# 2 Message from the President

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# *A Message from the* President and COO

I am Tadashi Imai, President and COO of Nippon Steel.
We are currently facing a historically unprecedented and extremely challenging business environment. In addition, we stand on the verge of significant transformation. Looking ahead to our long-term growth, we have numerous strategic options available, some of which require substantial investment. We see this transformative period as an opportunity to execute initiatives that only Nippon Steel is uniquely positioned to achieve. In this integrated report, I would like to share our current strategic thinking and the options we are actively exploring.

**Tadashi Imai**
Representative Director, President and COO

## 1. Business Environment

Global steel demand was increasing steadily in the past; however, China, the world's largest steel demand country, saw its demand peak in 2020 and its demand has been declining since then. While the demand in India is growing steadily, global total demand for steel is leveling off at approximately 1.8 billion tons per year.

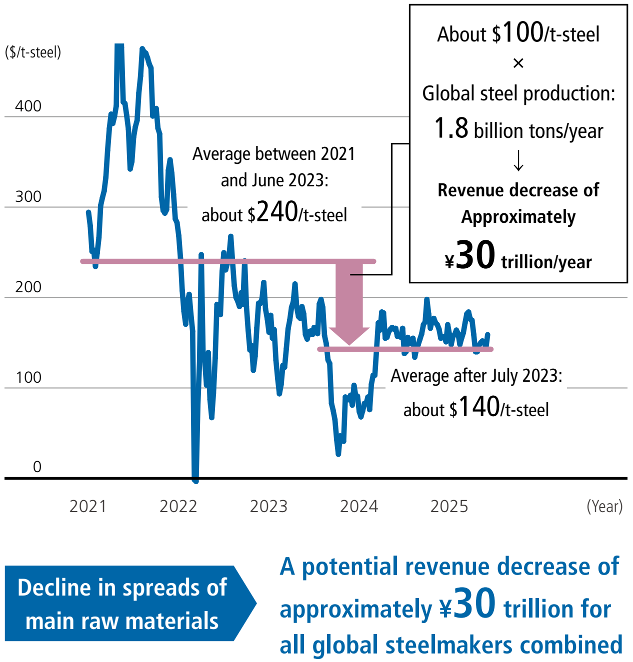
In China, despite the declining domestic steel demand, production remains at high levels, widening the supply-demand gap. As a result, a large volume of surplus steel is being exported, reaching 110 million tons annually in 2024. This is a structural issue, and early improvement is unlikely. This situation significantly affects the global steel market conditions, namely, the earnings of steelmakers worldwide. In fact, the spreads of main raw materials in Asia —the difference between hot-rolled coil prices and raw material prices converted on a steel-equivalent basis—has deteriorated by approximately $100 per ton of steel in recent years, which corresponds to an annual profit decline of about ¥30 trillion for steelmakers worldwide.

Under such circumstances, the global steel industry is currently facing unprecedentedly harsh business conditions. Moreover, the situation is becoming increasingly uncertain due to the impacts of recent trade policies and measures implemented by various countries.

On the other hand, in Japan, we expect domestic steel demand, including high-grade steel, to decline over the medium to long term, due to several reasons, including the long-term decline in population, a factor that influences steel demand, the downward trend in housing construction and automobile production, and concerns that our customers may accelerate shifting their manufacturing operations overseas to mitigate the impacts of the trade-related measures of other countries. It should be noted that domestic steel demand peaked at 90 million tons or more in 1990 and has almost halved to a current level of 50 million tons. We expect the demand to continue to decrease further from this point onward.

Despite the extremely challenging business environment we are facing both in Japan and overseas, we are working hard to implement our initiatives for further growth by establishing a revenue structure that enables us to maintain stable, high-level profits even under these circumstances.

**[Asia/hot coils – Changes in spreads of main raw materials]**




## 2. Overview of Recent Business Results

In the current Medium- to Long-term Management Plan formulated in 2021, we are striving for a revenue structure that ensures an underlying consolidated business profit of ¥600 billion or more on a stable basis, regardless of external environment. In FY2024, despite the significant deterioration in our business environment, we achieved a profit of ¥793.7 billion.

