

Beginning of Partnership with U. S. Steel — IR Presentation Materials

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Summary of Q&A¹

Presented by:

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◆ Strategy

Q Regarding PMI (Post Merger Integration), I would like to ask what you are considering for the upcoming 100-day plan.

A We have already comprehensively discussed strategies that require implementation after U. S. Steel becomes a subsidiary. Previously, antitrust laws limited information sharing, and so we were unable to quantify specifics. Approximately 40 technical staff will soon travel to the U.S. for a thorough inspection of facilities to conduct what could be considered a second due diligence verification, and to then formulate quantifiable improvement plans and develop concrete measures. We aim to complete these measures within 100 days, after which we anticipate being able to present more specific medium-to-long-term initiatives.

Q Regarding the quantitative synergies related to this transaction, I recall that initially it was stated that these would be examined carefully after the closing of the transaction and then disclosed publicly. Could you please clarify when you expect these details to be announced? Will this be after the 100-day plan, or within the next medium- to long-term management plan?

A One synergy will come from introducing operational and equipment technologies to U. S. Steel, aimed at improving base performance such as yield rates. Another is to enhance profitability through diversifying the product line-up and to promote premium products. Additionally, we feel that another synergy could be to expand the scale by building a greenfield steel mill, which would not be possible for U. S. Steel alone, but may be possible after being combined with Nippon Steel.

While there is not a clear distinction between the 100-day plan and the next medium- to long-term management plan, in either case these points will become clearer as we formulate strategies under the 100-day plan.

Q In this contract, rather than reducing fixed costs through structural measures for production facilities which have been undertaken by your domestic steel business, I

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

believe the strategy will instead focus on reducing variable costs, improving productivity, or raising product prices to lower the breakeven point. Could you explain what strategies will be used to secure profits? Please give your thoughts on securing investment returns (IR Presentation Materials, page 8).

A Over the past year and a half, we have been developing a comprehensive strategy. We are considering three main strategies.

First, by introducing our facility and operational technologies, U. S. Steel will enhance operational capabilities and improve quality and cost competitiveness to increase profitability. To this end, measures will include revamping of Blast Furnace #14 at Gary Works, and the construction of a new hot rolling mill.

Second, introducing our product technologies thereby expanding the product line-up to those that U. S. Steel currently cannot manufacture, but for which there is demand in the U.S. —these include electrical steel sheets. By introducing high-grade steelmaking technology, one of our strengths, we will secure growth in the world's largest market for high-grade steel, which is a primary objective of this investment.

Third, expanding our scale through the construction of new greenfield steel mills. Locations have not yet been decided. While conditions vary by state, various states across the U.S. are now competing aggressively to attract these investments. We are considering the construction of an integrated electric arc furnace mini mill, which we believe will contribute to achieving carbon neutrality.

Q **I would like to confirm the arrangements concerning the National Security Agreement (NSA) and a golden share (IR Presentation Materials, page 5). Would it be correct to understand that the Government Security Committee (GSC) will be established with three U.S. citizen independent directors of which one member will be appointed by the U.S. government based on the golden share agreement, and two members approved by CFIUS, and that approval of these three independent directors will be required for closure or idling of facilities and moving ahead with restructuring?**

Previously, you had guaranteed under the NSA proposal that "capacity reductions would not occur for 10 years," however there is no mention of such a time limit in the current proposal. Conversely, does this mean that structural reforms may be implemented freely after 10 years? Please explain the implementation conditions for restructuring under this framework. Can we understand that there are no time limits on restrictions related to capacity reductions?

A This is a growth investment, and we have no intention of closing production bases or idling facilities. Our responsibility is to ensure this does not happen, and as a course of action we believe this to be quite attainable.

Regarding decisions on the closure or idling of manufacturing facilities, temporary idling

during ordinary operations is permissible, but permanent idling requires approval. Permanent idling requires approval from a majority of the three independent directors of the GSC.

For the next 10 years, in addition to majority approval from these three independent directors of the GSC, approval from a single independent director appointed based on golden share provisions will be required. In other words, even if a majority of the three independent directors of the GSC approve a proposal, its implementation cannot occur within the first 10 years if opposed by this golden share director. Conversely, if their approval is obtained, implementation within this 10-year period will be possible. This structure ensures that opposition from the golden share director may prevent the execution of proposals for a certain period of time.

From the 11th year, idling would only require majority approval from the three independent directors of the GSC. While this term was previously set at 10 years, our overall stance of avoiding closures even after the first 10 years remains unchanged. So we don't consider this as deterioration in the term.

For detailed provisions on the golden share and the NSA, as well as year-by-year breakdowns of capital investments, please refer to Form 8-K submitted by U. S. Steel to the U.S. Securities and Exchange Commission (SEC).

Q Regarding improvements in profitability, you explained earlier that there are currently areas of demand in the U.S. unmet by local production, which will be addressed moving forward. I take this to mean a localization strategy, in which products subject to tariffs due to imports from Japan would be replaced by those produced locally. As a result, this could potentially mitigate the negative impact of tariffs that you anticipate, or even may turn into positive factors—what is your current perspective on this?

