

Nippon Steel Corporation, 4Q of FY2025 IR Briefing
(May 13, 2026)
Summary of Q&A¹

Presented by:

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◆ Business Strategy and Performance

Q Regarding the forecast for consolidated underlying business profit for FY2026 (¥300.0 billion for 1H and ¥400.0 billion for 2H): Could you please explain why you expect profit to increase toward 2H? (IR Presentation Materials, page 20)

A The main reason is that earnings for our two highly profitable representative products—seamless pipes and electrical steel sheets—temporarily worsen in 1H due to factors such as a slowdown in project activity and inventory adjustments. However, we are factoring in a certain degree of recovery for these products in 2H.

Q Regarding your ability to cope with a deteriorating business environment: I understand that the FY2026 forecast incorporates the impact of a worsening business environment based on certain assumptions. However, negotiations for the direct sales contract for 1H were conducted before the outbreak of the conflict involving Iran, and the impact of the situation in the Middle East is estimated to be approximately ¥50.0 billion in 1Q alone. Given this, further measures to address this deterioration in the business environment may be necessary. What are your thoughts on this?

A For the contract-based business, in an environment in which external costs rise, there will be some time lag between these increases in external costs and price revisions, but we believe that the overall margin level can be maintained. The main challenge lies in the commodity sector, where the raw material margin for domestic hot-rolled coils tightened by ¥20,000 from the beginning to the end of FY2025 (IR Presentation Materials, page 26). In response, we have announced price increases, and our key issue will be how effectively we can secure them. As the commodity sector is also affected by trends in imported steel products, it is unreasonable to assume that we can fully offset deterioration in this environment. That said, given the severity of the current situation, we will make every effort to improve prices (IR Presentation Materials, page 26). Regarding the approximately ¥50.0 billion impact from the situation in the Middle East, our basic approach is to ask that our customers reflect cost increases in product prices.

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

Q Regarding your commitment to Consolidated underlying business profit (UBP) of ¥600.0 billion or more: Although your policy is to maintain consolidated UBP of at least ¥600.0 billion regardless of the business environment, the deterioration of the situation in the Middle East appears to be beyond your expectations. An impact of ¥50.0 billion in 1Q is quite substantial. Can we still assume that this commitment will be maintained even in the face of such unexpected external environmental deterioration?

A We did not envision a conflict of the kind we are currently seeing. The estimated impact of the situation in the Middle East in 1Q alone is extremely large at approximately ¥50.0 billion. If the conflict becomes prolonged, it will have a significant impact on demand across a wide range of industries, making it difficult to reasonably quantify the overall effect.

Q Regarding your overseas business in India (IR Presentation Materials, page 41): The steel market in India has been trending upward since the beginning of 2026, and ArcelorMittal's financial results indicate that AM/NS India has recovered on an EBITDA basis. What is your outlook for the Indian business?

A The steel market in India has improved considerably. For FY2026, we expect a meaningful level of profit contribution from our Indian business, centered on AM/NS India. That said, there are certain risks, including the potential impact of the situation in the Middle East on India's macroeconomic environment, and we will continue to closely monitor the situation.

Q Regarding your overseas business (excluding the U.S. and India), could you share your view of the current challenges and how you are addressing them?

A In Thailand, partly due to the effects of trade measures, the impact of Chinese materials is easing, and the supply-demand balance is improving. As a result, operations at G/GJ Steel have stabilized in terms of both production and cost.

In Europe, U. S. Steel Košice (USSK) in Slovakia faces two challenges. The first is how to address the EU Emissions Trading System (EU-ETS). We believe that decarbonization investments and costs associated with the EU-ETS are applied on an equal footing across the region, and as such, these costs can be covered through higher market prices. The second challenge is to upgrade USSK's product mix and restore its profitability. Europe is becoming a closed market, partly driven by mechanisms such as the Carbon Border Adjustment Mechanism (CBAM). In addition, as automakers' production bases within Europe shift eastward, the Slovakia-based steelworks has a geographical advantage. Going forward, we plan to enhance USSK's product quality through equipment upgrades and technology transfers, elevating it to a level capable of supplying automotive steel sheets. We believe Slovakia has significant potential, largely due to its geographical advantage within Europe. The timeframe for upgrading the product mix is also important. As this involves balancing these initiatives with investment burdens, we intend to proceed steadily while carefully

examining the investment efficiency of each project.

