

JFE Group Investor Meeting

(FY2023 3Q Financial Results and FY2023 Earnings Forecasts)

Summary of Q&A Session on February 6, 2024

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

Participant: First, my impression is that while steelmakers around the world, especially in Asia, are suffering, and POSCO in Korea is also seeing a decline in profits, your company's profits have remained fairly steady, and I think that your emphasis on domestic sales prices is appreciated by the stock market.



¥19.2bn. Decrease in JFE Steel's Segment Profit (FY2023.3Q (Actual) vs. FY2023.4Q (Forecast))

JFE Steel

(billion yen)

JFE Steel	FY2023					Change
	1Q (Actual)	2Q (Actual)	3Q (Actual)	4Q (Forecast)	Full Year (Forecast)	
Segment Profit	68.1	54.7	48.2	29.0	200.0	(19.2)
Excluding Inventory Valuation etc.	59.1	64.7	49.2	32.0	205.0	(17.2)

1. Cost	±0.0	
2. Volume and Mix	+10.0	• Crude Steel Production 5.62Mt→approx. 6.00Mt
3. Sales and Raw materials	(5.0)	• charter costs, scrap, etc.
4. Inventory valuation	(2.0)	• Inventory valuation -1.0 (+1.0→±0.0) • Carry over -8.0 (+14.0→+6.0) • Foreign exchange valuation +7.0 (-6.0→+1.0) • one-time structural reform costs ±0(-10.0→-10.0)
5. Others	(22.2)	• Expenses, disposal of fixed assets, etc.

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My question is, if you look at page 36 of the document, you will see that the earnings level of the steel business fell in 4Q. Is this mostly a transitory factor, etc.? Please let me confirm if I should look at the average profit for 2H in order to see the actual profit level.

JFE: As you pointed out, there is a JPY20 billion expense specific to 4Q in "5. Others". As we have said in previous years, IFRS-specific accounting treatment causes a concentration of expenses in 4Q, as well as an increase in asset disposal losses at the end of the fiscal year. These events are unique to 4Q. Therefore, rather

than looking at the profit level for the January to March period alone, we would like you to look at the actual profit and loss by dividing the JPY20 billion expenses, which are concentrated in 2H average or 4Q, proportionally for each quarter.

Participant: Your company's steel unit prices are rising while the global steel market is falling. We believe that this is due to negotiated higher string prices for certain customers amid rising coking coal market conditions. In your company, steel prices are decided later, so I expect steel prices for automobile manufacturers will be decided a little later, therefore is there a possibility that you can further increase the sales price to add to the current fiscal year's results?

JFE: As you mentioned, coking coal prices have been rising since 3Q, and we are working to pass this on to selling prices. At this stage, we feel that it will be a little difficult to add more this fiscal year, but we would like to take what we cannot pass on this fiscal year in the next fiscal year.

Participant: Is it really safe to raise prices in a delayed period while the customer side is also exhausted by the price increase?

JFE: I believe that, at the very least, the customers have a good understanding of the price fluctuations of coking coal, since they are working with us on a formula.

Participant: The slide on page 25 of the document that says you are aiming for JPY260 billion in FY2024 is based on the FY2023 full-year forecast of JPY205 billion. In FY2023, profitability declined from 1H to 2H due to the drop in export prices, so if we use 2H as a base point, the base point would be about JPY160 billion, double the amount in 2H if we do not take into account the 4Q-specific expenses mentioned earlier. In that case, even if you add improvements through structural reforms and other measures, it does not appear that you will reach JPY260 billion. Is it difficult to achieve this goal without some external factors such as recovery of overseas markets and decline in raw material prices?

On the other hand, since a gain of JPY45 billion from the sale of land in Ogimachi is set for FY2024, are you in a position to maintain dividends from the sale of those assets, etc., even if profits and losses from the steel business are somewhat difficult?

JFE: Even if we use 2H of FY2023 as a base point, we are confident that we will be able to meet our original mid-term plan of JPY230 billion by passing on higher coking coal prices and benefiting from structural reforms. It is very difficult to forecast market conditions, but we have never had such severe market conditions for one year in the past, and as you mentioned earlier, with overseas steelmakers also suffering, it is difficult to assume that these conditions will continue, so we are currently targeting JPY260 billion as one goal.

Regarding dividends, if we can meet the targets of the original mid-term plan, we believe we can of course maintain at least the same level as in FY2023. We expect to make a gain on the sale of land, but we will be formulating a plan for the next fiscal year from now on, We hope to announce our dividend forecast at the appropriate time in the next fiscal year.

Moderator: Next question, please.

Participant: Regarding the production volume of the steel business, 3Q is down compared to 2Q, although I think it is partly due to the suspension of the Keihin upper process. Was this as planned?

In addition, as stated on page 15 of the document, automobile production is expected to decline from January to March, and in terms of the external environment, I believe that demand for steel products in 3Q to 4Q will be in the direction of a decline, but your company's production volume is planned to increase. What are your thoughts on this area?

JFE: One of the reasons for the decline in production in 3Q is that we had to use inventories that were created in advance as we suspend the Keihin upper process. The other impact is due to the timing of periodic repairs. Production volume in 3Q is lower because construction work increases in 3Q, avoiding the hot summer months of 2Q.

Participant: I also have the impression that you can pass on what is built into the formula, but could you tell us, for example, about customer reactions and your company's stance on passing on cost increases such as logistics and labor costs that were mentioned in the explanation in the document?

JFE: We will continue to make firm efforts to improve selling prices for non-formulas as well. As for logistics and labor costs, the world as a whole is moving toward an increase in labor costs for this year's Spring Struggle, so it is by no means just our story, but something that our customers themselves are experiencing, so we believe that we can explain this area carefully to them and they will understand.

