JFE Group Investor Meeting

(FY2024 1Q Financial Results and FY2024 Earnings Forecasts)

Summary of Q&A Session on August 5, 2024

Participant: Regarding the volume and mix on pages 19 to 21, the profit decline is about less than JPY40,000 per ton for the volume change compared to the previous forecast, about JPY10,000 per ton against the previous year, and in the 1H/2H comparison, it is JPY60,000 as a factor for the profit increase.

For example, I assume that you are explaining that the steel for automobiles, which has a high unit price, will decrease, while the export will increase, or that electrical steel sheets and steels for automobiles will increase in 2H. Please explain with regard to the fact that the volume effects of each analysis are quite different.

JFE: For example, on page 19, of the JPY15 billion negative impact against the previous forecast, the impact of the 400,000 ton decrease in volume is about JPY10 billion, and the rest is the impact of the mix difference, such as the decrease in sales for automobiles. With regard to the positive JPY24 billion in volume and mix on page 21, there is an increase in volume of 400,000 ton. The volume impact is expected to be approximately half, or just over JPY10 billion, with the remainder coming from mix differences.

Participant: Regarding page 21, 1H profits are weak due to volume declines and are expected to improve significantly in 2H. I understand the improvement of costs, volume and mix. Regarding the spreads, I would like you to explain whether you expect spreads to increase in the contract prices by negotiating base price increases, etc., with customers though iron ore falls to some extent, or whether you expect spreads to increase in spot prices.

Also, the fifth item, others, is quite large at positive JPY32 billion, but is this the contribution of group companies, and do you expect improvements in JSW and others?

JFE: Regarding the spreads, as prices of main raw materials decline, the selling price for exports are expected to decline to some extent, but we will negotiate the domestic selling price in consideration of various costs, and by keeping the price as high as possible, we hope to bring the overall spreads to a positive JPY11 billion.

JFE: As you can see on page 17, we expect the sales price to improve to about JPY135,000 in 1H of FY2024. Before the start of this fiscal year, we announced a price increase of JPY10,000 per ton in consideration of the cost increase in logistics, labor, and other expenses other than the main raw materials, and we hope you will understand that this activity is on track to a certain extent.

As for other items, we expect large positive growth in overseas group companies, and JSW alone is expected to be positive at a level of over JPY10 billion.

Participant: In the past, decrease in volume has resulted in higher costs, but can we assess that the permanent shutdown of the Keihin blast furnace last year has led to a downward elasticity?

JFE: As you point out, we have been able to respond in large part due to the effects of structural reforms.

Participant: The exchange rate is about JPY143. If the exchange rate continues at this rate, what will be the impact on your company's profit and loss? Although foreign exchange flows are expected to be positive, the appreciation of the yen is likely to have a negative impact on inventory valuation, and selling prices are also likely to decline.

JFE: There is a positive impact of JPY2.3 billion per year per 1 yen appreciation in terms of flow, and a little over JPY1 billion per half year. On the other hand, there is USD1 billion in assets in terms of stock, and a 1 yen appreciation would have a negative effect of about JPY1 billion. Therefore, the impact is small because the flow and stock offset each other. However, as you pointed out, for domestic sales prices, we are engaged in activities to pass on the increase in sales prices including exchange rate flow, so I believe there is an impact from that.

In addition, we are reducing the volume of commodity-grade steels in order to shift from quantity to quality. However, indirect effects such as how the risk of a decline in imported steel prices due to the appreciation of the yen will affect the market are also considered.

Furthermore, there are other factors such as the impact on the management of the exporting companies themselves, so at this stage we are unable to give quantitative figures, but we will have to closely examine the situation in the future.

Participant: I recognize that the issue of fraudulent certification of automobiles will certainly be temporary, but on the other hand, I am wondering if the situation of Japanese automakers struggling in China and somewhat weak in ASEAN may continue to some extent. What is your company's position on this?

JFE: We had already factored in the certification issue at the beginning of the year at the time of the previous announcement, but there was a certification issue that came up after the previous announcement, which affected 1H, but we are looking at it with the assumption that it will recover in 2H or later.

On the other hand, overseas, Japanese-affiliated automakers are losing market share in China, and naturally we cannot say that this will not have an impact, but as we have said in the past, GJSS is expanding its sales channels beyond Japanese-affiliated automakers. As for Thailand and Indonesia, we expect a gradual recovery in 2H.

We are not optimistic about the auto industry and are looking at a return to our previous forecast for 2H.