Q Regarding the underlying business profit of the raw materials business (IR Presentation Materials, page 45): Against the backdrop of rising coking coal prices, could you explain the factors behind the expected decline in profit for the raw materials business in FY2026?

A The decline in profit in the raw materials business from FY2025 to FY2026 is largely due to foreign exchange effects. Specifically, we anticipate a worsening of earnings caused by the appreciation of the Australian and Canadian dollars, as well as the depreciation of the U.S. dollar.

◆ **U. S. Steel related issues**

Q Why did U. S. Steel's underlying business profit for 2H of FY2025 fall slightly short of the plan? On the other hand, will it be possible to achieve a significant improvement in earnings from synergy effects and other factors assumed in the FY2026 forecast? Please explain what will change between FY2025 and FY2026 (IR Presentation Materials, page 36).

A In 2H of FY2025, the impact of severe winter weather in North America, although temporary, was significant. In addition, natural gas prices rose considerably, making the January–March quarter tougher than expected.

Regarding the ¥110.0 billion profit improvement projected for FY2026: Toward FY2035, we plan to generate a total EBITDA improvement of \$3.0 billion, consisting of \$2.5 billion from capital expenditures and \$500 million from operational synergies including contributions from our dispatched engineers. However, the effects of capital expenditures will be back-loaded, with results appearing mostly around 2027 to 2029, meaning it will take some time to contribute to profits. Therefore, in order to realize U. S. Steel's profit contribution as early as possible, we have currently dispatched about 100 personnel to local sites, making every effort to improve operations and quality without relying on investment. For FY2026, we aim to deliver \$200 million, which represents 40% of the planned operating synergies of \$500 million. In particular, quality improvements at blast furnace sites are expected to have a significant effect. In addition, the volume effect at Big River 2 is estimated to be substantial, reaching approximately ¥60.0 billion. As the utilization rate at Big River 2 improves, production volume is planned to increase from 1.4 million tons in FY2025 to around 2.4–2.5 million tons in FY2026. By leveraging these earnings improvement initiatives, we intend to enable U. S. Steel to achieve an underlying business profit of ¥100.0 billion or more.

Q For FY2026, the outlook indicates that the effect of rising steel prices in the U.S. will be offset by rising energy costs, etc., leaving only the earnings improvement effects (IR Presentation Materials, page 36). While hot-rolled coil prices in the U.S. are

trending upward and actual demand appears solid, what is your view on the U.S. steel market and demand? Also, please explain what specific price increases you are anticipating due to the impact of inflation. Furthermore, please share your views on comparisons with other U.S. electric arc furnace (EAF) manufacturers, such as Nucor, which announced strong financial results.

- A Regarding the U.S. steel market, prices are currently exceeding \$1,000/st. However, when prices exceed this level, imported steel may become cheaper even with a 50% steel tariff applied. For this reason, we anticipate that the U.S. steel market may soften toward 2H in 2026.

Regarding the impact of inflation, we have stated that the impact of the Middle East situation is an excluded item for our domestic business. For U. S. Steel, however, part of the impact from rising U.S. energy costs—stemming from developments in the Middle East—is already reflected, which may make the total impact appear somewhat larger. That said, if the steel market prices do not fall as much as currently assumed in 2H, the recovery in market prices would work as a positive factor.

Regarding the comparison with EAF mini-mills in the U.S.: First, the product mix differs by company. Big River focuses on flat-rolled steel, while Nucor has significant exposure to long products as well. In the U.S., project-based development, including data centers and power plants, remains active, which must have supported Nucor's long products in contributing to its strong results. In addition, Big River 2 was in the middle of its ramp-up phase during FY2025. Operations and productivity have improved during the fiscal year, and in FY2026, production is expected to increase to 2.4–2.5 million tons, contributing to improved profitability. The key challenge for U. S. Steel lies in the profitability of its integrated blast furnace operation in North America. Led by our dispatched technical experts, we are focusing on improving production efficiency and enhancing quality—particularly for high-grade steel—to improve its high-cost structure. Although this effect has not yet fully manifested, we plan to implement cost improvements of approximately ¥40.0 billion in FY2026.

