

**Nippon Steel Corporation, Second Quarter FY2020 IR Briefing  
(Held on November 6, 2020)  
Summary of Q&A**

Note: Based on information available as of the date of the IR Briefing

Presenters

Katsuhiro Miyamoto, Representative Director and Executive Vice President

Hidetake Ishihara, Managing Executive Officer

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**Q Concerning your full-year earnings forecasts for fiscal 2020, will you give us a breakdown of the significant difference between the consolidated business loss (¥60 billion) and the net loss attributable to owners of the parent (¥170 billion)?**

A The net loss of ¥170 billion is comprised of an additional line item, financial income and costs, income tax and other, and profit (loss) attributable to non-controlling interests, in addition to the consolidated business loss of ¥60 billion. As an additional line item, a ¥42.2 billion loss related to inactive facilities has been recorded for the first half. Furthermore, "Income tax and other" includes a partial reversal of deferred tax assets based on an assessment of asset recoverability.

**Q How do you see the overseas hot coil market and coking coal prices in the second half of fiscal 2020?**

A Our basic assumption for the third quarter is that both the overseas hot coil market and coking coal spot prices will remain flattish at the present level. As for the fourth quarter, we are incorporating slight downside risk for the overseas hot coil market and slight upside risk for coking coal prices, the latter being adversely affected by the weather. We could therefore say that our fourth quarter forecast for the margin on export products might be a little conservative.

**Q How will your profitability recover from the third quarter of fiscal 2020 to the fourth quarter?**

A Anticipating a recovery in demand from the third quarter to the fourth quarter, we are planning to lift the banking of a blast furnace in Kimitsu and resume operation of a blast furnace in Muroran upon completion of its relining in late November. These actions will result in boosting our production output in the fourth quarter compared to the third quarter. However, it is not yet clear whether quarterly earnings will improve from the third quarter to

the fourth quarter because our fixed costs tend to be higher in the latter quarter and the margin is expected to slightly deteriorate in the overseas market sector.

**Q Are you incorporating the lifting of the banking of Kashima's No. 1 blast furnace in your current plan? If not, what kind of demand environment will you need to do so?**

A The lifting of the banking of Kashima's No. 1 blast furnace is not incorporated in the current plan. However, our capacity is tight even after lifting the banking of Kimitsu's blast furnace. If demand exceeds our current projection, our next step is most likely to be the lifting in Kashima, as demand is particularly strong for flat steel products. We look at the supply/demand environment to determine resumption of facilities. This, however, does not depend merely on securing order volume. We must carefully assess whether a certain level of marginal profit can be secured, given the pricing trend.

**Q Will you explain why the group companies' business profit in the first half was higher than your forecast.**

A Business profit at the electric arc furnace ("EAF") steelmaking companies were higher than expected in the first half because construction-related demand did not drop as much as initially expected. Our generally conservative forecasts, driven by the deteriorating business environment for group companies, were another factor.

**Q Your expected underlying profit for the second half of fiscal 2020 is ¥52.5 billion. Will you elaborate on downside risk factors, if any?**

A The shipment volume and the pricing for the period from the third quarter up to early next year are quite visible, while we adopted conservative projections for the fourth quarter. Basically the domestic group companies have also adopted conservative forecasts. The overseas group companies' operating results are becoming almost certain, as many of them have their fiscal year-end in December. We believe downside risk factors are minor, as long as a severe third wave of COVID-19 does not occur.

**Q In the case of using ¥100 billion (doubling of underlying profit estimate for the second half of fiscal 2020) as the base for estimating consolidated business profit for fiscal 2021, what other items should be considered?**

A The key point is the extent of the recovery in demand. The level of output is still below the pre-COVID-19 level in the current second half and is unlikely to fully return in the foreseeable future. It is therefore important to make the right assessment regarding a future demand recovery and a potential increase in production and shipments. In addition,

the margin for commodity products is difficult to project but we will continue to make efforts to improve long-term contract prices. With regard to the raw material cost unit price, we are anticipating some increase in the fourth quarter, which also needs to be incorporated, as there will be a delay in reflecting this increase in long-term contract prices. On the cost side, out of the aggregate expected profit improvement of ¥100 billion from the production facility structural measures, we are projecting a ¥35 billion positive effect will emerge in fiscal 2020 but the question is how much remaining effect can be generated in the next year. Needless to say, we intend to strive for base cost improvement, too. By the way, we implemented COVID-19 emergency measures, including the temporary off-days for employees, this year. When production volume recovers, this benefit on the cost side will decrease and fixed costs will increase, but these negative impacts will be offset by the improvement in the demerit stemming from the production cut in variable costs.

**Q You are expecting a drop in demand for seamless pipes. Will you elaborate on this point?**

A Demand for seamless pipes overall has been weaker than initially expected. Profit generated by seamless pipes highly depends on high-end products, for which we are seeing a decrease in volume, albeit at a lower rate than for seamless pipes as a whole, and a slight decrease in price. Order intake for high-end products had already been secured but we began to receive requests for the postponement or cancellation of some orders. We are therefore expecting some drop in volume.

**Q The COVID-19 pandemic must have affected your long-term demand forecasts for steel products. Did you see any signs of an impairment loss?**

A There have been no signs that we will need to record an impairment loss for fiscal 2020.

**Q How profitable will your series of investments in electrical steel sheets be? How will this change your market shares of steel sheets for transformers and for EV motors? Do you have a technological advantage over your peers in this area?**

A These new investments are projected to meet Nippon Steel's profitability criteria and we believe they will be extremely good investments. They will satisfy the present higher-than-expected growth in demand for electrical steel sheets. We cannot comment on market shares but our shares are very high, as we are working closely with customers in the area of super high-end products. With regard to technology, we believe we are at the global top level, as we have overcome the conflicting challenges of making thinner electrical steel sheets with good workability as well as with excellent magnetism. We have decided to carry

out the investments on a scale of ¥100 billion in order to advance further.

**Q Concerning the plan to construct an EAF at AM/NS Calvert (U.S.A.), to what extent have you established the technology required in the manufacturing of high-tensile steel sheet, using an EAF?**

A The plan to use an EAF and manufacture high-grade steel at Hirohata is also ongoing. We basically believe that high-grade products can be manufactured as long as steel scrap with minimum impurity content is procured. The manufacturing process needs to be considered by geographical area. The U.S.A., for example, has a high EAF ratio, mainly due to low-cost electricity and ample supply of raw material for EAF. We intend to accumulate knowledge of various processes, including the MIDREX and COREX processes conducted in India so that we have more options in our global business strategy.

**Q Your joint venture partner in regard to I/N Tek and I/N Kote in the U.S.A. will change from ArcelorMittal to Cleveland-Cliffs. Will there be a change in the equity stakes for these companies?**

A We cannot answer that as of this moment because these are matters related to the parties concerned with I/N Tek and I/N Kote.

End

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