The global steel industry is facing an unprecedented and deepening crisis primarily due to the widening supply-demand gap in China. In addition, risks have emerged from the global impact of U.S. tariff policies and the growing pressure of steel exports from China to other countries. Amid this challenging environment, we are incorporating these risks into our business outlook while steadily implementing profit improvement measures, with a focus on cost reduction. As a result, for fiscal year 2025, we project to secure an underlying business profit of ¥650 billion, excluding the impact of the U. S. Steel merger.

Furthermore, following the merger with U. S. Steel completed on June 18, 2025, we will consolidate nine months' worth of U. S. Steel's earnings (from July 2025 to March 2026), amounting to ¥80 billion. Although the impact of U.S. trade policy remains uncertain, we expect a combined underlying business profit of ¥730 billion in FY2025. We will continue working to maximize profits by executing further profit improvement measures.

Regarding the dividend for FY2025, the final fiscal year of the current Medium- to Long-term Management Plan, we plan to pay ¥120 per share (before the stock split), based on a cumulative payout ratio of 30% over the five fiscal years starting from FY2021. This figure excludes one-time costs and losses related to the U. S. Steel merger.

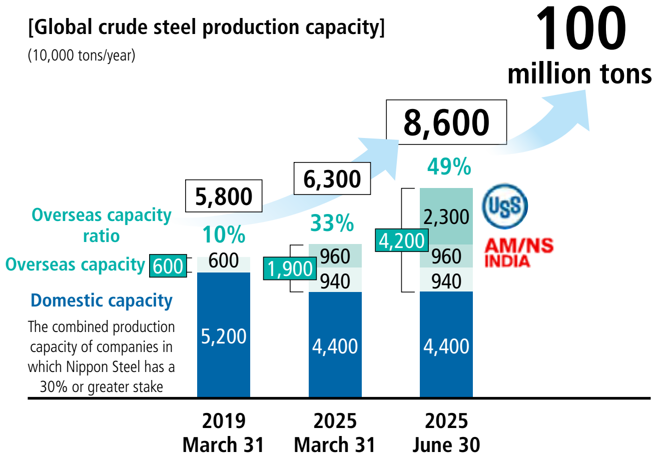
When comparing our profits per ton of crude steel with those of our global competitors, it is evident that while they are experiencing a decline in earnings amid the deteriorating business environment, we are maintaining relatively stable profits. According to the FY2024 performance results, we outperformed China Baowu Group, POSCO, ArcelorMittal, and other steelmakers in terms of earning power, ranking alongside Nucor at the top of the industry.

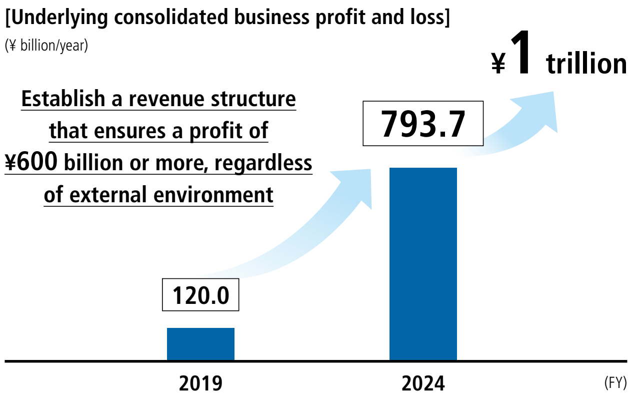
## 3. Business Strategy

### (1) Overall picture of growth strategy and initiatives already underway

We have been pursuing a more vertically and horizontally integrated business structure through global growth by rebuilding the domestic steel business and deepening, expanding, and improving the overseas business, as well as by streamlining the entire supply chain from raw materials all the way to distribution into an integrated business domain. We will continue to implement the basic strategy of achieving stable earnings power like this in the next Medium- to Long-term Management Plan.

**Early achievement of the 100 Million Tons, 1 Trillion Yen Vision**




We are currently in the process of formulating our next Medium- to Long-term Management Plan, aiming at the early achievement of the 100 Million Tons, 1 Trillion Yen Vision as our business growth strategy.

