

JFE Group Investor Meeting

((FY2021 2Q Financial Results and FY2021 Earnings Forecasts))

Summary of Q&A Session on November 5, 2021

Moderator: We will now begin the question-and-answer session.

Participant: There seems to be a little bit of a difference with the financial results of the competing company. Probably, the reason for this is that it is aggressively raising the price of steel products, and with regard to overseas business, the contribution to profit from the group companies in India and the US is largely due to the rise in the steel products market. What is JFE's take on this? Also, please tell us whether your policy for improving steel prices will be the same as before, or will you be more aggressive in raising prices in the future?

Secondly, please tell us how you see the price of steel for export. The average unit price of hot-rolled coils in all Japan was in the mid-USD900 range in September, and I think probably it is currently around that level.

On the other hand, although you mentioned that the market is firm, the Chinese steel market is falling, and the Chinese domestic market is in the mid USD700s before the value added tax, and in the low USD800s even after the value added tax.

The Chinese market may be a little detached from the international market, but with the steel market falling, how is this factored into your performance?

Company Representative: As for the comparison with the competing company, I am not in a position to comment on the details since it is another company, but as you mentioned, I guess there is a little difference in overseas business.

As for the price of steel products, we would like to properly analyze the financial results of the competing company in the future. As the price of secondary raw materials, ferroalloys, scrap, etc., has risen significantly, we will negotiate and review not only the portion linked to the price of main raw materials, but also the portion of the increase in various prices as needed. In the second half of the fiscal year, we will be putting more effort into increasing the selling price.

With regard to the second point, the market for steel products for export, it is true that the market for steel products in Southeast Asia are weakening slightly in November and December. This is partly due to the increasing flow of steel exports from Indian mills and Russian mills into the Southeast Asian market.

In India, the rainy season has been slightly prolonged this year, but we expect it to return to the demand season in the future.

In addition, Russian steel products have been sold at low prices in many parts of the world due to the effect of production cuts in the EU for automobiles and other products, but we expect that Russian steel products will return to the EU and Turkey when demand for steel products in these markets recovers.

Therefore, we assume that the export steel market will pick up to some extent after the fourth quarter. With regard to China, as you pointed out, there are some indications of a slowdown in the current economic

trend, but on the other hand, there is also the government's policy of strengthening the reduction of crude steel production within this year.

In view of the above, we expect the steel market in Southeast Asia to recover in the future.

Participant: By the way, I think the CSR report was very impressive and substantial. Thanks.

Moderator: Thank you.

Participant: First, from the first half of FY2021 to the second half, you say that the spread will improve, but it appears to worsen a little when the increase in purchase prices of other materials and commodities is taken into account. What specific areas will be affected by this, such as exports, domestic, etc.? If there is a good supply and demand environment, it seems possible to pass on the price, but what is your thinking?

Secondly, the competing company explained that it had changed the format of its transactions to one in which prices are set in advance of production and shipment and then orders are received, rather than prices being set after production and shipment. Could you tell us what JFE thinks about such initiatives?

Company Representative: Regarding the change in spreads from the first half of FY2021 to the second half, we see an improvement in sales prices, especially in Japan. On the other hand, the index for iron ore is expected to decline slightly in the second half of the fiscal year, but the index for coking coal has recently risen to about twice the level of the index for the first half of the fiscal year, and with this negative impact, the change in the spread is expected to contribute to a total improvement of JPY36 billion from the first half to the second half of FY2021.

One more thing is that the prices of ferroalloys, a secondary raw material, have risen significantly due partly to the increase in the unit price of electricity in China.

As part of our efforts to address these issues, we have been implementing early reflection of main raw material prices in selling prices. We will continue to negotiate for price increases of secondary materials and other items to be reflected in the sales price.

The second point is about the timing of sales price determination with consumers, which the competing company is promoting. As part of our efforts to improve selling prices, we have been advocating that the prices of main raw materials be reflected as early as possible.

I understand that promoting this initiative will ultimately lead to the things that you just mentioned. We are working to reflect raw material prices as early as possible, and at the same time, we are working to implement price increases reflecting the rise in various prices such as metals and commodities as soon as possible.

I believe that, as a result of our stronger efforts to improve selling prices, we are moving in the same direction as the competitor.

Participant: I understand. Thank you very much.

Moderator: Thank you.

Participant: First, regarding the results for the first half of FY2021 on page 17, there was an improvement in the spread of JPY34 billion. Please let me know about the movement in and out of Japan, spot market, contracted sales, etc.

Secondly, please tell us how JFE is responding to the negotiations for the price increase to the contracted sales customers in the first half of this fiscal year.

These are my 2 questions.

Company Representative: As for the first point, regarding the movement of each field in Japan, comparing the first half of FY2020 and the first half of FY2021, in the so-called market-linked fields, where prices are determined through negotiations, the spread has improved significantly, partly because overseas markets have been very good.

On the other hand, especially in the area of raw material-linked products, we have been working to speed up price reflections and make additional price improvements. However, because the timing of price reflection for domestic customers was delayed due to the term-contract pricing system of the raw materials, we have not yet been able to fully reflect this in the first half of the year, and we plan to reflect this in steel prices in the second half.

Company Representative: We are aware that customers' understanding of our efforts to improve selling prices is expanding, regardless of contracted sales or spot market. In that sense, we are making steady progress in improving prices.

However, as I have already mentioned, the cost of coking coal has risen sharply, and prices of various commodities, including ferroalloys, have soared. So, we will strengthen our efforts. That's all.

Moderator: Thank you.

Participant: I have 2 questions as well, please. First of all, regarding the cost increase of almost JPY40 billion in metals, scrap, etc., from the first half to the second half of FY2021 on page 26, what are the items that will have a significant impact? In addition, do you have a possibility to make any efforts to introduce a formula, such as a surcharge system, in the future to pass on the price of these metals and scrap?

Secondly, please tell us about the production volume of the steel business in the second half and what kind of difference there will be between the third and fourth quarters.

Company Representative: As for your first question, about 60% of the deterioration of just under JPY40 billion is due to rising metal prices. The market prices of all kinds of metals are rising at present. Others include the impact of higher prices for freight, scrap, materials, electricity, etc.

We believe that price increase through metal price surcharges may or may not be possible depending on the type of ferroalloy, and we would like to organize and study this issue.

Regarding the second point, the production volume for the third and fourth quarters, as I mentioned earlier, we are planning to accelerate the start-up of the Kurashiki No. 4 blast furnace to mid-December. This will contribute to the fourth quarter, and we expect production to increase by several hundred thousand tons compared to the third quarter.

Participant: I understand. Thank you very much.

Moderator: Thank you.

Participant: How do you expect the product mix to change from the first half of FY2021 to the second half, given the business environment, including the resuming of the blast furnace in Kurashiki and the recovery of demand for automobiles?

Company Representative: As I mentioned earlier, the assumption for domestic automobile production in FY2021 is 8.2 million units, which is 1 million units lower than the previous assumption, and most of the impact of the production cut is seen in the first half of the fiscal year. However, demand for thick plates for shipbuilding, construction machinery, and other industries is tightening, and increased production of thick plates and other products is making up for decreased production of automotive steel products.

On the other hand, as was reported today, automobile production is expected to increase again in the second half of FY2021, and we will make production plans to capture such demand. Basically, our policy is to respond to customer demand.

Moderator: Now we will conclude the question-and-answer session.

This concludes today's Investor's Meeting.

Thank you very much for joining us today.

Company Representative: Thank you very much.

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