NIPPON STEEL

Nippon Steel Corporation, 2Q of FY2025 IR Briefing
(November 5, 2025)
Summary of Q&A[1]

Presented by:
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◆ Business Strategy, Performance

Q **<u>Regarding volume assumptions for the FY2025 forecast</u>, your assumption is that production and shipments will increase in 2H of FY2025. Is it reasonable to expect that this can be achieved even in a very poor market environment?**

A Our stance of producing products in line with demand remains unchanged. In 2H, there are volume differences driven by changes in steel consumption from 1H along with normal seasonal differences, but our assumptions are not in essence overambitious, and so you can consider there to be no risk in the volume target for 2H.

Q **<u>Regarding the spread of direct contract sales in 2H FY2025</u> (IR Presentation Materials Appendix, page 15), are you expecting the spread to deteriorate in 2H? The expected level in 2H is below the appropriate level. Please explain the background for this forecast. Is it due to higher assumptions for material costs, for example? Please elaborate on this, including how it compares to the 1H level.**

A As we have said in the past, as for the direct contract sales, we have basically reached an agreement with our customers on the pricing method, and we assume that an appropriate spread will be maintained in 2H. However, after the selling price is determined at the beginning of a term, if external costs such as raw material prices increase or decrease during the term, this can result in fluctuations in the level of fair spread, creating this kind of difference between 1H and 2H. We hope you understand that there will be no real deterioration in spread in 2H.

Q **My basic understanding is that the domestic steelmaking business has not changed much, but the overseas business with the exception of U. S. Steel is facing headwinds in the business environment. Meanwhile, in India, new facilities are planned to start up in fiscal 2026, which I believe is a structural profit growth factor. Please provide any hints you can regarding the <u>overseas business' earnings outlook and any possible changes</u>.**

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

A Regarding the overseas business excluding U. S. Steel, in India, the effects of capital investment will be achieved at AM/NS India. One of the effects is product sophistication. As the cold-rolling and plating lines for automobiles come online, the order mix will become more sophisticated. In addition, while the start-up of the new blast furnace is scheduled at the Hajira Works in 2026 and 2027, there will be no other start-ups of new facilities in India until that point. Given that demand is expected to rise steadily, the market is expected to tighten. From around 2022–2023, it was known that TATA and JSW were planning to expand their capacity on a large scale in 2024, so it was difficult for the market to rise from the view that the market would accordingly “slow down” eventually. While the market has not risen due to inertia, if the capacity utilization rate exceeds 90–95%, we anticipate that real demand will push up prices and the market will improve. We have great expectations for a favorable market upturn in India. With regard to Thailand, we need to take drastic measures and so we are considering measures and implementing these as necessary. As Japan’s market continues to shrink, the main growth stage will be overseas. We are eager to steadily grow our overseas business.

Q Regarding the <u>D/E ratio</u> (IR Presentation Materials, page 14), this was 0.74 at the end of September, however as a profit contribution by U. S. Steel is thought unlikely, isn’t there a risk of <u>deterioration in the D/E ratio toward the end of FY2025?</u> Please tell us your outlook.

A The D/E ratio at the end of September was 0.74. We are continuously working to strengthen our financial position, and we don’t anticipate a deterioration toward the end of FY2025.

Q You mentioned earlier that you would like to bring forward U. S. Steel’s capital investments. Going forward, if more cash is required, it might be better to discuss changing <u>the target level of the D/E ratio</u>. Will you share your thoughts on how targets for financial soundness are positioned internally, if any?

