

Nippon Steel's Business Challenges and Measures to Take

**Past efforts to restore
profitability**

Efforts to restore profitability

- The biggest challenge was to pull the domestic steel business of the parent company out of the red.
- Motivation came from a sense of crisis that made large-scale structural reform inevitable.

Start of structural reform, February 2020



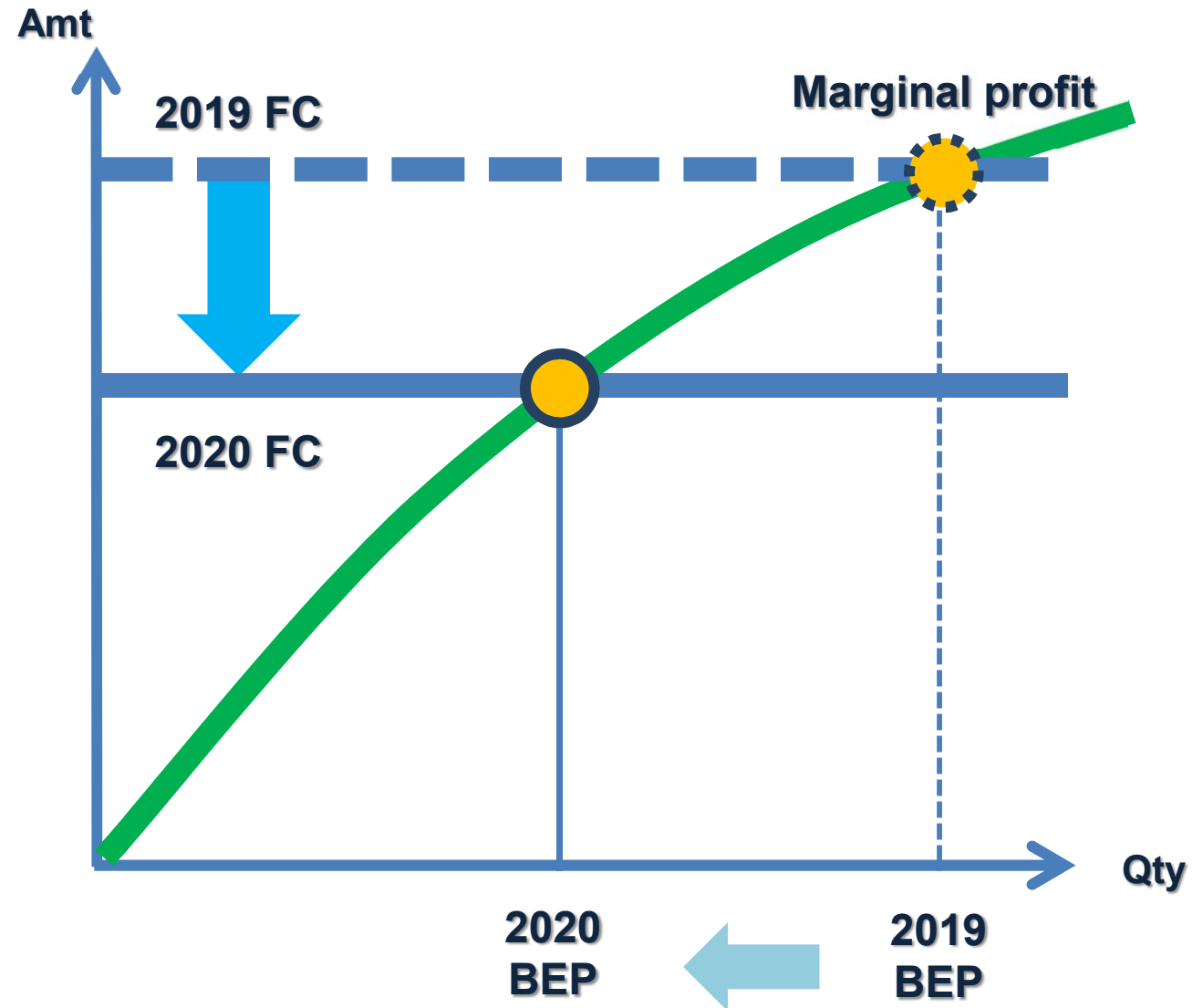
Slash fixed costs by selective concentration on products and facilities

Domestic steel business at the parent company is turning to a surplus

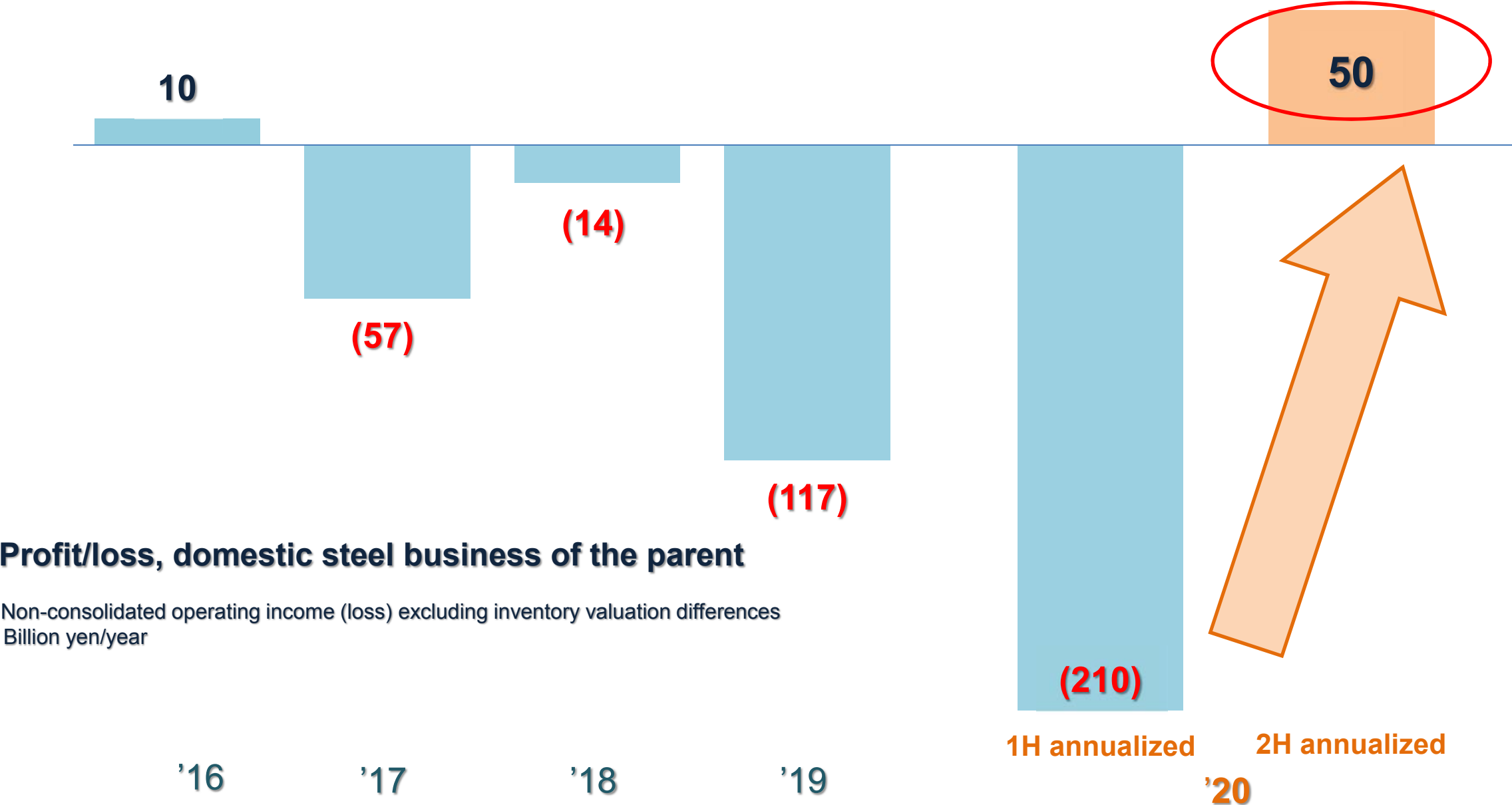
Drastic improvement of fixed costs and variable costs in fiscal 2020



