JFE Holdings, Inc.

JFE Group Investor Meeting

((FY2022 3Q Financial Results and FY2022 Earnings Forecasts)

Summary of Q&A Session on February 6, 2023

Moderator : Now, we would like to start the question-and-answer session.

Participant: Hello. Thank you. I have three questions.

Regarding the first point on page 15, the unit price of steel products will decrease from JPY136/kg to JPY124/kg from 3Q to 4Q, please tell us the details. I would like to know if this is a reflection of the decline in the international market, or is it because raw materials are still falling, so you have lowered the sales price in a portion of the long contract, so-called surcharge-like movement portion.

In addition, currently imported steel products are coming in cheaply, electric furnace manufacturers are selling them at low prices, and I think that some distributors and constructors are refraining from buying in order to encourage price reductions for blast furnaces. Is there a choice to dare to lower the price and take the quantity? Or, since you will be stopping Keihin district this September, please tell us about your company's strategy, whether there is any change in your strategy of taking high-profit, high-price order after all.

Secondly, regarding Engineering business, please tell me if I can expect profit to recover next fiscal year without this transitory factor.

Third, on the non-oriented electrical steel sheets, I understand that you are not going to invest an additional JPY50 billion in a new project, but if you are going to increase it by only JPY1 billion and the volume will change significantly, please tell us what that means.

Those three are my questions. Thank you.

JFE: Regarding the first point, you are right, the export steel market is down, and as you can see from the assumptions for the exchange rate, the yen is going to appreciate considerably, so on a yen basis, it will go down.

In addition, as for the domestic market, the price of raw materials is expected to fall, and as you mentioned, the surcharge-like contract will reflect the raw materials price down. If we look only at the sales price, it is a figure that we have calculated after factoring in such declining factors.

JFE: As I mentioned at the beginning of this presentation, the overall volume of our products has been decreasing, and even if we reduce the volume, we still want to stick to our sales price policy, so even though we made a downward revision of 1 million tons, we are still sticking to our sales price. We have not changed our stance on this issue in the future.

Regarding the second point, the engineering business, we have basically set up an allowance for possible losses in the future, so we do not think that there will be any drag on the business in the next fiscal year.

The third point, regarding non-oriented electrical steel sheets, it is not an additional JPY1 billion. JPY49 billion last time, and we will invest JPY50 billion this time to increase the volume. That's all.

Participant: With regard to the increase in non-oriented electrical steel sheets, the total of JPY49 billion is not an increase of JPY1 billion to JPY50 billion, but a separate investment of JPY50 billion in addition to the JPY49 billion already announced, is that correct? Is the district Kurashiki?

JFE: Kurashiki.

Participant: So, do you mean the kind of investment that would include buildings and a new line?

JFE: I can't give you specifics on individual facilities, such as whether or not they will be built, but basically, we are building a new line.

Participant: I see. It's a great investment. Okay, thank you very much.

Moderator: Thank you. Next person, please go ahead.

Participant: Hello. Regarding the first point, the volume, I have the impression that the downward revision is slightly larger than the industry trend. What areas of demand, if any, are declining, for example, by export and domestic, or by domestic sector, etc.?

Secondly, on page 30 of the electrical steel sheet, the word "high-grade" in the manufacturing capacity section has changed slightly between the investment in 2021 and the investment announced this time, but I feel that the increase in capacity is not that different between the previous announcement and this time. Please tell me what is different and what is new.

I think it is often said that the market for non-oriented electrical steel sheets is quite tight in terms of supply and demand, and that there is a shortage. Please tell us if there are any new initiatives in such areas, such as relationships with customers. That's all.

JFE: Regarding the 1 million tons of decrease volume, we basically expect that 70% will come from Japan and 30% from overseas. In the domestic market, in the previous forecast that we saw a drop in volume, there was a decline in automobile production, but this time the recovery in automobile production has been slightly slower than expected, which is of course one of the factors, but the major factor is that demand has been postponed in the residential and civil engineering construction sectors. I have just presented a graph of the activity indicators in the materials, and that part has a significant effect.

In this respect, the volume of thin sheet general materials has fallen.

The other thing is that we are not selling in volume overseas because the current market conditions are quite difficult.

Regarding non-oriented electrical steel sheets, the previous expression "high-grade N/O" was used, but this time, the term "top grade N/O for the main engine motors of electric vehicles" is used to clarify the application, etc. Basically, we are very conscious of this area in our previous manufacturing capacity expansion.

Participant: So basically, can I assume that it's not that different from the last time?

JFE: That's correct. One of the major reasons for our decision was to catch up with the electrification of automobiles, which is progressing more rapidly than we had expected.

Participant: I understand. Thank you.

Moderator: Thank you. Next person, please go ahead.

Participant: On page 23 of the document, please allow me to confirm the standing approach to the seventh mid-term plan for profit and loss in terms of competence.

The first point is shut down of upstream facilities in Keihin scheduled for September of 2023. In FY2022, the cost reduction actions have been offset by the cost of refit Chiba number 6 blast furnace, so the cost reduction actions are not visible, but as for the total of JPY75 billion, including JPY45 billion of structural reform effects shown in the graph in the document, can we expect it without being offset by some other cost increase even if the non-consolidated crude steel volume does not recover to 26 million tons?