Participant: I would like to go over the scenario again regarding the recovery of domestic spreads from 1H to 2H, including the effects of the planned increase in production of electrical steel sheets and the efforts to improve spreads, which you mentioned as being focused on domestic.

In February before the start of the current fiscal year, you announced an improvement in base margin in the form of a price increase for all steel products, and since then, exchange rates and raw material prices have moved significantly, so I think some of your efforts have become somewhat less visible to us.

Is it safe to say that you have initiatives in place at this point that can be maintained from 1H to 2H, or beyond, and that you will reap the full benefits of the efforts?

On page 17, you show the spread of main raw materials, but I would like you to explain how far progress has been made and what areas need to be incorporated in the future.

JFE: Before the start of this fiscal year, we announced the price increase very widely, taking into account that labor and transportation costs would probably increase significantly. At that time, the main raw materials were also at a very high level, so we announced at a combined price of JPY10,000.

However, as you know, the price increase has been lower than initially expected because the price of the main raw material has dropped significantly since then. By being proactive in this way, we have gained considerable understanding from our customers regarding labor and transportation costs. However, not all of this will be reflected in 1H, and we expect to reap some of it in 2H, so we are expecting this to result in a positive spread in 2H.

Participant: You say that there is no change in the outlook for the engineering and trading businesses, but in the trading industry, there are signs of a slight slowdown in the North American pipe business, for example. Has the outlook for the business environment changed at this time, given the progress made in 1Q?

Could you explain again in terms of whether the numbers have simply not been reviewed this time or whether they have been reviewed and maintained?

JFE: With regard to trading business in North America, we have already seen some impact, and we are looking at that, factoring in the impact on pipes, etc., as you have pointed out.

As for 2H, we still do not know what will happen after the presidential election, etc. On the other hand, there will be a gradual recovery in Japan and the profit from Studco, which we recently acquired, will also be included in 2H, so I hope you understand that the outlook for 2H takes these factors into account.

JFE

¥23.0bn. Decrease in JFE Steel's Segment Profit (FY2024.1Q vs. FY2024.2Q)

JFE Steel

(billion yen)

JFE Steel	FY2024 Forecast			Change
	1Q Actual	2Q Forecast	1H Forecast	
Segment Profit	**31.5**	**8.5**	40.0	**(23.0)**
Excluding Inventory Valuation etc.	36.5	31.5	68.0	(5.0)

1. Cost	**±0**	
2. Volume and Mix	**+1.0**	• Crude steel production 5.48Mt→Approx. 5.80Mt
3. Spreads*	**+5.0**	• Improved spreads due continued sales price improvement efforts
4. Inventory Valuation	**(18.0)**	• Inventory valuation ±0 (±0→±0) • Carry over -7.0 (-13.0→-20.0) • Foreign exchange valuation -11.0 (+8.0→-3.0)
5. Others	**(11.0)**	• Timing difference of regular maintenance, etc.

*Spreads including various prices (metals, energy, materials, logistics, labor costs, foreign exchange effects, etc.)

35

Participant: I have a question about the large drop in unit sales price from 1Q to 2Q on page 18. There was a comment that the export ratio will increase. What is the background to this drop in prices? On the other hand, looking at the increase/decrease factors on page 35, it is assumed that the spread will improve by about JPY5 billion. What is your view on this?

JFE: Regarding the volume and mix on page 35, we expect about a positive JPY7 billion increase in volume. On the other hand, we expect a negative impact due to a higher export ratio and a worsening mix, resulting in a positive JPY1 billion. Thus, the deterioration in the mix has had a significant impact on the average selling price, resulting in a price of about JPY132,000 in 2Q.

JFE: Regarding 1Q, we have not received many orders for commodity-grade steels. On the other hand, in 2Q, we slightly increased the volume of profitable products among HRC and slabs, keeping in mind the optimal production system to some extent. The result is that the export ratio is higher and unit prices are lower because of this.

For 2H, we intend to take action to reduce the number of commodity-grade products for export, based on the recovery of automobiles in Japan and overseas.

Participant: This time, the steel business has been revised downward for business profit and even excluding inventory valuation difference. Can you confirm that 1H was considerably lower than you assumed at the beginning of the year, and that you have not changed your forecast for 2H?

JFE: The idea is as you have indicated. At the beginning of the fiscal year, we had factored in the automobile certification issues that came to light at the beginning of the year, and we had considered the overseas environment in Indonesia and Thailand to be a little severe in 1H. On the other hand, there was a drop in shipments in 1H due to further automobile certification issues and, with regard to JSW's financial results, a transitory effect that was not anticipated at the beginning of the fiscal year. As for our assumptions, we do not expect much change from our initial assumptions for 2H.