Initial plan assumption: return to profitmaking in 1H fiscal 2020

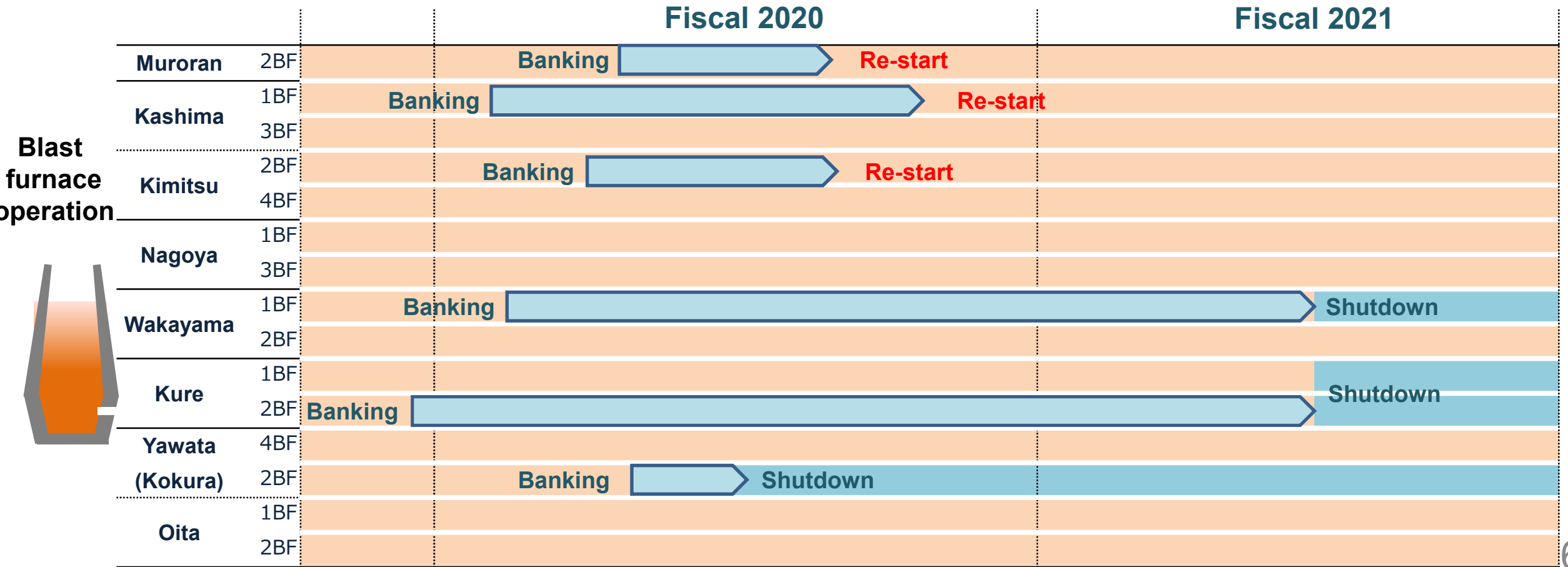


Domestic steel business returned to profitmaking



Rapid response to the COVID-19-driven sharp drop in demand

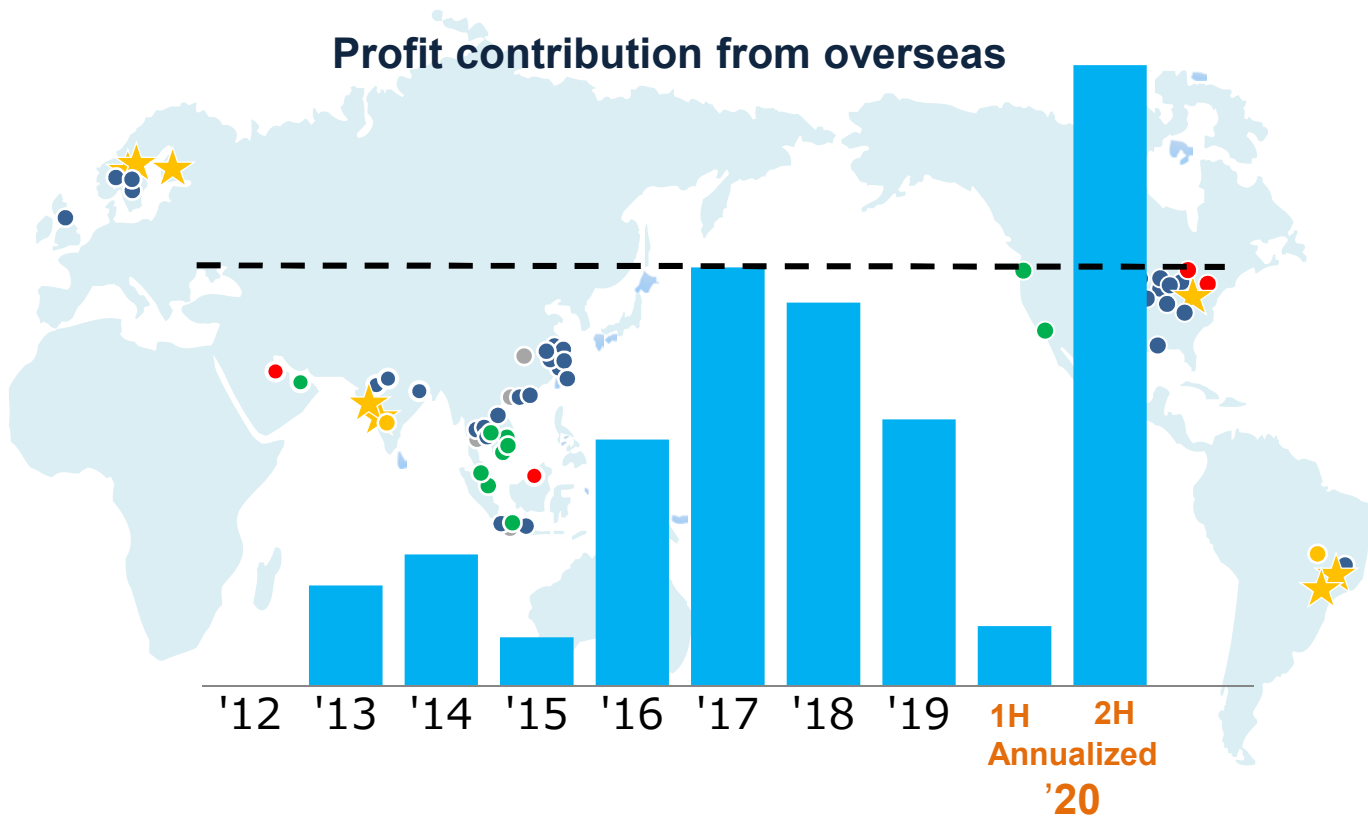
Early transition to minimum-cost operation, based on the consolidation of facilities through structural reform



Selective concentration of overseas business

Achieved record-high overseas business profits in 2H fiscal 2020

Profit contribution from overseas



Sales and withdrawal of the VSB business, etc.



