

JFE Group Investor Meeting  
(FY2024 3Q Financial Results and FY2024 Earnings Forecasts)

Summary of Q&A Session on February 6, 2025

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

**Participant:** There are various one-time factors, such as the impairment losses that have come up this time. Can we assume that the actual profit that excludes one-time factors for 2H is about JPY90 billion, and doubling that would give us a full-year profit of about JPY200 billion?

**JFE:** The base for 2H of the fiscal year's business profit, excluding inventory valuation differences, is JPY76.2 billion. However, in addition to the JPY14 billion impairment, there are also impacts from production troubles amounting to JPY10 billion, as well as timing differences in tax expenses and asset disposals. Therefore, we expect the figure to be slightly larger than JPY200 billion.

**Participant:** Is the profit level of steel business in 4Q reflective of the current actual performance? Is there any other reason for deterioration, for instance, the delay of price pass-through of raw materials to steel price?

**JFE:** In 4Q, the steel business was affected by JPY14 billion impairment losses at overseas group companies. Additionally, the spread in 4Q is negative compared to 3Q due to the timing difference in reflecting the significant drop in raw material prices from 2Q to 3Q in the steel prices. Furthermore, the timing differences in tax expenses and asset disposals, as mentioned earlier, also affect 4Q. We consider these impacts to be temporary.

**Participant:** The movement of steel sales price from 3Q to 4Q is different from that of Nippon Steel Corporation. JFE is down while Nippon Steel is up. Is this may be due to the difference in the price negotiation methods?

**JFE:** I don't know about other companies, but coking coal prices dropped from 2Q to 3Q, and in our case this is reflected in steel prices in 4Q, so there could be a difference due to differences in the timing of price setting.

**Participant:** Compared to the previous announcement for the steel business, the spread has improved, offsetting the negative impact from costs and volume. Therefore, I think we can summarize that the performance on non-consolidated basis has not changed much and it is the group companies that have deteriorated. Can you tell us a little more about this deterioration of the group companies? Could JSW's result for the October-December period not be factored in at the time of the previous announcement? Also, where did the impairment loss occur?

**JFE:** Group companies are deteriorating, especially overseas, and among them, JSW is down about JPY8 billion compared to the previous announcement. We own 15% stakes of JSW, but it being a listed company, it is very difficult for us to make assumptions about its performance, so we base our estimates on publicly available information and consensus.

On the other hand, looking at JSW's financial data, etc., although the crude steel production was at an all-time high, the significant drop in sales prices had a considerable impact, which in turn had an impact on our company's earnings.

JSW itself continues to expand its manufacturing capacity and expects to grow in the future, but we would like to keep a particularly close eye on the current market conditions in India.

Regarding the impairment losses of overseas group companies, we are currently examining them closely and would like to refrain from naming specific companies. We are not talking about any particular region or company, but the entire world is under scrutiny.

**Participant:** What type of production problems are we looking at, and when did it occur and when do you think it will be solved? Please let us know what measures you are going to take.

**JFE:** The troubles occurred from the latter half of November to about January, and the largest one was due to a problem with the raw material transport system at Fukuyama. In addition, there were other problems that piled up in various districts.

It is not like the operation-related problem of the blast furnace itself that occurred a few years ago, but more of an equipment-related problem of around blast furnaces.

In the steel business, we launched the Plant Engineering Headquarters last April and have begun efforts to improve the accuracy of equipment replacement standards and the management of component inventory are held at the company-wide level. It is very unfortunate that the troubles occurred in the midst of such efforts, but we are working on the improvement on a steady basis, including a new system, by not only responding to emergencies, but also by expanding our efforts to other factories and districts, as well as strengthening inspections, etc.

**Participant:** You say that the troubles have piled up in the various districts. What kind of awareness do you have on these problems? Is there something that needs to be discussed on company-wide basis?

**JFE:** The facilities are aging, and the trouble occurred in the midst that we were beginning to work on these issues with awareness of problems.

**Participant:** You mentioned that you are scrutinizing the next medium-term business plan. What exactly are you scrutinizing? Please tell us from what perspective you are scrutinizing, such as external environment or action plan.

**JFE:** I hope you understand that we are now considering whether or not to take another step in the next mid-term business plan, given the very difficult current environment.

**Participant:** Could you please reiterate the purpose, background, and future thinking regarding impairment? Is it for the purpose of clearing all these concerns toward the new fiscal year, which will be the new starting point for the next medium-term business plan?

**JFE:** Regarding impairment, as you pointed out, this is the final year of our medium-term business plan, and given the significant deterioration in the business environment overseas, including in the United States and China, we are currently scrutinizing the future prospects of unprofitable businesses.

However, I think it is more of an impairment for equipments or a review of the future prospects of the business, rather than something significant. We are in the process of examining the situation and are factoring in the risks at this stage, so I will refrain from going into further details at this time.

**Participant:** You mentioned that the next medium-term business plan is being scrutinized, but I think you originally planned to present it in March. Am I correct in assuming that there will be no change in the timing of the announcement?

Furthermore, are there any significant new changes, such as taking more proactive measures like implementing structural reforms, or thoroughly reassessing the equipment setup to address the domestic demand slump?

**JFE:** I will refrain from further comment on the next medium-term business plan, as we are still closely examining it, including the timing of its announcement.