A We should not miss opportunities for growth investments because of concerns about a rise in the D/E ratio, and we do not think we need to be overly concerned about this. We set the target D/E ratio at around 0.7 because that will allow for flexible financing for investment when there is an opportunity for growth investment. Most recently, our D/E ratio was reduced to around 0.3–0.4 because we see large investment expenditures ahead. If the ratio falls to that level during steady state operations, I think that implies too few growth investment opportunities. In my view, if growth investment is required, the D/E ratio of about 1.0 can be acceptable. In fact, right after the U. S. Steel transaction, the D/E ratio was expected to momentarily rise to around 0.9. However, if the D/E ratio stays at 1.0 or more for a long time, we would then have little flexibility to act on any necessary growth investment opportunities. For a company to expand its business while formulating its growth strategies, the D/E ratio of around 0.7 in a steady state is both the most appropriate and comfortable level, in the sense that the financial position does not constrain the implementation of strategic growth investments. To us, the D/E ratio of around 0.7 is such a level to be used as a guideline.

Q It is reported that a Japanese electric furnace steelmaker will sell automotive steel sheets to a Japanese customer. Could you comment on <u>competition with electric furnace steelmakers in the automotive steel sheet field</u>?

A We are not in a position to comment on other companies' activities, but we think there is still a difference between electric furnace materials and blast furnace materials in terms of quality levels and steel grades. Accordingly, we do not think we will lose to an electric furnace steelmaker, and we will continue to make efforts to provide a stable supply of high value-added products.

◆ U. S. Steel-related Issues

Q <u>Regarding the change in underlying business profit since the previous announcement</u> (IR Presentation Materials, page 9), Since the previous announcement, the U.S. market price has fallen by more than $100 and incidents have occurred, so you have revised the forecast downward by ¥80 billion yen and removed it from the materials. Is this downward revision due to something like an erroneous expectation that U. S. Steel is structurally sensitive to market conditions? Could you explain the changes in the last three months since the previous announcement?

A As I explained earlier, when we made our forecast three months ago, the U.S. steel market was in the $900 range on a short-ton basis and has since been in the $900–950 range. However, U. S. Steel is highly sensitive to market fluctuations, while its ability to respond to such changes is not so strong at present. This is why Nippon Steel is getting involved with U. S. Steel—to reduce its variable costs, upgrade its product mix, and strengthen its profit structure. In other words, we are aiming to make U. S. Steel stronger and less affected regardless of any changes in the external environment. There is no doubt that the improvement through capital investment will be effective. This was not a major miscalculation; rather, we are pointing out that U. S. Steel is highly exposed to market downturns while its current profit structure remains weak. The incidents that occurred are one-off issues, but we were surprised to hear of these unexpected incidents. However, measures have already been implemented, and these are unlikely to have a significant impact. There were two one-off incidents: the coke plant accident, and the repudiation of the pellet sale contract by the purchaser. Specifically, Canada's Algoma Steel, a purchaser of pellets from U. S. Steel, could not conduct cross-border exports to the U.S. due to Trump's tariff policy, and was forced to shut down its blast furnace, rendering it impossible for Algoma to purchase pellets from U. S. Steel. Although we have not yet responded to this sudden incident, we are currently exploring measures to mitigate its impact, such as redirecting pellet sales to other customers.

Q What do you think is the reason for the decline in the U.S. steel market? What is your view on the U.S. market going forward, including whether or not the effects of high tariffs will materialize in the future?

A We recognize that the current U.S. market is very uncertain. The direction of the tariff policy is unclear, as President Trump has repeatedly raised and lowered tariffs, with talk of a retaliatory tariff of 100% against China, and also the possibility that this tariff will be abolished. Under normal circumstances, a 50% steel tariff would narrow the scope for imported steel products in the face of competitors in the U.S. However, due to concerns about future uncertainty, the market has entered a wait-and-see mode with stagnated transactions and has trended downward. In fact, U.S. steel imports are on a downward trend, and there are increasing signs of overseas production returning to the U.S. Therefore, we believe market recovery—and its positive impact on U. S. Steel's earnings—is only a matter of time.

Q How was U. S. Steel's profit contribution in the July–September quarter?

A In 1H FY2025, the contribution to underlying business profit was ¥22.2 billion. Profit contribution is not incorporated on an annual basis, so you can consider it zero. Although it is not actually zero, please understand that its profits will be at a level that does not need to be incorporated as a profit contribution.