Selective concentration in the tinfoil business



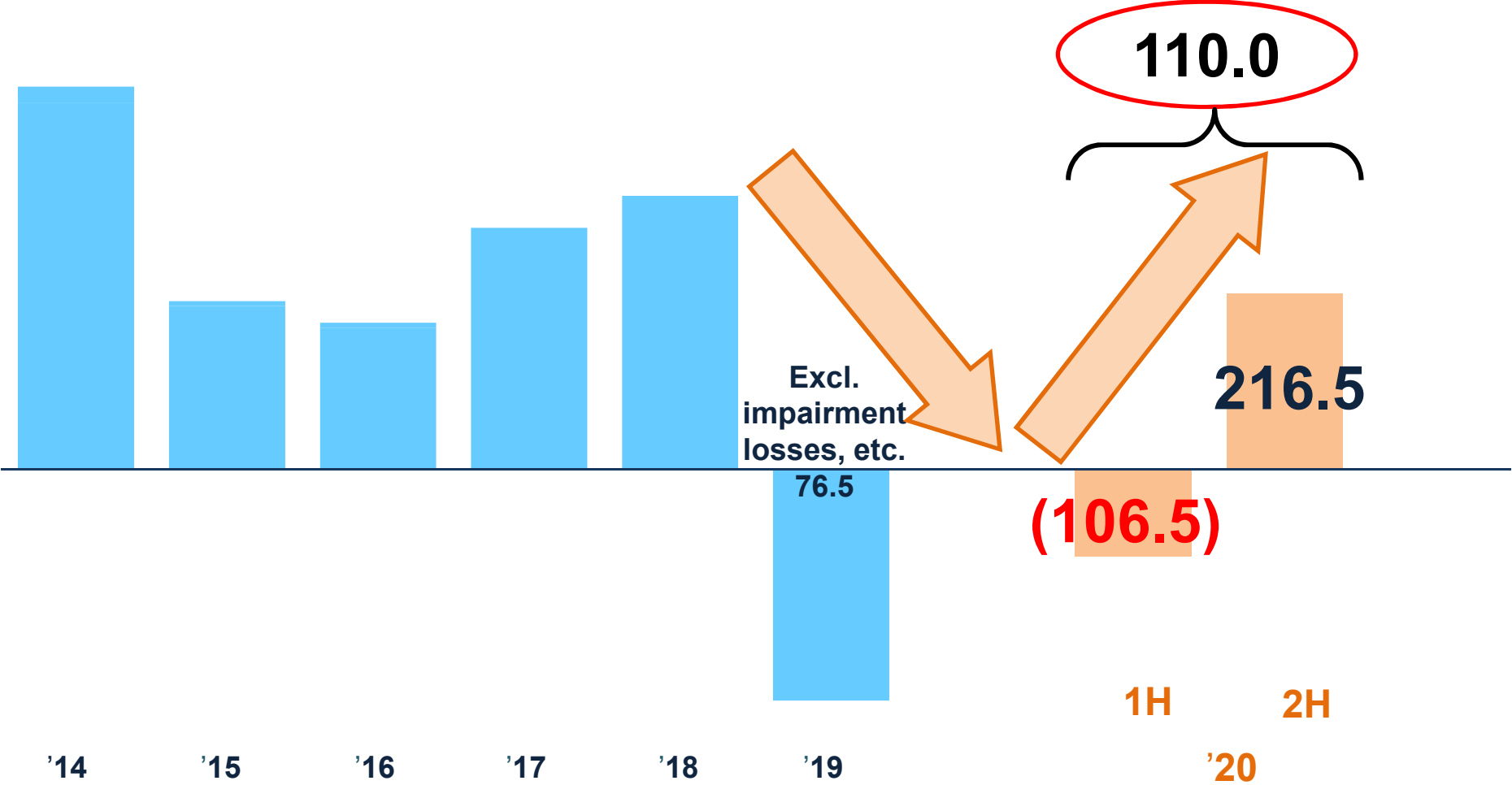
Acquisition of Essar Steel



Decision to invest in electric arc furnace at AM/NS Calvert

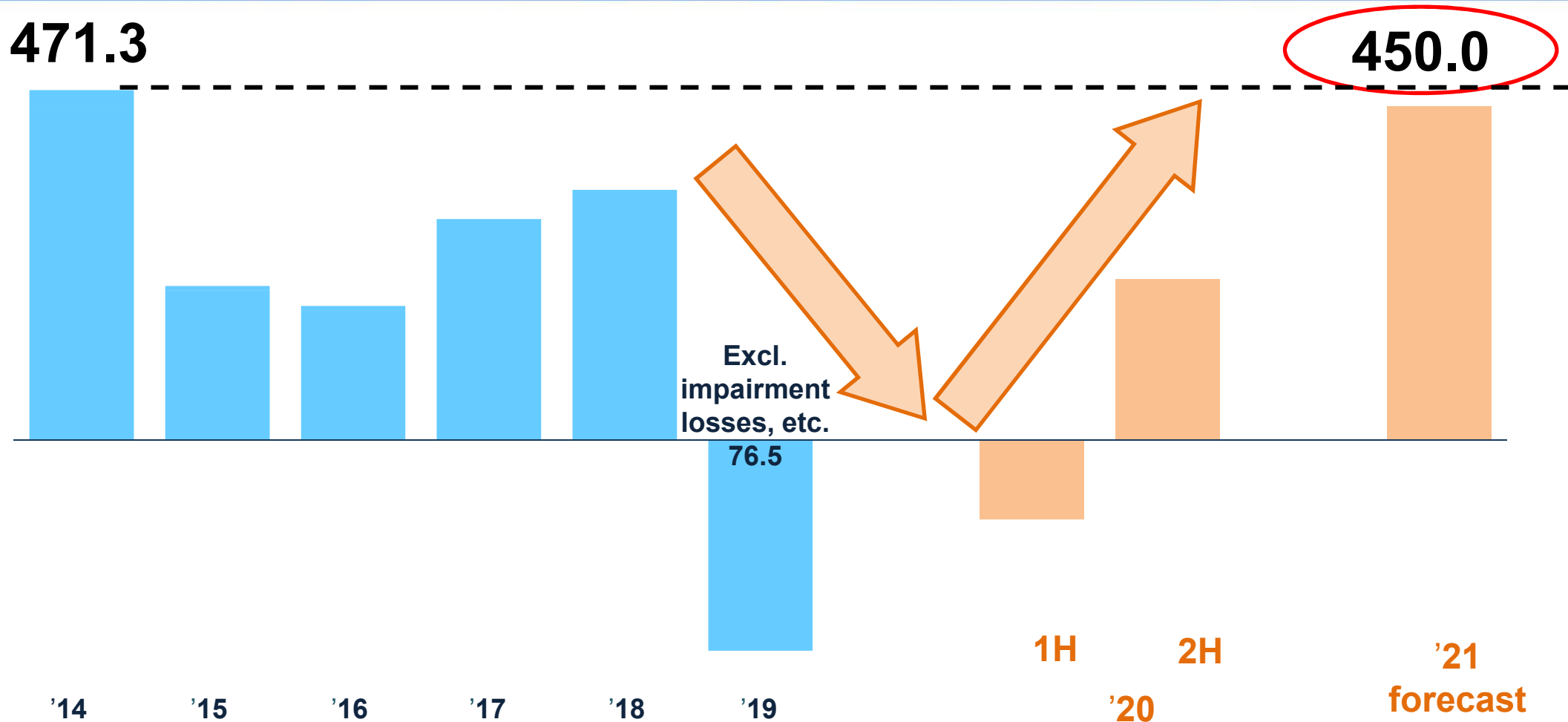
Consolidated business profit of ¥110 billion in fiscal 2020

