

Nippon Steel Corporation: IR Briefing
Concerning Tender Offer for Shares of Nippon Steel Trading Corporation
to Make it a Consolidated Subsidiary and Delist its Shares
(December 21, 2022)
Summary of Q&A¹

Presented by

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◆ **Synergy generation**

Q You explained that the consolidation of Nippon Steel Trading's interest-bearing debt will temporarily worsen Nippon Steel's consolidated debt/equity ratio, but that Nippon Steel will be able to quickly improve it and increase its corporate value by capturing profits and generating synergies. Will you elaborate more on the synergies?

A The tender offer price is at a relatively high level, but I would like you to understand that there is sufficient potential synergy to allow such a premium. We will not carry out projects that are economically unviable. This deal has a certain economic viability and will not impair our corporate value.

Q What measures cannot be implemented in the presence of minority shareholders, and what measures have been restricted by the limited capital relationships?

A For example, when making a large capital investment, there may arise a case such as which company should bear the expense.

As another example, even if we want to improve the operating rate of Nippon Steel Trading's processing bases, both companies cannot share customer sales information at present, so it is difficult to establish optimal operating rates and optimally arrange bases. We are thus heavily constrained by the capital relationship, but this deal will enable us to share information more freely in the future.

Q You have repeatedly explained Nippon Steel's proactive efforts in sale to specific customers at IR briefings and on other occasions. Meanwhile, I understand that this deal aims to streamline the commercial flow of retail sale, mainly in the field of civil engineering & construction materials. Is it correct to assume that efforts that reflect an awareness of the issue of the retail sale pricing system will lead to improved margins?

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

A The deal has three main aims, as described on slide 9 of the briefing materials. I cannot provide details, but by strengthening direct sales activities to firmly grasp customer needs and by increasing the level of discretion in how to assess the efficiency of processing bases, we will be able to increase our cost competitiveness and delivery capacity. The objective is not only to improve margins but also to strengthen competitiveness throughout the supply chain. We believe that the implementation of this deal will benefit various types of customers including customers in sale to specific customers and in retail sale as we will be able to directly access end-customers and make proposals from the viewpoint of optimizing the entire supply chain.

Q Nippon Steel Trading has unique business development capabilities and strengths and is widely engaged in various businesses as a trading company. Will you explain potential synergies and business opportunities arising from these aspects.

A By just staying still, it is impossible to know that there will be unexpected increases or decreases in demand in various areas, such as areas that will be highlighted or those that will suffer due to carbon neutrality in the future. In the past, we often relied on trading companies to provide such information, but we expect that the integrated operation with Nippon Steel Trading will accelerate the development of new business models and new demand by increasing accessibility to customers.

Q At the IR briefing held in May 2022, President Hashimoto said that Nippon Steel needed to streamline distribution. How does that comment relate to the action you are taking at this time?

A Our President always says, “We will increase the depth of our business.” This means that we will go back to the basics, increase the depth of our business to the downstream of the steel supply chain, and aim for integrated management. In short, we won’t just sell things and will care least about the supply chain.

In 2022, we actually had incidents when things did not go well in procurement and delivery due to complex and diverse supply chains in fields such as semiconductors. This is the issue we became aware of. While we did not incorporate this issue into our medium- to long-term business plan, we started to consider this deal in March 2022.

I would therefore like you to understand that, by taking into account the recent major issues and challenges, we have adopted a policy to increase the depth of our business by stepping further into the downstream processing field.

◆ Tender offer price

Q Does the tender offer price reflect the positive impact from the market value of Nippon Steel Trading's balance sheet?

A Based on the business plan of Nippon Steel Trading, we conducted due diligence in light of changes in the external environment, and our financial advisor calculated shareholder value by taking these factors into consideration. Based on this, the current share price level, the prospect of subscriptions to the tender offer, and discussions with Nippon Steel Trading, we determined that a tender offer price of ¥9,300 was appropriate, including potential synergies. We reached this conclusion after thinking about corporate value itself. Although Nippon Steel Trading's share price is currently low, it is a company with potential, and we believe that the integrated operation with Nippon Steel will increase its corporate value.

Q Despite paying such a premium in the tender offer price, why won't you make Nippon Steel Trading a wholly owned subsidiary and why will Mitsui & Co. remain as a shareholder? Does this mean that you wanted to acquire Mitsui's holdings but Mitsui recognized that Nippon Steel Trading deserved such value? Or is this because Nippon Steel Trading needs the help of Mitsui? What is the background to this?

A The reason why Mitsui will continue to hold a 20% stake is that Mitsui and Nippon Steel Trading are planning to realize the benefits of the collaborative measures they are promoting and are likely to further materialize measures in the future. The two companies and Nippon Steel had discussions and have concluded that the continuation of the current capital relationship will contribute to the enhancement of Nippon Steel Trading's corporate value. Therefore, this arrangement has nothing to do with the amount of the premium price.

◆ Carbon neutrality

Q Please tell us how this deal will help or affect your efforts to achieve carbon neutrality.

A In addition to taking on the challenge of making our own manufacturing processes carbon neutral, we are also working to contribute to the carbon neutrality of our customers and society through the use of our steel products. We believe that this deal will be useful in discovering the needs of our customers to promote carbon neutrality. We will pursue this more specifically after we complete turning Nippon Steel Trading into our subsidiary. We believe that the development of carbon neutrality and overseas business will be our two growth opportunities.

End

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