

JFE Group Investor Meeting

((FY2022 2Q Financial Results and FY2022 Earnings Forecasts))

Summary of Q&A Session on November 4, 2022

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

The first question, please.

Participant: Could you tell us three things about your performance? First, regarding pages 17 and 18, I believe that last time, although you did not explicitly state it, you incorporated coking coal at a much higher price. The current price level is probably in the low USD300s now. Also, the market for iron ore is falling and will probably be in the low USD70s. Please tell us how much of the estimated JPY130 billion improvement in the spread compared to the previous announcement is expected to be due to lower raw materials prices and how much is expected to be due to sales prices.

Second, other companies have stated that in August and September, they determined domestic contract prices for 3Q and 2H and raised them quite significantly. I believe that your company is now in the midst of negotiations, as has been the case in the past. Normally, the direction usually becomes clear after the first of the year, and the financial forecast for 3Q will reflect this. Please explain whether there will be further upward revisions depending on future price negotiation efforts.

Finally, why do you see the trading business deteriorating in 2H? Were there any transitory factors in 1H? I think performance Kelly Pipe did well. Please explain the background of the trading business deteriorating a bit for H2.

Company Representative: First, I can't make any clear statements about raw materials or sales price assumptions. Of the JPY130 billion total spread improvement, JPY190 billion is expected to be positively impacted by raw materials prices. This value includes all iron ore, coking coal, metals, scrap, et cetera. On the other hand, the negative impact of the sales price is expected to be JPY60 billion. This is the domestic & export total. The net amount will be JPY130 billion.

With regard to sales prices, we have been reflecting raw materials prices as early as possible, as we have been saying for some time, and this approach itself has not changed. Therefore, the linked price of the main raw materials fluctuates with changes in the price of the raw materials. On the other hand, market conditions for ferroalloys and energy costs have risen considerably due to the impact of the crisis in Russia and Ukraine.

That's the reason why we are currently negotiating on the prices of not only main raw materials but also other various costs which we had not fully negotiated at the same time. The current situation is that these negotiations have been successful and we have been able to increase the sales prices.

Finally, in the trading business, as you mentioned, the US business was very good from last year, and the steel business and raw materials trading business were very strong in 1H. We do not consider the 2H forecast to be low by any means. The target of our mid-term plan for JFE Shoji is JPY40 billion, and we believe that we are reaching that target.

Participant: Am I correct in understanding that negotiations on the sales price are just beginning? Are prices already set for 2H in some sectors?

Company Representative: Price negotiations for 2H are just beginning.

Participant: I understood that the results will depend on your future efforts. Thank you very much.

Moderator: Next question, please.

Participant: First, I have the impression that today's document does not emphasize the improvement in sales prices as much as in previous ones. Please tell us your level of satisfaction with the 2H forecast and whether you think further improvement is needed from the current forecast level for 2H.

The second point concerns the redevelopment of Keihin. About a week ago, an industry magazine reported that the cost of dismantling and relocating the upper process is estimated to be several hundred billion yen. I would like to know whether this is true or not. Please let us know what impact is expected on your company's accounting.

Company Representative: Regarding the sales price, as was explained earlier, we have raised the price by exactly JPY10,000 per quarter. We have raised the sales price in 2Q by JPY10,000 from 1Q and JPY20,000 from 4Q before that.

On the other hand, as mentioned in the material, not only the main raw materials, but also other costs have risen considerably from 4Q of the previous fiscal year, and we will continue to negotiate with our customers on this matter. It is true that we have been very persistent in raising the sales price, but there are areas where we would like to negotiate a little more.

As for Keihin, there have been some articles about the hundreds of billions of yen, but the estimated amount is not yet available because the study of how to dismantle and remove the building and how to use the land is still in the process of being conducted. However, if there are so many structures & equipment and estimate an approximate amount very roughly, it could be that size of an amount.

On the other hand, since large costs are expected, we need to consider public funds or subsidies in cooperation with the national or local government, depending on the nature of the land use.

At this stage, we do not believe that we will have to do anything for accounting purposes, even if we shut down the facility next September, for example.

I will add a few things. We mentioned earlier that the land use conversion target for Keihin is 400 hectares. Of that, shutdown area of Ogishima is about 220 hectares and we work on the development of Minami-Watarida and other areas..

We would like to maximize the economic potential through a combination of selling or leasing the land and using the land for business purposes, while determining the basic policy as we work on the redevelopment.

Participant: I understand very well. Thank you very much.

Moderator: Next question, please.

Participant: First, in the comparison of the figures between the previous forecast and the current forecast, the others section includes figures for the deterioration in the earnings outlook for group companies, including overseas. I think that market conditions are down, demand is sluggish, and the earnings of the companies in which you have invested are deteriorating. What figures have been factored in? Please explain in more detail

about the specific areas and operating companies that have significant changes between the previous forecast and the current forecast.

If the overseas business environment is deteriorating, please explain what strengths and weaknesses the companies have compared to other companies in the same region.

Second, the forecast for crude steel production has been revised downward this time. A blast furnace in Chiba has been undergoing refit since September and the blow-in is scheduled for next January. In relation to the reduction of crude steel production by 1 million tons from the previous assumption, please explain exactly what kind of operations you are envisioning.

