NIPPON STEEL

Nippon Steel Corporation, 1Q of FY2026 IR Briefing
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Summary of Q&A[1]

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◆Business Strategy and Financial Performance

Q **<u>Sustainability of the projected consolidated underlying business profit (UBP) level for 2H FY2026</u>: Could you comment on the feasibility of achieving the annualized consolidated UBP level of ¥850 to ¥900 billion for 2H, excluding seasonal factors? (IR Presentation Materials, page 6)**

A We believe that the earnings performance of our domestic business in 2H will be key to sustaining this annualized UBP level. In our standalone domestic steel business, we project a profit of ¥120 billion in 2H—recovering from zero in 1H—and are aiming for an annualized rate of ¥240 billion. Achieving this target will require continued progress in passing through higher external costs via steel price revisions. In particular, the implementation of the ¥15,000 per-ton price increase in distribution sales will be critical. By further implementing this price increase toward 2H, we believe we can achieve a profit level of ¥200 billion or more, which is the benchmark set in 2030 Mid- to Long- term Management Plan. Securing an annualized rate of ¥200 billion from the standalone domestic steel business combined with ¥200 billion from steel group companies and ¥100 billion from the non-steel business segment will enable us to firmly maintain our domestic business medium-term target of ¥500 billion or more. As for the potential upside from U. S. Steel within our overseas business, our assumptions currently incorporate a certain degree of decline in U.S. steel market prices during 2H. However, if U.S. hot-rolled coil (HRC) market prices remain at levels higher than our assumptions, it could serve as a factor for earnings improvement. Beyond the planned profit improvement initiatives, if U. S. Steel continues stable operations while benefiting from the currently favorable business environment in the U.S., we believe there is potential for further upside from FY2027 onward.

Q **<u>Sustainability of domestic earnings and future profit growth</u>: Given the continued challenging environment for domestic business, could you share your current thinking on Mid- to long-term initiatives to strengthen domestic profitability? In addition, is**

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

there potential to further improve the base margin of the products sales to specific customers heading into the next fiscal year?

A As you pointed out, we recognize that the domestic business environment remains severe. Given these circumstances, we have steadily advanced the consolidation of domestic production bases and the reorganization of group companies. Under the 2030 Mid- to Long-Term Management Plan, rather than assuming additional structural reforms in Japan, we are focusing on maximizing the benefits of the production framework established through initiatives implemented under the previous medium-term plan and fully realizing the effects of these measures. For example, by leveraging the next-generation hot-strip mill that will be launched at the Nagoya Works, we will enhance both cost and product quality competitiveness. In addition, this will enable us to produce high-quality, ultra-high-tensile steel sheets incorporating our latest technological and R&D advancements at a lower cost and with high productivity. Going forward, we will drive further earnings improvement by strategically focusing on meeting demand for automotive steel sheets, particularly in the Chubu (Central Japan) region. Alongside these operational initiatives, we will also pursue improvements in profitability across the entire group, including further corporate reorganizations, aiming to consistently secure ¥200 billion or more in annual earnings over the medium term from our domestic steel business. Regarding the possibility of a further increase in the base margin for the next fiscal year, it is difficult to make a definitive statement at this stage. However, under the previous medium-term plan, we sought and secured price increases that appropriately reflected the added value of our steel products. Going forward, we will continue to focus on securing appropriate pricing aligned with the value we deliver by providing steel products with even higher added value.

Q <u>Price improvement in domestic business from 1H to 2H</u> (IR Presentation Materials, page 6): I understand that ¥100 billion price improvement reflects both the effects of the price revision in distribution sales and margin improvement of the products sales to specific customers. How confident are you in fully achieving the ¥15,000 price increase in distribution sales? In addition, should we continue to assume that <u>earnings growth will be driven by increasing proportion of high-value-added products</u>?

A Our policy is to steadily implement the ¥15,000 per-ton price increase in distribution sales toward 2H. In terms of progress to date, we believe implementation is roughly halfway complete, and we will accelerate its implementation heading into 2H of FY2026. Domestic steelmakers—both blast furnace and electric arc furnace producers—are facing a harsh earnings environment. In addition, costs have increased due to factors such as the impact of the situation in the Middle East and higher raw material prices. As a result, steelmakers across the industry are pursuing price increases to improve profitability. Furthermore, we expect anti-dumping (AD) measures to provide supportive market conditions. Against this backdrop, we are fully committed to successfully achieving the ¥15,000 per-ton price increase. With respect to offsetting cost increases toward 2H, we expect earnings improvements driven by price revisions in both sales to specific customers and distribution sales, alongside an optimized product mix with a higher proportion of high-value-added products. Accordingly, we believe that the ¥100 billion improvement is fully achievable.

Q **Steel sales price in 1Q (IR Presentation Materials Appendix, page 29): Why did the average sales price decline to ¥142,000 per-ton from ¥143,000 per-ton in 4Q of the previous fiscal year, despite rising external procurement costs and a weaking yen?**

A In the first quarter, sales prices were affected by a temporary deterioration in the product mix resulting from lower shipments of certain high-value-added products due to inventory adjustments in whose product categories. In addition, there was a timing gap in reflecting raw material and fuel cost increases into sales prices due to differences in contract structures among customers, which acted to put downward pressure on sales pricing compared to 4Q. Note that while the yen trended weaker, the negative impact of lower U.S. dollar-based export sales prices was partially offset.