Generated profit on a consolidated full-year basis

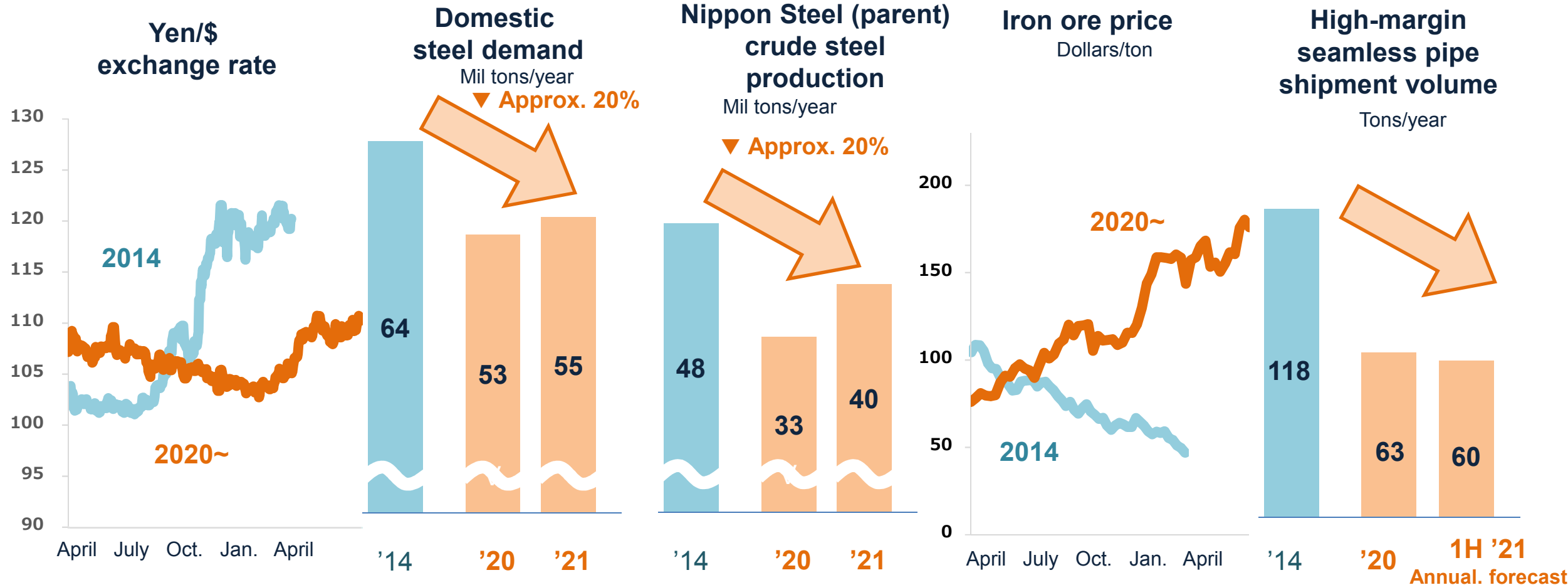


Forecast: ¥450 bil consolidated business profit for fiscal 2021

Strive for achieving record-high profits, renewing the post-integration high profits in fiscal 2014