The facility structural measures we have been implementing in the current Medium- to Long-term Management Plan were mostly completed by the end of FY2024. These measures included 1) the order mix sophistication through production capacity expansion for electrical steel sheets and the installation of the next-generation hot rolling line, and 2) the production capacity expansion in India. We will begin to see the effects of these measures during the period under the next Medium- to Long-term Management Plan.

Furthermore, many of the additional measures that were formulated after we had announced the current Medium- to Long-term Management Plan will contribute to our revenue growth during the period under the next Medium- to Long-term Management Plan. These added measures include group-enhancing measures in Japan, such as the restructuring of domestic ERW pipes and tubes business, the integration of the stainless steel businesses, and the full subsidiarization of Sanyo Special Steel, the merger with U. S. Steel in the overseas business, and the investment in mines in Canada and Australia and the subsidiarization of NS Trading in the raw materials and distribution fields.

### (2) Strategies for each business sector

#### 1) Domestic steel business

Regarding the domestic steel business, we have implemented production facility structural measures ahead of the industry, including the shutdown of five blast furnaces, in anticipation of declining domestic steel demand. We achieved a cost reduction of ¥150 billion by reducing our production capacity by 20% to reduce fixed costs. By combining this cost reduction with an improvement of margins on steel products, we succeeded in lowering our break-even point by 40%. We believe these measures have played a central role in optimizing our domestic production framework.

In the next Medium- to Long-term Management Plan, we will strengthen our competitiveness tailored to each steel market by leveraging this optimized production framework. First, we will further promote order mix sophistication in the high-grade steel sector, where we excel most. On the other hand, regarding the commodity steel sector, we will thoroughly enhance our cost competitiveness so we can compete even with low-cost players both in Japan and overseas, through a fundamental review of our operations, including further promotion of streamlining and standardization. Furthermore, while strengthening our group companies in parallel, we will strive to become a dominant presence in every steel market.

#### 2) Overseas steel business and raw materials business

To achieve the Global 100 Million Tons Vision, we will continue our policy of focusing on areas within our overseas steel business where demand growth is reliably expected and where we can fully leverage our technological and product strengths, while expanding integrated steel production from ironmaking through steelmaking. In particular, we will promote business deepening and expansion of our business through strategic investments, including M&A and brownfield acquisitions, in our priority regions, 1) the U.S. and Europe, which are high-grade steel markets, and India, a growing market —all of which are relatively insulated from China’s influence; and 2) ASEAN, our home market. In the raw material business as well, we will consider investing only in high-quality projects that contribute to strengthening our competitiveness.

We are expanding our production capacity in India, where demand for steel products is growing steadily. AM/NS India has completed the acquisition of land in Rajayyapeta in southern India. We are currently considering plans for an integrated steelworks with an annual capacity of 7 million tons.

Meanwhile, we completed the merger with U. S. Steel in the United States. We engaged in extremely tough negotiations with

the U.S. government over the conditions for approving the merger. The conditions we committed to, in the interest of securing management flexibility and investment profitability, posed no actual disadvantage to us, and we consider the outcome to be fully satisfactory.

