Nippon Steel's Business Challenges and Measures to Take

NIPPON STEEL CORPORATION

FY2019 Earnings Results and First-Half of FY2020 Update

FY2019 Earnings Results

- Steel demand for the manufacturing industry was sluggish, prompted by U.S.-China conflicts
- Main raw material prices stayed at high levels, due to high production by Chinese blast furnace steelmakers

Continued loss in the steelmaking business by Nippon Steel (non-consolidated), and recording of impairment loss

→ ¥284.4 billion in consolidated business profit and ¥431.5 billion in net loss

Steady development in enhancing the management of operation and maintenance

First-Half of FY2020 Update

- The initial plan showed good prospects of generating profit (Stable production to improve variable costs; enhanced measures on long-term contractual prices; and selection and concentration to reduce fixed costs)
- Sharp drop in steel demand due to COVID-19 (April-June operating rate, 60%)

Very harsh performance outlook

Outlook of the Steelmaking Business Environment (including secular impacts of COVID-19)

Demand side

Domestic
- Concerns over sluggish/shrinking base demand, caused by declining and aging population
- Decline in indirect exports, driven by reduction in trade due to rampant confrontation

Export
- Accelerating trend of “local production for local consumption” in the manufacturing industry
- Sluggish steel demand in the energy sector and emerging countries

Competition side

Increasing advantage of Chinese steelmakers based on early resumption of economic activities

The COVID-19 pandemic will accelerate ongoing structural market changes and lead to a harsher business environment

Basic Strategy to Strengthen Profitability

Steady enhancement of basic strength

Solidify stable production; further improve long-term contractual prices; and reduce fixed costs

Strong emphasis on certain products, facilities and business activities, as a basic response to the deteriorating environment

- Accelerate transition to an optimal production framework (to realize the already-announced structural measures earlier, and consider and implement additional measures) →Lower the ratio of less-profitable products; concentrate production of high-value-added products on competitive facilities as much as possible
- Enhance globally-competitive strategic products in quality and quantity
- Further evolve overseas business in response to "local production for local consumption" (incl. withdrawal from unprofitable business)

Return to operating profit under any business environment

Prevail in global competition, together with our customers

Thank you, our shareholders, for your continued understanding and support.

NIPPON STEEL CORPORATION

June 24, 2020
Nippon Steel Corporation

The 96th General Meeting of Shareholders
Nippon Steel's Business Challenges and Measures to Take

Presenter: Eiji Hashimoto, President

I would like to explain about Nippon Steel's business challenges and measures to take.

The Nippon Steel Group comprises three businesses – the parent company's steelmaking business, the group companies' domestic and overseas steelmaking business, and the business other than steelmaking. My presentation will focus on the parent company's steelmaking business, which is facing the challenge of drastically improving profit.

Since the latter half of fiscal 2018 the global manufacturing industry has experienced sluggish business and problems triggered by U.S.-China conflicts, and in fiscal 2019 the situation worsened and demand from manufacturers, our major customers, became significantly depressed. In the meantime, an increase in infrastructure investment in China led to a continued high production by Chinese blast furnace steelmakers, resulting in sustained high prices of iron ore and other main raw materials. We therefore faced an extremely harsh business environment with an unprecedented combination of high raw material prices and low steel product prices.

While we were negatively affected by typhoons and other natural disasters, continued loss in the steelmaking business (non-consolidated) and recording of impairment loss were major factors for Nippon Steel resulting in consolidated business loss of ¥284.4 billion and net loss attributable to owners of the parent of ¥431.5 billion in fiscal 2019.

Concerning our biggest challenge of reestablishing manufacturing capability, our efforts to enhance the operational and maintenance management of production lines have finally become effective, resulting in a substantial reduction in O&M problems which could entail production cuts and help improvement in fixed cost in the second half of fiscal 2019.

As for fiscal 2020, we finally had good prospects for generating a profit on a non-consolidated basis in our initial plan, thanks to stable production to improved variable cost, enhanced measures for long-term contractual prices, and strong emphasis on competitive products and facilities to reduce fixed cost. However, the emergence of COVID-19 has changed the business landscape: demand fell substantially and our operating rate in April to June dropped to about 60%, while production cut induced an increase in cost. As a result, our performance outlook for the first half of fiscal 2020 is very harsh.

In light of the fiscal 2019 results and the unprecedented dire status in the first half of fiscal 2020, we regretfully have decided to forgo a year-end dividend payment for fiscal 2019. The dividend for the full fiscal 2019 therefore is ¥10 per share.

We remain fully committed to early realization of a recovery in our profit base and financial improvement, and will strive our utmost to be able to return profit to shareholders again.

Next, let me explain the outlook of the steelmaking business environment.
First, the demand outlook.
On the domestic side, there are concerns over sluggish and shrinking base demand caused by declining and aging population, while indirect exports are expected to decline, driven by reduction in trade caused by rampant international confrontation.

The export outlook is also bleak due to two factors.
First, the trend of “local production for local consumption” in the manufacturing industry is expected to accelerate and decoupling of globally-connected markets is likely to continue. Second, we must anticipate prolonged sluggish new investment in the energy sector, caused by a decline in oil prices, as well as prolonged rough time in emerging countries, caused by the spread of COVID-19 and weakness of currencies.

As for the competitive landscape, China is the biggest threat, as we all know. Based on early resumption of economic activities, Chinese steelmakers’ relative advantages are expected to expand.

In sum, the COVID-19 pandemic will accelerate ongoing structural changes in the market and our parent company’s steelmaking business will be exposed to an extremely harsh business environment.

How is Nippon Steel restoring its profit base in such harsh environment? Let me share the strategy.

We are committed to ensuring stable production in order to reestablish our manufacturing capability, which is a base for generating profit. We have made progress in improving long-term contractual prices, although we need to make further improvement in this less-than-favorable demand environment. We will continue to make those efforts. We will also cut back maintenance cost and capital spending among fixed cost by concentrating on competitive products and business activities.

Finally, let me explain our medium- to long-term strategy.
Going forward, we will need to upgrade many aged facilities. In doing so it is crucial to focus on competitive products and facilities and discard others. We seek to further raise the ratio of high-value-added products and to concentrate production on competitive facilities as much as possible in order to reduce the cost of high-grade products.

Specifically, we plan to implement the structural measures for optimal production, announced on February 7 earlier than had been planned, and consider and implement additional measures.

We will continue to aggressively develop overseas business as well, as a part of growth strategy. We however intend to withdraw from unprofitable business and deepen our commitment to overall overseas business.

As I have mentioned, we cannot avoid strongly emphasizing certain products, facilities and business activities and discarding others in order to return to profitability in any business environment. We are facing formidable challenges in implementing these drastic measures but I, as President, am fully determined to lead the entire group in carrying out the decisive actions.

I would greatly appreciate our shareholders' understanding and support into the future, just as in the past.

Thank you.

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