

**Nippon Steel Corporation, Second Quarter FY2022 IR Briefing
(November 1, 2022)
Summary of Q&A¹**

Presented by:

Takahiro Mori, Representative Director and Executive Vice President, CFO

Takahiko Iwai, Managing Executive Officer, Head of Accounting & Finance Div.

◆ **Business environment**

Q At present, prices of domestic steel products have become extremely high, while prices of imported products and steel made by domestic electric arc furnaces (EAFs) are low. I am very aware that it is hard to expect timely delivery or good quality in the case of imported products, and that there are fewer types of EAF products, which may mean limited options to handle them. Nevertheless, I think the cost level of domestic steel products has reached a level that cannot be overlooked by customers. What are your thoughts on this?

A We basically want to sell products at prices that reflect the value of our products and services regardless of the market environment. When the seller makes a price decision and the customer determines that the price is not commensurate with the provided value, the transaction will not be closed and the seller will reduce sales volume. In reality, however, as the seller, we are in a cycle of reconsidering the value we provide while taking order conditions into account, so we will not continue to force prices and lose sales volume..

Q The downturn in the international market has become more severe since the beginning of October, and hot coils for Tier 2 and Tier 3 have fallen to the low \$500 range. On the other hand, there is a concern that if La Nina occurs, prices of coking coal may rise sharply. What is your view of raw materials and the unit price of hot coils in formulating the plan?

A Margins in the export market area have basically been factored in at the current price level in the profit and loss plan. Our assumption is that raw material prices will stay at the current level for a while and rise slightly in 4Q FY2022, considering the seasonal risk. In terms of product prices, we have carefully thought about and factored in the current severe market conditions, even though we want margins to remain constant, in consideration of international market conditions.

◆ **Profit/loss and margins**

Q Forecast underlying profit excluding inventory valuation, etc. for 2H FY2022 has been revised down

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

by ¥20 billion (from ¥350 billion yen at the time of the 1Q result announcement to ¥330 billion yen).

What is the reason for this?

A We made a downward revision considering the risk of sales volume decline that might proceed more than we expected at the time of the 1Q result announcement. We have not changed our policy on margins or the prefixed pricing method of direct contract-based sales since 1Q FY2022.

Q Please explain your initiatives related to transactions in export/direct contract sales to customers.

A They vary by product type and sector, but we explained the differentiating factors regarding our products compared to other suppliers' products, confirmed them with customers, and reflected them in sales prices and volume.

When negotiating export/direct contract sales, we are not doing anything different from domestic/direct contract sales. Rather, we have been making efforts to improve margins and prices overseas and for exports ahead of domestic areas. In some cases, we have promoted to incorporate practices conducted in overseas and export business in Japan.

◆ Overseas Business

Q The financial market is looking at your overseas investment not only as a growth opportunity but also as risk taking. In particular, if the current severe business environment continues, in order to secure more stable earnings as you expand the overseas business, it will be important for you to implement measures aimed at cost improvement and structural reform measures that will give you a relative advantage over your peers, such as transferring domestic know-how to local operations. Please explain if you are making such efforts.

A From a long-term perspective, domestic demand may decline faster than expected, and growth opportunities are overseas, so we will aim to capture growth overseas while taking risks. We have been conducting a wide range of business overseas for many years, and our pool of experienced people is growing. Their knowledge and insights, including technology, will be transferred overseas.

The business environment of various countries is extremely harsh, and in India, where we expect steady growth, our peers fell into the red, but AM/NS India is securing a profit. I cannot give you details for next year as that would touch on our strategy, but there are some positive factors that only AM/NS India can enjoy. I am confident that AM/NS India will be profitable next year. AM/NS India definitely has strengths compared to its peers.

◆ Steel group companies

Q The underlying business profit forecast for the steel group companies in FY2022 is ¥180 billion. This has been revised upward by ¥40 billion from the forecast at the time of the 1Q result announcement and is ¥80 billion higher than your FY2025 minimum target. What is the background

and evaluation regarding this? Also, it may be too early but please tell us how we should think about this when factoring in the FY2023 estimates.

- A Our steel group companies have made efforts to reduce fixed costs, control margins, and ask customers to properly recognize their product value in the same way as the parent company's steelmaking segment. The price negotiations have been even tougher for some of their customers than our customers, but partly thanks to our support, they have been able to raise prices up to point of end users.
- Nippon Steel Stainless Steel Corp. is a major factor behind the higher earnings of the steel group companies. Their earnings are being boosted by an improvement in normal margins, as well as by an increase in profits due to the time lag caused by the surcharge system adopted by Nippon Steel Stainless Steel. In addition, EAF companies are enjoying improved margins, driven by the stabilization of scrap prices, and among operational support companies, construction-related companies such as Nippon Steel Texeng Co. are increasing their orders because our capital investment is at a high level. At the same time, secondary processing makers which use semi-finished products we supply, such as Nippon Steel Coated Sheet Corp. and Nippon Steel Metal Products Co., are continuing to control margins relating to sales prices and make considerable cost reduction efforts, in a similar way that we are. We are pleased that the parent company's management efforts are being embedded in our steel group companies.

◆ **NSCarbolex™ Neutral**

- Q In starting up Hirohata EAF, it should be necessary to not only obtain certification from conventional customers, but also to have customers recognize that they can purchase products with a premium as Green Steel. Will this process take longer than in the past? At the same time you plan to obtain certification that you have reduced CO₂ emissions from JIC Quality Assurance Ltd. (JICQA) in Japan. Would this certification issued by a domestic organization be sufficient to sell NSCarbolex™ Neutral overseas?**
- A The premium for NSCarbolex™ Neutral will not penetrate the market unless we expand our agreement about that value with our customers. The challenge is how to set prices for product value and service value, but we would expect it to be similar to our current prefixed method of direct contract-based sales: the supply side decides the price and asks customers whether they will accept it or not.
- We plan to use JICQA for certification by a third-party organization. JICQA has been certified by the Japan Accreditation Board (JAB), a public interest incorporated foundation that aims to develop and establish a mutual recognition system with other countries. JICQA has a strong track record in ISO and other standard certifications and we think that JICQA's certification is sufficient for us to sell the product overseas. We do not believe it is necessary to obtain certification by a separate certification body for each country.

End