

JFE Group Investor Meeting
(FY2024 1H Financial Results and FY2024 Earnings Forecasts)
Summary of Q&A Session on November 6, 2024

Moderator: Now we would like to move on to the question-and-answer session.

Participant: With the supply and demand environment becoming very unfavorable, the prices of commodity-grade products have fallen. Will you be able to maintain spreads for steel sheets for automobiles and electrical steel sheets in the medium to long term?

Some automobile manufacturers, for example, have been performing quite poorly. Electrical steel sheets are also probably a bit slack in terms of supply and demand, as electric vehicles (EVs) are not selling well at the moment. We also hear that blast furnace manufacturers are offering a small discount, and that POSCO is selling at a slightly lower price.

Also, could you please add some explanation on the coking coal price pass-through on the selling prices partly shifting to the next period that you mentioned in the presentation?

JFE: The spread including various costs for the current year is projected to be plus/minus zero versus the previous year. However, the main raw material spread is widening. Although labor costs and logistics costs are rising, we are maintaining the spread that includes various other costs by reflecting these increases in our selling prices.

In addition, Kurashiki's electrical steel sheets expansion facilities have started operation and we are receiving orders from customers. I am often asked how the demand for electrical steel sheets is amid the stagnation of the shift to EVs. However, conversely, hybrid vehicles are on the rise. The amount of electrical steel sheets used in both hybrid and plug-in hybrid vehicles is about the same as that used in EVs, so we expect that there will still be a shortage in terms of supply and demand.

Regarding timing shift of the coking coal price passing-through on the selling prices, there are 2 positive impacts in the 1H of the fiscal year. One is the reflection delay of the significant increase in coking coal prices in the 2H of the previous fiscal year into the sales prices which was reflected in the 1H this fiscal year. The other is the delay of the reflection of the decrease in coking coal prices in the 2Q into the sales prices which will be reflected in the 2H of this fiscal year. On the other hand, we expect coking coal prices to rise in the 2H, and the reflection of this increase in sales prices will be delayed by about one quarter, resulting in a negative impact in the 2H. Due to these factors, there will be positive impacts in the 1H and a negative impact in the 2H, resulting in a significant negative impact in 2H versus 1H.

Participant: If the business environment continues as it is in 2H of this fiscal year, we assume business profit will be about JPY200 billion or so, excluding one-time factors, for the next fiscal year. Considering the situation that the dividend payout ratio is close to 50% this fiscal year, and the Company will lose the gain on the sale of land next year, if this situation continues, the dividend may seem difficult to pay. Do you think you can maintain dividend next fiscal year as you would improve the profit?

JFE: We have not yet announced the forecast for the next fiscal year, but the reason we are offering a dividend of JPY100 despite such a large decrease in profit is that we have a large inventory valuation loss for the current fiscal year, we are seeing the effects of the structural reforms we have implemented, and the effects of the measures we have taken including business acquisitions in the current medium-term are being seen. Based on our forecast of the next fiscal year considering these contributions, we have announced a dividend of JPY100, the same amount as the previous year.

Participant: Production volume is expected to increase by 400,000 tons from 1H to 2H. I can see the production increase for domestic automobiles, to a certain extent. Apart from that, for export, I think it is planned to be increased to a certain extent from 1H to 2H. Could you give me a breakdown of volume increase from 1H to 2H?

Also, could you explain what has happened to cause the decrease in profit by the stormy weather, and whether this will also affect the profit in 2H?

JFE: Regarding the volume, the volume of automobiles decreased in 1H due to the automobile certification issue, but we expect it to return in 2H. In addition, in the financial results briefing in August, we said that we would increase the number of commodity-grade products for export while monitoring profitability in order to maintain a certain level of operating rate, but we were not able to accomplish this due to the stormy weather and so on. Also, in 1Q, we focused on a shift from quantity to quality and did not increase exports. On the other hand, in 2H, due to the weakness of overseas automobiles and other factors, we think we need to export a certain volume of commodity-grade products while keeping an eye on the profitability. Therefore, the commodity-grade products for export are somewhat a factor for an increase in volume in 2H.

Regarding the stormy weather impact, the typhoon in August, which stayed in Japan for a long period, had an impact on shipments and transportation-related matters. We believe that this is only for 1H.

