

**Nippon Steel Corporation, FY2023 IR Briefing**  
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**Summary of Q&A<sup>1</sup>**

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◆ **Future strategy**

**Q I assume that Nippon Steel’s basic policy will not change but, as you take up the position of president, what do you see as challenges you face and how do you intend to drive the company?**

A Basically, we will continue former President Hashimoto’s policy to realize JPY1 trillion in underlying consolidated business profit and 100 million tons/year in global crude steel capacity. If I may make an analogy with the 400m relay, Hashimoto started as the first runner, and I think I am the second runner, receiving the baton at top notch speed. So, I am running with all my strength to first achieve the medium- to long-term management plan for FY2025.

If I were to add something based on my background, I have an engineering background and I would like to make Nippon Steel a technology-oriented, competitive company. In advancing global expansion and doing business in countries at various stages of development, from developed countries to emerging countries, the technologies required differ depending on the market. So far, we have been promoting various technological developments mainly in Japan, but I believe we need to consider how we will organize our system to conduct R&D in the future.

Decarbonization is another challenge. We are entering a stage where we must make concrete investment decisions relating to climate change. We have three main challenges to address in decarbonization. The first is R&D. Since there is no existing technology to decarbonize blast furnace (BF) steelmaking process, we must develop ultra-innovative breakthrough technologies ourselves. We will receive support from the Japanese government’s Green Innovation Fund for R&D. Since we have almost secured the development menu and budget, all that remains is execution. We have already had the

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<sup>1</sup> Based on information as of the date of the briefing.

encouraging result of a 33% reduction in CO<sub>2</sub> emissions from the test BF.

The second challenge is to move forward with an actual facility implementation plan. Unlike R&D supported by the national project, investment decisions will be made by Nippon Steel alone. As we are a private company, we cannot make judgments based solely on idealistic theories of global environmental issues. We have to incorporate the predictability of the economic viability of the investment, receive support from the government, think about how to finalize the plan, and bring it to a rational decision by the company. I think this is a big theme.

The third challenge is green steel. We need to form a market for green materials. When it comes to advancing GX in the manufacturing industry, costs will be incurred as a result, and we need to realize a market in which such costs will be borne fairly throughout the supply chain, while taking into account the international competitiveness of our customers' industry and getting the support of the national government. This includes efforts to establish international standardization of green steel, that is, an international standardization of the mass balance approach.

These are the areas that I believe I will add to Nippon Steel's management reform initiatives so far with a strong commitment.

**Q You have already met some of the FY2025 financial targets of your current medium- to long-term management plan. Will you indicate a roll-over plan or the next strategy. What we'd like to focus on is not profit or scale, but on your approach to shareholder value. I would like to ask about your efforts to increase ROE and ROIC by appropriately taking into account investments and costs, including those for carbon neutrality, as well as by controlling costs, and by expanding your business models overseas.**

A We are confident that we can definitely achieve the FY2025 earnings targets set in the medium- to long-term management plan. Normally, a medium- to long-term management plan will be for a five-year term and we are most likely to formulate the next one in FY2025.

BF steelmakers like us are facing tough challenges and cannot simply envision a rosy future. As former President Hashimoto mentioned, our assessment of domestic demand for steel products was that about 20 million tons/year was for civil engineering and construction, about 40 million tons/year was for manufacturing, and half of the demand for manufacturing was for indirect exports. However, domestic demand for steel products is currently less than 60 million tons/year, or at a level of 52 million tons/year specifically. In particular, demand for civil engineering and construction is under 20 million tons/year, at only 15-16 million tons/year.

This decline is due to structural factors such as rising material costs and labor shortages, and it is difficult to predict that demand from the civil engineering and construction sector will return to 20 million tons/year in the future. Looking at the big picture, unfortunately, domestic steel production capacity is in the midst of a major retreat. If we stay behind the trend, we will remain in the oversupply environment. However, if we take steps ahead of time, I firmly believe we can produce good results in the next five years as we are showing in the five-year medium- to long-term management plan.

How to build a domestic production framework and how to reform production processes to achieve carbon neutrality will be a set of discussions. We need to think carefully about the business model of the decarbonized steel industry. Our customers are also competing internationally, so they would find it difficult to accept the extreme cost burden as it is. The Japanese government must also be involved in determining the competitiveness of our carbon-neutral steel production process and the competitiveness of Japan's procurement of hydrogen and ammonia. On top of that, what matters is that we can become a company that can increase the competitiveness of high value-added products through technological development while increasing the composition ratio of those high value-added products based on the costs required to achieve decarbonization and the ideal domestic production capacity. In this sense, technological development is very meaningful. Even if the cost of steel products increases due to decarbonization, if the value of the performance of the steel products exceeds the cost, in addition to their environmental value, I think it will be easier for the market to accept such steel products.