Participant: Regarding page 17, what is the assumption for 2H for the spread for export commodity-grade goods? Please let us know, along with your original assumption.

JFE: The spread has not changed significantly from our initial forecast. The current trend is between USD100 and USD150, and we are looking at a similar level in 2H, so not much will change significantly between 1H and 2H. This was also the assumption at the time of the previous announcement.

Participant: Regarding dividends, if we calculate the earnings forecast for the current fiscal year at a payout ratio of 30%, the dividend will be at a level of just under JPY100. In contrast, please explain the background behind maintaining a dividend of JPY110 this time and whether there is any risk of dividend cuts in the future.

JFE: Dividends are determined in accordance with our dividend policy of a payout ratio of about 30%. The dividend payout ratio will be slightly more than 30% regarding the current year's forecast, but within a certain range, there will be no change.

Participant: While there was an impact of automobile production cuts in 1Q, I don't think you did anything to compensate for those production cuts with exports. Is this because you wanted to secure margins?

JFE: You are correct, and this is the result of sales activities based on the policy of shifting from quantity to quality.

Participant: Regarding Steel's actual profit, on page 21, you state that 2H forecast is JPY145 billion excluding inventory valuation. Simply doubling this figure yields JPY290 billion. If we look at 2H alone, it appears that the JPY230 billion target set in the mid-term plan for the current fiscal year will be exceeded by a large margin.

Of course, we have to take into account the difference between 1H and 2H, etc., but looking at 2H alone on an actual basis, I have the impression that the profit is quite substantial. Please tell us what your company thinks about the actual performance in this 2H.

JFE: Regarding 2H, as you said, of course we have to look at it on a fiscal year basis, but the effects of our structural reforms and cost reductions are clearly showing results, and efforts to improve sales prices are also progressing. If we were to double our performance in 2H, we would have achieved our mid-term targets.

We would like to use this as a starting point and link it to the next mid-term plan and long-term vision.

Participant: Regarding the liquefied hydrogen supply chain on page 28, please tell us what we can expect in terms of monetization and the timing of future public announcements?

JFE: Regarding the hydrogen supply chain, our current plan is to complete construction of the facilities in FY2028, demonstrate reception of hydrogen carriers in FY2029, and complete the main demonstration in FY2030, after which we will begin supplying hydrogen domestically.

Since we have written about the direction after the demonstration, there is nothing concrete I can say at this time about business utilization. However, since we consider the Keihin land utilization as one of the pillars of revenue in the 8th mid-term and beyond, we would like to explain it again at the time of the announcement of the 8th mid-term, including the business utilization after the demonstration.

Participant: With regard to the slide on page 18, if the recovery in the automobile industry, etc., as you expect in 2H, is achieved, is it correct to assume that the steel export ratio, which rose to about 45% in 2Q, will decline again to about 40%?

What is your view on the movement of automobile volume and steel export ratio in 2H?

JFE: With regard to steels for automobiles, there are exports as well as domestic sales, and export market will return to a certain degree as well. Although it may be difficult to generalize, the ratio of exports was 44~45% before the structural reform, 41.5% in the 2H of FY2023 after the structural reform, and 40.6% in the 1H of FY2024, so we expect that the ratio will return to that level in the 2H and beyond.

Participant: What do you think about the idea of reducing export volumes if export market conditions are difficult?

JFE: Regarding exports, our policy is not to get an order of commodity-grade products on a spot basis in the current market.

However, although we do not expect much at this time, if the market improves and commodity-grade export products become profitable enough, we will naturally take them, depending on the situation.

Participant: Another company recently announced the dissolution of a joint venture in China. I know that GJSS has the same parent company. Could you tell us about your company's approach to the future of business in China?

JFE: We are of course aware of the trends of other companies, and we are also making decisions on the pros and cons as an individual business for China.

China is the world's largest automotive market and GJSS supplies high-quality automotive steel sheets to automakers. Of course, we are aware that the region is affected by geopolitical risks and US-China relations, so we will continue to monitor the situation closely and respond accordingly.

However, we are not considering taking any sudden action at this stage. In particular, GJSS has been profitable for 11 consecutive years and is expected to be profitable again this fiscal year, despite the extremely difficult environment. Therefore, I think it is a matter of making decisions on a project-by-project basis.

Moderator [M]: Thank you very much. Now, I would like to end here.

This concludes today's investors meeting. Thank you very much for your participation today.

[END]