A At present, President Trump's tariff policies have not yet been finalized, and the overall direction of the tariff policy remains unclear. Accordingly, as we stated during the FY2024 results announcement, we are not yet at the point where we can quantitatively assess their impact. However, even if a 50% tariff on steel products were implemented, we would continue domestic production in the U.S., and would undoubtedly benefit from such measures. Moving forward, we intend to carefully analyze how the positive effects of local production within the U.S. could offset the potential negative impacts on our production in other regions, and will disclose these findings once we have a clearer picture.

◆ Capital investment

Q I would like to ask about amounts of capital investment and their timing (IR Presentation Materials, page 8). You mentioned that an investment of \$11 billion with a set deadline at the end of 2028 included part of the subsequent greenfield investment.

I assume that your next medium- to long-term management plan will include planning involving U. S. Steel, but please give us any information you can regarding the annual investment scale and the allocation during this period. Should we consider that the \$11 billion will be evenly distributed over the period until 2028 (approximately 3 years and 9 months)? Alternatively, if you have any approximate reference points for an annual investment scale, please share these with us.

Additionally, regarding the greenfield project, which is expected to involve an integrated steel mill based on electric arc furnaces, please provide any information surrounding the range of production capacity and investment scale that can be disclosed.

- A We plan to include U. S. Steel in our next medium- to long-term management plan due to be finalized by the end of 2025. However, the period for the review of U. S. Steel is only about six months from closing until announcement of the medium-term plan. Given the short timeframe for planning after our upcoming findings of the actual situation, we request your understanding regarding the precision of the plan. Regardless, this will be an important process in considering how to grow U. S. Steel over the medium- to long term.

Regarding the annual forecast of \$11 billion, we anticipate an investment schedule weighted toward the latter half, rather than a linear allocation. Incidentally, the capital investment plan for the entire Nippon Steel Group, including U. S. Steel, will be discussed in detail within the next medium- to long-term management plan, so we are unable to provide specific figures or allocations at this time.

Regarding greenfield projects, we are basically considering a mini-mill electric arc furnace, with a scale similar to Big River and Big River 2. However, we are unable to disclose detailed information at this time.

- Q Does the \$11 billion investment by the end of 2028 include all investments for construction of a new greenfield steel mill (IR Presentation Materials, page 8)? What is the meaning behind the \$14 billion figure mentioned by the U.S. government?**

- A Only a small portion of the initial investment for the greenfield project is included within the \$11 billion figure. We will make investment decisions by 2028 and will have some clear idea, but only partially.

The \$14 billion figure put forth by the U.S. government is not one that we have disclosed. We consider it a kind of benchmark for those greenfield investments, factoring in those not included within the \$11 billion figure.

◆ Funding and financial health

- Q From the perspective of the stock market, there are concerns about large capital**

requirements (IR Presentation Materials, page 12). Further investment in the order of ¥2 trillion may be required over the next few years for U. S. Steel and for electric arc furnace conversions, etc. If conditions in the global steel industry do not pick up, and your performance does not improve as expected, cash flow alone will be insufficient, leading to concerns about a rise in the D/E ratio and fund procurement. Please provide your thoughts on this.

A The short answer is that we will be fine, as we carefully assess all investments, including those for electric arc furnaces, for their impact on cash flow.

For U. S. Steel's capital investment, we are in principle considering using U. S. Steel's own business cash flows for investments. Regarding profit growth at U. S. Steel, we expect 3 to 4 stages of development. First, based on analyst consensus for nine months, profit for FY2025 is expected to be around ¥100 billion. Over the medium term, we expect this to increase to about ¥150 billion if we include initial synergy effects. Looking ahead to around FY2028, Big River 2 will be fully operational and once full-scale production of electrical steel sheets commences, we believe U. S. Steel will become a subsidiary contributing around ¥250 billion in profits overall. Beyond that, after FY2028, as the planned investments progress, the returns from these are expected to flow back into the company. We anticipate that such cash flows generated by these profits will not cause any negative impact on our financial health. We thus expect investments will generate profits.

Q While the \$11 billion investment should improve U. S. Steel's ability to generate cash flow, if that proves insufficient, I understand you will consider appropriate financing methods and that, even if a capital increase is required, this will be from within the scope of U. S. Steel's acquired profits. However, if even additional capital increases prove insufficient and you must compromise either keeping the dilution impact within U. S. Steel's acquired profits or lowering your adjusted D/E ratio to 0.7 or lower, which would you prioritize?

A We do not anticipate that there would be a shortage after capital increases, however, our top priority is to avoid inconveniencing our existing shareholders.

Q Regarding the ¥500-billion hybrid loan planned for September of this year, will past amounts be repaid (IR Presentation Materials, page 12)? Also, I believe the outstanding balance for hybrid financing was ¥930 billion. Will the balance increase to ¥1.43 trillion in September, or will it be less than that?

A In general, our policy is to refinance hybrid financing once the repayment period comes due. Please assume that the outstanding balance will initially increase.