The shift in the growth driver from Japan to overseas will remain a major trend. As I mentioned at the beginning, developed countries and emerging countries require different types of steel. So, our challenges include how to design the product mix and product development for each market, and how to establish global bases for that purpose. We will deepen our study so that we can explain to you how our company will evolve to secure profitability and grow globally.

On the other hand, I think it is also important to attract workers to steelworks in a country where the population is declining, although this is a defensive issue. We are also thinking about how to realize attractive domestic steelmaking workplaces, not merely by promoting workers' wages, which we have recently raised.

I'm thinking about various issues but these are my honest remarks regarding some of the issues in my mind.

◆ **Operating results and spreads in steel business**

**Q You said Nippon Steel's target is to secure an underlying business profit of JPY900 billion or more in FY2025 by implementing growth strategy measures. I am aware of the effects of structural measures for Kashima's production facilities in FY2025, but there must be other factors to explain the projected increase from the expected profit of JPY750 billion for FY2024. Will you provide a little more information on the factors that increase profit.**

A The structural measure to shut down Kashima's One series of upstream facilities will have an effect of approximately JPY40 billion, and the sophistication of the order mix, that is, the effect of sales increase of high value-added products partly driven by measures to improve the capacity and quality of electrical steel sheet is estimated to have an effect of approximately JPY30 billion. This will total approximately JPY70 billion. In the overseas business, we expect an increase in profits of approximately JPY20-30 billion mainly from the increase in profits from AM/NS India. As for improvements in variable costs, our BF operations have been extremely stable and contributed to profit in FY2023, but we must achieve further cost improvements. Based on the above, an improvement of more than JPY100 billion is quite possible.

At this briefing, we have presented not only our earnings outlook for FY2024, but also the target for FY2025. Please see it as evidence of our confidence in the target for FY2025.

**Q Please explain the factors behind the decrease of JPY86 billion in "Others" in the underlying business profit variance from FY2023 to FY2024.**

A The main factors behind the decrease in "Others" are human capital investment to secure and promote the workforce and an increase in depreciation costs. Another factor is a boost in one-off expenses, as several joint thermal power plants happened to undergo necessary periodic repairs at the same time in FY2024. These thermal power plants effectively utilize by-product gas generated at steelworks with BFs as the main fuel to supply electricity.

**Q When you explained spread variance, you said that you had been able to break up the linkage between prices of spot market products and prices of direct contract-based sales products. Nevertheless, if these harsh market conditions continue, isn't there a risk that the separation will partially collapse?**

A In the past, direct contract-based sales prices were sometimes influenced by market

conditions, but we have carried out discussions with customers on the valuation of the value of our products, the value of the solutions we provide, and the value of the R&D that we are implementing in the direct contract-based sales area. We think this has resulted in a clear separation of the prices of spot market products and those of direct contract-based sales products. That is the biggest change achieved in the last few years, and there is no turning back.

**Q In your explanation of the composition of spread variance in FY2024, you said that while we will see the effect of the sophistication of the order mix through expansion of the capacity of electrical steel sheets, exports will also increase. Why can't you adopt a strategy to reduce exports?**

A Our crude steel production capacity was approximately 42 million tons/year before the shutdown of Kashima's One series of upstream facilities. If the operation rate of the BFs is lowered too much, there will be operational cost demerits, and significant costs will be incurred even if the BF is shut down after banking. We have formulated a production and sales plan for FY2024 by comparatively considering the spread levels in the export market under the unprecedentedly severe conditions and the cost disadvantages of our production reduction. As a result, the optimal crude steel production volume we envisaged is about 35 million tons/year.

Kashima's One series of upstream facilities is scheduled to be shut down by the end of FY2024. Thereafter, crude steel production capacity will be about 38 million tons/year, which is an increase in its downward elasticity of about 4 million tons/year from the current level, making it possible to reduce crude steel production and export volumes a little more.

Based on the current order mix, the break-even point has already fallen to over 20 million tons/year. As crude steel production capacity will decrease by 4 million tons/year due to the shutdown of Kashima's One series of upstream facilities, we will be able to cut back low-margin orders for exports, and replace them with an increase in highly profitable orders which will be realized by the measures to improve the capacity and quality of electrical steel sheet in FY2025. This will produce a significant synergistic effect. We believe we can become leaner and stronger by 2025.

**Q What are your assumptions for price of coking coal and iron ore in FY2024?**

A Prices in 1H are expected to be flattish relative to market levels in early April, when we formulated our FY2024 plan, and we have factored in a slight increase in prices in 2H, taking into account seasonal factors, such as the trend of rising coking coal prices caused by

weather conditions.

