

Summary of Q&A at JFE Group Investors Meeting  
(Sixth Medium-term Business Plan)  
April 26, 2018

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**Q. It seems that the aging of coke ovens, etc. created a bottleneck for coke production from about 2010, but due to progress in renovation, etc., coking self-sufficiency has been advancing. On the other hand, looking at the age of your facilities, for example, the No.6 blast furnace in Chiba is more than 20 years old and a Kurashiki blast furnace is approaching 20 years. I expect that it will be necessary to consider renovating the No.3 coke oven in Fukuyama. I expect continued investments will be made in upstream steelmaking processes. Can you say approximately when your true production capability will be realized?**

A. The No.6 blast furnace in Chiba seems to be operating very well and it is expected to have a prolonged life. However, regarding the No.4 blast furnace in Kurashiki, we think that it will be necessary to consider renovation in the latter of our sixth medium-term plan. Regarding coke ovens, we think that it will be possible to take a break from renewals for a while after work is completed on the No.3 coke oven in Fukuyama, but we will make our decision based on future developments. Currently, we are enhancing the sintering plant in Fukuyama, and once this is completed, we think that coke will never become a bottleneck due to our expanding use of sinter. Also, once the new continuous casting machine in Kurashiki enters operation, it will become possible for us to produce 30 million tons of non-consolidated crude steel, even including the manufacture of products that are difficult to produce and have low productivity.

**Q. Among the reasons for your profit/loss increase/decrease in fiscal 2017, you say that 30 billion yen will be invested to strengthen manufacturing bases. What will be your approach regarding repair costs?**

A. The cost increase of 30 billion yen will not all be for repairs. It also includes an increase in depreciation costs and loss on retirement of non-current assets, etc. Although repair costs slightly decreased in fiscal 2017, they will increase in fiscal 2018 due to our plan to produce 29 million tons of standalone-basis crude steel.

**Q. ROS and ROE indices are not listed in the sixth medium-term plan, unlike in past plans. Under the previous plan, profit base was not as high as expected, but you used more money than expected. What are your ways and views for increasing corporate value? For example, when assessing investment effects, how will you manage the time component for return on investments?**

A. We didn't eliminate the ROE target from the plan. We will continue to target ROE and are still aiming at 10%. In our sixth medium-term plan, even allowing for future risks in the business environment to a certain extent, we expect to approach ROE of close to 10% in the final year. Our business will focus on profit base and cash flow, as stated in regard to improving the Debt/EBITDA ratio. We aim to incorporate internal control indices such as CCC (Cash Conversion Cycle). Regarding our management of investments and returns, of course not all investments are doing well, but for investment projects worth higher than a certain amount, a report on post-startup effects is provided to JFE Holdings' board of directors, based on which we are making improvements.

**Q. The review of fifth medium-term plan mentioned insufficient production capabilities despite money being spent for this purpose. Apart from investments, what efforts are being made in terms of strengthening intangible assets and other areas?**

A. There are a number of issues regarding our insufficient production capabilities. In particular, it takes time to restart operations if a problem occurs, so one of our plans is to shorten this time as much as possible by utilizing IT. Since some younger employees do not have enough experience or knowledge to identify causes when a problem occurs, they have to observe the problem and then consult with seniors and superiors after returning to the office. Now, however, they each carry a tablet at production sites to search our vast database for causes and solutions whenever issues occur. So we are improving our production capabilities by using IT to solve problems early and shorten downtimes. By implementing such initiatives, I can personally feel that improvements are being made.

**Q. In the infrastructure field, the domestic demand is for high value-added products but overseas the demand is for low-grade products. What are your strategies for infrastructure?**

A. Very high-grade products, such as those for bridge renewals, are in demand in Japan, but overseas there is very little demand for such critical steel materials. Instead, most of the demand is for general-purpose products that are unprofitable to ship from Japan. As

for infrastructure steel for ASEAN, although exports of high-grade products are profitable, we believe it is difficult to earn profits by shipping products from Japan that can be produced by anyone. Therefore, we are considering strategies such as utilizing steel sourced from FHS.

**Q. In aiming for high added value in the automotive field, how do you intend to earn profits?**

A. While it is very difficult to manufacture high-tensile strength steel of 1.5 GPa because the process takes time and is not very efficient. For each kind of product, we have to manage the costs of production and the amount of value we will add. While some believe that the cost of developing products wipes out profit, if the new products that we develop are adopted, it means that the profit will be appropriately reflected onto the customers and us, therefore we secure the profit base. In the future, we will pursue profit base more thoroughly by product type and customer-specific profit management.

**Q. When do you think standalone-basis crude steel production will reach 30 million tons?**

A. We aim to achieve the capacity to produce 30 million tons by the end of fiscal 2020, so we expect the annual crude steel production of fiscal 2020 to be a little short of 30 million tons.

**Q. What do you expect the volume of offtake from FHS to be?**

A. Demand in Vietnam and the surrounding region is strong and FHS products are selling quickly. The volume of offtake will further increase after we start up the second blast furnace in the future, but we can't estimate the quantity at this time.

**Q. Steel business ordinary income of 220 billion yen as the sixth medium-term target seems a little weak. How do you envision reaching this number?**

A. The result in fiscal 2017 was 198.8 billion yen and the forecast for fiscal 2018 is 160 billion yen so the difference compared to the average basis is 60 billion yen. There are three factors behind this. First, we plan to reduce costs by 105 billion yen over three years and 20 billion yen in fiscal 2018, and there is a gap from three years average due to timing of when the effects from capital investment will appear. Quantitatively, we are taking steps to approach our 30 million ton target towards the final year. The impact of these two factors will increase as we steadily implement our medium-term plan. The third point is the impact of rising prices, but we have not yet fully reflected the impact of rising

prices in our sales prices. The three factors will impact ordinary income almost evenly, resulting in a difference of 60 billion yen.

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