NIPPON STEEL

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

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◆ Business strategy

Q Please explain <u>the assumptions of the underlying consolidated business profit forecast of ¥600 billion for FY2025</u> (IR presentation materials, page 7). As for the impact of U.S. tariffs, as explained earlier, if we assume that indirect exports were to become zero, Japan's total indirect exports would amount to 5 million tons, of which your company's share would be 40%. This would correspond to a decrease of 2 million tons, and by multiplying that volume by the unit marginal profit, we estimate a decline in profit of approximately ¥100 billion. Is this a reasonable way to assess the impact? Also, have you factored in the worst-case scenario?

A Starting from the annualized ¥840 billion in the actual underlying business profit for 2H of FY2024, we have factored in the effects of the production facility structural measures, such as the shutdown of the One series of upstream facilities in the East Nippon Works Kashima Area, which contributes ¥40 billion, as well as investments in capacity and quality enhancement of electrical steel sheets and ongoing cost improvement efforts. From this base, we project a profit decline of approximately ¥180 billion due to a worsening business environment. The main factors include the decline in steel market prices both in Japan and overseas, driven by China's economic slowdown and the exports of low-cost steel products, as well as the continued decline in raw material prices from the previous fiscal year, which is negatively impacting the profitability of our raw materials business. In addition, our spreads in direct contract-based sales fluctuate along with the external cost fluctuations after the price of steel products is determined. While this had a positive effect in FY2024, it is expected to have a significant negative effect in FY2025. As a result of these factors, we expect our underlying business profit to decline to the ¥700 billion range.

Moreover, we are taking into account the impact of U.S. tariff policy. While it is extremely difficult to assess this impact precisely, we have incorporated a worst-case scenario. Our

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

direct exports to the U.S. amount to only several hundred thousand tons annually, so the direct impact is limited. However, we estimate that Japan's indirect exports to the U.S., mainly for automobiles, total around 4.5 million tons. Assuming that this figure drops to zero toward 2H of FY2025, we have estimated the impact by applying our steel share and unit marginal profit. We are also using an exchange rate assumption of ¥140 to the dollar. While we have consistently noted that exchange rate fluctuations do not have a large impact on our business performance, we have considered the potential downward pressure on the domestic steel market prices due to the increased competitiveness of imported products caused by yen appreciation. Taking all of these factors into account, we estimate a negative impact of nearly ¥100 billion under the worst-case scenario. Even in such a case, however, we have confirmed that we can secure ¥600 billion or higher in underlying business profit. Although the estimate is not highly precise, we are projecting that we will achieve ¥600 billion or higher even under the worst case.

Q **Forecast of the underlying consolidated business profit for FY2025 (IR presentation materials, page 7): The chart on the bottom right indicates that your underlying business profit will increase from ¥793.7 billion for FY2024 to over ¥900 billion, as targeted as of November 7, 2024, due to the effects of your growth strategy. I understand that you indicated this as you have made certain commitments to generate the effects from ongoing cost improvement efforts, reductions in fixed costs due to the shutdown of the blast furnace at Kashima, and efforts to maintain appropriate spreads in domestic direct -contract sales, etc. Could you please confirm this understanding?**

In the past, during the COVID-19 pandemic and the outbreak of the Russo-Ukrainian war, your company either refrained from disclosing guidance or only released approximate figures. My impression is that the figures announced this time are also based on a worst-case scenario, and not a formal profit forecast. That said, I presume that a proper internal budget has been formulated. If the effectiveness of your growth strategy can indeed be committed to, we believe that the impact of environment deterioration and tariffs could then be considered as a buffer. Would it be reasonable to assume that, if the situation becomes clearer, formal guidance will be disclosed at the time of the 1Q results announcement?

A Regarding profit improvement measures that we can commit to, we are making solid progress with investments to increase production capacity aimed at improving the volume and mix of high-grade steel products—primarily electrical steel sheets. This business strategy has already started to contribute to earnings. Regarding the shutdown of Kashima's One series of upstream facilities, the effects of fixed cost reductions have also accumulated to approximately ¥40 billion, as previously mentioned. We are also working to optimize repair and maintenance costs along with costs to coordinate with subcontract firms, centering on fixed cash costs. These initiatives are being developed at a scale comparable to the effects of the Kashima shutdown. In the raw materials business, we expect returns from the investment in Blackwater from FY2025 onward, and an improvement to profit totaling approximately ¥100 billion is materializing, including synergies from the reorganization and integration of group companies. As a result of these initiatives, we had expected to generate underlying business profit of around ¥900 billion in FY2025.

