

JFE Group Investor Meeting
(FY2023 Financial Results and FY2024 Earnings Forecasts)

Summary of Q&A Session on May 7, 2024

Participant: I would like to ask about the FY2024 forecast for the steel business on page 30. Unlike in the past, you have included various prices in the definition of the spread. Will you be able to secure the domestic spread against the main raw material prices? I think you are assuming a coking coal price of about USD300, which is quite high, but with the current price trend, I think it will be about USD250 in 1Q. Please explain again under what assumptions you made this forecast. If coking coal were cheaper than expected, would the spread widen? Or are you being conservative in your forecast, assuming that as coking coal prices fall, steel market conditions will also fall and spreads may become tighter?

JFE: Coking coal prices are currently around USD250, and even if the price is about the same in 1Q, we expect the price to rise in the future, and for the full year we expect the price to be close to USD300.

On the other hand, labor costs, logistics costs, and other costs will rise considerably, but these are also covered by the domestic sales prices.

Although we expect steel prices to decline in the event of lower coking coal prices, we anticipate that we will be able to secure a spread of current level.

Participant: In the engineering business, you said that you expect a decrease in profit in FY2024 due to the postponement of orders. Please explain in more detail about the prospects for recovery in FY2025.

JFE: In the engineering business, there has been a delay in passing on the higher costs of materials and equipment overseas. From FY2025 onward, we expect the operating rate of the monopile plant to improve, and we also expect to receive many orders in other fields, and since we will gradually pass on the higher costs of materials and equipment that I mentioned earlier, we expect our performance to recover in FY2025.

Participant: You mentioned that the Keihin area land use will be the fourth pillar of the future profit. Is it at the time of the announcement of the upcoming mid-term business plan that we can see the concrete plan?

JFE: First of all, we are diligently working on the effective use of "Lead Area" including the former raw materials quay in Ohgishima area and that of Minamiwatarida area, and the sale of land in Ogimachi area.

We believe that the outlines will become clear in the planning process of the next medium-term business plan, but we think that it will take more time for other land uses.

Participant: In your forecast for FY2024, do you factor in about a 3-digit billion yen decrease in profit due to foreign exchange effects on trade for the weaker yen?

JFE: We expect a negative figure of about JPY10 billion.

Participant: I believe the CEO's vision of doubling profits includes utilizing the Keihin land, shifting from quantity to quality, and investing in growth areas. Can you tell me what percentage you expect each to contribute? How much do you think you can increase profit per ton in the future by shifting from quantity to

quality? Or, regarding growth areas, please tell us about the types of investments in which your company can take advantage of its strengths.

JFE: Regarding the doubling of profits, I first set a goal for our employees to double our profits. Until now, we have made medium-term business plans, i.e., three-year plans, but we are now trying to create a longer-term vision, and our goal in this vision is to double our profits.

Why the doubling? In the 2030s, the survival of JFE Steel in particular will be greatly affected by how well it is able to implement capital investment and other measures to prepare for the coming carbon-neutral era. In order to realize such carbon-neutral investments, our current profit is not sufficient, and I have declared my intention to the employees as president, believing that we must have a structure to increase profits even more.

Specifically, each of our operating companies will be creating plans, and within those plans, they will examine what strategies they will pursue over the three-year period from FY2025 to FY2027 of the eighth mid-term business plan. Therefore, at this time, we do not have specific numbers for which areas and by how much.

So, what kind of things are we going to do? Of course, we must build a solid earnings base in our domestic steel, engineering, and trading businesses, but to achieve the doubling of profits, it will be impossible to achieve this goal in Japan alone.

Therefore, I believe that each operating company must have a thorough discussion and formulate strategies on which countries, regions, and fields are best for businesses that will double profits.

I have been developing overseas business mainly in China and ASEAN countries in the steel business, but I believe that countries with high profitability or high business growth potential, namely India and North America, are important.

Furthermore, countries in the Middle East are eager to invest in the coming carbon neutral era, and we feel that there may be business opportunities in countries and regions that are willing to contribute to the carbon neutral era.

