

Nippon Steel Corporation, Third Quarter FY2021 IR Briefing (February 3, 2022) Summary of Q&A¹

Presented by:

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Negotiation of tied (long-term contract) sales prices

- Q Your expected margin for 2H FY2021 has improved compared with your previous forecast in November 2021. This must be due to increases in tied sales prices. What kind of negotiations have you conducted?
- A We have raised our overall margin estimate by about ¥10 billion because 1) our previous estimates for raw material prices in November were at high levels but actual prices were below expectations and 2) domestic steel prices were higher than our conservative guidance while steel export prices were lower than the previous forecasts, driven by a fall in international market prices. In the negotiations on tied sales prices, we urged customers to recognize not just the soaring raw material prices but also the value of our products and solutions, and many customers, though not all, have accepted it.

Q Please explain what you will do going forward to correct tied sales prices.

A Regarding the tied sales prices, we believe that our request has been for the most part accepted by customers. This time, we have discussed changes in business practices as well as price levels, and we have received a certain level of acceptance from them.

However, in addition to commodity prices, the surge in which is currently a great concern for us, the value of our products and solutions that we provide to our customers will also change over time and/or depending on the products involved. As we move forward with our efforts to achieve carbon neutrality, costs will also rise. That is why there is no single, fixed goal for the negotiations on tied sales prices. Rather, it is important to ensure proper margins in view of any change in the situation. We will continue to tenaciously discuss these matters with customers and ask for their understanding on this point.

- Q Given soaring raw material prices and the fall in hot-rolling coil prices, it may be difficult for you to secure underlying profit of ¥600 billion going forward unless you raise the tied sales prices in FY2022 more than the increase in the cost of raw materials. Do you have any comments on this view?
- A First of all, we believe that our estimated consolidated business profit of ¥800 billion for FY2021 can be maintained even if the current surge in raw material prices continues until the end of the fiscal year. As you

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¹ Based on information as of the date of the briefing.



have pointed out, if our margin is squeezed due to higher raw material prices than the assumed level in 2H, we will ask customers to share that increased cost burden in the next price negotiation for FY2022. This is because we believe that fluctuations in raw material prices should be shared fairly across the entire supply chain. We want to generate an underlying profit of ¥600 billion as a minimum from FY2022 and onward.

- Q Concerning price negotiations after the change in business practices, you will determine the tied sales prices when the raw material prices have not yet been determined. So, how will you reflect the actual fluctuation in the raw material prices for the applicable period?
- A In the new business practice, the product sales price will be determined based on certain assumptions regarding raw material prices at the time of negotiation. Naturally, the raw material prices will fluctuate, but since it is desirable that neither the customer nor Nippon Steel incurs any loss or gain from this, it is necessary to introduce a mechanism to follow up and adjust the price. This applies to all tied-sales customers, but how to reflect this depends on individual negotiations with each customer. Please understand that we cannot comment on the details concerned.

Other

Q What is your outlook regarding the overseas business environment?

- A The GDP forecast released by the IMF in January shows the world economy will grow by 4.4% in FY2022, and World Steel Association expects that steel demand will remain solid. Therefore, we are not concerned about the scale of steel demand. However, rising commodity prices are a concern. We are concerned with the margins, rather than the volume. In particular, our challenge is how to control the margin when there is an increase in the cost of overall procurement prices including not only main raw materials but also other commodity materials.
- Q Please tell us about your volume outlook over FY2022, including your views on facility operations and the consolidation of downstream facilities. In addition, concerning the issue of sophistication of the order mix, what will you do to improve the order mix in FY2022, as I do not think that the investment effects of next-generation hot-rolling lines for high-tensile steel sheet and of electrical steel sheet lines will materialize yet by then?
- A Upstream facilities determine the total production volume of steel mills. The relining of #3 blast furnace at the Nagoya Works started in January and will be completed in June, which means that production capacity will increase from 2Q FY2022. With regard to the sophistication of the order mix, there will be no major development in upgrading the facilities in FY2022, but we always make consistent efforts to produce higher value-added products.



- Q Your plan to pay an annual dividend per share (DPS) of ¥140 for FY2021 will put the dividend payout ratio below your target level of around 30%. What lies behind your decision on the DPS of ¥140 and how are you thinking about the dividend for FY2022?
- A The dividend payout ratio for FY2021 is expected to be approximately 25%, and we consider this to be within the target range of "around 30%" set forth in the dividend policy but at the lower limit. In the announcement regarding the year-end dividend plan, we thought that the high earnings in FY2021 would include an unusually large amount of inventory valuation differences, which is a one-off gain and unlikely to be generated in FY2022. Excluding the inventory valuation differences, the dividend payout ratio would be calculated to be around 35%.

Our assumed DPS payment of ¥140 may seem somewhat subdued but we view this as a level that enables us to execute our responsibility to maintain a high level of dividend payment. For FY2022, we intend to secure at least ¥600 billion in underlying profit excluding the inventory valuation differences and to make a dividend payment accordingly.

End

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