However, there are still uncertainties, such as changes in the business environment and the impact of trade policies including U.S. tariff measures. In view of these factors, we aim at enhancing the accuracy of our guidance with each quarterly results announcement.

Q **<u>Possibility of further capacity reduction in Japan</u> (IR presentation materials, page 29): If domestic demand below 50 million tons becomes normalized, is there a possibility that you will consider further capacity reductions when formulating the next medium- to long-term management plan? Yesterday, your peer company announced the shutdown of a blast furnace in its new medium-term management plan. Could you comment on the reduction of domestic production capacity?**

A As you may be aware, we have been working to significantly reduce production capacity and establishing an optimal domestic production system ahead of our peers. At the end of FY2024, the No. 3 blast furnace in Kashima was structurally shut down, and even under the current subdued demand environment, our blast furnaces are operating at a utilization rate that allows us to maintain minimum-cost operations, meaning our production capacity is currently aligned with actual requirements. Going forward, what we must consider is how far we can further strengthen our competitiveness in the domestic spot sales market. We believe this will be the most important point.

As a future profit improvement measure, we have two options: either to increase competitiveness and maintain the production volume, or to go further in reducing capacity to lower fixed costs and improve profitability. While we do not rule out the possibility of ultimately choosing the latter path and further reducing capacity, we do not consider this to be prerequisite for our deliberations.

Q **<u>Your aim of establishing a joint venture with Nakayama Steel Works and the expected benefits</u> (IR presentation materials, page 31): Could you please explain specifically how this JV is expected to contribute to your earnings? For example, will you sell hot coils purchased from the JV under your own brand?**

A In the domestic steel business, we have been working to improve the steel spreads mainly in the direct-contract sales. At the same time, by also prioritizing spread improvement in the spot-sales business, we have inevitably lost some market share in this area. Looking back on the past 12 months in particular, there has been a significant influx of imported materials, including those from China.

In response to these circumstances, we have been considering possible measures in the domestic spot-sales market. Among these, we learned that Nakayama Steel Works plans to build a new electric arc furnace (EAF) for ordinary steel. We see this as an opportunity to capture domestic demand by expanding the product line-up centered on high-grade EAF steel sheets, leveraging Nakayama Steel's technological expertise and competitiveness cultivated through their experience with EAF-produced steel sheets, combined with their state-of-the-art and cost-competitive EAF facilities. We will continue to work out the details with the aim of starting operations around 2030 or later.

Q <u>Capacity expansion plan for AM/NS India in India</u> (IR presentation material, page 36): EBITDA of AM/NS India has been decreasing recently. In such a situation, isn't it a risk to proceed with the capacity expansion plan? While I am aware of the movement toward the introduction of safeguards in India, will you share your thoughts on this?

A As you pointed out, EBITDA of AM/NS India has recently declined. This is primarily due to falling steel prices in India, which have been affected by a decline in prices across Southeast Asia – driven by increased exports of low-priced steel from China. In response, the Indian government has taken steps to implement safeguard measures to curb imports.

That said, Chinese steel products have not penetrated the Indian market, and as a result, Indian steel prices remain approximately $150/ton higher than those in the ASEAN market. Furthermore, under the Indian government's target of producing 300 million tons of crude steel by 2030, a limited number of major steelmakers are increasing their capacity. In light of these factors, we continue to view India as a market with strong long-term growth potential. Since building integrated steelworks requires considerable lead time, we are proceeding with plans in a timely and phase manner to keep pace with India's growth. We believe that separating our short-term and medium- to long-term strategies is the appropriate approach.

Q Free cash flow is expected to deteriorate significantly In FY2025 due to a substantial reduction in operating cash flow and an asset streamlining plan being limited to only ¥50 billion. While I understand that investments will continue steadily, could you please explain <u>how much room and flexibility there is to adjust cash outflows and reduce assets</u> if operating cash flow falls sharply?

A As you pointed out, if underlying consolidated business profit reaches ¥600 billion, operating cash flow will drop significantly. However, we do not consider this level acceptable. We are closely monitoring the impact of the Trump administration's tariff policy, which remains the biggest factor of uncertainty, and are actively exploring ways to improve underlying profitability. At this stage, we aim to revise upward our forecast for underlying business profit.

Regarding asset streamlining, we sold shares of POSCO and Kobe Steel in FY2024. For FY2025, we can present a partial sale of Nippon Steel Kowa Real Estate shares, which has already been decided, but we intend to add more in the future. We are also working on reducing inventory. We would like to improve free cash flow by raising the level of underlying business profit as well as by taking additional measures to reduce assets.

