

Nippon Steel Corporation, 1Q of FY2025 IR Briefing
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Summary of Q&A¹

Presented by:

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◆Business Strategy, Performance

Q Regarding the ¥730.0 billion underlying business profit forecast for FY2025, please provide a breakdown by the five categories with a comparison to FY2024. For example, your domestic steel business has undergone restructuring, including the absorption merger of the subsidiary, Nippon Steel Stainless Steel, and is expected to increase profits. Please explain this in detail (IR Presentation Materials Supplement, page 3).

A Let me explain details of the decline of ¥60 billion in underlying business profits from FY2024 (¥793.0 billion to ¥730.0 billion)

The domestic steel business is expecting ¥10.0 billion increase (¥260.2 billion to ¥270.0 billion). The negative factors are a decrease of ¥5.0 billion caused by a drop in production and shipments (500,000 ton) and a significant decrease of ¥105.0 billion in spread driven by a decline in market conditions despite maintaining a reasonable spread in direct contract-based sales. On the other hand, cost reductions of ¥100.0 billion are expected to be achieved. Of this, ¥40.0 billion will come from the structural measures, and the remaining ¥60.0 billion from other cost improvements, with more than half of these being from reductions in fixed costs. Because the decline in operating rates is viewed as a structural issue, we are therefore making all efforts in all departments company-wide to cut fixed costs. An additional profit increase of just over ¥20.0 billion should be considered as the impact of reclassification associated with the absorption merger of Nippon Steel Stainless Steel, and the restructuring of the domestic electric-welded pipe business.

In the overseas business, U. S. Steel contributed ¥80 billion resulting in a net positive of ¥50.0 billion. Excluded, this would mean a decrease of ¥30.0 billion. The largest impact is expected to come from India: here demand and volumes are solid, but falling steel market prices in surrounding countries triggered by China have had a large impact on deteriorating spreads.

The raw materials business is expecting a decrease of ¥80.0 billion (from ¥155.3 billion to

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

¥75.0 billion) resulting from a large impact of lower raw materials market prices despite the consolidation of BlackWater from 2Q. Steel group companies is expecting a drop of ¥44.0 billion (from ¥218.7 billion to 175.0 billion). About half will be due to reclassification of the stainless business and the electric-welded pipe business, and the remaining ¥20.0 billion will be due to deterioration of the business environment, particularly a decline in domestic demand. In the non-steel segment, all three companies are expected to post a year-on-year increase of ¥10.0 billion, with relatively stable operations.

Q Regarding the ¥730.0 billion underlying business profit forecast for FY2025, please explain the movement from 1H to 2H. In steel shipments, what kind of increases do you expect for both domestic and export volumes? Also, with regard to steel prices, are you anticipating a deterioration in the market in China and Asia, or are you factoring in a deterioration in domestic market conditions? (IR Presentation Materials Supplement, page 17).

A Regarding the difference between 1H and 2H, slight improvements are expected across each business segment. In the domestic steel business, in addition to changes in steel consumption from 1H to 2H, we are also making efforts to increase sales volumes, and expect an increase of about 500,000 tons. The difference in overseas business forecasts between 1H and 2H results reflects factors including the difference in the number of consolidated months for U. S. Steel, along with higher earnings in 2H. With regard to steel prices, we have factored in the impact of trade policies in various countries, primarily in terms of market conditions, treating them as macro-level risks. In particular, the impact of U.S. tariff policy has ripple effects worldwide, exerting downward pressure on steel market prices, leading to the impact of cheaper steel imports into Japan, referred to as import pressure—these are included as assumed risks, not on a cumulative basis.

Q Regarding this fiscal year's underlying business profit, I would like to know why profits, excluding U. S. Steel, is expected to decline from 1Q to 2Q. Also, with respect to U. S. Steel, were there any front-loaded shipments in North America during the April–June quarter? I would suspect that construction demand in North America would be weak during the July–September quarter due to seasonal factors. Could you also explain the trends for U. S. Steel from 1Q to 2Q?