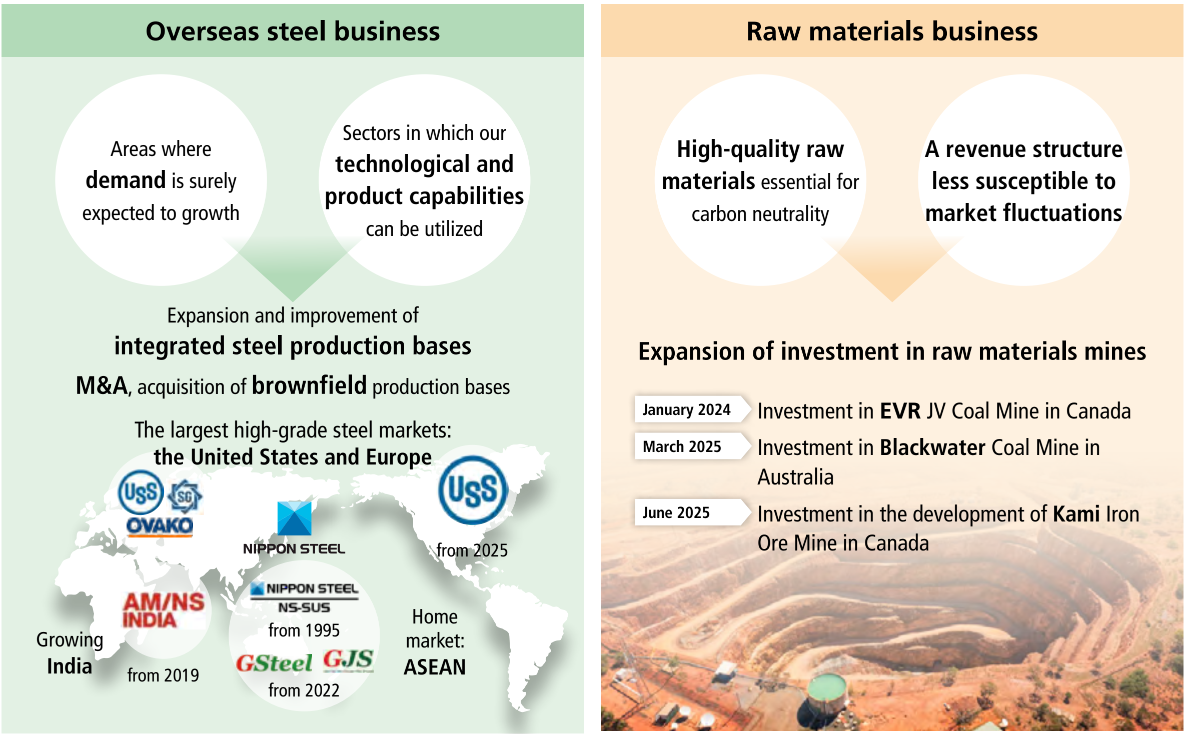
The U. S. steel market is the largest among developed nations, with domestic demand exceeding 90 million tons, roughly twice that of Japan. However, its steel self-sufficiency ratio is reportedly only 70%. In other words, this market is structured to rely on 30% of its demand from imports. However, when we consider the addition of imported steel in the form of end products, such as automobiles and finished components, the country's total steel demand amounts to approximately 150 million tons. This means that only 55% of its total steel demand is domestically produced, making it a significantly large market with substantial growth potential in the future. Furthermore, it is also a steel market where high-grade steel, in which we can leverage our technological capabilities, holds significant weight.

The capital investments we will implement in such a massive market in the future require vast amounts of money. However, any one of them is deemed necessary and effective to enhance U. S. steel's corporate value, making us confident that there are no issues whatsoever with its profitability. By introducing our operational and equipment technologies to reduce costs, and by launching strategic products that U. S. Steel was previously unable to manufacture, we aim to enhance the added value of U. S. Steel.

Furthermore, this merger allowed us to own a new production base in Slovakia, namely U. S. steel Košice. This steelmaking facility is the first integrated steelworks for steel sheet products that Nippon Steel has acquired in Europe and has a vast amount of land as well. We will delve further into how to utilize the land.

As described above, Nippon Steel will make its utmost efforts to grow in the high-grade steel market bs of the United States and Europe.

**[Overseas steel business and raw materials business]**




### 3) Initiatives toward achieving carbon neutrality

For Nippon Steel, climate change countermeasures are one of its top-priority management issues. Achieving carbon neutrality in the steel industry would require us to overcome four major challenges. To this end, we will aggressively promote initiatives aimed at addressing these challenges.

The first challenge is the innovation of production processes through technological development. Currently, we are promoting the development and commercial-scale implementation of innovative technologies through a multi-track approach, utilizing the Green Innovation Fund. Toward 2030, we will make large-scale investments to expand the production of high-grade steel using electric arc furnaces at Yawata, Hirohata, and Shunan. Regarding hydrogen-based ironmaking, we will establish commercial-scale implementation technology by 2040, while conducting development tests using both testing and real equipment simultaneously with the above-mentioned investments. Then, by combining hydrogen-based ironmaking with CCUS, we aim to achieve carbon-neutral production processes by 2050.