Participant: I would like to confirm your view on the spread once again. First, is it correct to understand that this fiscal year, we are progressing with passing on the increased costs of labor and logistics, and that the main raw material spread will widen steadily? Additionally, while it was mentioned that the spread including various costs would be maintained at the same level as the previous year on average, we were expecting improvements due to factors such as the increased production of electrical steel sheets and the decrease in the export ratio. Given the challenging business environment, let me confirm your view on the overall margin?

JFE: Regarding the spread including various costs, I indicated that the spread was plus/minus zero for the FY2023 results and the FY2024 forecast, but the main raw material spread is widening within that. The spread including labor costs, logistics costs, and foreign exchange rates is basically reflected in the sales price mainly in domestic market, resulting in a plus/minus zero result even in light of the deterioration in export market conditions compared to the previous year.

As you have pointed out, the margin expansion due to production mix includes contribution from sales expansion of electrical steel sheets, etc. However, on the other hand, there is an expected decrease in exports for automobiles in the 2H of the fiscal year, and we also plan to slightly increase the production of commodity-grade products, which offsets some of the positive effect.

Participant: We are gradually approaching the point where the blast furnace in Kurashiki will be converted to an electric furnace in three years, in FY2027. Today, ITOCHU commented that they will acquire additional iron ore interests in Brazil as material for reduced iron ore, which will be used for business development in the UAE. Can you comment on whether we can expect the realization of the Kurashiki electric furnace plan, including reduced iron, within the timeframe of three years?

JFE: I cannot speak specific details about ITOCHU, but regarding our electric furnace in Kurashiki, we are currently discussing the reduced iron business in the UAE with ITOCHU and EMSTEEL, formerly Emirates Steel. One of our ideas is to produce high quality products by using a certain amount of reduced iron in the electric furnace. The electric furnace is scheduled to start operation in FY2027, so we would like to use the reduced iron in line with that timeline.

Participant: Regarding domestic demand, I think there are some structural factors, including labor shortages. In the long run, can you tell us your company's view on the level of domestic demand, whether it will improve from the level of 2H this fiscal year, or whether it will fall further? Annualizing crude steel production for 2H, I believe there is excess capacity of a little over 3 million tons. Please tell us about the current state of your consideration in terms of the demand and capacity, including your stance on additional structural measures.

JFE: Regarding our view of domestic demand, I understand that there are movements to fundamentally reassess large-scale development projects due to labor shortages, rising costs of materials and equipment, and other factors. We are currently scrutinizing whether this is a short-term thing that will eventually recover, or a structural issue that will not. This is a crucial point as we formulate our medium-term plan starting from the next fiscal year. Taking these factors into account, we are currently in the process of determining how to incorporate them into our medium-term plan and how to forecast the business environment for the coming years. The current production system is the result of structural reforms implemented in the seventh mid-term business plan, but we are currently discussing whether or not this is optimal.

Participant: For 2H, what percentage of exports do you have in mind?

JFE: I am not able to give you a figure, but as an indication of the results for FY2024, the export ratio was 40.6% for the period from April to June, and 44.2% for the period from July to September, due to the impact of certification issue in the domestic automotive sector. In 2H and beyond, we will continue to face quite difficult conditions. Although the number of automobiles in Japan will increase, since we will sell commodity-grade products while considering profitability, we expect the level to be closer to the level of July to September period than that of April to June period.

Participant: Are you saying that the export ratio is between the April to June and July to September levels, rather than further up from the July to September level?

JFE: I can't say for sure, but since the increase in the number of automobiles in Japan will also have an impact, I think that is the sense of the level.

Participant: Let me understand your approach to the dividend. I understand that the dividend was revised downward by JPY10 from the previous announcement to JPY100, the same level as last year, taking into account the stable dividend, the level of earnings for the next fiscal year, and a one-time inventory valuation loss in the current fiscal year. If this is the case, the market may view the dividend level of JPY100 as the lower limit to a certain extent. I think there will be a new dividend policy coming out in the mid-term business plan for the next fiscal year and beyond, but please tell us about your thoughts behind the JPY100 dividend, your decision to reduce the dividend by JPY10, and what your company's priority is in terms of dividend.

