NIPPON STEEL

Nippon Steel Corporation, 3Q of FY2024 IR Briefing
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Summary of Q&A[1]

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◆ Business strategy

Q Please explain the direction of the underlying consolidated business profit and loss for FY2025. This time, I have not seen any momentum toward achieving the JPY900 billion outlook for FY2025. While there might be positive effects from the growth strategy, I am sure there are also negative factors. Could I ask you to restate your current perspective?

A Up until our previous financial results announcement, we had shown our FY2025 performance outlook, which reflected only the effects of autonomous cost improvements and our growth strategy. However, due to the increasing uncertainties within the current business environment, we are not providing any guidance at this time.

Included in these sources of uncertainty is the geopolitical and other risks to the macroeconomy. The impact of the imposition of tariffs by many nations remains unclear, and so we want to identify the impact of such tariffs more precisely. Another factor is the necessity to carefully monitor China's future actions and to evaluate their influence on a broad range of industries. Since we are still evaluating these uncertainties, we are not yet at a stage where we can change our perspective, nor provide a detailed outlook. Accordingly, we intend to announce an updated FY2025 outlook at our fiscal results announcement in May 2025.

Q There have been various movements regarding Group company-related initiatives. Could you explain the background and aims of the two cases—the full acquisition of Sanyo Special Steel Co., Ltd., and the application for tender offer in Osaka Steel Co., Ltd.'s treasury stock TOB? There are also other publicly listed subsidiaries and equity-method affiliates. Considering aspects such as cash balance and capital structure, could you explain your reasoning behind each holding?

A As you stated, we have several initiatives in the works. The aim of both is to maximize the profitability and efficiency of both Nippon Steel and of Group companies. With regard to

[1] Based on information as of the date of the briefing unless specified otherwise.

making Sanyo Special Steel a wholly owned subsidiary, while domestic demand for special steel is entering a highly challenging phase, demand remains strong particularly in markets such as India and the United States, where we see opportunities. There is a significant difference in efficiency and potential in pursuing these opportunities with Sanyo Special Steel alone versus leveraging the resources of Group. Thus, we decided upon this course of action as working jointly greatly enhances our collective strength, particularly in overseas business. As for Osaka Steel, we have in place sound measures aimed at improving the company's capital efficiency, that will contribute to enhancing the company’s corporate value through its medium-term initiatives, which will in turn improve the value of our entire Group.

Each Group company operates in distinct business domains and confronts varying business environments. Our approach considers the business environments and unique challenges faced by individual companies, and reflects them in our capital strategies. Accordingly, we do not implement measures uniformly based on general policies. Moving forward, we will continue to carefully consider each company's situation while looking at the business environments and unique challenges each faces.

Q The full acquisition of Sanyo Special Steel as well as the absorption-type merger with Nippon Steel Stainless Steel Corporation put forward pursuing production integration and optimizing production systems as objectives and as ways to achieve synergies. As an example, I think actions such as consolidating orders into one factory or integrating brands should be carried out as soon as possible. Could you comment on the timeline and speed of specific initiatives regarding production integration and realizing synergies?

A As for the case of Sanyo Special Steel, both companies are well aware of the current difficult situations surrounding the special steel business, and its expected pace of deterioration in the future. Thus, we need to work together toward further pursuit of an optimal production system. We cannot currently specify the point by which specific measures will be implemented, but we intend to reach decisions and action as quickly as possible. Of course, by no means does this mean we are starting discussions from scratch—instead we have already shared our sense of the challenges involved, and have discussed matters within the capital constraints of being separate companies. Now that these barriers are finally being removed, we will move forward with an even greater sense of speed.

Q Regarding the establishment of a stable and high-profit structure (Slide 15, IR Briefing Materials), looking back at the initiatives over the past few years, the profitability of the Group companies appears to have remained stable even in a tough environment. Could you provide some specific examples of synergy effects within the steel group?

A Taking the example of Nippon Steel Trading Corporation, which became a subsidiary in April 2023, we have already demonstrated the various synergistic effects. While each of these effects may be small, we have been steadily implementing initiatives that contribute to strengthening competitiveness across the entire supply chain (Slide 37, IR Briefing Materials). We quantitatively track and manage the results of these measures as specific synergistic effects, and we will continue our efforts to maximize them. Please refer to slide 36 of the IR Briefing Materials for details of the synergistic effects at Sanyo Special Steel. Specifically, we are working on the following two points: (1) expansion of earnings opportunities and strengthening of business strategies through further integration and optimization of the special steel bar and wire rod business, and (2) further pursuit of optimal production systems. Also, regarding the absorption merger of Nippon Steel Stainless Steel, both companies will join efforts to confront various challenges, and to maximize synergistic effects.

