JFE Holdings, Inc.

JFE Group Investor Meeting
FY2019 Q2 Financial Report & FY2019 Earnings Estimates
Summary of Investor Questions and JFE Answers at Investor Meeting on November 12, 2019

Q. The decline in profits due to sales volume and product-mix factors seems greater than normal. Is this because it includes a worsening of the product mix brought on by lower production for the domestic automotive market and increased exports?

A. Compared to the previous forecast, sales volume and product mix was down 30 billion yen, which impacted profit more than normal for reduced production of 1 million tons. This is because the 1-million-ton fall in production volume reflected the weakened product mix, which was mainly due to lower production for the domestic construction sector and lower exports for the automotive sector overseas.

Q. You earned non-consolidated ordinary income in steel business in FY2017 and FY2018, but are losses likely to incur this year? Are there any signs of impairment losses?

A. We expect to report non-consolidated ordinary losses in steel business this year. After consulting our accounting firm about impairment losses, as we do every quarter, we do not see any signs of impairment losses at this point. However, we expect to report operating losses in FY2019 and we may see some signs of impairment losses depending on our forecasts for the following years. If that is the case, we will determine whether we should recognize impairment losses based on profit forecasts.

Q. Please describe the details of "Others -38.3 billion yen" in the FY2019 forecast (compared with the same quarter in the previous year).

A. A decrease in group companies' profit of about 20 billion yen and an increase in depreciation costs of about 10 billion yen due to the strengthening of manufacturing capabilities are the main contributing factors. We maintain profits, mainly among overseas group companies, at a certain level. Overseas group companies performed well in the previous year, so profit for our group companies overall may be lower this year.

Q. How will the metal spread decline of 14 billion yen between the first and second halves impact the domestic and export metal spreads?

A. We expect the domestic metal spread to go up and the export metal spread to go down due to declines in prices.

Q. What criteria do you use to determine whether to continue with production adjustments or not (e.g. level of combined inventories of HR, CR, and coated steel sheet)?

A. For production forecasts, we will take a flexible and agile approach while monitoring order levels and spread and price recoveries, rather than looking at inventory levels in the market.

Q. Why are you investing so much money to improve the Kurashiki blast furnace No. 4 even though furnace capacity will not increase significantly?

A. Investment in this project is expected to be much larger than that of a conventional improvement project due partly to increased construction and labor costs. In addition, we will introduce sensor technology, IoT, and AI with this project, which will also add to the higher investment cost.

Q. You are planning capital investment of over 400 billion yen this year. Why such a large amount?

A. Our capital investment of 410 billion yen this year is based on construction, so the amount has risen due to many large projects this year, including the Fukuyama coke oven, Fukuyama sintering machine, and Keihin power station.

Q. Production is reduced by 1 million tons (compared with previous forecasts) due to production adjustments. Is the purpose of the production adjustment to improve the inventory level as well as respond to weaker domestic demand?

A. Production is reduced by 1 million tons to respond to domestic inventory levels, but it is affected more by the reduced spread due to the weaker overseas market.

Q. How feasible is it to reduce costs by 50 billion yen from the previous year? Was this affected by the 1-million-ton reduction in production (compared with the previous forecasts)?

A. As we mentioned earlier, we expect to see significant returns on major investment projects this year. We also expect to cut costs by over 50 billion yen from the previous year as we have eliminated a temporary loss incurred due to operational problems that happened last year. The effect of cost reduction may be overshadowed by lower crude steel production. The cost reduction of 10 billion yen compared with previous forecasts is due to increased maintenance resulting from typhoons and small operating issues. We expect to see returns from major investment projects as planned.

Q. Are you going to reduce the export ratio in the second half of FY2019?

A. We are unable to give you a definite answer regarding the export ratio, but reduced production of 1 million tons (compared with previous forecast) has a significant impact on exports.

Q. Production is reduced by 1 million tons (compared with the previous forecast) due to production adjustments. Do you intend to improve the demand-supply balance or is it difficult to generate marginal profit at the current metal spread level? Please give us some background on the production adjustments.

A. We have decided to reduce production by 1 million tons in light of both the domestic demand-supply balance adjustments and the lower level of overseas spread.

Q. Tell us how you intend to improve business performance in the coming years.

A. We will reduce capital investments and cut fixed costs as priorities in our steel business. To determine what action we should take from a medium- to long-term perspective, we will look at the business climate and examine how long this lower level of overseas spread is likely to continue.

Q. Please tell us about the free cash flow levels for this year and the following year.

A. We have a negative cash flow this year as described on Page 50 of the reference document. At this point, we are unable to forecast next year's cash flow, but we are determined to improve cash flow and reach the break-even level.

Q. To what extent have you included the impact of the IMO's SOx regulation in your business forecasts?

A. To respond to the IMO's SOx regulation, we expect to use oils that comply with the regulation for the time being. We have included the impact of the regulation in our business forecasts for this year to a certain extent.

Q. Why do you think the metal spread has remained below $200 in the Chinese and Southeast Asian markets? Is it because the demand-supply balance has not yet improved very much, despite the fact that China has recently reduced its production capacity? Or is it because of the intense competition from Indian and Russian mills?

A. China's crude steel production has increased while its exports have remained at a low level. The increase in production is expected to be consumed by domestic demand in China. We believe that steel produced in India significantly affects the current level of the metal spread in Southeast Asia, which remains low. We assume that the market is affected by the fact that Indian steel continues to flow into Southeast Asia because of the country's stagnant economy.

— End of Document —

Disclaimer:
This document does not purport to address the requirements by the Financial Instruments and Exchange Act. It is the responsibility of the user of this document to determine the correctness and integrity of the information disclosed associated with its use. The forecasts presented are prepared on the basis of information available at the time of the briefing session and include uncertain factors.
Hence, it is strongly advised NOT to rely only on the forecasts in this document for investment decisions. In no respect shall JFE Holdings, Inc. incur any liability for any damages arising out of, resulting from, or any way connected to the use of the information contained herein.