Q I understand that the environment is challenging, but last time you mentioned that you could expect an effect from the launch of Big River 2 and an improvement in variable costs without involving capital investment. How is progress in those profit-improvement factors excluding environmental factors? In addition, the 1Q Presentation Materials indicated that after the ramp-up of Big River 2, U. S. Steel's underlying business profit could be expected to be ¥150 billion in fiscal 2025 and ¥250 billion in fiscal 2028. However, the current 2Q Materials do not include these estimates. How should we perceive this?

A Big River 2 has started up smoothly and will approach the level of full operation around January or February 2026 as scheduled. We have factored in improvements that will have immediate effects, including those that do not involve capital investment. Nevertheless, the deterioration in the business environment is so severe that we have to expect a decline in profits. The previously estimated underlying business profit of ¥150 billion for fiscal 2025 was based on the assumptions of achieving ¥80 billion base profit in nine months, annualized to 12 months, and of Big River 2 operating at full capacity throughout the year. However, environmental assumptions have changed completely in the last three months, and ¥80 billion in base earnings can no longer be expected. For fiscal 2026, all figures will be annualized, and the effects of high tariffs will emerge, along with the effects of lowering interest rates. Big River 2 is also up and running at full capacity. Furthermore, the effect of improving operations will permeate, leading to a situation in which we can expect significant improvement.

Q I understand that the previous earnings forecast for U. S. Steel is no longer valid. Since your profit improvement scenario presented here is based on capital investment, it will take time to start up. So, how should we view the milestones leading up to 2030? Should we assume that profit will be highly volatile, fluctuating upward and downward depending on the business environment, or do you think that right now is the worst period, and profit will be accumulated through underlying efforts? Also, your basic policy is to use operating cash flow generated by U. S. Steel for the capital investment of approximately $11 billion. However, as cash inflow is not anticipated at present, cash outflow will come first. I would like you to clearly demonstrate consistency with the investment plan in your next medium- to long-term management plan that will be formulated within the year. Could you share your thoughts on this point?

A Regarding milestones, I think your question is about how to view the interim status. Our assumption is that the effects of capital investment will not be fully realized as of 2030, and that the effects will continue to gradually increase thereafter. Regarding the U.S. market, now is considered to be the worst phase, and the effects of high tariffs and interest rate cuts are expected to materialize in the future. Having said that, the effects of U. S. Steel's capital investment are not particularly affected by the external environment. I would like you to understand that our plan will be effective regardless of the external environment, and U. S. Steel will be able to move into a relatively favorable position with regard to its competitors.

Q I would like to ask about the improvement in variable costs at U. S. Steel. You may explain it in the next medium- to long-term management plan, but I would like you to provide more detail regarding reductions in variable costs driven by capital investment. An industry newspaper stated that you will realize a significant profit improvement mainly by cutting down variable costs, since U. S. Steel is not profitable even with the current HRC price assumption of nearly $900.

A Variable cost improvement refers to the improvement in yield and operating costs. In the past, fixed costs accounted for a large portion of costs, but nowadays variable costs account for a large portion partly due to higher raw material prices. It is no exaggeration to say that the competitiveness of companies hinges on their competitiveness in variable costs. In such a situation, there is a considerable difference in yield and intensity unit between U. S. Steel and Nippon Steel. This is partly due to the fact that U. S. Steel has continued to underinvest, and its equipment is outdated, along with Nippon Steel being one step ahead in operational methods and know-how. By introducing our advanced technologies and through equipment renewal, U. S. Steel's operation will undoubtedly improve. This is why we have summarized these effects in our medium- to long-term plan here. Therefore, I think we can confidently say that these estimates are achievable.

Q What is the breakeven point for U. S. Steel? You said that its breakeven point will improve by lowering variable costs through capital investment. Will you explain in detail how to improve over 2–3 years?

A We do not disclose the breakeven point for each Group company, but you can infer that no profit remains at the present hot coil market price of $810–820. A decline in variable costs means that if the cost per ton decreases due to improvements in yield and intensity, the slope of the MP curve becomes steeper, thereby lowering the break-even point.

