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JFE Holdings, Inc.

JFE Group Investor Meeting
FY 2018 Q2 Financial Report & FY 2018 Earnings Estimates
Summary of Investor Questions and JFE Answers from Investor Meeting on October 30th, 2018

Q. If the recent trend continues, the market for hard coking coal will be something like $210 in Q3 and $220 in Q4. I would like to know how the financial results forecasts reflect raw materials prices, such as those for iron ore. Also, you explained that the financial results forecasts are based on recent export sales prices. Is it slightly below $600?

A. We assume that the price of iron ore will stay at the level of the Q3 contract price, which is $56. While the price of coking coal has been unstable recently and is difficult to forecast, the price level in early October is reflected in our financial results forecasts. With respect to export sales prices, we assume a decrease of several tens of dollars from the average price during the first half of the fiscal year.

Q. JSW's rights issue was announced. JSW has invested actively and is expected to grow more. What will JFE's relationship with JSW be like from now on?

A. JSW has been actively investing in India's growing steel industry and its production capacity of 18 million tons is almost fully operational. JSW's equity in the net income of affiliates is contributing significantly to the recovery of net income among our overseas group companies in fiscal 2018. While JFE and JSW share common strategies in their comprehensive business tie-up, individual transactions may be executed by JSW alone or may be joined by JFE on a case-by-case basis if JFE sees benefits for its global strategy. We will maintain a close relationship with JSW.

Q. With respect to the production decrease during the first half of the fiscal year, I would like to know about the natural disasters and production line troubles. Please explain the cause or background of the blast furnace trouble at Kurashiki, which is under investigation, if anything is expected. Is there any possibility of an increase in repair costs in fiscal 2019 in relation to the blast furnace trouble at Kurashiki?

A. As to the impact of natural disasters during the first half of fiscal 2018, the West Japan Works had to temporarily idle their blast furnaces and suspend their rolling lines due to heavy rain in July. As to the impact of operational troubles, the power outage at the Keihin area of our East Japan Works had a major impact on the production decrease. The ongoing investigation of the blast furnace trouble at Kurashiki suggests that congelation developed near the tuyere that blows hot blast into the furnace, so the condition of the blast furnace worsened and became unsuitable for extracting pig iron from the taphole. While the blast furnace trouble needs to be addressed, no significant increase in repair costs is expected beyond what is planned for fiscal 2019.

We find it regrettable that this kind of production line trouble occurred after making continuous capital investments since the start of our Fifth Medium-term Business Plan. We are committed to eliminating production line problems through the use of abnormality prediction and other systems and initiatives. Abnormality prediction using sensors has been introduced plant by plant for blast furnace operations.

As announced in our Sixth Medium-term Business Plan, we will work steadily to reinforce our manufacturing capabilities in terms of both facilities and personnel.

Q. Please explain the sales price increase from Q1 to Q2.

A. In addition to improved market conditions for exports, increased domestic sales prices also contributed to the increase. In relation to our previous forecast in July, we announced that we would increase our domestic price by 20,000 yen during Q2. We kept this promise and pushed up our sales price.

Q. With respect to the steel materials market in China, sales of materials for automobiles, especially steel plates, have slowed recently. I would like to hear your up-to-date understanding of the business environment in China.

A. While we need to be cautious about the slowdown of the automobile market in China, sales by Japanese manufacturers have been strong and Guangzhou JFE Steel Sheet's performance has been relatively solid. We will closely watch global economic trends, including the impact of the U.S.-China trade conflict.

Q. The forecast for nonconsolidated crude steel output for the second half of fiscal 2018 is about 14 million tons. This is a decrease of 0.7 million tons from the previous forecast announced in July. I would like to know the reasons for this decrease other than 0.4 million tons due to the blast furnace trouble at Kurashiki. Please also explain how the efforts for the production increase from fiscal 2019 are going.

A. The decrease of 0.3 million tons (excluding 0.4 million tons due to the blast furnace trouble at Kurashiki) was mainly due to our engineering plan for the second half of fiscal 2018. We revised the plan to ensure steady production in light of the impact of natural disasters and production line problems in the first half. Although we have faced various issues in our effort to raise our nonconsolidated crude steel output capacity to 30 million tons, which we announced in the Sixth Medium-term Business Plan, we are committed to solving our production line problems and increasing our crude steel output from fiscal 2019 onwards.

Q. There is an impression that the inventory levels of HR, CR and Coated Steel Sheet have not decreased constantly. Are there any recent changes or risks in demand? In addition, the analysis of steel business between the first half and the second half of fiscal 2018 shows an increase of 6 billion JPY in volume and product mix, which I think this is based on an expected increase in shipments. Please explain changes in demand forecasts for the second half and any associated risks.

A. Looking at our day-to-day operations, demand has been quite strong, particularly in the automotive industry. Production could increase further depending on the plans of automotive manufacturers. Therefore, we have not really seen a change in demand. We do not expect crude steel output to grow but shipments will increase in the second half. This is due to the rescheduling of shipments that were delayed by typhoons, etc. in the first half.

Q. I think that the overseas plants, such as those in India and Vietnam, should be used more effectively to avoid business losses in cases such as the production line trouble at Kurashiki. Please explain JFE's policy about utilizing its overseas plants.

A. We have various options to address production capacity issues due to the recent blast furnace trouble at Kurashiki, including the rescheduling of delivery dates and the use of our overseas plants, as you pointed out. Although it is quite difficult to make up capacity losses entirely through overseas production, we are actually considering the option of using FHS in Vietnam, with which we already have an offtake agreement.

Q. Regarding margins, I remember that JFE's policy is to reflect cost increases in its sales price. As part of the policy regarding price increases, please explain your plan on how to improve your base margin.

A. We will not proceed with price increases in a uniform manner, but instead will closely consider our relationship and past price movements with respect to each customer. However, our sales prices will surely reflect recent increases in metals and other materials prices, and logistics costs.

Q. Please explain the breakdown of the 5 billion JPY increase in steel business. Previous and present announcements have said it is due to recovered profit by overseas affiliates.

A. It is mostly due to JSW's increased profit.

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