Finally, we were asked how much profit per ton we expect from the shift from quantity to quality. Each of our operating companies will be developing strategies for this as well and will set numerical targets. The ratio of high value-added products is currently 48% and is expected to reach 50% in FY2024, but I believe that 50% is not enough. In fact, during the period of this seventh mid-term business plan, the shift from quantity to quality has greatly contributed to the improvement of sales prices by the sales department, and high value-added products have achieved much higher profit performance than other products. Based on this, we would like to work to increase the ratio of high value-added products to 60 ~ 80%.

Participant: What themes or events do you see now as risks in the long term?

JFE: I think there are risks in various areas. In this mid-term planning process, I feel that we need to clear up business areas that are at risk and discuss whether we will continue to focus on those areas or what we will do with those businesses in the future.

Participant: Based on the high value-added product ratio on page nine and specific examples of high value-added products, I think the focus is basically on eco-products. On the other hand, I believe that you are making efforts to expand your green steel products, which are sold at premium prices, in the same way or ahead of other companies. Specifically, I believe that you have explained the target volume of about 5 million tons in 2030 based on the mass balance approach.

Could these turn into concrete action plans rather than slogans? How much of that quantitative realization do you think is possible during the next mid-term plan period? I would like to know more about whether the policy of increasing the ratio of high value-added products is not just a matter of word, but whether a mechanism is being considered so that it can be incorporated into a concrete action plan.

JFE: First, let me talk about high value-added products. Our definition of high value-added products is products that have technological superiority, are recognized by customers as having added value, and have a higher earning than commodity-grade products. Specifically, steel sheets for automobiles, or high strength steel sheets for automobiles, and among electrical steel sheets, grain-oriented electrical steel sheets, GO, for transformers, or non-oriented electrical steel sheets, NO, used in motor cores for EVs and hybrids, and steel materials for energy applications, etc.

For example, the Chita Works, a plant specializing in pipes, used to be very dependent on fluctuations in oil prices, but it is now specializing in high-grade seamless steel pipes of 13 chrome or higher, rather than pursuing the volume of commodity-grade carbon steel seamless pipes. Moreover, we have been focusing on low-carbon 13-chrome seamless and 17-chrome products, which are difficult for other companies to produce. As a result, Chita's profit structure has improved dramatically in FY2023 results and is expected to improve further in FY2024.

We believe that we must steadily increase the ratio of such high value-added products, and since this is an area in which we excel, we are confident that we can create an action plan. On the other hand, a market has not yet been formed for green steel, which is recognized for its high added value.

JGreeX is our brand of green steels that do not change their performance but emit very little CO₂ to produce them due to the mass balance approach. On the other hand, the market that recognizes this added value of very low CO₂ emissions is still small at present.

We cannot create an action plan until we have a market that recognizes the added value of green steel products. Therefore, the key to the volume of sales, added value, and profit contribution of green steel products is how to shape this market.

These activities are difficult for a steel company to undertake alone. We anticipate that this will be difficult to achieve without public procurement or subsidy programs, and even regulatory institutional measures for the use of green materials, through activities such as the GX League or the METI-led study group on GX product market creation, which is currently underway.

We are already doing these activities now. During the next eighth mid-term business plan period, we would like to continue to move forward in cooperation with the METI and the Japan Iron and Steel Federation, as well as through proposals from the blast furnace companies Nippon Steel, Kobe Steel, and JFE steel.

Participant: Since iron sources are limited, I think that actively expanding high-value-added products means, conversely, that you need to take actions to intentionally reduce the weight of non-pickled hot-rolled steel sheets, slabs, and other commodity-grade products. I would like to ask you what new plans you have for the export business, which has been unprofitable at the moment, upon assuming the presidency.

JFE: The key point is to fill the capacity of the production line with high value-added products as the top priority. The current high value-added product ratio is still 50%, which means that the remaining 50% is sale of slabs and non-pickled hot-rolled steel sheets, which are not high value-added products.

The strategy is to fill line capacity with high value-added products, i.e., not to consider increasing line capacity to secure sales volume with commodity-grade products. On the other hand, there are peaks and valleys in the

sales environment, and we believe that a certain volume of slabs and non-pickled hot-rolled steel sheets is necessary to supplement such peaks and valleys.

With that in mind, I believe we will determine how much capacity is appropriate for the eighth mid-term business plan.