Challenge of the external environment in fiscal 2021, worse than in fiscal 2014



Strive for achieving record-high profits in the challenging environment

**Nippon Steel Group
Medium- to Long-Term
Management Plan**

Medium- to Long-Term Management Plan

1. Rebuilding our domestic steel business

2. Deepening and expanding overseas business

3. Taking on the challenge of Zero-Carbon Steel

4. Promoting DX strategies

1. Domestic Restructuring: Change in Japan to optimize the production framework

- Install profit resilience even in an adverse environment

Greater structural reform than announced in February 2020



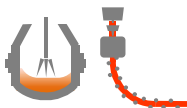
Blast furnaces

Shutdown

5 units

Total number of domestic BF's

15 \Rightarrow 10 units



Crude steel production capacity

Reduction 10 mil t/y
(approx. **20%**)

Crude steel production capacity
in Japan (Nippon Steel and Nippon Steel
Stainless Steel)

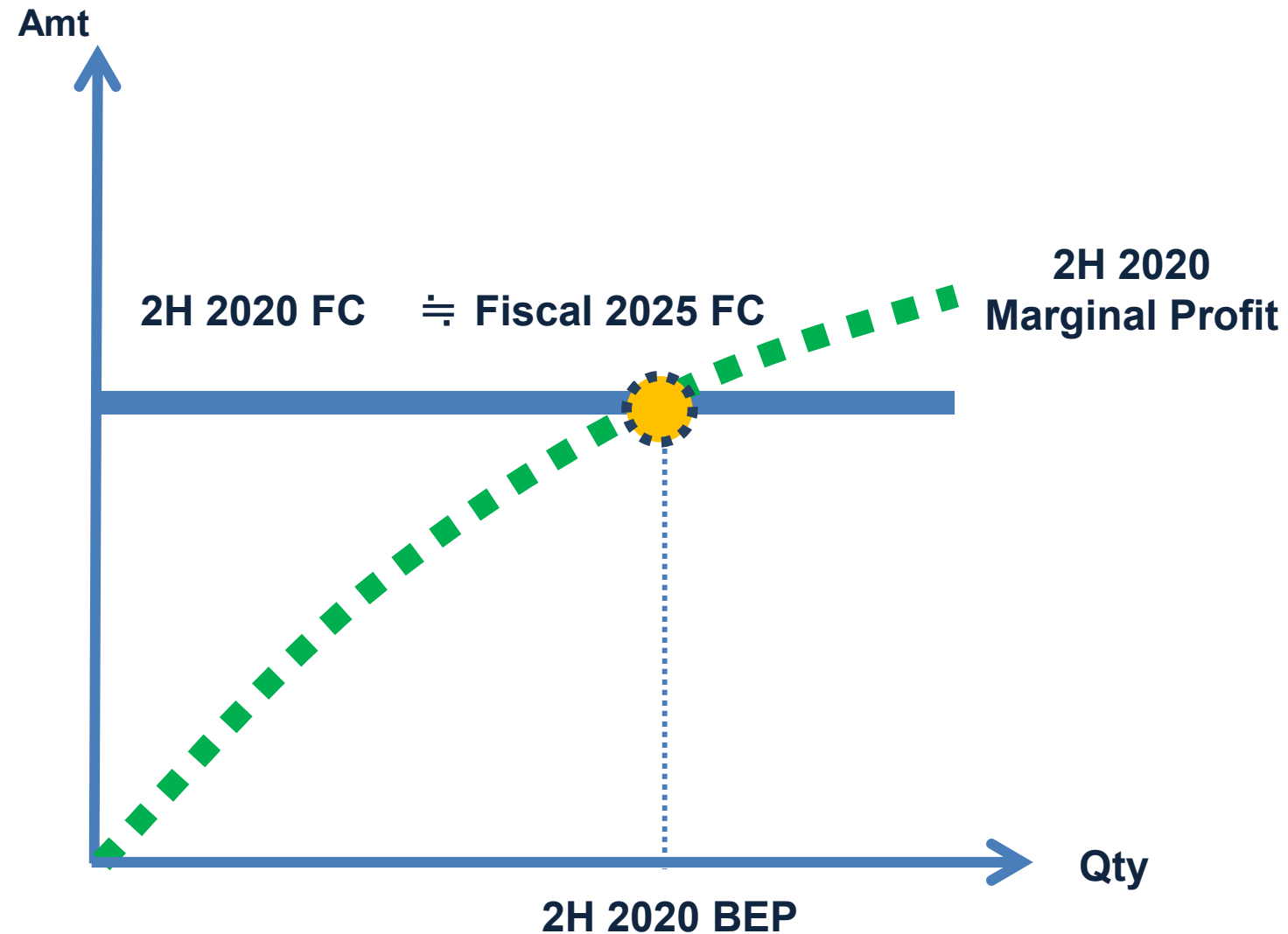
50 \Rightarrow 40 mil t/y

1. Domestic Restructuring: Reduction in fixed costs

Strategic investments to refurbish facilities and supply high-grade steel products