I understand that the shutdown of upstream facilities in the Keihin area is scheduled for September 2023, and that the effects will be felt mainly from 2H of FY2023. Please let me confirm if we can expect it as planned without any discrepancies.

The second point concerns your group company earnings. I don't think the improvement of your group company earnings, including overseas earnings, is expressed in the graph for the achievement of the mid-term plan. Please explain your thoughts on the room for improvement. Thank you.

JFE: Regarding the first point, cost reduction effects, basically, of the JPY75 billion, JPY45 billion is from structural reforms and the remaining 30 billion is cost reductions in annual base activities. Therefore, since we have two more years left in the mid-term plan, we expect to reduce costs by JPY15 billion per year.

This fiscal year, there was a negative impact of JPY13 billion from the blast furnace refit and a temporary cost increase of JPY10 billion due to production cutbacks in 2H of the year, which offset the JPY23 billion cost reductions implemented this fiscal year. However, we would like to steadily implement cost reductions of JPY15 billion annually. As for the Keihin structural reforms, we expect to start seeing the benefits in 2H of FY2023.

Regarding the second point, overseas group companies, one is JSW, whose performance has declined significantly compared to the previous fiscal year.

In addition, the group company responsible for surface treatment lines for automotive steel sheets also saw their overall performance decline in FY2022. Although there are various reasons for this, such as the impact of the lockdown in China and the depreciation of currencies in Thailand and Indonesia, we expect a certain level of recovery from the next fiscal year onward due to the recovery of automobile production and stabilization of the economy.

Participant: If the inventory adjustment phase continues for the time being and production volume does not recover, will the cost of production cutbacks remain a negative factor in 1H of FY2023? You mentioned earlier that the expected cost reduction next year is JPY15 billion, but please explain what the total cost will be.

JFE: If the same production volume as in 2H of FY2022 continues, the same level of negative impact will remain due to the impact of byproduct gas and blast furnace reductant. Regarding the volume forecast for the next fiscal year, a moderate recovery has been continuing in Japan, and we expect a certain level of recovery for automobiles as well.

As for overseas, we believe that the recent rise in raw material prices is also an expected recovery in overseas demand. However, we believe that it depends on when demand recovery will occur.

Participant: I understand. Thank you.

Moderator: Thank you. Next person, please go ahead.

Participant: The first point is with regard to the downward revision of the production volume forecast. You mentioned that the decline in the residential and construction sectors was a major reason for this, but if we look at the area of construction starts, there has not been such a large decline. In this context, the fact that JFE is revising its volume forecast downward may be a problem unique to JFE, where the purchase of JFE materials is being postponed because of the high cost of JFE steel materials compared to electric furnace materials and imported materials, I think. What is the background behind the downward revision of the volume forecast in relation to demand for residential properties and construction?

The second point concerns investments to further expand the manufacturing capacity of non-oriented electrical steel sheets. Is there any significant change in the competitive environment among the world's top-class quality non-oriented electrical steel sheet supply players? Also, is it safe to assume that the increased capacity can be sold on a basic basis?

JFE: Regarding the first point of steel demand, on page 17 of the document, we show the recognition of the domestic steel demand environment, and the overall statistics for steel demand for residential properties and construction show a decline. We do not believe that the decrease in volume is due to the relative selling prices of electric furnace materials and imported materials.

Regarding the second point, non-oriented electrical steel sheets, the speed of electrification of automobiles is accelerating considerably, and I am concerned that the capacity expansion may not be able to keep up with the increase in demand for non-oriented electrical steel sheets. Therefore, we are not worried about sales.

Participant: I understand. Thank you.

Moderator: Next person, please go ahead.

Participant: I have two questions. The first point is about the selling price. I think one of JFE's appealing points was that the spread is improving against the previous forecast. Is there room for this spread to widen further in the next fiscal year, and with the prospect that metal and commodity costs will still rise in the next fiscal year, will it be possible to pass these costs on? What are your thoughts now, taking into account the demand environment and other factors?

The second point concerns the trading business. Profit for 4Q was about JPY4 billion, which appears to be less than the results up to 3Q. Please explain a little more about why profits will fall in 4Q and whether they will really deteriorate that much. Thank you.

JFE: Regarding the first point, we have been negotiating with our customers to pass on not only the main raw material costs but also other costs.

Not everything has been passed on, so we will continue to negotiate and improve the sales price in the next fiscal year and beyond. In addition to this, we intend to further expand the spread by improving extras and pursuing various other initiatives set forth in our mid-term plan.

Regarding the second point, the 4Q performance of the trading business, it is true that it is at a much slower and lower level compared to the results up to 3Q. The situation in overseas markets has been very weak since the second half of 3Q, especially around December, and it is difficult to find positive factors for 4Q.

In addition, another factor is the timing difference in the consolidated profit/loss of the trading business. The Company's 4Q results are weak due to the consolidation of the 3Q results of a Chinese group company, which performed very poorly in 3Q, into 4Q results of the trading business.

Participant: I understand. Thank you.

Moderator: Thank you. We conclude the question-and-answer session.

This concludes today's investors meeting.

Thank you very much for your participation today.

JFE: Thank you.

[END]