◆ **Matters related to the proposed acquisition of U. S. Steel**

**Q How will you agree with the USW (United Steelworkers) so as to close the acquisition?**

A Nippon Steel's proposed acquisition of U. S. Steel was approved by U. S. Steel's shareholders, and if we receive the approval of the ongoing regulatory review, we will be able to complete the acquisition. In the meantime, we are working to engage in dialogue with the USW so that we can find common ground. We sincerely want to build a constructive relationship with the USW to build the future of U. S. Steel together.

Our proposed deal is an investment aimed at growing U. S. Steel. We will share our technology, inject capital into U. S. Steel operations, and make U. S. Steel stronger and more profitable, thereby likely increasing employment. So, in addition to our commitment not to make any layoffs as a result of the transaction we expect job security will improve more generally as we continue to invest in U. S. Steel. Moreover, through sharing our technology, U. S. Steel will be able to supply higher value-added products, and therefore the entire supply chain, including the automobile industry, will be stronger, and we will contribute to making America stronger.

**Q Is your dialogue with the USW heading in a favorable direction?**

A: We are seeking to explain our position not only to the leadership of the USW International. Together with U. S. Steel, we are meeting with U. S. Steel's union-represented employees and elected local union leaders to explain our intentions regarding the proposed acquisition and answer their questions. We believe these discussions have been received very favorably and we would like to continue engaging with the USW so that they can better understand us and see the long-term benefits of this transaction for their members.

◆ **Decarbonization**

**Q Nippon Steel has been saying, "We want to become the global leader in carbon-neutral technologies, which we hope will lead to a growth scenario." Please tell us where Nippon Steel currently stands in the development of decarbonization technologies among your competitors around the world, and what challenges you will face in the future.**

A We are carrying out R&D to decarbonize the BF by performing hydrogen reduction in the BF. As announced on February 6, 2024, our Super COURSE50 development test at a pilot test

furnace, which uses heated hydrogen to reduce CO<sub>2</sub> emissions, confirmed the effect of reducing CO<sub>2</sub> emissions by 33% at the end of last year. Although it is a small test BF, we can be proud of the successful reduction of 33% worldwide. The test campaign can only be carried out once every six months, since once a test is conducted, the furnace is dismantled and inspected to prepare for the next test. In FY2024, those involved are striving hard to achieve a 40% reduction target. After good results are obtained in a small test furnace, we need to take a step to deploy the tests to an actual large BF. This step is most likely to take time but we are preparing to conduct tests in a large BF in the latter half of the 2020s.

We are most concerned about China's Baowu Group. With a considerable budget, it is conducting tests to inject hydrogen gas into an actual BF. Since the detailed test results have not been released, so many things are unknown, but I think it will be a competition with Baowu Group.

As a technology that can be commercialized by 2030 before establishing the Super COURSE50 commercialization technology, we are advancing measures to manufacture high-grade steel in large-scale electric arc furnaces (EAFs). In terms of technological competitiveness, the first EAF operating in Hirohata has already succeeded in producing extremely high-performance electrical steel sheets equivalent to or better than conventional steel sheets. From a global perspective, we are the only company that can manufacture high-grade electrical steel sheets in an integrated EAF steelmaking facility. We therefore think our technology for manufacturing high-grade steel sheets in an EAF is ahead of other companies.

Having said that, Baowu Group is also constructing an EAF in Zhanjiang, and POSCO is also advancing an EAF project in Gwangyang. They are ahead of their competitors in the commercialization of EAFs. Since the Japanese government's support scheme for CAPEX and OPEX has become formulated over the last fiscal year, we are working out whether we can make an investment decision as a company while making the most of such support. We want to put it into practice in time for 2030.

By the way, even if we have established the process technologies that I just mentioned, that is not enough. There are also issues concerning the utility supply chain, such as how a mega supply chain for hydrogen and ammonia will be developed, how much these materials will cost, and whether the power supply to the large-scale EAFs will be sufficient. They are external conditions that should be developed by the Japanese government with its policy. While assessing these issues, we will continue to think about what kind of carbon-neutral production process we should devise.

◆ **Dividends**

**Q Your consolidated dividend payout ratio for FY2024 is rising to nearly 50%. Please tell us about your future approach to shareholder returns, including raising the dividend payout ratio and introducing DOE.**

A The dividend payout ratio forecast for FY2024 appears to be high at 49%, but the four-year average for FY2021-FY2024 is 28%. We have stated that, based on our dividend policy to realize a dividend payout ratio of 30% as a guideline, we will pay dividends by taking into account our earnings outlook and other factors. There is no change in this policy. Our target presented this time for FY2025 is supported by concrete measures, and based on this outlook, we have decided to pay dividends at a higher payout ratio in FY2024.

End

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