Q <u>Asset streamlining</u> (IR presentation materials, page 22): In recent years, you have reduced assets by ¥100–200 billion per year, but more than 80% of strategic shareholdings have already been sold. What measures are being considered going forward? Could you also comment on whether the dissolution of parent-subsidiary listings might be a possible option?

A As you pointed out, we have already executed a substantial portion of our strategic shareholdings sales, so the volume of remaining shares available for sale is limited. That said, as part of our ongoing portfolio review - including our group companies, we believe that there may still be opportunities for further share sales.

We are aware that parent-subsidiary listings are currently a topic of active discussion. However, we do not intend to make capital policy decisions based solely on the fact that such listings exist. Rather, we believe that it is essential to take a holistic view—carefully considering business synergies and overall effectiveness of collaboration between parent and subsidiary companies. Examples of this include the sale of shares of group companies and the full acquisition of Sanyo Special Steel as a wholly owned subsidiary. We will continue to reassess our portfolio on a case-by-case basis, guided by this comprehensive perspective.

◆ Business environment and operating results

Q It appears that <u>approximately ¥200 billion of “environmental deterioration” has been factored into your FY2025 underlying consolidated business profit forecast</u> (IR presentation materials, page 7): Given that the Asian steel market has already experienced a significant deterioration in spreads due to the worsening supply-demand balance in China, does this mean that an additional ¥200 billion in negative environmental factors is expected?

A The estimated negative impact from environmental factors is indeed close to ¥200 billion.

This includes 1) a deterioration in the sales environment for both domestic and export markets, as well as in local markets served by overseas bases; 2) the impact of declining raw material prices; and 3) fluctuations in the spreads, which arise temporarily due to difference between assumed and actual external costs, particularly during the period from 2H of FY2024 through FY2025, after sales prices for steel products have been set.

In particular, the impact of Chinese steel products is gradually intensifying. Trade measures are being strengthened in various countries, including India's safeguard measures and South Korea's anti-dumping duties on hot coils. Japanese steel is not immune to these developments, and we have assumed zero shipments to those impacted regions in our outlook. U.S. tariff policies are also having an effect, and it has become difficult to pursue strategies such as exporting hot coils when domestic demand weakens – as was previously the case.

The decline in raw material prices is expected to have a considerable overall impact, as it not only compresses the spreads in direct contract sales due to price-setting timing, but also negatively affects returns from our raw materials business.

Taken together, the deterioration in the sales environment, the decline in raw material prices, and the spread compression due to price timing are expected to result in negative impacts totaling more than approximately ¥100 billion. Consequently, our underlying consolidated business profit forecast for FY2025 has been revised downward from initially-expected ¥900 billion to around ¥700 billion. Even in a worst-case scenario that includes the impact of U.S. tariff measures, we still expect to secure ¥600 billion or higher.

Q <u>**Spread in domestic contract-based sales in FY2025**</u> **(IR presentation materials, page 68): To what level do you expect it to decline? In particular, there are concerns about maintaining appropriate spreads in sales to automakers.**

A Through our ongoing efforts to maintain appropriate spreads, we have established a clear segmentation within the direct contract-based sales, along with a pricing mechanism distinct from that of the spot sales. As a result, we have not experienced any spread compression in the domestic direct contract-based sales. As I explained earlier in explaining the establishment of a joint venture with Nakayama Steel Works, the issues in the domestic spot sales are a decline in prices and the loss of market share, caused by the impact of imported steel products.

Q <u>**The supply-demand environment for steel in China**</u> **(IR presentation materials, page 11): You mentioned that the current excess supply in China is structural, and that there is no sign of improvement, but there have been increasing reports of production cuts**

in China recently. How do you view this? Additionally, could you share your thought on the impact of the reported 50-million-ton production cut in the steel market?

A As a premise for the FY2025 outlook, we have assumed no production cuts or adjustments in the Chinese steel industry. On a macro level, state-owned mills, which constitute a large portion of China's steel production, act in accordance with the central government's instructions, and we do not believe that the central government has issued any specific instructions for production adjustments. At present, it appears that Chinese state-owned steelmakers are prioritizing the maintenance of production and employment levels. Moreover, we believe China's strategy to increase exports of low-cost steel, caused by the widening supply-demand gap, remains unchanged.