Participant: On page 30, there is a forecast of JPY5 billion for spread improvement. Please quantify, if possible, how much is the impact of various prices, especially the rising costs of logistics and labor, compared to the main raw material spread. Also, please let us know if the spread for exports has been factored in as a negative impact.

JFE: With regard to spreads, we assume that main raw materials and metals combined will contribute to a cost improvement of a little less than JPY60 billion. On the other hand, with regard to various prices, we expect a cost increase of about 25 billion yen for labor and logistics costs, and about 10 billion yen for the foreign exchange flow difference. We believe that all of these factors combined will result in a cost increase of about JPY30 billion.

In contrast, sales are expected to improve mainly in Japan, although they are still expected to decline overseas compared with FY2023 as you mentioned. Altogether, the spread is expected to be a positive factor of JPY5 billion.

Participant: I would like to ask about the exceptional items on page 33. This year, there is a gain on the sale of land, which made this item positive. Can you please tell me, if possible, what you expect this item to be after next year, if you include the cost of improving the Keihin land and other items.

JFE: Regarding the Keihin land, as we mentioned at the last Investors Meeting, we will have a meeting this year to explain our plans for the next few years. We have not yet decided on the timing of the event, but we hope that you will wait until then.

Participant: I simply want to confirm, is it correct that the next medium-term plan is for four years from FY2025 to FY2028?

JFE: The next medium-term plan is based on a three-year period from FY2025 to FY2027.

Participant: For the first time in a long time, orders for automobiles are down from the previous year. You also said that the production cutback had negative impact on the financial results for the fiscal year ended March 2024. What is the outlook for that this year?

JFE: Regarding automobiles, we have attached a supplemental document on page 43. Production in 4Q fell compared to 3Q. This is due to certification issues and disasters.

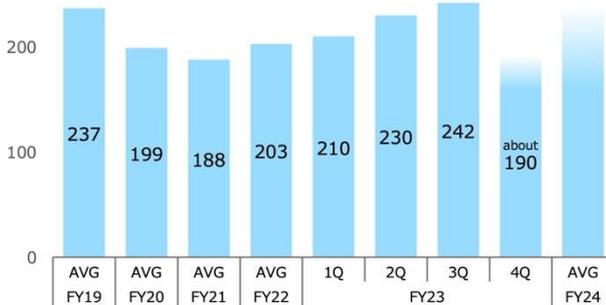
However, as noted in the comments on the right-hand side, we believe that car companies have back orders and are highly motivated to produce. So, as shown in the graph, we expect a recovery in the future, and our basic understanding is that the number of units produced throughout the year will be higher than in FY2023.



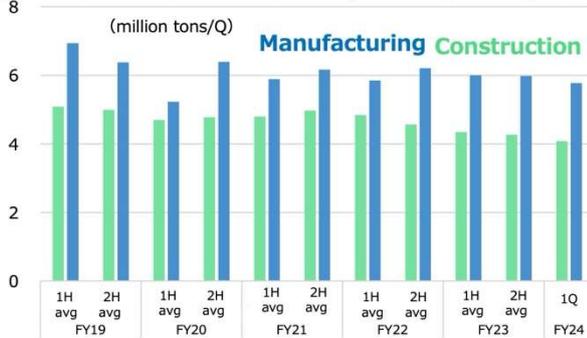
Current Business Environment (Domestic)



[Outlook for Domestic Auto Production]
10,000 units.



[Outlook for Domestic Ordinary Steel Consumption]



Source: Ministry of Economy, Trade and Industry, "Outlook for Steel Consumption" 11 April 2024. (FY2023.1H and after is estimated results)

[Trends by sector]