Q Regarding the capital investment effects of U. S. Steel (IR Presentation Materials, page 11, graph at bottom right), the amount for 2030 is not stated—is it correct to assume it to be about $1.5 billion? Also, please explain the details of the investment effects (such as whether an increase in fixed costs is included). In addition, what does the improvement effects of $3 billion for 2030 run-rate (IR Presentation Materials, page 10) mean? Is the run-rate an annualized value, and does it mean that the amount will have been reached in 2031 or 2032, for example?

A We do not disclose the figures for investment effects as of 2030, and therefore cannot provide an answer.. There are two components to the effects: the effects of capital investment, and the operational synergies resulting from the utilization of Nippon Steel's know-how. As you can see from the Materials, the effect of capital investment increases over time, and the portion of operational synergies decreases. The increase in depreciation is not included in this graph. This only shows the effects of capital investment.

As you pointed out, the $3 billion run-rate is the value of fully realized effects of the measures implemented by 2030. We will not reach this level by 2030, and the effects of some capital investment will continue to gradually emerge even after 2030. By combining capital investment effects and operational synergies, the highest level to be achieved will be $3 billion.

Q Regarding operational synergies, you mentioned that they would be realized ahead of plan (IR Presentation Materials, page 10). You are expecting the capital investment effects of $11 billion to be realized in around 2027–2028. Is there any possibility that capital investment will be brought forward in order to swiftly rebuild U. S. Steel? Also, I would like to know what kind of financing you are considering, for example, parent-child loans, if the capital investment cannot be funded by U. S. Steel's operating cash

flow.

A Ideally, I would like to carry forward the investment. Capital investment is preceded by deciding on the detailed specifications of the equipment, formulating a concrete plan, and making final decisions. Implementing these quickly is preferable, however our engineering capabilities are limited, and we cannot easily increase our response capabilities, including consulting personnel. Given such limitations, we are putting all our efforts into finalizing and proceeding with the plan as quickly as possible despite difficulties regarding pacing. Therefore, I do not think we can accelerate things any more than we already have.

We have been saying that if the capital investment cannot be funded solely by U. S. Steel's operating cash flow, Nippon Steel will provide some kind of support. I think there are various ways to do this, such as parent-child loans, debt guarantees, and capital increase through Nippon Steel North America, Inc. (NASA).

Q Regarding <u>the media reporting on the Golden Share</u>, the news flow seems to suggest that there is no impact on the essential aspects of your management, but will you share your thoughts, if any, on how to interpret current news reporting.

A I think reporting on the Golden Share at one point was not correct. Some media reported that the management flexibility of Nippon Steel would be impaired. Actually, U.S. Secretary of Commerce Lutnick clearly said the exact opposite during his visit to Japan at the end of last month, stating that the U.S. Government has the Golden Share but will not interfere with the management of U. S. Steel. The $550 billion investment package, which is said to have been agreed between the Japanese and U.S. governments, looks like an agreement that gives the U.S. the upper hand by making the U.S. take the initiative in deciding where to invest. On the other hand, our partnership agreement is completely different. We are committed to the 13 items, all of which are essential to the core of U. S. Steel's growth strategy, such as retaining its headquarters in Pittsburgh. Even if the U.S. government expresses any intentions, it will be limited to the scope of these 13 items. Therefore, we believe that this Golden Share scheme will not impair our management flexibility in executing U. S. Steel's growth strategy.

Q It is reported that a competitor in the U.S. will start <u>mining rare earth minerals</u>. Are there similar possibilities in a mine owned by U. S. Steel?

A I think you are referring to Cleveland Cliffs. U. S. Steel also has an interest in the same mountain ore deposits owned by Cleveland Cliffs. If rare earths are present in the same deposits, it will be possible that these will also be present in the parts owned by U. S. Steel. However, we are not aware of the situation, and we would like to closely monitor the situation.

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