A In our core domestic steel business, the profit/loss levels are largely flat. However, given the way fixed costs are recognized, there is typically a tendency for profits to deteriorate in 2Q compared to 1Q. Please consider that from 1Q to 2Q, there are no significant negative factors. Regarding U. S. Steel, we have received no specific reports regarding front-loaded shipments or similar.

Q With respect to the ¥210.0 billion negative impact from the deterioration in the

business environment this fiscal year, I recall that you previously explained that this would be ¥180.0 billion. Please explain how your assessment has changed (IR Presentation Materials, page 5).

- A The business environment as a whole has worsened significantly compared with the previous assessment three months ago. Steel market conditions across various countries, including in China, have deteriorated further. In addition, as many countries investigate and implement anti-dumping and other trade measures, it has become increasingly difficult to carry out exports under favorable conditions, in particular those to distant markets. We also recognize that domestic steel market conditions have deteriorated further. While we are implementing various countermeasures, please understand that overall, our forecasts reflect this situation.

- Q I'd like to ask about future cashflow policies. As you advance initiatives such as asset reduction toward a D/E ratio of 0.7 or lower, you announced the full acquisition of Krosaki Harima as a subsidiary, and I understand that you are appropriately addressing other areas where you should take strategic action beyond the transaction of U. S. Steel. Going forward, is there any change in your policy for the Group as a whole, including U. S. Steel, of turning group-wide free cash flow positive, and further reducing the level of interest-bearing debt? Also, with respect to the allocation of investment over the next four years, taking into account the information already disclosed concerning U. S. Steel, how will you control this allocation once the D/E ratio is brought below 0.7?**

- A Let me begin with our cash flow policy going forward. For strategically important investments such as the Krosaki Harima transaction, we handle them case by case and secure dedicated funding separately. Regarding the roughly \$11 billion in capital expenditures planned for U. S. Steel through the end of 2028, our basic policy is to fund these through U. S. Steel's own operating cash flow and similar sources. Should that prove insufficient, depending on circumstances we will consider options such as a debt guarantee or a parent-to-subsidary loan. That said, we do not expect U. S. Steel-related investments to directly have a significant negative impact on our group-wide cash flow.

Next, regarding the D/E ratio. Of course, we believe that the lower the D/E ratio the better; however, a level of 0.7 is by no means unfavorable. This level also represents an upper limit originally set as part of our medium- to long-term management plan to ensure financial discipline. In pursuing our growth strategy along with business expansion, we believe that maintaining the ability to allocate cash with an upper limit of 0.7 is a sound and normal position. The fact that this was significantly below 0.7 until recently was simply the result of temporarily favorable conditions, and we do not consider that maintaining this level is a constant requirement.

Q Regarding the approximately \$11 billion capital investment for U. S. Steel, you mentioned that if U. S. Steel's own cash flow is insufficient, you may consider debt guarantees and other measures. However, if the D/E ratio remains in the 0.7 range, would you prioritize financing this with debt rather than rushing to improve it to below 0.7? Alternatively, should we also expect that you would consider capital increases as an option?

A Our approach is to consider optimal methods of financing. At this point, we are not in a position to state whether or not any specific methods will be undertaken.

Q What are your thoughts regarding the interest burden?

A First, regarding the ¥2 trillion acquisition cost of U. S. Steel, this was closed with a bridge loan from three Japanese megabanks (MUFG, SMBC, Mizuho); and this will increase our interest burden in the current FY2025. In addition, there will be an increased interest burden from U. S. Steel's own ¥500 billion of interest-bearing debt. Since U.S. interest rates are higher than those in Japan, we expect a combined increase in the interest burden of several tens of billions of yen in FY2025. The key issue lies in how best to allocate the ¥2 trillion going forward. As mentioned earlier, some of this has already been switched to hybrid loans, but finding the optimal permanent financing structure remains a key financial challenge. Furthermore, with U. S. Steel's current earnings level at ¥80 billion for FY2025, its contribution to operating profit is still limited. We need to move quickly to raise that level to ¥150 billion, so that it can contribute to net income growth, including covering interest expenses. This remains a major challenge.