JFE: The current medium-term business plan calls for a dividend payout ratio of 30%. If we adopt this policy at a time when net income has declined significantly, dividends will also decline significantly.

However, as mentioned earlier, in light of the loss of valuation for this fiscal year and our view on the next fiscal year, we decided to pay a dividend this time from the perspective of focusing on a stable return to shareholders.

For the next fiscal year and beyond, we are currently discussing how to return dividends to shareholders as the next medium-term plan, although this year's dividend is not directly related to next year's dividend. I believe that measures to improve PBR must be further presented to the capital and stock markets, and one of the issues is how our company will deal with stable dividends.

Participant: On page 28, you indicate the factors for increased profits for the next fiscal year. I know it is impossible to give specific amounts of increased profits for each item, but could you please tell us what level you expect for all of them combined? Specifically, I believe that the market is currently concerned about the absence in the next fiscal year of an increase in exceptional items of about JPY40 billion recorded in the current fiscal year. Could you give me a hint as to whether the level is such that it can exceed that JPY40 billion?

JFE: For the next fiscal year, there are some contracts whose completion dates have not yet been finalized, so I will refrain from discussing specific amounts at this time. However, this year's profit decrease is partly due to the inventory valuation loss. We would like to show in our mid-term plan how much profit we can make in the next fiscal year with the initiatives we have presented so far, and what we can do going forward.

Participant: Regarding Keihin land use, you have included Keihin land use development promotion expenses in 1H as an exceptional item. Please tell us if this is a one-time item or something that will still come up on an ongoing basis in the future. Also, I believe you recently announced that you plan to announce a revenue and expenditure plan for the funds to utilize the land by the end of this fiscal year. Am I correct in assuming that this schedule has not changed?

JFE: Regarding the Keihin land development costs, we recently announced that we will lease a portion of the Ogishima land to Japan Suiso Energy, Ltd., and the cost is for development of that land. That is the company that is working on liquefied hydrogen-related projects to become carbon neutral. The cost of land preparation is necessary to lease the land, and we have appropriated the cost for this purpose. We will continue to record the amount in accordance with the rules once the specific use of the funds has been determined and the Company has decided what to do with them.

In addition, there will be no change to the point that we will present an income and expenditure plan within this fiscal year.

Participant: In relation to page 14 of the presentation material, can you tell us what your expectation is for export steel margins in 2H? At present, export steel margins are probably slightly better due to China's economic policy and other factors. Since your company's plan is based on the assumption that coking coal prices will rise in 2H according to your earlier explanation, please tell us how you have factored in export steel margins accordingly. I believe that the increase in export volume from China is also significant, but it would be helpful if you could also tell us how you view the supply-demand relationship in relation to that.

JFE: In conclusion, not much has changed since the last announcement. The assumption is that the situation will remain very difficult, that domestic demand in China will remain sluggish and exports of steel products from China will continue to be high, and that the spread will remain in the low hundreds of dollars. We believe that even if the coking coal price fluctuates, the spread will not change significantly, as that amount will be adjusted in the selling price.

Participant: Is it correct to say that you do not see the supply-demand environment in China improving at all?

