Engineering.

In engineering, as I mentioned at the beginning of this presentation, we are projecting segment profit of JPY20 billion. The domestic environment and energy-related and infrastructure sectors continue to be strong.

However, the engineering business has also been affected by the soaring cost of materials and equipment, and segment profit is expected to decrease by JPY6 billion YoY.

In terms of orders and sales, orders that have been strong since last year have also been accumulating. We expect orders to be JPY550 billion and revenue JPY520 billion. If we can achieve these figures, we expect orders and sales to reach record highs, but earnings will be affected by soaring prices.

# Financial Forecast for Fiscal Year 2022

JFE

## Current Business Environment/Overview of Financial Status

- In the first half of FY2022, segment profit is expected to **increase year-on-year for both JFE Shoji itself and group companies** due to **strong sales of steel products and raw materials** in Japan and overseas.
- Full year segment profit is expected to be **¥55.0bn.**, the same as previous fiscal year.

| (billion yen) | FY2021 Actual | | FY2022 Forecast | | Change | |
|---|---|---|---|---|---|---|
| | 1 H | Full Year | 1 H | Full Year | 1 H | Full Year |
| Revenue | 544.4 | 1,231.7 | **750.0** | **1,470.0** | 205.6 | 238.3 |
| Segment Profit | 25.6 | 55.9 | **35.0** | **55.0** | +9.4 | (0.9) |

**<1H>**
・Segment Profit +9.4 Domestic and overseas markets are expected to be solid,
especially overseas businesses in northern America are expected to proceed successfully.

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Next, JFE Shoji.

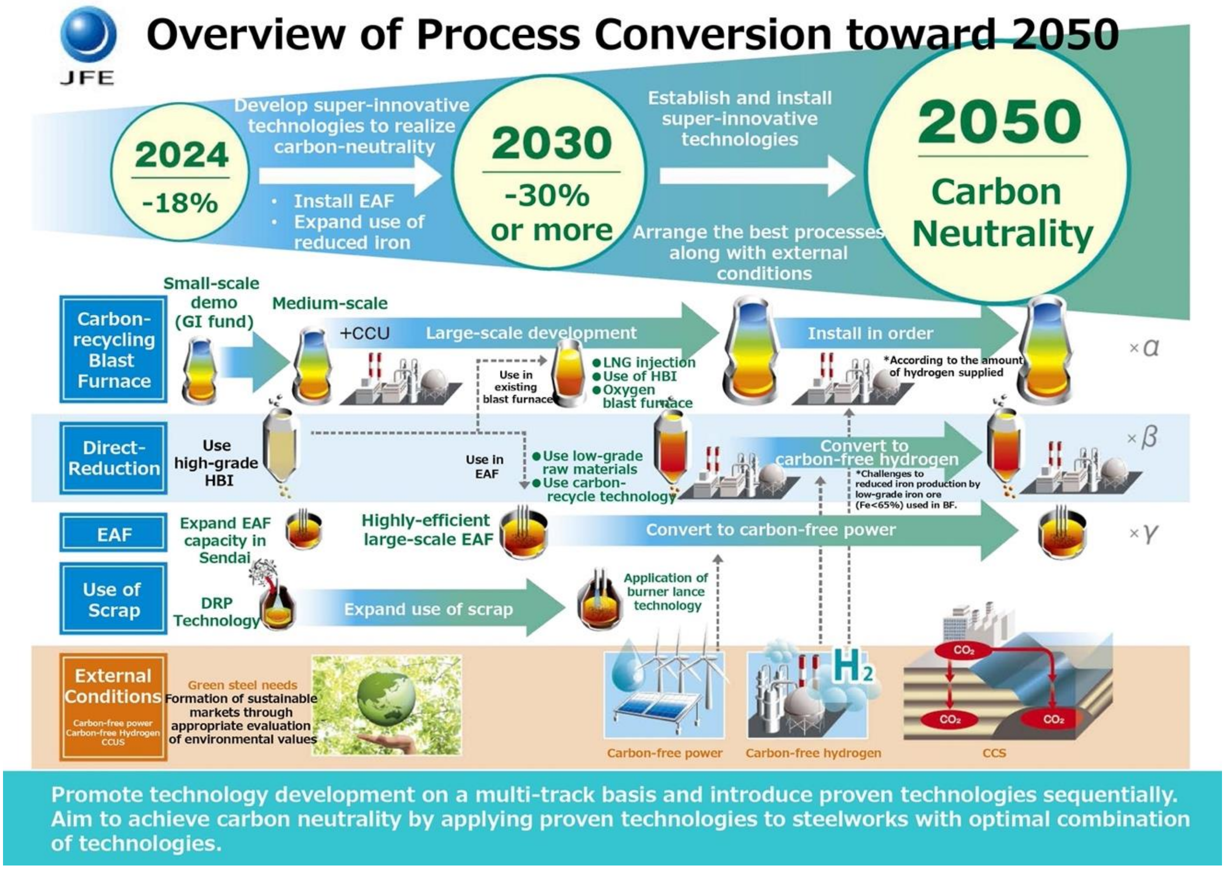
We expect that the profit of Shoji, which is involved in the trading business, especially in the first half of the year, will be at a very high level of JPY35 billion, and JPY55 billion for the full year, almost the same level as last year.