Q Regarding the full acquisition of Krosaki Harima, please elaborate on the specific synergies you envision in overseas operations.

A We anticipate synergies in regions where Krosaki Harima has business bases, such as India and Brazil, as well as in North America, where we plan to expand in the future.

Q Concerning your domestic production system, competitors have announced discussions about reviewing their production capacity. What is your outlook on domestic demand going forward?

A We intend to review domestic production capacity and are assessing future demand levels as part of our next medium- to long-term management plan. We expect to finalize the plan within 2025, so we would appreciate a little more time.

◆ U. S. Steel related issues

Q I would like to hear about U. S. Steel's results for the April–June quarter. Also, regarding the ¥45 billion effect from the launch of Big River 2, could you explain its breakdown, including the movement in operating rates (IR Presentation Materials,

page 6)? In addition, could you explain more specifically what you meant by the “strong momentum” you felt on site?

- A U. S. Steel's adjusted EBITDA for the April–June quarter was \$368 million. EBIT (after adjustment for inventory valuation differences), representing our underlying operating profit, amounted to \$105 million.

Regarding the ¥45 billion launch effect of Big River 2, we anticipate that the operating rate of all mini-mills, including the existing Big River, will rise from the current level of around 63%, gradually to 66% and then 68%, and to about 86% by the January–March quarter of 2026, essentially returning to a normal-operations level.

As for the “strong momentum,” at the end of July we held the first Board of Directors meeting under the new structure in Pittsburgh, where I also met with the independent directors for the first time. Both executives and employees were highly positive, delighted with the closing of the deal and expressing enthusiasm about steering toward a brighter future. Each of the executives expressed a strong sense of responsibility and commitment to improving U. S. Steel, and I personally felt their determination to realize the Eight Pillars strategy and to achieve the ¥250 billion target for 2028, no matter what. It is for these reasons that I stated I felt a strong momentum.

- Q Regarding U. S. Steel's FY2028 underlying business profit target of ¥250 billion, please explain improvement measures beyond market factors to bridge the gap between this year's forecast of ¥80 billion and the ¥250 billion target (IR Presentation Materials Supplement, page 3). For example, to what extent can you enhance product mix, for example through the introduction of your company's operational, equipment, and product technologies? Regarding variable cost improvements, what potential savings per ton do you see, and over what timeframe? Please share your current sense of progress. Also, could you share the underlying assumptions on steel market conditions and those underpinning shipment volumes for the ¥150 billion and ¥250 billion targets?**

- A First, regarding the impact of the U.S. tariffs, the extent to which these will affect market conditions remains uncertain. Since tariffs for steel products were raised to 50%, there has been no major impact on steel market conditions, and it could be argued that steel market prices were in fact already rising beforehand. In any case, the ¥250 billion target is based on current market conditions and the assumption that these trends will continue. Non-oriented (NO) electrical steel sheet is an existing investment technology, and by applying our advanced technologies to make further improvements, I am confident we can deliver high-quality offerings to the EV market that could truly be game-changing. This represents one factor in bridging the gap to meet the ¥250 billion target.

Another major element is improvements to variable costs. While the U.S. steel prices are

currently around \$900–1,000 per ton, U. S. Steel has continued to struggle to generate profit even under these circumstances. By contrast, in Asia the price level is about half that at around \$440, yet we are generating profits. This demonstrates that by applying what we call our “Operational Excellence,” a term we use to describe our production and operating know-how, significant improvements can be achieved even without major capital investments. We expect this to be a major contributor between now and 2028. Regarding the timeline for improvements, this is difficult to specify precisely due to multiple influencing factors. For example, in terms of yield, there is currently a significant performance gap between ourselves and U. S. Steel across all processes. If this gap stems from equipment-related issues, countermeasures will require time; however, if this is due to operational know-how, then improvements will progress quickly. We cannot provide specific figures regarding the potential savings per ton at this stage, but the gap is substantial. As I mentioned earlier, given the current significant differences in steel market conditions, our company is generating profits, while U. S. Steel is facing difficulties—I trust this illustrates our point.