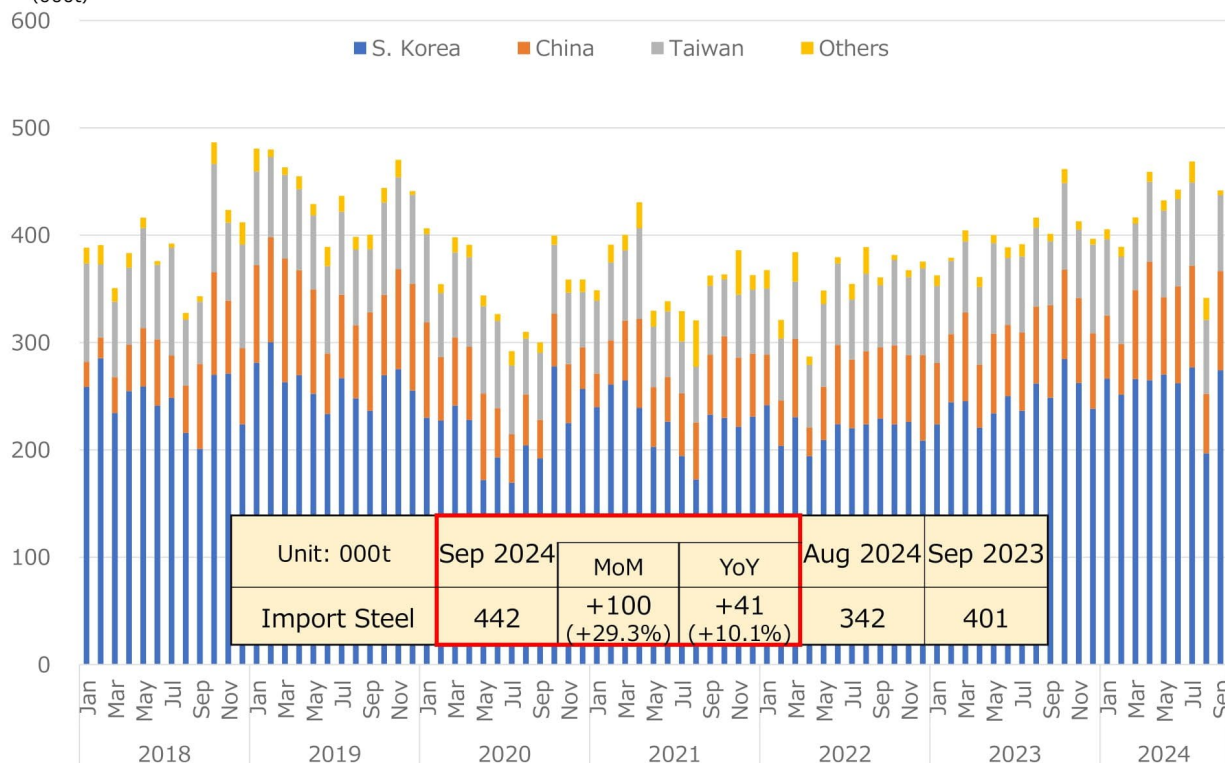
JFE: Yes, we make our outlook on that assumption.



Domestic Market Environment

Trend of Import Steel (Ordinary Steel)

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Participant: Regarding the trend of imported steel products on page 53, I am aware that there has been an increase recently and that the management of a company in the same industry has made a comment regarding tariffs on imported steel products. Please let me know your company's thoughts about it.

JFE: As you mentioned, the volume of imported steels from China is increasing and the price level is low, which is having an impact on the domestic market, and we are closely monitoring the situation with a sense of urgency. In the short term, this could have an impact on domestic market conditions, and furthermore, it can disrupt healthy market development and affect not only us but the entire supply chain. Therefore, we are in a situation where the Japan Iron and Steel Federation is taking the lead in considering whether some measures can be taken.

Participant: Regarding the presidential election in the US, I think it will not have a big impact on your company because you have a joint venture with Nucor, etc., and you have a lot of local production in this region. However, if the new administration takes the measures of increasing tariffs, please tell me the impact to your company.

JFE: As you have pointed out, our exports to the US are limited in terms of volume and also our company is focused on entering the market as an insider. Not only the steel business, but also the trading business has acquired local subsidiaries from this perspective, expanding its business with a market-in approach. I will not respond to individual policy evaluations at this time, but we will continue to monitor developments in the US, which is a stable and growing market, in part because the market is protected.

Participant: Regarding the ratio of high value-added products, I think your company has been very appealing, for example, by holding a briefing session recently on your electrical steel sheet initiatives. If you have any

hints on this, please let us know how we should envision the ratio of high value-added steel products that your company will target in the future and the margin improvement range.

JFE: At this point, I cannot give you detailed figures for the next fiscal year and beyond, but we have been promoting a shift from quantity to quality in the seventh mid-term business plan, and this policy will continue in the eighth mid-term business plan. Therefore, the current ratio of 50% for high value-added products that are highly valued by customers, as represented by the electrical steel sheets, is still insufficient, and we believe that we will make plans in the direction of increasing this ratio.

We would like to present the specific target ratio of high value-added products in the eighth mid-term business plan.

Moderator: Now, we would like to end here. Thank you very much for your participation today.

[END]

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