As for the price range, absolute values remain very high. Sales have been strong and are expected to continue to generate a high level of profit. In North America, especially in the first half of the year, sales have been strong since last year. Based on those, segment profit is expected to reach the same level as last year.

That is all for the explanation of our business performance.


As mentioned at the beginning, I would like to explain several topics about our efforts toward carbon neutrality in the steel business.

For more information, JFE Steel will hold a separate briefing on September 1.



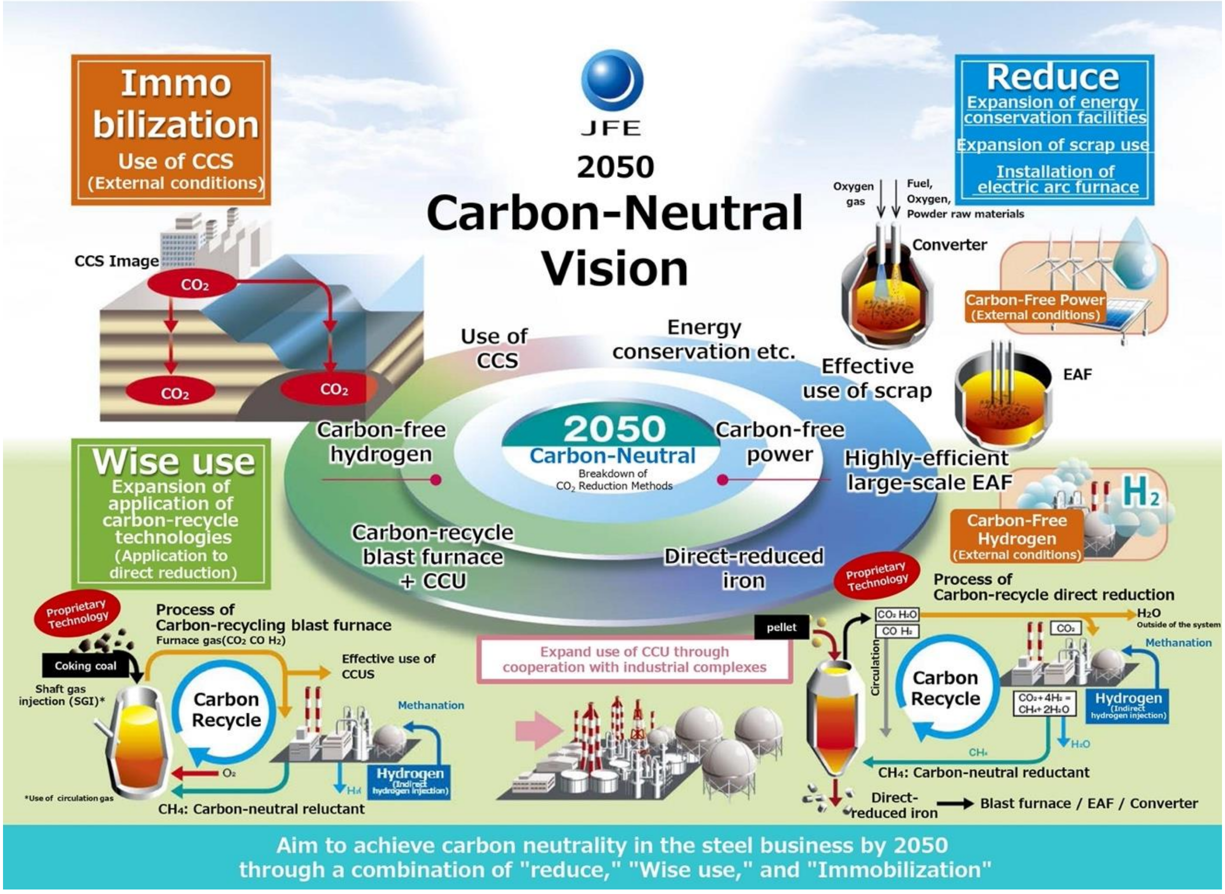

The first page outlines the process conversion toward 2050.

This is basically the same figure as the roadmap we presented in May. 18% reduction of CO2 emissions by 2024, 30% or more by 2030, and carbon neutrality by 2050, as I mentioned in the previous presentation.

We will introduce electric furnaces and expand the use of reduced iron until 2030, while developing ultra-innovative technologies. From 2030 to 2050, we will establish and implement these ultra-innovative technologies and, depending on external conditions, introduce the optimal process. Broadly speaking, there are such phases.

This time, we have added the second item, the direct reduction ironmaking method. This is hydrogen ironmaking, which GI Fund is also involved in. By using high-grade HBI in parallel with this as an iron source in electric furnaces or in existing blast furnaces, we will contribute to the reduction of CO2 emissions, from an earlier stage as far as possible.

As written in the section of the direct reduction ironmaking method, we are considering the use of carbon recycling technology, the technology to be used for the carbon recycling blast furnace, in the direct reduction process. This is what we added from the previous roadmap announced in May.