Meanwhile, trade measures are being strengthened in various countries and regions, resulting in an increasing number of markets where exports from China face restrictions. We are concerned that this will lead to increased import pressure on the Japanese steel market. Along with the recent appreciation of the yen, these factors are expected to have a growing impact on our earnings. We will continue to carefully monitor these developments going forward.

Q <u>The supply-demand environment for electrical steel sheets and seamless pipes</u> (IR presentation materials, page 67): Due to the decline in oil prices, there are particular concerns about demand for seamless pipes. How do you view the situation?

A Regarding electrical steel sheets, we have taken measures to enhance the production capacity and quality at the Kyushu Works Yawata Area and Setouchi Works Hirohata Area. Although overall demand is increasing, volumes have not yet reached initial targets, mainly due to the slowdown in vehicle electrification. However, the improvement in spreads has progressed significantly, leading to profit improvements that exceed the assumptions made at the time of the investment decision.

As for seamless pipes, production lines centered at the Kansai Works are operating at near full capacity, supported by the recovery in energy development, including natural gas projects, and anticipated demand related to nuclear power plants. This continues to be a key contributor to our earnings.

Q <u>Financial strength</u> (presentation materials, page 23): How will you raise funds if the U. S. Steel merger deal is closed? Could you please explain again what specific means you envision under the phrase "permanent financing using optimal methods"? Also, by when do you aim to achieve the D/E ratio of 0.7 or less? How urgently do you intend to reach this target?

A We have various financing options available, including hybrid bonds, corporate bonds, and equity-related financing. Additionally, there is the choice between raising funds in U.S. dollars or Japanese yen. Considering our current circumstances, financial position, and future cash flow needs and other factors, we will select the most appropriate instruments and methods accordingly. Regarding the D/E ratio, even after the U. S. Steel merger is closed, we consider it our mission to achieve a ratio 0.7 or less as soon as possible, and we are committed to this target.

Q <u>Dividend forecast for FY2025</u> (IR presentation materials, page 9): You explained that the dividend was set at ¥120 per share, corresponding to a 30% payout ratio based on profits over the past five years. Could you elaborate on the rationale and background behind this decision? Also, while your underlying consolidated business profit forecast exceeds ¥600 billion for FY2025, if profits surpass this forecast, is a dividend increase possible?

A Looking back over the past five years, dividends have not consistently matched a 30% payout ratio, partly because inventory valuation difference accounted for a significant portion of nominal profit. Since FY2025 marks the final year and a milestone of our current medium-term management plan, we have decided to pay dividends that will achieve an average payout ratio of 30% over the five-year plan period. Setting the dividend at ¥120 per share reflects the intention to support a stable dividend level, given that applying a 30% payout ratio to the current forecast of over ¥600 billion in underlying business profit would result in a significantly lower dividend. Should business performance improve materially, we would consider increasing the dividends accordingly.

Q <u>Dividend forecast for FY2025</u> (IR presentation materials, page 9): The ¥40 cut in the dividend per share from that in FY2024 corresponds to approximately ¥40 billion in reduced cash outflows. What internal discussions led to this decision?

A While the dividend reduction is deeply regrettable, our policy is to pay dividends in line with profits, and we also need to secure funds for future growth. After careful internal discussions, we concluded that maintaining a 30% payout ratio based on the five-year average earnings is the best we can do under the current circumstances.

◆ The U. S. Steel merger

Q Last time, you explained that the additional investment in U. S. Steel would be USD2.7 billion, but recent reports suggest that the investment amount may increase to USD7 billion after the closing of the deal. Could you comment whether this is true?

A As previously stated, the additional investment in U. S. Steel is confirmed to be USD2.7 billion.

Regarding any potential further investments, we are currently in discussions, and therefore, we are unable to provide further details at this time. As for the media reports, we are not in a position to comment on them.

Q You are currently in discussions with the Trump administration. Is it correct to understand that your communication with the Committee on Foreign Investment in the United States (CFIUS) is more favorable now compared to that with the Biden administration?

A The CFIUS is conducting its review of the transaction in good faith. As publicly disclosed, the renewed national security review by CFIUS is scheduled to be completed by May 21, after which the transaction will enter the presidential decision period, with a decision expected by June 5. The review process is proceeding in an orderly manner, and we are fully committed to completing this transaction.

Q I do not think that you have changed your stance toward making U. S. Steel a wholly owned subsidiary, but from the beginning, President Trump has been saying OK to investment, but NO to a buyout. So, as a case study, what are your thoughts on the disadvantages and merits of a minority investment? What do you think about minority investments?

A The CFIUS review process is highly confidential. We are unable to respond to hypothetical questions. We appreciate your understanding.

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