Further reduction of total fixed costs is difficult



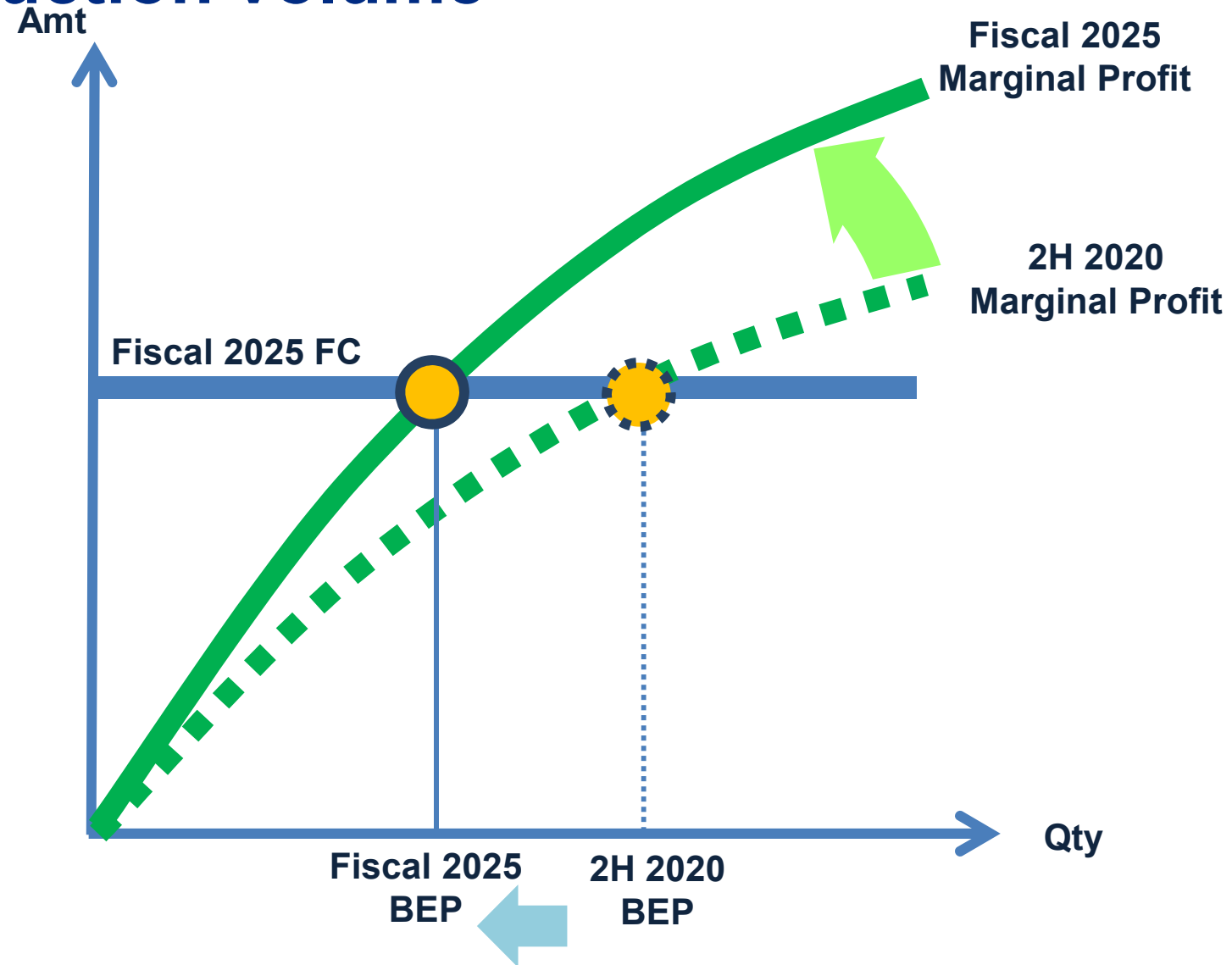
1. Domestic Restructuring: Profit structure independent of production volume

Advanced order mix with a higher proportion in high value-added products



Expand revenues and profit despite reduced domestic production volume

Improve labor productivity

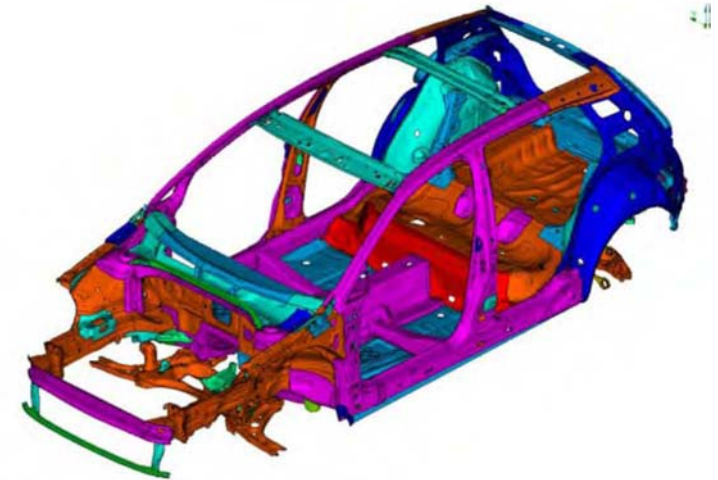


1. Domestic Restructuring: Strategic investments

- Continued rise in high-grade steel product demand resulting from investment to achieve carbon neutrality

Investment in a next-generation hot strip mill for stable and economical mass production of ultra-high-tensile strength steel sheets, to contribute to weight reduction in EV

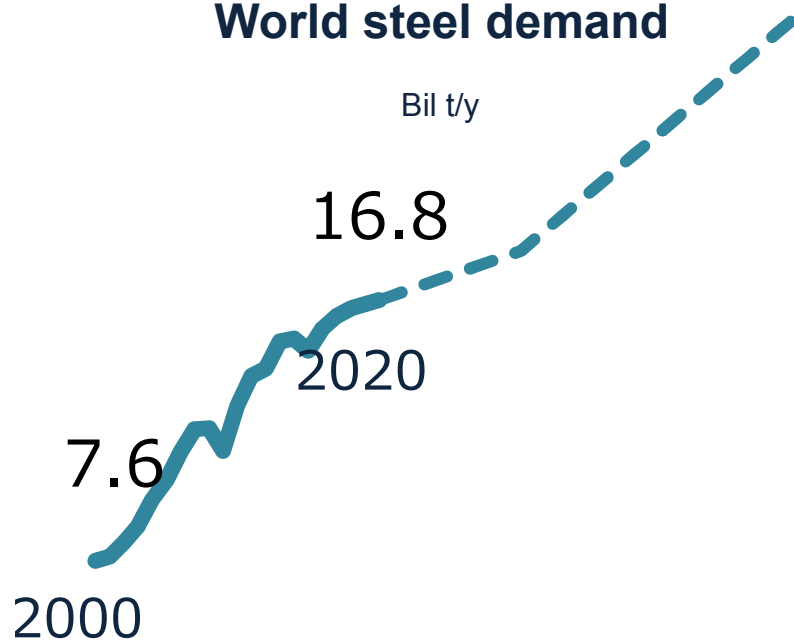
Investment to improve the capacity and quality of electrical steel sheets, contributing to automotive electrification and electric power saving



2. Deepening and expansion of overseas business

World steel demand

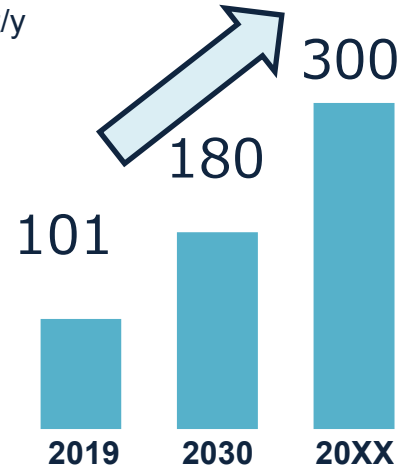
Bil t/y



Aim to achieve global crude steel capacity of 100 million tons

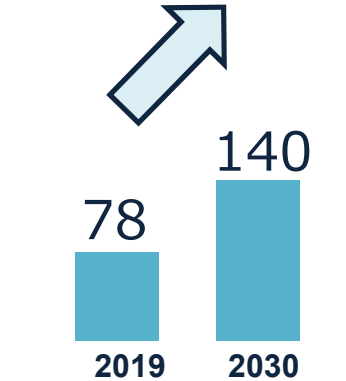
India

Mil t/y



AM/NS India capacity expansion (including the second steel mill)

ASEAN



Acquisition of and equity participation in an integrated steel mill in Asia, etc.