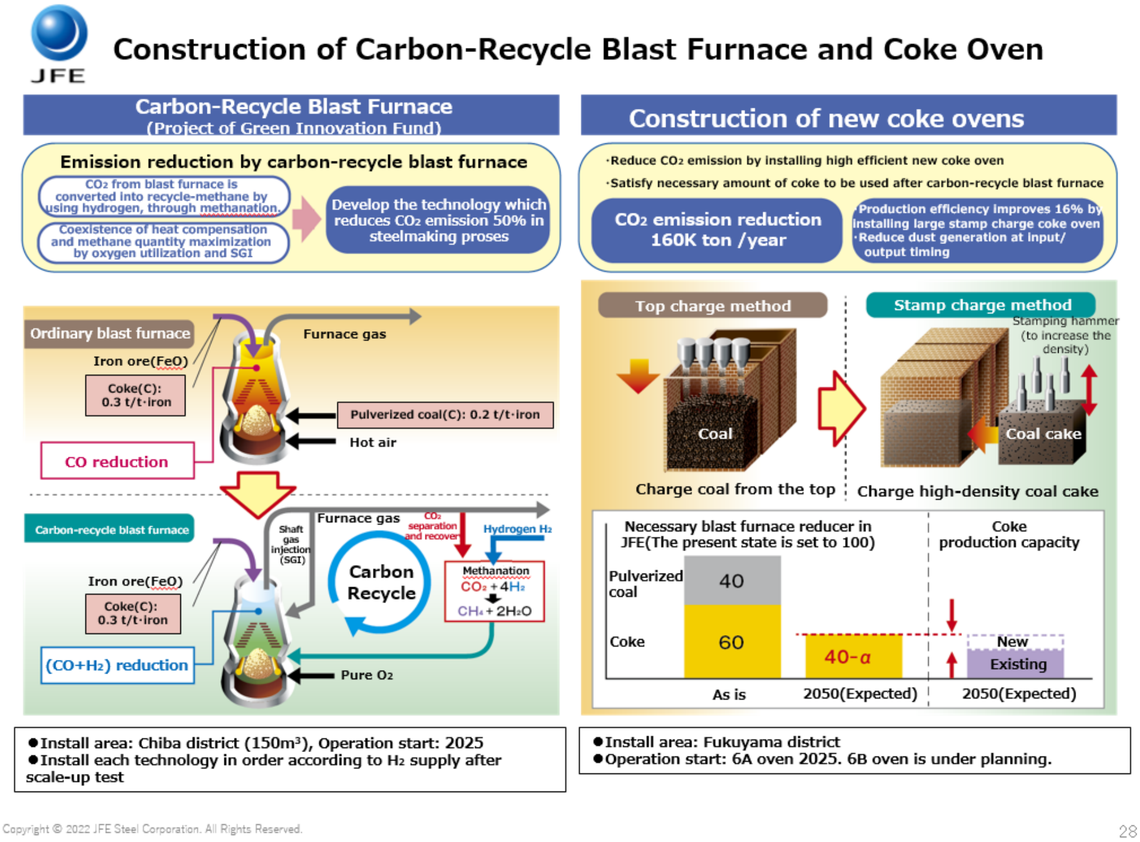

The next page is our vision of carbon neutrality.

In the middle, it shows the breakdown of CO2 reduction by measure toward carbon neutrality in 2050.

Conceptually, it starts with the reduction of energy consumption, which is written in the upper right corner, then the increased use of scrap, and then the introduction of large, high-efficiency electric furnaces, and so on. These items correspond to more than 30% reduction by 2030.

In addition, we will utilize direct reduction iron, and are going to develop our own carbon-recycling blast furnace as our proprietary technology. As I mentioned earlier, we will expand the application of this carbon recycling technology not only to the carbon-recycling blast furnace but also to direct reduction, and we will work to expand the scope of wise use.

Including the use of CCUs and CCS, this is an image of 100% carbon neutrality, or CO2 reduction.




One more thing, in relation to the carbon recycling blast furnace, I will touch on the construction of coke ovens.

The left side shows the outline of the carbon recycling blast furnace, which I have mentioned in the past. We will use coke of 0.3 tons. This is basically the same whether the furnace is an ordinary blast furnace or a carbon-recycle blast furnace.