Auto-mobile	<ul style="list-style-type: none"> Despite the impact of certification issues and other factors, each company is facing backorders, production motivation is high, and activity levels are expected to remain steady.
Ship-building	<ul style="list-style-type: none"> Despite the effects of soaring materials prices and labor shortages, the company has secured a two-year backlog of orders, which is the standard for stable workload. The current level is expected to remain stable over the next two to three years.
Other manufacturing	<ul style="list-style-type: none"> Construction equipment: High resource prices supports demand for mines, but weak sales to Europe and Asia are also seen. Watch out future trends. Industrial machinery: Increasingly cautious about making investments, feeling uncertainty about the future of the economy due to rising interest rates and continuing inflation. Watch out future trends.
Construction	<ul style="list-style-type: none"> In the non-housing sector, demand for large-scale projects, which had been relatively strong, has been postponed due to rising material prices and labor shortages. The number of new housing starts has stagnated, and the number of small and medium-sized projects has continued to decline. We are closely monitoring the impact of the construction industry's fiscal 24 problems, which have entered their effective period.
Civil engineering	<ul style="list-style-type: none"> Although budget measures continue to be implemented at a high level, it is expected to be affected by rising costs of materials and labor shortages.

Participant: Do you expect the volume to increase in 1H of this year compared to 2H of last year? Or do you expect that the volume will not change much between 2H of last year and 1H of this fiscal year, but will gradually increase toward 2H of this fiscal year?

JFE: I will refrain from giving specific figures, but I still think that the current situation is affected by the certification issue, etc., and that part of the situation will gradually recover. Basically, however, I believe that demand in the automotive sector will continue to be strong.

Participant: I would like to ask you, President Kitano, about the time frame and strategy for the profit doubling plan that you talked about in your policy statement. In your earlier explanation, you talked about doubling profits for the upcoming carbon neutral investment, and I felt that you are aiming to double profits at relatively early date. Is this understanding correct?

Also, regarding aggressive investment in overseas in the future, I believe that up until now your company has mainly invested in minority investments and the establishment of joint ventures with overseas manufacturers, rather than in large-scale investments, i.e., acquiring or establishing blast furnaces or integrated steel mills. Will the way you think about your overseas investment strategy change in the future?

JFE: First of all, we have not decided clearly on the timing of the doubling of profits. However, we believe that it would be quite difficult to double the amount in a three or five-year period. We believe it is important to first set a goal of doubling profit, and in order to achieve this goal, each operating company will grasp its current capabilities and position, and will consider what is lacking in order to double profit, while also making comparisons with other companies.

In this context, I believe that we will extract what we need to do in the eighth mid-term business plan and execute it.

In terms of our approach to overseas investment, we are considering a shift from quantity to quality, and considering our financial strength and manpower, we think that the scope of our overseas investment is limited. In this sense, we are considering overseas growth through a shift from quantity to quality. An example is GO JV we realized in cooperation with JSW in India.

Therefore, we think that a complete acquisition of a steel mill through M&A, as other companies do, may not meet our capabilities. If there is a good project, we would like to consider it, but for now, what I have in mind is to achieve growth overseas by shifting from quantity to quality.

Participant: The concept of profit and loss for 1H and 2H is not disclosed at this time. Please let me confirm that I am correct in understanding that profits basically increase from 1H to 2H.

JFE: We have not announced our forecasts for 1H and 2H of the fiscal year, so we cannot give you specific amounts at this time. However, in the steel business, as I mentioned earlier, the capability of electrical steel sheets at Kurashiki will be strengthened in 1H and given that sales price improvements and cost reductions generally proceed gradually, I think it is correct to assume that profits will be higher in 2H than in 1H. I believe that such a trend will also emerge in the engineering business, as this has been the case in the past, with the business form of the engineering business increasing its profits in 2H.

We would like to explain the specific level in our next financial forecast.

Participant: Regarding shareholder returns, your current policy is to maintain a payout ratio of 30%. The Company's financial position has improved considerably in the last two to three years. What, if any, concrete possibilities do you see for increasing shareholder returns in the future, such as a shift from a 30% dividend payout ratio to a DOE?

JFE: Regarding shareholder returns, the seventh mid-term business plan calls for a payout ratio of 30%, and since the profit attributable to owners of parent will increase by about 10% in FY2024, we expect to pay a dividend of JPY110. This would bring the dividend payout ratio to a little over 30%.

On the other hand, we believe that the future needs to be discussed during the formulation of the eighth mid-term business plan, and we do not currently have an answer to any specific policy for the future.

Moderator: This concludes the question-and-answer session. With that, we will conclude today's Investors Meeting. Thank you very much for your participation today.

[END]

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