The second challenge is to ensure the predictability of investment returns from the massive investment required to develop decarbonization technology and install commercial-scale equipment, as well as the increased operational costs. It is not easy to make investment decisions without the prospect of recovering these huge investments. Therefore, it is crucial to establish a market for GX Steel, which passes on the costs required for decarbonization in steel production to its sales prices as a "$CO_2$ emissions reduction value." The government is proactively discussing the importance of establishing a GX Steel market, working on the substantiation of various measures to promote the procurement of GX products by national and local governments, and private companies through prioritized procurement of GX Steel and support for the demand side. Despite many challenges remaining unresolved to create a GX Steel market, we will continue to implement our initiatives to ensure the predictability of investment returns.

The third challenge is rulemaking and standardization. Establishing the GX Steel market mentioned above requires the creation of international rules that accurately assess the value of $CO_2$ emissions reduction and the standardization of such regulations. Nippon Steel and the Japan Iron and Steel Federation will actively engage with the World Steel Association (worldsteel) to promote the adoption of this rule, and will also work to ensure that it is incorporated into international standards such as ISO and the GHG Protocol, thereby promoting its global standardization.

The fourth challenge is infrastructure development. In order to achieve carbon-neutral steel manufacturing processes, it is necessary to develop large amounts of green hydrogen and ammonia, green power, and CCUS as industrial infrastructures. To accelerate these initiatives, we are currently participating in a study on developing such infrastructures in collaboration with the government, relevant companies, and other organizations.

### (3) Financial strategy supporting business strategy

Implementing these various strategies requires our continual investment in the future. We make all such investments only after verifying their economic viability to ensure satisfactory capital efficiency levels. However, at present, investment expenditures inevitably precede returns. We consider these initiatives to be the right course of action and are carrying them out accordingly. However, we understand that ensuring our sound financial structure is equally crucial.

We have implemented asset compression worth approximately ¥2 trillion for more than 10 years, particularly including an 80% reduction in strategic shareholdings at the current market value. Furthermore, we have generated operating cash flow that exceeds the target of the current Medium- to Long-term Management Plan, contributing to our improved financial soundness.

Currently, we aim to maintain a D/E ratio of 0.7 or lower. The merger with U. S. steel would have temporarily worsened our D/E ratio to 0.9. However, we managed to maintain it at around 0.8 by utilizing hybrid financing and other financial measures. Furthermore, we plan to return it to the 0.7 range by the end of this fiscal year.

Meanwhile, we intend to implement these financial strategies after thorough internal discussions, reflecting the voices of capital markets and other stakeholders, and incorporating the perspective of capital efficiency improvement.

## 4. Initiatives for Sustainability Issues

Amid the initiatives for Sustainable Development Goals (SDGs) advancing around the world, we will conduct our business activities to proactively contribute to creating sustainable communities, not only through the climate change measures described above, but also through the creation of a recycling-based society, integrated solutions to issues related to biodiversity conservation and "Nature Positive," and the maintenance and improvement of a favorable living environment.

Nippon Steel will pursue world-leading technologies and manufacturing capabilities and contribute to society by providing excellent products and services. We want to remain a company that actively contributes to solving diverse social issues through our business activities. To earn the ongoing trust of all stakeholders, we place safety, environment, and disaster prevention as our top priorities, while actively fulfilling our corporate social responsibility through quality and production initiatives, respect for human rights, diversity and inclusion, social contribution through culture, the arts, and sports, as well as community-based educational support.

At present, Nippon Steel is facing unprecedentedly diverse and challenging management issues. Overcoming and resolving various challenges hinge on the power of our human resources.

Amidst drastically changing social situations surrounding human capital, we will implement initiatives centered on three pillars: "securing human resources and promoting active participation of human resources," "productivity enhancement," which includes promoting digital transformation, and "human resources development," which can help support our global growth. When confronting management issues, including ones related to the expansion of new overseas operations, the human resources we have cultivated will continue to grow by managing various risks and persistently tackling new challenges. We will continue to work tirelessly to strengthen the competitiveness of our human resources.

Nippon Steel will continue to strive to sustainably improve corporate value, realizing our vision of becoming a company with the world's best capabilities.

**[Enhancing the competitiveness of our human resources]**