Q **Anti-dumping (AD) measures: Investigations into hot-rolled and cold-rolled steel sheets were initiated in June 2026. Have you seen any changes in customer purchasing behavior since the investigations began?**

A Provisional AD duty has already been imposed on stainless steel and galvanized steel sheets (GI). Regarding hot-rolled and cold-rolled steel sheets, for which investigations were initiated in June, we have not identified any specific changes in customer's purchasing behavior at this stage. Going forward, we believe it will be important to closely monitor trends regarding circumvention imports through countries not subject to the investigations, as well as any front-loaded imports ahead of any potential AD duty imposition.

◆ U. S. Steel-related issues

Q **U. S. Steel's underlying business profit (UBP) outlook: U. S. Steel's UBP outlook remains flat at ¥90 billion for both 1H and 2H. Given the current strength in U.S. steel market prices, one might expect stronger earnings in 2H? Does your forecast assume a decline in steel prices during 2H? (IR Presentation Materials, page 7).**

A Our current assumptions incorporate a certain degree of decline in steel prices during 2H. We will review and update these assumptions quarterly; however, if steel market prices remain at levels higher than our assumptions, this could provide additional upside to earnings. In addition, our forecast for 4Q incorporates the seasonal downturn in earnings from mining business that typically occurs during the winter period. Accordingly, the flat first-half/second-half profit outlook reflects these seasonal variables.

Q **<u>Synergy effects at U. S. Steel</u>: What specific initiatives contributed to the realization of $300 million in synergy effects? Are these sustainable beyond this fiscal year? Please provide concrete examples, including qualitative aspects, of the initiatives undertaken (IR Presentation Materials, page 24).**

A To provide some examples of operational synergies: in the ironmaking process, we have introduced our operational know-how for stabilizing blast furnace operations, such as optimizing hot blast injection temperature, resulting in improvements in various operating and consumption indicators. In the steelmaking process, we achieved yield improvements, reduced auxiliary material consumption, and increased the use of lower-cost materials. In the hot-rolling process, we enhanced product yields by improving strip threading performance during rolling. We are encouraged by the tangible results achieved through the steady execution of these numerous incremental shop-floor improvement initiatives and have gained confidence in our ability to realize operational synergies. Reflecting an additional $100 million contribution from these improvement initiatives, we have raised our synergy target from $200 million to $300 million for this fiscal year.

Q **<u>Impact of rising U.S. steel market prices on U. S. Steel</u>: A roughly $100 per short ton increase in the assumed hot-rolled coil (HRC) price, when multiplied by U. S. Steel's shipment volume, would appear to imply an earnings upside of approximately ¥200 billion. Could you explain why the actual earnings impact differs from this simple calculation? (IR Presentation Materials, page 8). In addition, <u>U. S. Steel's break-even point (BEP)</u> was previously estimated to be around $700 per short ton on an HRC basis. What is the current level after taking synergy effects and earnings improvement initiatives into account, and what are your expectations going forward? (IR Presentation Materials, Page 7).**

A There are two primary reasons why a $100 per short ton increase in the HRC price assumption does not translate directly into a corresponding increase in earnings. First, U. S. Steel ships a diverse portfolio beyond HRC products, therefore the impact must be assessed considering its overall product mix. Second, U. S. Steel's sales portfolio consists of a combination of fixed-price contracts and market-linked contracts various pricing mechanisms, including quarterly, monthly, spot pricing etc. The mix of these pricing arrangements affects the extent and timing of price realization. We build our forecasts by building up each of these factors individually on a bottom-up basis. Regarding the BEP, earnings do not correlate linearly with HRC prices. In addition, the BEP itself has been improving alongside the progress of our earnings improvement initiatives. As a result, it is difficult to estimate the BEP using a simple calculation based solely on HRC prices. Going forward, we believe it is essential to structurally lower the break-even point through the steady execution of earnings improvement measures, including benefits from the $2.5 billion capital investment plan.

Q **Fixed cost management at U. S. Steel: Looking ahead, fixed costs are expected to rise due to factors such as higher depreciation associated with ongoing capital investments, rising labor costs based on union negotiations, and elevated financing costs resulting from persistently high interest rates. How do you plan to manage these increases in fixed costs? In addition, could you provide an update on your outlook for the fixed-cost burden going forward?**

A We fully recognize that the United States is a high-labor-cost country. Our 2030 Mid- to Long-Term Management Plan already incorporates increased in fixed costs reflecting expected inflation, and we view the recent rise in fixed costs as generally in line with our plan. Regarding the interest expenses, we expect the earnings improvement at U. S. Steel to more than offset any increase in financing costs. Accordingly, U. S. Steel is expected to make a positive contribution to net income in our plan for this fiscal year. While we will seek to mitigate the rise in financing costs through our funding activities, the most important factor is for U. S. Steel to generate sufficient cash flow in the current favorable U.S. business environment and fund its own investments. We believe the next one to two years will be a critical period until the full-scale benefits of our capital investments materialize.

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