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JFE Holdings, Inc.

JFE Group Investor Meeting
FY 2018 Financial Report & FY 2019 Earnings Estimates
Summary of Investor Questions and JFE Answers at Investor Meeting on May 14, 2019

Q. Please explain your steel and raw materials pricing and inventory valuation differences, which are the basis for your FY 2019 forecast.

A. The forecast accounts for hot-rolled steel export spread, which is expected to be similar to the average in January to March 2019. We applied an iron ore price of $71 per ton for April to June and the current market trend toward higher prices is taken into account for July to September. The coking coal price is based on the latest market trends. We forecast that our inventory valuation gains and foreign exchange surplus in FY2018 will balance out this year, decreasing the inventory valuation gains etc. by 40 billion yen.

Q. Even if we add back the 72 billion yen loss incurred due to natural disasters and blast furnace operational troubles in FY 2018, your profit is behind those of your competitors in the Asia region. In JFE's opinion, which factors lowered your profit?

A. The factors include the difference in how steel sales prices are determined between us and competitors in Asia and the increase in repair costs to better maintain our manufacturing infrastructure. Our primary focus is ensuring non-consolidated crude steel output per annum of 29 million to 30 million tons at low cost, so we will work hard to strengthen our manufacturing capabilities for this purpose.

Q. Given envisioned market conditions, do you expect to sell out your increased crude steel output resulting from raising annual output to between 29 million and 30 million tons?

A. Steel market conditions will largely depend on the course of the Chinese economy. Meanwhile, the U.S.-China trade dispute is posing uncertainty in the market. Chinese steel exports have been low in recent years, helping to maintain steel prices to some extent. As long as this market situation lasts, there should be enough room in the market for us to sell our planned increase in production.

Q. Please explain the domestic metal spread assumed in your FY2019 forecast?

A. The domestic metal spread is based on recent actual results. Current trends in iron ore prices and other materials costs are also taken into account.

Q. Please explain the progress of your preventive action to avoid further trouble with blast furnaces, which seems to require some time, especially to address the issue of the generational change in your workforce.

A. Trouble can lead to irregular operations no matter how stringent controls might be. One of the key factors is how quickly we can recover operations at a disrupted facility to minimize the impact of the problem. Troubleshooting blast furnace auxiliary facilities has been standardized for each site and each blast furnace, but these standards were not properly unified. For example, we did not document various experiences and know-how of skilled employees regarding the handling of such damage. We have identified this is the reason for our prolonged shutdowns prior to fully restoring the blast furnaces.

Our blast furnace troubleshooting team has now documented all such experiences and know-how, and we are communicating this information to personnel nationwide through training programs. We believe this knowledge base will accelerate efforts to pass on expertise to our next generations, and do not expect that it will take a long time. Establishing systematic support for operators is another initiative that is under way. For early detection of failures, we are designing a system that incorporates IoT-based sensor capabilities and AI-supported operator assistance.

Q. What is the reason and background for your decision to maintain a defensive posture regarding takeovers?

A. The board of directors conducted thorough and comprehensive discussions involving internal and external directors regarding the question of defending against takeovers. We have concluded that countering possible takeovers needs to be carried out with shareholder approval, unless there are changes in relevant laws in Japan. A hostile takeover of JFE will remain a distinct possibility in view of our high-level technologies and intellectual property as well as current trends in the global steel industry.

Q. When looking at the sixth medium-term business plan, your FY 2018 performance and FY 2019 forecast fall short of your targeted business profit of 290 billion yen. This indicates you will have less cash inflow than planned. Under the circumstances, what is your strategy for cash outlays such as capital expenditures and dividends? In addition, are you considering available options such as asset reduction or additional cost reductions to make up for less cash coming in?

A. Let us start with profit in the steel business. Continued price hikes for metals, materials and logistics are the main contributors to shortfalls in our performance and forecasts. Unfortunately, higher steel sales prices have been offset by higher prices for the materials and services we require. We will continue communicating with customers to revise our steel sales prices so as to absorb our increased costs.

Our reported capital expenditure is the minimum necessary to maintain the competitiveness of our steelworks in Japan under the plan to strengthen our manufacturing capabilities. Therefore, there will be no reduction in capital expenditure, and we will consider options like selling assets to secure sufficient cash flow.

Q. Your descriptions of overseas business strategy and performance clearly indicate that investments in recent projects have been successful. What initiatives do you plan to implement in the years ahead?

A. We believe that JSW and FHS have high potential. Since steel demand in the Japanese market will decrease, we will focus more sharply on leveraging the resources of these two companies within the steel industry's global landscape.

Q. For FY 2019 steel-segment profit, you estimate that your volume and mix will produce a 50 billion yen increase from FY 2018. Considering your planned 2.7 million ton increase in annual crude steel output, isn't your marginal profit per ton slightly low? How did you calculate marginal profit?

A. The increase of 50 billion yen is a rounded figure and is not due to the low marginal profit used for the calculation.

Q. Your sixth medium-term business plan calls for a continued payout ratio of approximately 30%. Is our understanding correct that dividends will be reduced if FY 2019 net profit is lower than that in FY 2018, as shown in your disclosed business profit estimate?

A. At the moment, we do not have a FY 2019 **net** profit forecast. If profit drops, dividends will be paid in accordance with the policy of a 30% payout ratio, as stated in the sixth medium-term business plan.

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