

JFE Group Investor Meeting
FY 2019 Q1 Financial Report & FY 2019 Earnings Estimates
Summary of Investor Questions and JFE Answers at Investor Meeting on August 9, 2019

Q. Is it correct that your prices for the second half of the year for both iron ore and coking coal factor in the cost of raw materials are based on the average spot market prices from June to August? Could you tell us how steel exports are taken into account in sales prices?

A. Our raw materials pricing is calculated basically as you have indicated. Steel pricing for the second half of the year is determined on the assumption that steel market prices will slightly recover against the background of an upswing in the iron ore market.

Q. Could you tell us whether the production adjustment is a temporary measure to adjust inventories for spot markets, which remain high, or is it your decision to manufacture enough products to meet demand?

A. It is not a temporary measure; it is aimed at manufacturing enough products to meet demand. We have reviewed crude steel production in the light of our annual forecast of the demand for steel materials. Of the reduction in crude steel production of 1 million tons compared with the previous forecast, about half is attributable to the impact of production adjustment.

Q. How do you think the risk of sharp drops in the current price of iron ore and coking coal will influence future earnings; for example sales prices?

A. Since iron ore production in Brazil is showing signs of recovery, the fall in the price of iron ore itself does not come as a big surprise. However, the sharp movement in the market prices of iron ore and coking coals in the last few days prompts us to keep a careful watch on future trends. With respect to the impact on sales prices for contract customers in Japan, the fluctuation in raw material prices is reflected to some extent in these and we think that any impact on earnings will be small. Overseas, we need to pay close attention to how steel markets react to the movement in raw material prices.

Q. We would like to know more details of operating issues in production.

A. It is not a large-scale blast furnace operating issue similar to the one we experienced last year; they were minor troubles that occurred one after another during and after the steel-making process. Based on Q1 performance, a certain degree of impact has been reflected in our yearly

crude steel production forecast. Of the reduction in crude steel production of 1 million tons from the previous forecast, about half is attributable to the impact of the recent troubles, and an almost equivalent impact is assumed in the forecasts for the first and the second halves of the year.

Q. Please explain the worsening metal spread between Q1 and Q2 and how you intend to take this into account from Q2 to the second half of the year.

A. The decline of 11 billion yen (against Q1) in sales prices and prices of raw materials in Q2 primarily reflects a reduction in metal spread resulting from the increase in the price of raw materials. During the period from Q2 to the second half of the year, a slight recovery of metal spread is anticipated. A certain improvement in sales prices in Japan has been factored in, reflecting increases in raw material prices and various commodity prices. In exports as well, a level of improvement is factored in which assumes a recovery in overseas steel materials markets. In the meantime, iron ore prices are expected to rise during the period from Q2 to the second half of the year.

Q. Please explain how the cost increases caused by the impact of IMO regulations governing SOx emissions have been included in the present earnings estimates?

A. We will continue with SOx scrubbing measures, deploying LNG-fueled vessels and taking other steps, but as initial measure, a switch to conforming fuels is assumed. The price trends of conforming oils are uncertain but a cost increase of billions of yen is included in the earnings estimates. We think it necessary to ask our customers to allow us to reflect a certain degree of the cost increase in our selling prices.

Q. It seems that the decline of 93 billion yen (against FY 2018) in “sales prices and the price of raw materials” in the steel business in FY 2019 includes factors such as product mix deterioration resulting from an increase in the ratio of exports of general purpose products if the current supply and demand environment is taken into account. Could you explain the impact of the product mix deterioration?

A. The product mix difference is included in the “sales volume and mix” from the viewpoint of analysis items and is assumed that it will not generate any significant impact on FY 2019 vs FY 2018.

Q. Please tell us of the impacts in Japan and on exports of the decline of 3 billion yen (against the first half of FY 2019) in sales prices and the price of raw materials in the second half of FY 2019 in the steel business.

A. It is assumed that both domestic and export metal spreads will slightly worsen and that there will be no big difference in the movement of either of them.

Q. Please give us an idea of the full-year estimates of JFE Steel's separate ordinary profit.

A. This is not information subject to disclosure and has not been calculated in any detail at the present moment, but we estimate that it will more or less remain in the black.

Q. In the FY 2019 estimates made in the previous public announcement, the level of export metal spread of Q4 FY 2018 was assumed to continue in FY 2019. Could you explain your planned export metal spread during and after Q2 in the present estimates?

A. The export metal spread in Q1 FY 2019 became on par with the level of Q4 FY 2018. The export metal spread in Q2 FY 2019 is estimated to fall from Q1 levels in response to the decline in export markets. With respect to the second half of the year, the metal spread is anticipated to return to a level almost on a par with Q1 FY 2019 levels, on the assumption that export markets will recover against the background of an upswing in the iron ore market.

Q. It seems that current business confidence levels are not as favorable to us when the consumption tax increase in October, inventory levels and other factors are taken into account; please explain why you think that crude steel production will move sideways during the period from the first half of FY 2019 to the second half of FY 2019.

A. It is currently difficult to assess the domestic environment but we assume that demand will maintain its positive momentum in the second half too, and that a certain level of demand will continue.

Q. Under the activities aimed at maintaining sound finances stipulated in the explanatory materials, you mention asset compression. Please explain the specific content.

A. We are thinking of continuing the investigation of certain contents in light of future profit trends; specific details have not yet been decided at the present moment.

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