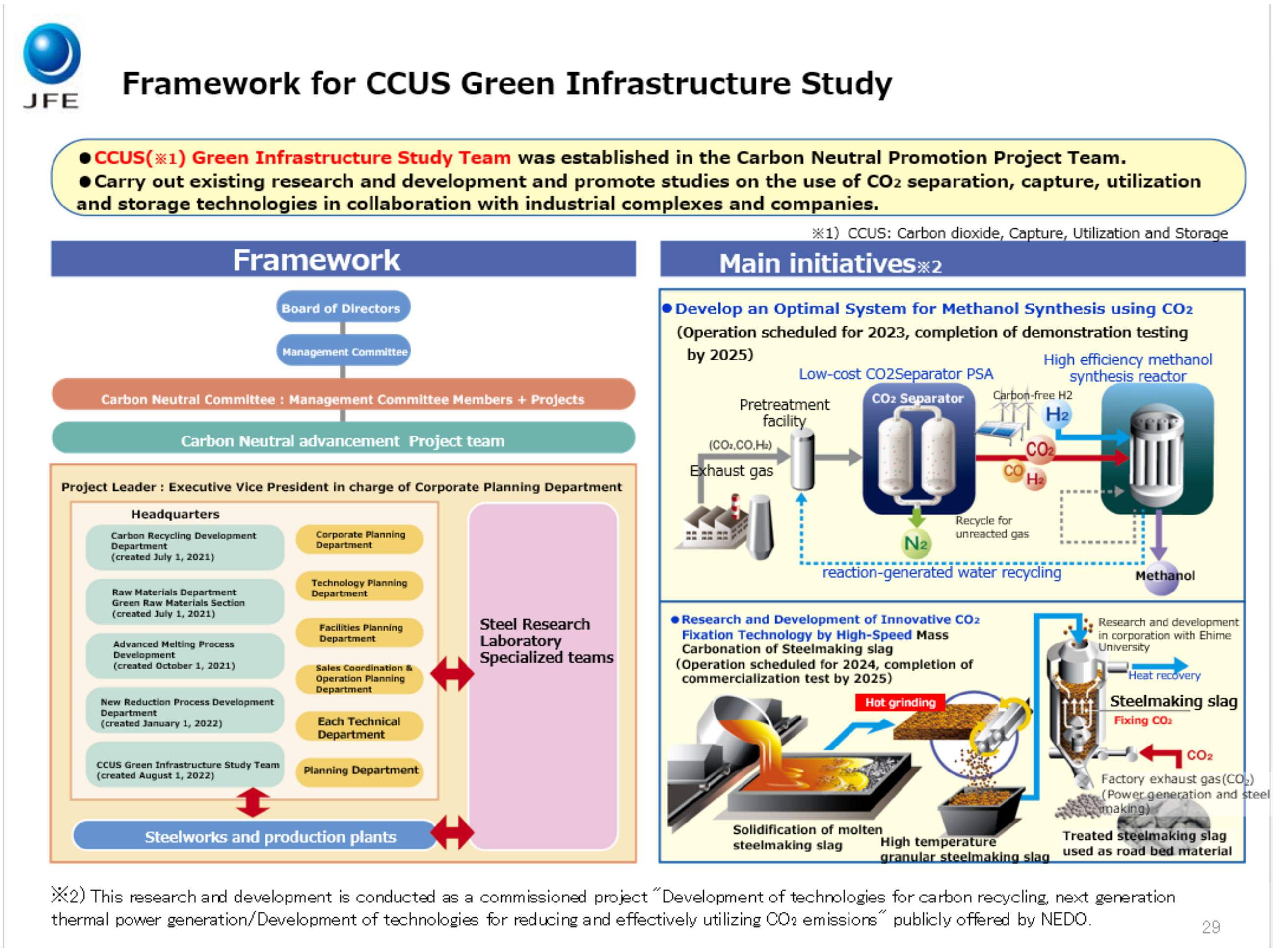
One of the changes is that the 0.2 tons of pulverized coal that is found on the right side of the blast furnace will be replaced by recycled carbon. Therefore, a certain amount of coke will still be required even after the carbon-recycling blast furnace is used. Please see the construction of new coke ovens on the right. The new high-efficiency coke oven will reduce CO2 emissions and meet the required amount of coke after the introduction of the carbon recycle blast furnace.

The new furnace will be built for a stamp-charge method instead of the conventional top-charge method. This will reduce CO2 emissions and improve production efficiency. We have decided to continue this project in the Fukuyama district as 6A and 6B, with 6A scheduled for 2025.

As shown in the lower right-hand corner, the amount of reducer required for blast furnaces is currently 60 coke and 40 pulverized coal. After the introduction of carbon-recycle blast furnaces, a little less than 40 coke will be required.

Coke production capacity is shown to the right of it. The production capacity in 2050 with the coke we have now is roughly equivalent to the amount shown in purple, and we expect that the 6A and B ovens in Fukuyama, which we call the new coke ovens, will be just enough to meet this amount.

Therefore, even if we build a new coke this time, it does not mean that it will be unnecessary for the year 2050, but rather that it will be built as a necessary coke oven.




Finally, as I explained earlier, the use of CCUS will be very important in ultimately achieving carbon neutrality.

We have newly established CCUS Green Infrastructure Study Team in the Carbon Neutral Promotion Team. The main initiatives on the right-hand side are examples of current research and development activities. In addition to those existing R&D activities, the team will promote studies on utilization of technologies related to separation and collection, use, and retention of CO2, including cooperation between complexes and companies.

That's all from me.

[END]