3. Taking on the challenge of Zero-Carbon Steel

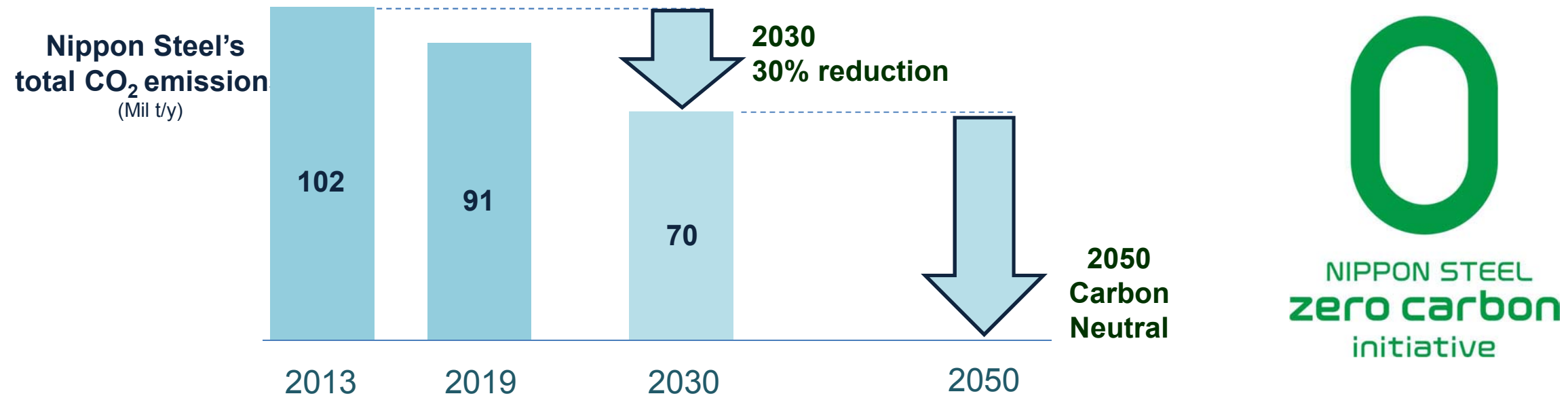
Contributing to the realization of a green society by
providing our technology and products



Make advance investments in business opportunities

3. Taking on the challenge of Zero-Carbon Steel

Taking on the challenge of development and implementation of new production process technology, which realizes carbon neutral in steelmaking processes



**Reestablish comparative advantage by development ahead of others
Strengthen customer relationships with “green steel”**

4. Promoting DX strategies

Aim to become a leading digitally-advanced steel company

**Strengthen business competitiveness
by making full use of data
and digital technology**

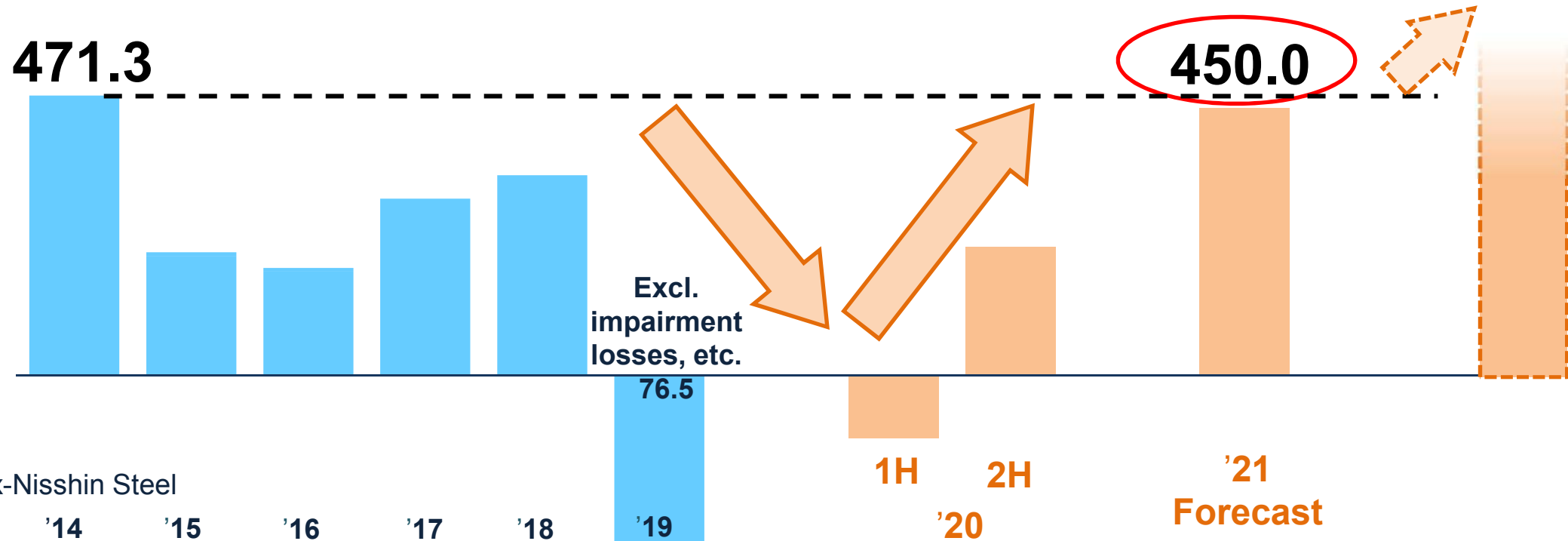
Production process innovation

Business process innovation

Accelerate decision-making; strengthen problem-solving capabilities

A decisive year when we are put to the test

A true V-shaped recovery in fiscal 2021



Strive for achieving record-high post-integration profits

Kickoff for achieving the medium- to long-term management plan

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

June 23, 2021
Nippon Steel Corporation

**The 97th 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 we are going to take.


After I became President in April 2019, swift recovery in profitability has been our first priority and we have made our best possible effort to achieve it, on both the hard side, such as equipment, and the soft side, such as management.