## ¥29.3bn. Decrease in JFE Steel's Segment Profit (FY2024.3Q (Actual) vs. FY2024.4Q (Forecast))

JFE Steel

JFE Steel		FY2024					(billion yen)  Change 3Q→4Q
		1Q (Actual)	2Q (Actual)	3Q (Actual)	4Q (Forecast)	Full Year	
Segment Profit		31.5	3.0	10.4	(18.9)	26.0	(29.3)
Excluding Inventory Valuation etc.		36.5	51.0	44.4	(9.9)	122.0	(54.3)

1. Cost	+6.0	
2. Volume and Mix	+4.0	• Crude Steel Production 5.53M t →Approx. 5.50M t
3. Spreads*	(32.0)	• Impact of raw material price fluctuations and timing differences in adjustments for selling prices
4. Inventory valuation	+25.0	• Inventory valuation +24.0 (-27.0→-3.0) • Carry over +11.0 (-17.0→-6.0) • Foreign exchange valuation -10.0 (+10.0→±0)
5. Others	(32.3)	• Impairment losses of overseas group companies -14.0 • Timing difference of expense occurrence, etc.

\*Spreads including various prices (metals, energy, materials, logistics, labor costs, foreign exchange effects, etc.)

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**Participant:** On page 39, regarding the negative spread from 3Q to 4Q, is it due to the time-lag to reflect raw material prices on steel contract prices, or does it also include the deterioration of margin itself?

Also, are there any temporary factors other than the JPY14 billion impairment losses on overseas group companies?

**JFE:** This is due to the timing difference in reflecting raw material price fluctuations in steel prices. The price of coking coal decreased from 2Q to 3Q, and the spread in 3Q expanded due to the timing difference in reflecting this decrease in steel prices. However, in 4Q, the decline in raw material prices in 3Q will be reflected in steel prices, causing the spread to shrink. Therefore, when comparing 3Q and 4Q, the spread is negative.

Also, in addition to the JPY14 billion impairment losses of overseas group companies, temporary factors include approximately JPY10 billion in tax expenses due to timing differences in expense occurrence, as well as asset disposals.

**Participant:** To what extent has the impact of production troubles contributed to the reduction in profits?

**JFE:** In 2H of the year, temporary production troubles caused a decrease in production volume by approximately 400,000 tons, resulting in a negative impact of about JPY5 billion due to volume differences and about JPY5 billion due to cost differences, totaling a JPY10 billion reduction in profits.

**Participant:** In the engineering business, you are now acquiring a subsidiary of Sumitomo Chemical. What is your aim? Will we see more of these M&A in the engineering business in the future?

**JFE:** This time we have decided to acquire shares in Sumitomo Chemical Engineering, but we also previously acquired a similar plant engineering business from Mitsui Chemicals. We consider EPC and maintenance of chemical plants to be a focus area, which we intend to expand in the future, including through M&A.

**Participant:** For overseas business, what is your view on CSI including future prospects?

**JFE:** Regarding CSI, market conditions in the US have been very difficult since early spring in 2024, and its performance has deteriorated. We are aware that the performance is bottoming out and that revenues are recovering. We believe that the US is a market where we can expect growth, but we believe that recovery during this fiscal year will be difficult.

**Participant:** In the 2Q results, despite the downward revision of earnings, there was a statement in the previous presentation that the dividend was only reduced to JPY100, the same level as last fiscal year, in order to emphasize the next fiscal year's earnings trend and stable dividends. Has this approach changed this time?

**JFE:** We have not changed our approach to dividends since the last time. The profit of steel, excluding inventory valuation difference etc., is JPY122 billion, but this includes the impact of troubles and one-time effects such as losses of overseas group companies. The dividend we announced this time is based on the discussion regarding stable dividends in the formulation of the next mid-term business plan.

**Participant:** Could you comment something about whether or not you are making enough cash?

**JFE:** The balance of interest-bearing debt at the end of FY2024 is expected to be JPY1.85 trillion, an increase of JPY20 billion compared to the end of the previous fiscal year. On the other hand, EBITDA will be JPY385 billion, and the Debt/EBITDA multiple will be 4.8 times in FY2024, so profitability has declined in FY2024, and we strongly believe that we must recover.

**Participant:** In the overall engineering business, other companies have posted impairments in the wind power business. What is your exposure to the wind power business, or other fields of future growth potential?

**JFE:** First of all, regarding offshore wind power generation, although there have been project delays, we are continuing our sales activities for monopiles. When opportunities arise, we intend to secure orders diligently.

The firms are waste-to-energy and bridge-related. We are thinking of expanding these areas, which are our strengths, including the waste treatment facilities. One of the new revenue pillars we aim to establish is the EPC and maintenance in the chemical plant business, which we have announced the acquisition of shares in Sumitomo Chemical Engineering.

**Participant:** Please comment on Sumitomo Chemical Engineering's profit contribution for the next fiscal year.

**JFE:** While we refrain from disclosing specific figures, we expect profits that correspond to the investment of over JPY13 billion.

**Participant:** Regarding contract prices, from the next fiscal year onwards, it appears that automobile companies may enter a trend of declining profits. In negotiations for the next fiscal year and beyond, the recent impact of tariffs may also come into play. Could you please inform us if there is a risk that contract prices might return to previous levels in the future?

**JFE:** We will continue to negotiate with our customers to ensure that the prices reflect the value of our products.

**Participant:** You mentioned earlier that the basic idea of stable dividends has not changed, but what do you emphasize in determining dividends? If there is anything you can tell us about it, please let us know.

**JFE:** We have been working on a dividend payout ratio of 30% for the 7<sup>th</sup> medium-term business plan. In the next mid-term business plan, we are focusing on improving profitability while also discussing stable dividends.

**Moderator:** Thank you. Then we conclude the question-and-answer session. This concludes today's investors meeting. Thank you very much for your participation.

[END]

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