Q Regarding your policy on capitalization (IR Presentation Materials, page 12), should we understand your statement that EPS should not decrease to mean that even if there

is a capital increase, this will be within the range of EPS increases from the consolidation of U. S. Steel's consolidation, as per your previous policy? Also, does this mean that over the next year, capital increases are considered one of the options available when evaluating permanent financing after the end of FY2025? Or put another way, would it be correct to understand that over the next 12 months or so you would not decide whether or not to implement a capital increase?

A Our basic thoughts on this remain unchanged. As you are aware, if we decide upon a capital increase, we need to respond promptly within a limited timeframe. Given that timing and policy relate to internal information, we cannot make any specific statements at this time.

Q Does the statement "capital increases that do not dilute shares" made during the press conference refer to hybrid financing?

A It means considering the optimal method, which also includes a normal capital increase. Naturally, since we do not want to inconvenience existing shareholders, any implementation will be only to the extent that this does not impair EPS.

Q Please confirm your thoughts on dividends for the next medium- to long-term management plan. I understand that despite the loss from the transfer of AM/NS Calvert, etc. this year (FY2025), you set your principal dividend policy to a 30% dividend payout ratio over five years. Will this policy change from FY2026? Another company in the steel sector has set a minimum dividend target. what are your current thoughts on this?

A We place great importance on maintaining high and stable dividends. At the same time, over the coming years we will take on growth investments and carbon neutrality investments. In this context, for the moment we intend to maintain our current policy of an approximately 30% payout ratio. Our aim is to balance shareholder returns with growth investments and carbon neutrality investments, and so at present, we have no plans to change our dividend policy. However, we are aware that there are various ways for operational adjustment of the dividend policy, and we will continue to explore new systems.

◆ U. S. Steel related issues and other matters

Q Regarding U. S. Steel's performance, the company has reported operating losses for the last two quarters. While I am sure there are some temporary factors at work here, could you give your thoughts on what challenges exist, and how this investment will impact things?

A The most recent two quarters at U. S. Steel are October-December 2024 and January-March 2025, and these operating losses applied up to March 2025. The significant improvement in the U.S. market started after the Trump administration took office in January, with its impact

on performance visible from April onward. Currently, U. S. Steel is not operating at a loss.

Regarding what actions to take, over the past 18 months we have identified several opportunities that, if we were in charge, we could have improved profitability by doing this or we could have avoided losses by changing that. While we cannot give specific details at this juncture, we are determined to whole-heartedly implement these actions.

Q Regarding U. S. Steel's contribution to profits (IR Presentation Materials, page 11), could you please reconfirm your previous explanation? The approximately ¥100 billion base profit is expected to increase to around ¥150 billion due to a rise in steel prices in the U.S. With Big River 2 starting full operation along with the production of electrical steel sheets, profit levels are expected to reach approximately ¥250 billion by the latter half of the 2020s. Further ahead, the effect of growth investments will be added on. Is this understanding correct?

A Yes, that is correct.

Q Regarding the composition of U. S. Steel's shipments, a significant portion is directed to service centers and traders (IR Presentation Materials, page 19). Which are the most important customers for U. S. Steel shipments—the automotive or construction industries? Also, in the U.S. automotive market, are there any pricing agreements similar to Japan's "direct contract-based" agreements?

A The steel sheet component of shipments from U. S. Steel comes from blast furnace mills in North America. As more than 40% of their shipments are to the automotive sector, the majority of shipments to this sector is steel sheets. On the other hand, mini mills such as Big River's electric arc furnaces mainly supply service centers for construction applications. However, even for mini-mills, future product diversification efforts like electrical steel sheets mean that the current composition may change in the future.

In the U.S. automotive market, contracts similar to Japan's direct contract-based sales exist, including long-term contracts that determine prices. Although complete separation from the commodity sector is not possible as it is with our domestic sales, so-called direct contract-based sales pricing does exist.

Q What are your current views regarding the USW? Also, there will be a renewal of the labor agreement between USW and U. S. Steel in 2026. Do you see any risks in this?

A Regarding the USW, I will address management and the workforce separately. The workers continue to give our company overwhelming support and are very happy about the recent closing.

Regarding our relationship with management, we naturally aim to build constructive relationship, and we understand that they are of the same mind. We are always open to dialogue, and intend to continue constructive discussions into the future, not just limited to

2026. Therefore, there are no particular risks regarding the 2026 negotiations, so please understand that these will be ordinary negotiations.

Q I am not that familiar with the state of carbon neutral investments in the U.S., but does U. S. Steel plan to carry out R&D or capital investment into areas including hydrogen reduction in the U.S. similar to those in Japan, or will the timing for such projects differ from Japan? Please answer to the extent possible.

A U. S. Steel also has similar goals as regards carbon neutrality. The U.S. has many locations suited to Carbon Dioxide Capture and Storage (CCS), and so we will pursue a cost-effective, competitive, and practical approach centered around this. Looking forward, we will evaluate whether it is better to introduce our own carbon neutral technologies, or work with U. S. Steel's existing plans. In either case, in terms of operational improvements, we believe that our technology can significantly help improve CO₂ emissions at U. S. Steel compared to their current capabilities, so this is where we will start.

End

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