The biggest challenge we faced was to free the domestic steel business from the constraint of a loss-making structure. When we posted a significant loss in fiscal 2019, we were forced to forgo the year-end dividend, and deeply regretted that we could not meet the expectations of our shareholders. Under the strong sense of crisis that radical changes in the profit structure, namely large-scale structural reform, are inevitable in order to turn the situation around, I had numerous direct dialogues with our people on the two workfronts, namely, those in manufacturing and those in sales. I worked with the management team and other staff to formulate action programs. The results of the study were announced in February 2020 as our first big step in structural reform. We have decided to significantly reduce fixed costs by no-holds-barred selective concentration on certain products and facilities, and de-emphasizing or eliminating non-competitive facilities.

According to our initial plan for fiscal 2020, which we formulated in February last year, we had a good prospect of getting out of the red, thanks to a significant reduction in fixed costs and improvement in variable costs. Unfortunately, in the first half, the collapse of economic activities, prompted by the COVID-19 outbreak, resulted in a significant deficit, but we returned to profitability in the second half, with a delay of six months. While we recorded a significant loss in the first half of fiscal 2020 due to the sharp decline in demand caused by the COVID-19 outbreak, I am pleased that I can tell you we were able to respond promptly

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and move quickly to the minimum-cost operation stance we decided to take, calling for consolidating production facilities through structural reform.

With regard to existing overseas businesses, we concentrated operations, narrowed our focus to certain businesses and withdrew from other businesses which would not be economically viable for us to continue, and focused on markets where demand is steadily growing or sectors where our technology and products are being utilized. We have thus made a great effort to strengthen the rock-bottom foundation for overseas business profits and in the second half of fiscal 2020, we made record-high profits and the overseas business became a major profit contributor.

As a result of these efforts to improve profits in domestic and overseas steel business, we achieved consolidated business profit of 110 billion yen for fiscal 2020. This was despite a significant decrease in production volume, which was made unavoidable by the difficult environment.


We now forecast consolidated business profit of 450 billion yen for fiscal 2021 and strive for achieving record-high profits, renewing the post-integration high profits in fiscal 2014. While a post-COVID-19 recovery in demand is expected in fiscal 2021, the external environment seems worse than that of fiscal 2014. Despite the severe environment, we will strive for achieving record-high profits by bringing out the most effects of the various measures we have taken so far.

On March 5 of this year, we announced a new medium- to long-term management plan starting in fiscal 2021. Our plan consists of four pillars: "Rebuilding of our domestic steel business", "Deepening and expanding of our overseas business", "Taking on the challenge of Zero-Carbon Steel", and "Promoting DX strategies".

The restructuring of the domestic steel business, one of our central policies, is an unprecedented large-scale structural reform, more drastic than the measures announced in February 2020. This is needed to build a resilient profit structure that will ensure profits even in the event of a further deterioration in the business environment. Although this is a very challenging plan, I have led the efforts in devising the plan, based on constructive results of numerous direct dialogues with the people engaged in manufacturing and sales who I mentioned earlier. I am confident that our plan will be accomplished by fiscal 2025.

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The plan is not intended to merely arrive at a lower equilibrium. We are now at the stage to invest a large amount of money, such as for strategic investments to refurbish aging facilities and to supply of high-grade steel products. We therefore find it difficult to further reduce the total fixed cost. So an advanced order mix with a higher proportion in high value-added products is indispensable for us to ensure our accomplishment of targeted revenues and profit. While the volume of domestic production will decrease, we plan to increase revenues and profit, and significantly improve labor productivity. Let me now show you examples of our strategic investments. Electric vehicles, which are heavier than conventional vehicles due to batteries, require materials that contribute to weight reduction, and the need for high-grade electrical steel sheets for drive motors is greatly increasing. Our top-quality electrical steel sheets are also essential for electrical power saving. By responding to new, non-reverting needs such as carbon neutrality and digital transformation, we will make the advanced order mix and a profit-generating production structure that is independent of production volume.

By further deepening and expanding overseas operations, along with the expansion of the consolidated profit base, we intend to establish global capability of 100 million-tons of crude steel production, including domestic production. In so doing, we will thereby maintain our position as a major player in the expanding global steel industry. You can also expect to see us expand our integrated production system in India and ASEAN, areas where demand growth and local production are accelerating.

The challenge of Zero-Carbon Steel has two aspects of concern to us. One is the provision of our technology and products to those who can benefit from them, and can contribute to the realization of a green society in Japan. This also presents business opportunities to us. That is why we have decided, as advance investments, to implement measures to improve the capacity and quality of electrical steel sheets, and to invest in the construction of a next-generation hot strip mill in Nagoya. Another challenge is the development of a new production process that will promote CO₂ emission reduction in manufacturing processes. Breakthrough technology development, including development in unexplored areas, is needed. With all integrated steelmakers using blast furnaces in the world including China, we face the enormous challenge of our connections to the environment. We are taking on this challenge as Nippon Steel's paramount priority issue and as an opportunity to reestablish outstanding industrial superiority by taking advantage of our world's best technology development capabilities and by implementing technologies ahead of other steelmakers. We endeavor to provide "green steel" products to our customers at the earliest time. This, we hope, will also further strengthen our position in customer relationships.

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We will also strategically promote digital transformation. Aiming to become a digital advanced company in the world steel industry, we will make full use of our treasure chest of vast, sophisticated data and digital technologies, innovate our production and business processes, accelerate decision-making from the management level to our people on the frontline, and strengthen problem-solving capabilities.

In the second half of fiscal 2020, we were able to generate profits in the domestic steel business, which was the biggest issue we faced in terms of profitability. The level of profit, however, is not at all satisfactory. In addition, consolidated business profit included the one-off effects of emergency measures, driven by the COVID-19 outbreak. We therefore believe we must achieve satisfactory results for shareholders in fiscal 2021, in order to declare a true V-shaped recovery. The Nippon Steel Group will make utmost efforts in fiscal 2021, a decisive year when we are put to the test. We will strive for achieving record-high profits, and aim to pave the way to achieve the targets of the medium- to long-term management plan in its first year.

I would like to ask all shareholders for your continued support and understanding. Thank you.

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