

Nippon Steel Corporation, IR Briefing on Acquisition of Equity and Royalty Interests in Elk Valley Resources Ltd. (February 22, 2023) Summary of Q&A¹

Presented by:

Kazuma Yamanaka, Managing Executive Officer Takahiko Iwai, Managing Executive Officer, Head of Accounting & Finance Div. Kiichi Yamada, Head of Raw Materials Division-I

- Overview of Elk Valley Resources Ltd. (EVR)
- Q Please explain the quality, cost competitiveness, and mine life of hard coking coal mined by EVR.
- A The hard coking coal mined by EVR is high-quality hard coking coal that has excellent strength both in low and high temperatures surrounding when processed into coke, and high reduction efficiency in the blast furnace, contributing to the reduction of CO₂. EVR's coal also has low ash and low sulfur content, which results in low cost in taking measures to reduce environmental impact.

EVR is located on the west coast of Canada, the distance to Japan from there is not much different from Australia, and EVR is competitive in terms of freight. Moreover, the large-scale open-pit coal mining operation enables efficient production. EVR has established a long-standing relationship with major Canadian railway companies in charge of transporting coking coal, and has sufficient capacity to transport coking coal, including its own shipping port on the Pacific side and other port facilities contracted as backup. As far as we know, EVR is one of the world's leading low-cost mines, and we believe that it will continue to operate more competitively.

From the perspective of mine life, EVR's annual production of coking coal for steelmaking is expected to stay at around 25-27 million tons per year for the time being, but its minable reserves exceed 800 million tons, and there is room for new development. We can say that EVR will have abundant resources for the future.

- Objectives of investment (stable procurement of high-quality coking coal, profit structure not affected by external environment)
- Q EVR's enterprise value seems conservative. How did you evaluate it?
- A I will refrain from providing any details, but we have assessed various cases and evaluated the business value using the DCF method, etc., which has been agreed by Teck Resources Limited (Teck). Since the purpose of investment is to ensure stable procurement of high-quality coal, we are comfortable with the conservative valuation.

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



Q How will EVR's profits be reflected in Nippon Steel's consolidated financial statements until it becomes an equity-method affiliate?

- A We will acquire 10% each of EVR's common shares, preferred shares and royalty interest in EVR. Until we are able to consolidate EVR as an equity-method affiliate, contribution to Nippon Steel's profit will be 1) dividends at a fixed interest rate from holding its preferred shares; 2) royalty income distributed from 90% of free cash flow after payment of preferred shares, to be received in proportion to the stake in investment, and 3) ordinary dividends distributed from approximately 50% of the remaining free cash flow to be received in proportion to the equity stake, for the time being. After EVR is listed, we intend to purchase additional common shares and eventually consolidate EVR as an equity-method affiliate. Then, EVR's profit proportional to our equity stake will be recorded as equity in earnings of affiliates under Nippon Steel's PL.
- You said that you will have the right to acquire additional common shares of EVR up to 17.5% of all EVR common shares after its listing. Does the Offtake Rights Agreement enable you to increase the procurement volume proportionate to your equity stake? Please also comment on the procurement price.
- A I will refrain from mentioning the specific procurement volume or price, but through this investment, we will secure a considerable amount of coal that we need over the long term. With regard to the price, we are currently procuring coking coal from Teck at the market-based price. So please understand that the price will be similar to this.
- Q The increase in Canadian coal will change your procurement ratio of Canadian coal and Australian coal. Will this lead to an in increase in your cost?
- A In terms of quality, both Canadian coal and Australian coal have their own characteristics, and in terms of freight, both can be shipped by large vessels, and there is only a slight difference in the distance to Japan. From an overall perspective, there is no difference in competitiveness between Canadian coal and Australian coal.

There are cyclones in Australia and heavy snowfall in Canada. Based on the concept of source diversification, we will maintain our policy of stable and well-balanced procurement.

- Shift to a more resilient consolidated earnings structure
- Q is it correct to assume that your acquisition of coking coal interests has been completed with this investment in EVR? Also, what are your thoughts on the acquisition of iron ore interests in the future?
- A We have not set any specific numerical targets for the ratio of internally sourced coking coal or iron ore. If we find any attractive projects, we will evaluate them in terms of the necessity and economic viability to Nippon Steel and make decisions. Our aim is to realize a more resilient business structure so that we can carry out consistent efforts from upstream to downstream that are needed to achieve carbon neutrality.



Q What is your view of the ideal way to be engaged in upstream operations as a raw materials business?

A Our purposes are to secure stable procurement of raw materials and stabilize our earnings, as stated in the "Purposes" on slide 3 of the briefing material. Meanwhile, we have knowledge about user needs, based on our long experience as a raw material user, and utilization technologies for iron ore and coking coal. We also have the knowledge needed in promoting collaboration with upstream raw material producers to achieve carbon neutrality. By taking part in the management of the raw materials business, we intend to make use of our knowledge and aim for consistent optimization, improvement of competitiveness, and value creation.

Other

- Q ArcelorMittal is also engaged in mining operations. Could you comment on whether the general framework and direction of ArcelorMittal's raw material interests and raw material business are similar to yours?
- A Nippon Steel's investments in mines and major co-shareholders of the mines are listed on slide 21 of the briefing material. We will continue to invest in coal mines and other mines that are superior in quality and cost, as we have done in the past. Although Nippon Steel's investees do not match ArcelorMittal's, we believe their investment approach to upstream raw material interests is more or less similar to ours.

Q Will EVR inherit Teck's sustainability policy and decarbonization plan?

A The sustainability efforts of Teck, shown on slide 16 of the briefing material, have been highly evaluated. EVR will carry on Teck's sustainability policy and decarbonization plan. Moreover, we have heard that EVR will take over the responsibility of reforestation through afforestation and other measures after coal mining of the existing mines.

End

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