Q Concerning the status of AM/NS India (Slide 25, IR Briefing Materials), I understand that the Indian hot coil market is trending downward due to the impact of Chinese exports, and that this is leading to a slight decline in EBITDA this fiscal year. On the other hand, expansion of production capacity is progressing (on slide 25, bottom left). Given the current weaker market situations, is the company able to maintain profitability?

A As you can see on slide 25 of the IR Briefing Materials, steel demand in India is expected to increase over the medium to long term—currently demand is growing at a rate of 8% or more year-on-year. On the other hand, expansion of capacity is by necessity a staged process. This means that before and during this expansion, there is the possibility of a gap in which imported steel may enter the market (on slide 25, bottom right). In the expansion plan for the Hazira Steel Works that is currently in progress, the first phase aims to increase mill capacity to 14-15 million tons. However, even at this level, capacity remains insufficient to meet demand, and there is no shortage of orders to take up this capacity. Accordingly, we need to ensure the first phase proceeds successfully.

In addition to further expansion of Hazira Works, we are also considering the construction of an integrated steel mill in Eastern India. We will proceed cautiously while monitoring the progress of India's medium- to long-term growth. In any case, the India market continues to grow, and we believe it is essential that we respond to changes with flexibility and broad perspectives. In conclusion, we would like to complete AM/NSI's capacity expansion as quickly as possible in order to keep pace with market demand.

Q Production facility structural measures that include the termination of blast furnaces, have formerly been performed in accordance with the schedule in the medium- to long-

term management plan, but there is concern that the market may perceive these efforts as being already factored in. In future management plans, will there be additional measures such as cost reductions, or changes to the production system or product mix aimed at further lowering the breakeven point?

A For domestic production facilities, it is crucial to maintain production capacity and systems aligned with the market while enhancing profitability, rather than simply reducing capacity, which would only lead to downsizing.

With respect to the expansion of overseas business, we need to strengthen our adaptability in the growing Indian market. We also want to gain a stronger footprint in the U.S. market as soon as possible. Currently, U.S. market conditions are not very favorable. However, we are optimistic that U.S. Steel' financial performances can improve despite the current market conditions, through the collaboration between U. S. Steel and Nippon Steel, and through the utilization of Nippon Steel' s technologies. Although the pending U.S. Steel transaction has already taken a year, we aim to close the deal as soon as possible, pending receipt of required regulatory approvals, to strengthen their profitability.

◆ **Business environment and operating results**

Q Regarding the domestic steel business, what are the reasons behind the JPY5 billion upward revision in the full-year forecast?

A This is because of lower raw material costs during this period for direct contract-based sales, for which prices have already been determined. Please understand that in direct contract-based sales, temporary increases or decreases in spread relative to its appropriate levels occur due to differences between the assumptions in the price negotiation and actual external costs (in this case, raw material costs). Here, this resulted in an expansion of the spread.

Q Regarding contract-based spreads (Slide 58, IR Briefing Materials), my understanding is that during both 1H and 2H of FY2024, raw material prices declined after prices had already been settled for direct contract-based sales to customers—could you provide an estimate of the impact?

A JPY5 billion improvement in spread in the domestic steel business compared to the previous forecast was due to lower raw material prices. For the spread in direct contract-based sales, our policy is to structurally maintain and secure an appropriate spread level by reflecting external cost fluctuations in steel prices throughout a fair allocation of the burden of external cost fluctuations across the entire supply chain, and we have established a mechanism for reflecting raw material cost fluctuations. As I mentioned earlier, the impact of recent raw material price fluctuations is a temporary deviation from the appropriate spread level due to differences between assumed costs in the price negotiations and the actual external costs (in this case, raw material costs). This will be adjusted in subsequent periods, and will be neutral in the long term. In addition, from this FY2024 to FY2025, as the sophistication of order composition advances, we will improve spread levels by shifting more to high value-added steel products.

Q What is the total positive impact of lower raw material prices on the improved spread in direct contract-based sales for FY2024?

