

## JFE Group Investor Meeting

((FY2022 1Q Financial Results and FY2022 Earnings Forecasts))

Summary of Q&amp;A Session on August 3, 2022

**Moderator:** Now, we would like to move on to the Q&A session.

Please wait a moment while we confirm who wishes to ask questions.

Ready to go.



## 90.0bn. Decrease in JFE Steel's Segment Profit (FY2022.1H vs. FY2022.2H)

JFE Steel

JFE Steel	FY2022 Forecast			Change (billion yen)
	1H	2H	Full Year	
Segment Profit	<b>120.0</b>	<b>30.0</b>	150.0	<b>(90.0)</b>

<b>1. Cost</b>	<b>±0.0</b>	
<b>2. Volume and Mix</b>	<b>±0.0</b>	
<b>3. Sales and Raw materials</b>	<b>+17.0</b>	<ul style="list-style-type: none"> <li>Prices of main raw materials and metals remained high, but spreads improved due to improved selling prices.</li> </ul>
<b>4. Inventory valuation</b>	<b>(96.0)</b>	<ul style="list-style-type: none"> <li>Inventory valuation-89.0 (+82.0→-7.0)</li> <li>Carry over of raw+10.0 (+10.0→+20.0)</li> <li>Foreign exchange valuation -17.0(+17.0→±0.0)</li> </ul>
<b>5. Others</b>	<b>(11.0)</b>	<ul style="list-style-type: none"> <li>Foreign exchange effects on trade -9.0, etc.</li> </ul>

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**Participant:** Please explain page 36. Regarding the decrease in segment profit from H1 of FY2022 to H2 of FY2022, I would like to know your thinking on the impact of inventory valuation differences and other factors.

First, you expect a slight recovery in the iron ore, coking coal, and export markets in the second half of the year, but the current price of hot coils has dropped to about USD600 in Asia, and the current market prices, for example, are about USD100 for iron ore and slightly below USD200 for hard coking coal. Please explain how you have made your projections for Q3 and beyond.

Secondly, a slide shows your efforts to raise the price of steel. I have an impression that you have worked quite hard. I believe that the steel price for the automobile industry is usually determined in late August. The question is whether or not there is room for further improvement from this point on.

In other words, is there still room for negotiations in August and September, and is there a possibility of further fluctuations? Also, I don't know how you are looking at raw materials through the second half of the year, but for example, even if raw materials prices go up, will you be able to increase the spread? What are your thoughts in this area?

Those are my two questions.

**JFE:** First, I would like to explain our profit-and-loss analysis for the first half and the second half. As I mentioned earlier about the situation in China, in the future, crude steel production in China is expected to decline and the Chinese government is expected to take economic recovery measures, albeit not to the level of 5.5%, which the NPC indicated.

There have been reports that automobile production has been recovering since June. As the economy gradually recovers, the supply-demand situation for steel products will become tighter, and we expect a certain amount of price hikes in steel products.

Market conditions for iron ore and coking coal are difficult to forecast, but iron ore prices are slowly beginning to rise, and we expect prices to rise moderately from the prices in Q2. As for coal, we think the price in Q1 is a bit of an outlier, but we just don't think it will be easy to settle at the current level of USD300 or USD200, and we see a certain amount of upside.

Steel prices for the first half of the year have not yet been fully finalized. As I mentioned earlier, we have been able to receive agreements to a certain extent for the main raw materials including exchange rate effects, but we are still negotiating on the various costs. This varies a lot depending on the customer and how the price is determined, but we are still in a situation where we are negotiating for a higher price.

That's all from me.

**Participant:** Thank you very much.

Just to confirm, how do you see the export spread in the second half of the year?

**JFE:** I still think that right now, in the current Q2, the spread of so-called commodity goods for exports is sinking considerably.

Therefore, with regard to your question about the second half of the year, we believe that the increase in export prices will be a little larger and that we will see an improvement in the spread. Our view is that the spreads will not recover to the levels of last year's staggering spreads, but will recover to some profitable levels..

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

**Moderator:** Thank you very much.

**Participant:** You expect to ship 6 million tons in Q2, which is the most after COVID-19. Please tell us why there is an increase when the environment doesn't seem to be very good. Or can't you save a little on shipping volume and get a higher price increase, etc.?

The second point is a continuation of the previous question. If we use the metal spread on the left side of page seven, what level do you expect in the second half of the year?

**JFE:** You pointed out that the shipment volume in Q2 is high. However, the main reason is that the shipment volume in Q1 is small compared to the crude steel production volume. We are planning shipments for July to September, including timing differences, and hope that you consider that there is no special background beyond that.

As for the spread in H2 of the year, in China, the spread is falling sharply in Q2 and will gradually recover from the end of Q2 to the second half of the year, returning to the average spread level of the past 10 or 20 years.

**Participant:** I understand. Thank you.

**Moderator:** Thank you very much.

**Participant:** I know it is difficult to explain since the prices of raw materials and products are moving so widely, but I would like to ask you about your progress toward the JPY10,000 per ton profit you are aiming for in your mid-term plan. I take it that the forecast for FY2022 you announced this time is a progress in the midst of various raw material movements and price negotiations are still in progress. How do you evaluate the progress against the per ton profit target in the mid-term plan?

In addition, the Keihin blast furnace is scheduled to be shut down in September next year, and a temporary shutdown is planned for this fiscal year at Chiba for refurbishment. Could you please explain in more detail the progress toward the profit per ton target, taking into account the balance between volume and cost in this area?