While part of the impact of the approximately \$11 billion in capital investment will be realized by 2028, the majority will materialize after this point, and we believe that we can aim for levels surpassing this ¥250 billion target.

Currently, steel prices in the U.S. market stand at around \$850 per short ton. Regarding shipment volume assumptions, this is not the right timing to disclose specific plans. For the April–June quarter, shipments were 3.73 million short tons.

Q Significant cost reductions are expected from operational improvement measures at U. S. Steel. Based on your on-site inspections, could you share a specific example that left a strong impression?

A For example, in a case involving a product category where customer claims had arisen and profitability was being affected, our dispatched technical staff were immediately able to ascertain how operating conditions should be adjusted to resolve the issue, which quickly led to improvements. U. S. Steel, which is implementing these measures, has the high-level capability to fully see these through, and there are specific cases where these improvements are already underway. In my own conversations with engineers, I believe that there remain considerable opportunities for improvement in these areas.

Q I understand that U.S. trade tariff policy provides a certain degree of support to U. S. Steel's earnings. To what extent is this effect factored into the ¥250 billion profit target for 2028? If tariffs were to be removed or relaxed in the future, what kind of impact could such a move have on U. S. Steel's earnings?

A We feel that tariffs are currently providing some degree of support to U. S. Steel's earnings. Therefore, if tariffs were to be eliminated, it would likely have some impact on profitability,

however it is still not our intention as a company to manage U. S. Steel in a way that depends on tariffs to enhance its corporate value. If the removal of tariffs were to push earnings back down to previous levels, we could not consider that to represent a truly robust corporate structure. Accordingly, our policy is to leverage our expertise and management resources to thoroughly transform U. S. Steel into a fundamentally strong company, and our goal is to build a structure that can deliver consistent, sustainable earnings even in the absence of tariffs.

Q Regarding the relationship between U. S. Steel's future earnings outlook and the approximately \$11 billion in capital investments to be executed over the four years through end-2028 (IR Presentation Materials Supplement, page 6). Will achieving the profit levels shown here fully cover the \$11 billion in capital investments? Alternatively, is this a profit level that turns positive on a free cash flow basis?

A As I mentioned earlier, our basic policy is to fund the approximately \$11 billion in capital investment planned through the end of 2028 primarily with U. S. Steel's operating cash flow. However, with regard to U. S. Steel's future profit outlook, we are in the process of finalizing action plans, and therefore are unable to provide specifics on funding requirements at this time. We would appreciate additional time to consider our next medium- to long-term management plan.

Q In the interview with Chairman Hashimoto, he mentioned doubling the company's current market share in the U.S., essentially by winning market share from competitors. There has also been talk of increasing market share in the automotive sector. Could you explain in which product categories you aim to capture share? Will this require new capacity expansion? Could you explain to what extent this is factored into the ¥250 billion underlying business profit target for FY2028, and an indication of the expected timeline to achieve these?

A It is difficult to state precisely by when and in what manner we will achieve an expanded market share in the U.S., but our policy is to leverage our strengths in high-grade steel as a key competitive advantage. Even in more general construction-related fields, in addition to enhancing cost competitiveness through improvements in operating technology, we believe we can expand share on the strength of the four state-of-the-art electric furnaces (Big River 1 and 2), which provide us with considerable competitiveness. We are also examining facility expansion plans that include increasing capacity in downstream processes at existing facilities, as well as contemplating greenfield projects on the scale of Big River after 2028.

In the automotive sector in particular, customer demand is strong. U. S. Steel has already been highly responsive to customer needs, and as in Japan, we likewise intend to pursue continuous improvements from customers' perspective. We believe that by advancing our

own improvement proposals and working to further enhance quality, U. S. Steel's market share should naturally increase as a result.

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