A It is difficult to give a quantifiable response about the impact of raw material price changes for the full year due to carryover effects and other positive and negative factors. However, raw material prices have generally been on a downward trend throughout FY2024. As a result, these can be considered as downward adjustments made quarterly from 1Q FY2024 onwards. For FY2025, we will consider the current FY2024 4Q or 2H as the starting point.

Q What are the price assumptions for coking coal in 4Q FY2024? Coking coal prices have remained mostly flat since 2Q, and so I would like to know whether JPY5 billion upward revision of the spread for FY2024 was based on the review of the latest spot prices, or whether the current assumptions remained unchanged.

A We assume that coking coal prices in 3Q and 4Q will remain at roughly the same level. However, we have not factored in the current slight decline in spot prices below that level. Please assume that our forecast is based on similar levels of 3Q price.

Q Regarding the termination of Kashima No. 3 blast furnace, could you explain the expected effects from 1Q FY2025 onward in terms of cost, volume, export ratio, and the like?

A The Kashima One series of upstream facilities, which include the Kashima No. 3 blast furnace, will be terminated by the end of March 2025 as scheduled. First, the cost reduction effect will be JPY40 billion, mainly in fixed costs. Further, while the current operating rate for all of our blast furnaces is at a low level, below 90%, we believe that the 3-million-ton capacity reduction due to the termination of the Kashima blast furnace will enable the remaining blast furnaces to return to an optimal operating range—around 90% utilization. This will also provide benefits in terms of variable costs.

On the other hand, we expect the export ratio to be around 51% in 2H FY2024. The main reason for this is the massive decline in domestic demand, but it remains uncertain to what extent demand will recover in FY2025 and beyond. If the current situation persists, there is a possibility that the export ratio will be maintained at a reasonable level even after the termination of the Kashima blast furnace. Although the spread on commodity steel exports is currently plateaued at a low level, we have a solid export customer base, and so are conducting economically rational exports. We will carefully manage our exports, paying close attention to safeguard issues.

Q Given the current global trend toward protectionism, Japan's export ratio remains relatively high. I am concerned about the influx of low-cost Chinese exports and being caught up in protectionist policies by various countries. Do you expect to resolve this through negotiations as in the past, or would you say this situation is fundamentally different?

A We have a diverse customer base, including distant overseas markets. Since trade policies apply to all equally, we cannot say that we will remain unaffected. We are still assessing the impact at this point and are actively monitoring any developments.

Q I'd like to ask about the future export business environment and response strategies. The spread on exports, which account for around half of domestic steel shipments, is lower than that for domestic sales. Domestic demand both in the construction and manufacturing sectors, continues to drop year-on-year in terms of orders received. In view of these margins and declining domestic demand, the current market situations we are facing mean that the planned termination of the Kashima blast furnace next month, as well as the hydrogen injection trials and actual equipment testing at the Kimitsu pilot blast furnace seem well-timed.

Moving forward, it will be increasingly important to take flexible measures such as dynamically adjusting export volumes and narrowing down the exports that do not secure a marginal profit, while keeping an eye on facility operating conditions. Considering future business plans and changes in production facility structure, is there a possibility that you will actively scale back exports?

A We share the same concerns. The biggest challenge for the steel industry right now is the extremely weak domestic and overseas demand. Additionally, China's large export volumes continue to make it difficult for us to expect any improvement. Unfortunately, we have no choice but to assume that these conditions will persist into the medium term, as we consider taking immediate actions. We will start formulating our next medium- to long-term management plan in FY2025. Here again, the time and speed in developing such plan will be important.

Q The steel supply-demand gap in China is expected to widen further (Slide 10, IR Briefing Materials)—how do you plan to deal with this situation?

A Trends in China's steel exports are shown on slide 9 of the IR Briefing Materials. In 2024, China exported a massive 110 million tons of steel, but a similar situation also occurred around 2015. Then, China expanded its production capacity, and directed the surplus steel toward exports—these could be described as chaotic and unregulated. At that time, the Japan-China Steel Dialogue, a public-private dialogue and discussion that included other countries, was held. This called on China to curb its unregulated exports, and to streamline its excess production capacity to prevent global disruptions. China subsequently began reducing and optimizing its capacity, including from a perspective of carbon neutrality, along with aligning production and shipments with actual demand.