**JFE:** On a holding company basis, the FY2022 forecast for business profit is JPY215 billion. Excluding a one-time impact of JPY122 billion, the forecast is JPY113 billion, which is about JPY200 billion short of the mid-term business plan target.

As for cost reductions, we are short of our initial target by about JPY80 billion, but we expect to reduce costs by about JPY50 billion by suspending the Keihin blast furnace, and we expect to reduce costs by JPY10 billion this fiscal year as well, so we believe we are making some progress according to our plan.

In addition to the above, changes in the external environment, such as the rise in prices and the depreciation of the yen, have had a significant impact, and there is still over JPY100 billion that has not been fully achieved. We believe this is a major issue in terms of the mid-term plan.

That's all from me.

**Participant:** Am I correct in understanding that from H1 to H2 of the year, you are of the opinion that profit per ton will deteriorate?

**JFE:** If you look at the segment profit of steel business excluding inventory valuation difference on page 13, it is JPY11 billion in the first half and JPY17 billion in H2, which is not a high level, but H2 is not worse than H1.

Looking at the quarterly results, the deficit in the April to June period is turning to a surplus in the July to September period. A major factor is that coking coal prices soared from April to June, while they came down slightly from July to September. In addition, steel prices have been reflecting this trend, which is why there was a significant improvement in the July to September period. Therefore, if we take out only the July to September period, it appears that the situation is slightly worse toward H2, but this is due to the considerable impact of timing differences, and we expect a slight improvement in H2 of the year compared to H1.

**Participant:** I understand. Thank you. I have one more question.

I would like to ask you about how prices are determined. It is my understanding that efforts are being made to move from the traditional post-partitioning method to a pre-determination method as much as possible. For example, since we are already in August now, is it correct to say that the domestic prices for July to September are almost already fixed and that you are referring to the period from October to December onward when you said that you will work hard to increase the prices in the future?

At this stage, the prices of iron ore and coking coal are falling, so if you follow the pattern of past negotiations, you may end up thinking of how much you have to lower the prices. However, I took it as a sign that negotiations will be carried out with consideration of future price increases of main raw materials and other price effects. Please let me know the extent to which you have moved to a pre-determination method.

**JFE:** It depends on the customer, but for the main raw materials, the price will be reflected promptly after the main raw material price is determined.

Conversely, negotiations on various prices are not cost-linked, but rather are based on a review of the so-called base price, so negotiations with customers are ongoing regardless of when the price of main raw materials is determined.

**Participant:** I understand. Thank you. That's all from me.

**Moderator:** Thank you very much.

**Participant:** First of all, let me confirm whether your company does not feel any particular need to reduce crude steel production.

Crude steel production in Q1 was up YoY, and crude steel production in the second half of the year is expected to be on par with the first half, but steel inventories are increasing, and I believe the mood for production cuts is rising considerably among domestic and foreign steel companies. Please tell us if your company is considering this kind of production adjustment initiative.

Secondly, the engineering business was affected by the sharp rise in the price of materials and equipment in Q1. Is it correct to say that from Q2 onward, the price will be passed on to a certain extent, so it will be fine?

These are my two questions.

**JFE:** Regarding the first point, the number of our blast furnaces in operation has increased by one more than last year, so the apparent crude steel production has increased, but from April to June of this fiscal year, especially from June, the automobile production cutback was quite significant, and the overseas market conditions were also getting worse. We have adjusted crude steel production slightly by streamlining production.

On the other hand, in the first half of the year, we also needed to prepare for the blast furnace refurbishment in Chiba starting in September, so I think that the production adjustment has not been manifested in a clear way.

For H2, car manufacturers, for example, have set an annual production target of 9 million units, but we have factored in a slightly lower level in our production plan in our earnings forecast, taking into account the impact of parts restrictions. In H2 of the fiscal year, we will continue to strive for rationalized production in response to demand for steel products.

As for the engineering business, there are some areas that can be recovered in the future due to escalation clauses, etc. Also, in Q1, there was a deterioration due to differences in the composition of construction and other factors. We expect to do well in Q2 and beyond.

That's all from me.

**Participant:** I understand. Thank you.

**Moderator:** Thank you very much.

**Participant:** Thank you very much today. I have two questions.

The first question relates to dividends. With the H1 dividend of JPY40, the dividend payout ratio can be calculated to be 23% of the projected net profit for H1 of the fiscal year. Your company's dividend payout ratio is slightly lower than the 30% target. Please tell us about your thinking on dividend for H1 and the full year.

Second, the forecast for net profit is JPY140 billion while the profit before taxes is JPY220 billion, so the after-tax adjustment looks somewhat large. Let me know if there is something specific in this.

Those are my two questions. Thanks.

**JFE:** Regarding the interim dividend, the payout ratio will be 23% as you mentioned, but we consider a payout ratio of 30% for the full year to be our basic policy.

We have temporarily decided to pay an interim dividend of JPY40 for H1 of the fiscal year, since we still have some uncertainties about the outlook for H2 of the fiscal year and beyond. We hope you understand that we have not changed our basic policy of a 30% dividend payout ratio for the full year.

**JFE:** Regarding your second question, we have rounded our annual forecasts to the nearest JPY10 billion, so there is no special reason for the decline in the level of net profit.

The forecast profit before tax is JPY220 billion and multiplying this by 70% gives JPY150 billion. However, in reality, there are several factors that may cause a difference in the tax calculation, including equity in earnings of affiliates, so we have taken these factors into account and calculated the current profit before tax to be approximately JPY140 billion.

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

**Moderator:** Thank you very much.

So, we will now conclude the question-and-answer session.

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

[END]

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