Moderator: Next question, please.

Participant: I have a question regarding your explanation of the profit and profit per ton for this steel business. I think you mean the JPY10,000 per ton level due to structural reforms and other efforts to date. Once again, the materials have been presented with the same conventional views and explanations of cost reductions, structural reforms, and market recovery for the next fiscal year. It says $+\alpha$ for the part of passing price and $+\beta$ for the part of market recovery, but could you please rearrange the outlook for future attainment by these and the concept of profit per ton toward FY2024?

JFE: Our goal for this mid-term is JPY10,000 per ton, and we are currently aiming for more than JPY260 billion in profit or loss for FY2024. As I explained earlier in the section on the business environment for FY2024, we expect demand for steel products to remain at the same level as this fiscal year, and if we can achieve JPY260 billion in volume at the same level as this fiscal year, we will be able to increase profit per ton by more than 10%, which is our current target.

Participant: The forecast for this fiscal year for the engineering and trading business is the same as before, but could you please explain again the level of future levels and expectations according to the current buildup of orders?

JFE: In the engineering business, as I explained earlier, we are currently accumulating orders at a good pace. We are now aiming for our mid-term target while linking this strong order flow to profits.

As for the trading company business, we have already cleared our medium-term plan of JPY40 billion for the past two years, and we expect JPY48 billion for the current fiscal year. We have now set a target of JPY50 billion for the next fiscal year, which exceeds the mid-term plan, and are working on each of our businesses for FY2024.

Moderator: Next question, please.

Participant: In your explanation earlier, you mentioned that the total profit from the solutions business in FY2024 was about JPY10 billion. What are the specific solutions that you sell and to which customers do you generate revenue? Please also explain your initiatives for mid- to long-term expansion.

JFE: As I explained, we are aiming to triple our solutions business from FY2020 to JPY10 billion as a target, and one of the things we are doing is to increase this field through technology licensing to steel companies, which we have been doing for some time.

In addition to this, we will aim to achieve our profit target by adding to it the technology and know-how that we have developed and accumulated, especially as we introduced our website earlier, and developing it into a broader business, not limited to steel companies.

The latter will be further developed and added to in the future, so at this point, the focus is on technology licensing, etc. for the former.

Participant: Regarding the margin improvement on page 25, is there a sense that the stringed price increase has run its course to some extent, and that going forward you intend to raise the average unit price by increasing sales of electromagnetic steel sheets and other high value-added products, or is there room to raise the pure stringed price a little more?

JFE: Regarding our future sales strategy, for example, we expect to see increases in various prices, such as freight and labor costs I mentioned earlier, so we will continue to negotiate with our customers to raise unit prices.

As you mentioned, a new electromagnetic steel sheet plant will start up next year, and although the volume of electromagnetic steel sheets is not very large, it will increase, and large single heavy plates for offshore wind power have a reasonable volume among thick plates. As offshore wind power generation goes into full swing, we would like to increase the volume of our steel plates.

Therefore, I believe that we will be putting considerable effort into upgrading our product mix, i.e., stopping unprofitable products and increasing high value-added products, so in this sense we will be working on both sides of the issue.

Moderator: Next, please.

Participant]: On page 15 of the document, it says that the Group companies added JPY4 billion to the previous forecast.

JFE: It is about 50/50 split between domestic group companies and overseas group companies. As for the domestic, each company has accumulated a little bit of positive growth. As for overseas, to be representative, CSI is doing better, including in terms of market conditions in the US.

Participant: This is not directly related to financial results, but I believe that other companies are aggressively trying to expand their overseas investments, from raw materials to integrated steel mills. Your company has a minority stake in JSW, and it is not a very large investment, and although you also have a joint venture with Nucor, it is not very large relative to the size of the Company.

Could you reiterate what your company's stance is on future overseas investments, such as integrated steel mills?

JFE: In our mid-term management plan, we have been focusing on quality instead of quantity, and I believe that we should consider various overseas projects with an emphasis on quality, not quantity. For example, the project with JSW for directional electromagnetic steel sheets is a typical example.

Therefore, although we do not have any concrete plans yet, we would like to deepen and evolve our relationship with our trusted partners, such as JSW India and Nucor in the US, a relatively strong market, while considering various options.

We also consider raw material interests, especially coking coal, to be an extremely important theme. As a user of coking coal, we are considering maintaining coal mine operations and supporting development, although there are no concrete plans to do so at this time.

Moderator: Next, please.

Participant: How much do you see the impact of automobile production cuts on your 4Q volume assumptions? How do you see the impact of the recent problems in the Red Sea and quality issues with automobile manufacturers?

JFE: As you point out, there are a lot of things happening right now, but I see little impact on our earnings for the current fiscal year, at least for now. Since we are already in February, I believe we can see the fiscal year to some extent.

Participant: I understand. Just to confirm, am I correct in assuming that automobile production will be lower in 3Q to 4Q?

JFE: As stated on page 13, the assumption is that production volume will drop from 3Q to 4Q.

Participant: Construction demand has been in a bad shape all of last year and this year, but is there a possibility of an improvement in residential demand for the next year? Also, I believe that there is a theme of the recovery of the manufacturing industry in Japan, which is related to the demand for non-residential construction. . Please explain the status of non-residential demand, including from this perspective.

JFE: As for the construction of both residential and non-residential buildings, it is difficult to say anything definite at this stage, since there is talk of the start of construction of large-scale development projects that have been postponed. Accordingly, I would be happy to provide an explanation at the time of issuing the forecast for the fiscal year.

Moderator: Thank you. That is all for the question-and-answer session. With that, we will conclude today's Investors Meeting. Thank you very much for joining us today.

[END]

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