However, over the last few years, the overall deterioration of the Chinese economy, combined with the steel industry's continued high production levels, led to a large-scale surplus in steel exports. Another justification for this practice is the fact that an easing of supply and demand for steel, leading to lower steel prices, is not necessarily bad for the country as a whole. Even if the steel industry operates at a loss, if steel-consuming industries are profitable and can generate earnings, this will benefit the country as a whole. The issue has now become far more complex than in the past, making it difficult to change the situation solely through dialogues within the steel industry. It may be necessary to expand discussions beyond Japan alone, possibly to include G7 countries or a broader international framework.

So, what should we do? The only option left is to consider our survival as an individual company. We cannot simply wait and hope that dialogue will lead to a change in China's productions and shipments. As discussed today, we have been strengthening our profitability as an individual company, but we need to further increase such profitability if we are to withstand this crisis and survive. China's increase in steel exports will not stop here—they are likely to increase by another 10 million tons per year, and so we will need to consider these challenges carefully when we formulate our medium-term business plan next year.

Q I'd like to ask about the threat posed by Chinese companies in the electrical steel sheet market. In the past, there have been lawsuits filed against Baoshan Steel in the electrical steel sheet sector. Could you touch on your company's current competitive advantage in this field, the threat from China, and other technical competitors?

A Historically, there was a leak of electrical steel sheet technology from our company to Baoshan Steel via POSCO in South Korea. However, we have been constantly refining our technology since then, and we believe that we still maintain a competitive advantage with cutting-edge, high-value-added GO (grain-oriented electrical steel) and NO (non-oriented electrical steel) products. In other areas, however, we cannot deny that our competitors are catching up.

◆ **The U. S. Steel merger**

Q I have a question regarding the current status and prospects of the lawsuit. I understand that litigation takes time, and even if you win the case, the merger will be re-reviewed by the Committee on Foreign Investment in the United States (CFIUS), meaning the immediate focus should be on persuading President Trump to change his stance.

A As you know, the court ordered an expedited schedule in response to our request, so we expect a swift resolution. At the same time, as you pointed out, President Trump's position is a critical factor. We have already begun various efforts to reach out to President Trump and explain our proposal to strengthen and grow U. S. Steel by investing both capital and technology. We believe that this is an optimal solution, in that it will benefit not only U. S. Steel itself but also all stakeholders including its customers and communities, ultimately enhancing U.S. competitiveness. The Trump administration's policies focus on attracting foreign investment, creating new jobs, revitalizing the U.S. economy, strengthening U.S. manufacturing, and user industries including supply chains, ultimately correcting trade imbalances. We believe our proposal aligns very well with these policies.

Q I'm aware that the remaining steps toward closing the deal include CFIUS and antitrust reviews—could you confirm the status of the antitrust review?

A We have already addressed possible concerns by proposing the divestment of our stake in AM/NS Calvert as a remedy.

Q Since (the President of) the labor union is also subject to litigation, is there a risk that relations with the union could become an issue even if the merger goes through?

A While the USW union's approval is not a requirement for completing the transaction, we believe that building a good relationship with the union is essential for business operations, and is also extremely important for us. We have always been open to engaging in dialogue at any time in the event that they have concerns or issues they may want to resolve.

Q The offer price is USD14.1 billion, USD55 per share, but based on U. S. Steel's financial reports, U. S. Steel's financial performance has deteriorated recently, and some U.S. competitor is proposing a price below USD40 per share. In light of the changes over the last year, would it be possible to renegotiate the offer price?

A The offer price is clearly stated in the merger agreement and cannot be changed. The question then becomes whether we can generate sufficient returns at USD55 per share—approximately JPY2 trillion/USD14.1 billion. We are looking at this deal from not a short-term, but a long-term perspective, and we are optimistic that with our technology and capital, we can enhance the competitiveness of U. S. Steel. The U.S. market is of paramount importance to us, and we are confident that we can make U. S. Steel a core company of our global strategy and that the U. S. Steel's financial performance will improve.

Q In the unlikely event that the U. S. Steel merger becomes unfeasible, what sort of global strategy would you consider? Would you pursue quantitative expansion through other means than U. S. Steel, or would you focus on further business expansion in upstream or downstream sectors?

A Our core overseas business strategy is to expand integrated production capacity in regions in which we anticipate a growth in demand, and where we can leverage our technological and product strengths. The United States has the highest demand for high-grade steel and the U.S. market is expected to continue expanding. Given the critical importance for us to do business in the U.S. market, we are fully committed to this transaction in the belief that this is the best course forward.

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