For example, one way to do this would be to adjust production according to the timing of Chiba's blow-in. It is also related to the efficiency of existing blast furnaces. What steps can be taken to minimize the impact of the production cutback? Keihin will stop next September. Is there a possibility that crude steel production levels will change significantly during this period? Or should we assume a stable level? I would appreciate an explanation of this area as well.

Company Representative: Regarding overseas, July-September financial results of JSW Steel Limited were also just announced. The earnings of JSW, a group company in India, decreased. And, the earnings of CSI which was very good last year, a group company in the US, decreased. JSW is a publicly traded company, so we have only seen the published financial results, but we have heard that a major reason for the deficit is a transitory inventory valuation difference. We believe that the Company's performance will recover in the coming fiscal year, as the Indian economy is seen as relatively strong.

As far as crude steel production is concerned, we are basically not thinking about adjusting the timing of the blow-in of Chiba. We believe that the 25-million-ton level of crude steel from normal operations will be sufficient. Of course, we are making slight adjustments in each area, but we basically do not intend to adjust the timing of the Chiba refit.

And, our original mid-term plan calls for crude steel production of 26 million tons, so we will conduct operations in line with that policy. We will produce at various locations as envisioned in our mid-term plan.

Participant: I understood that it is not necessary to assume risks such as large cost fluctuations. Thank you very much.

Moderator: Next question, please.

Participant: First, on page 20, I have a question about the 1H results and the 2H forecast. Please tell us about the JPY98 billion impact of the spread improvement, in terms of the direction of domestic business, export, prices for large-volume customers, and market sectors, even qualitatively.

Second, the negotiation of the price for large-volume customers, I think the key point is to negotiate the pass-through of various price increases for 2H. Do you feel that you are able to pass on some of the cost to customers in your negotiations with them?

Company Representative [A]: Regarding your first question about the spread, we are basically maintaining the sales price in Japan, and we expect it to improve. However, exports are still expected to be slightly negatively affected by the poor overseas steel market. I cannot give you more details, but this is how we see the situation.

As we mentioned, we are still negotiating on various costs, but we have gained a certain level of understanding from our customers. Although there is some variation in the timing of the effects depending on the client and the type of contract, we have the feeling that they are well understood.

Participant: I understand. Thank you very much.

Moderator: Next question, please.

Participant: My first question is also regarding steel sales price. Regarding the fact that the actual sales price of steel for this 2Q exceeded the previous forecast by JPY2,700, please tell us in what areas, domestic or export, did it exceed the previous forecast?

Second, please reiterate your thoughts on dividends. If we apply a dividend payout ratio of about 30% to the current full-year earnings forecast, we can estimate that the annual dividend will be JPY80, and JPY30 for the year-end dividend. In this case, the dividend will be significantly reduced from JPY50 for the interim dividend to JPY30 for the year-end dividend. Is this calculation correct? Or is it possible that the Company may not reduce the dividend from the interim dividend to the year-end dividend when it achieves the earnings forecast announced this time, with an eye on stable dividends? Could you tell us one more time?

Company Representative [A]: First, regarding the sales price in 2Q, there was not much difference in the export price on a US dollar basis. However, the yen's depreciation against the previous plan has contributed to the positive impact of the exchange rate. The remainder is essentially due to the contribution of domestic price improvements.

As for dividends, our medium-term management plan calls for a dividend payout ratio of about 30%, so this is one of the bases for our dividend policy. On the other hand, since a large amount of profit was generated in 1H of this fiscal year, our approach is to secure a certain level of dividend payout ratio in 1H. For 2H, we would like to properly secure earnings and pay dividends, but this is still undecided at this stage.

Participant: I understand. Thank you very much.

Moderator: Next question, please.

Participant: I am talking about the comparison with the previous forecast on page 18 of the document. It is stated that there is a positive impact of JPY130 billion of raw materials and sales price. In the previous answer, you explained that the decline in raw materials prices will increase profit by JPY190 billion, while the negative impact from sales prices will be JPY60 billion. Please tell us whether this JPY130 billion effect from the spread improvement is transitory due to the time lag until the decline in raw materials prices is reflected in sales prices, or whether it will remain as a steady improvement in your company's spreads.

Company Representative: This is a comparison of fiscal years, so, of course, there is a partial time lag effect, but we believe it will remain as a competence.

Participant: I understand. Basically, I thought that raw materials prices are reflected in sales prices. Are some contracts structured in such a way that even if the price of raw materials were to drop, it would not be reflected, and your company's sales price would remain the same?

Company Representative: It depends on the type of contract, but there is a portion that is linked to the prices of the main raw materials, so a decline in raw materials prices will be reflected in the sales prices. However, as we have already mentioned, the sales price also includes increases in the cost of various commodities, such as ferroalloys and energy. We believe that our efforts to improve sales prices while properly negotiating with customers on these issues have been successful to a certain extent.

Moderator: Now, since the time has come, we will conclude the question and answer session.

This concludes today's briefing. Thank you very much for joining us today.

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