- Q Regarding the U.S. steel market in FY2026: An earnings improvement of ¥120.0 billion due to the recovery of the U.S. steel market translates to roughly \$70 (¥10,000) per ton, but it seems that it could turn out somewhat better than that. Is this understanding correct (IR Presentation Materials, page 36)?**

- A Our assumption for the U.S. steel market is based on setting the annual average hot-rolled coil price in the mid-\$900/st range. Although this price currently exceeds \$1,000/st, we assume that it will decline in 2H. This will also be affected by future market trends in Southeast Asia. If the Southeast Asian steel market, which is currently at lowest level, begin to rise, the relative balance with the U.S. market would change, and there is a possibility that U.S. steel prices may not decline as assumed. However, we would like to carefully monitor

various factors, including the impact of the situation in the Middle East.

Q You mentioned that there are challenges at the integrated blast furnace steelworks in North America. Could you share if you feel any positive changes or improvements (IR Presentation Materials, page 38)?

A The challenges have become clear. For example, in the North American market, U. S. Steel, Cleveland-Cliffs, and ArcelorMittal Calvert are the main suppliers of technically demanding products such as automotive outer panels and advanced high-tensile steel sheets. Although U.S. Steel has been successful in securing orders at prices that are by no means low, it has struggled to generate sufficient profits, mainly due to its high variable costs. For instance, there is a large gap in the integrated yield of representative ultra-high-strength steel between U.S. Steel and our domestic steelworks. While some challenges can be resolved through equipment measures, we are focusing on operational improvements to ensure that orders for high-grade products translate into profitability. This is an area in which we have accumulated extensive experience over many years in Japan, and we are working on these initiatives with confidence.

Q How do you view the timeline for U. S. Steel to improve variable costs and other factors through independent efforts? Will improvements be linear, or will these progress step-by-step over time?

A We have stated that we will implement the 260 improvement initiatives identified by our dispatched personnel to U. S. Steel to build up a \$500 million in synergy effects, but the level of difficulty varies depending on the specific initiative. Some will yield immediate results once implemented, while others will take more time to generate tangible improvements. For example, relatively straightforward operational improvements—such as enhancing yields and reducing unit consumption—can typically be achieved through simple operational measures within one to two years. In contrast, improving the integrated yield of more complex, difficult-to-manufacture materials involves coordinated measures spanning multiple processes. These improvements took considerable time even at our domestic steelworks, therefore it will take several years for these improvement measures to fully materialize. While we are working to realize synergies as early as possible, not all initiatives will deliver results within a short period of time. Regarding capital expenditures, some projects take two to three years for construction alone, and therefore we expect their contributions to start appearing progressively as we approach 2030.

◆ Financing

Q Regarding the net income forecast for FY2026: underlying business profit of ¥700.0 billion, business profit of ¥530.0 billion, and net income of ¥220.0 billion are expected. Could you provide a breakdown of the earnings at each stage? Please also explain the

impact of the interest burden.

A In FY2025, in addition to the inventory valuation difference of ¥136.3 billion, there were business transfer losses at AM/NS Calvert of ¥230 billion and withdrawal losses from USIMINAS as separately disclosed items, resulting in a low level of profit. On the other hand, for FY2026, the recording of losses associated with structural measures for production facilities has mostly been completed, and separately disclosed items are expected to be limited to losses of ¥30.0 billion. The inventory valuation difference turns positive if raw material prices rise, but we view the recent surge in main raw material prices as temporary. As our raw material price assumptions are set slightly lower than current levels, the inventory valuation difference will not be large. There are two factors affecting non-operating income and expenses. First, U. S. Steel has non-operating expenses of approximately ¥20.0 billion, which includes one-time costs associated with the relining of the blast furnace at the Gary Works. The second is foreign exchange effects. In FY2025, a weaker yen (exchange rate: 159 yen/dollar) resulted in foreign exchange gains, but our exchange rate assumption for FY2026 is 155 yen/dollar, and such exchange rate gain are not expected to recur. Regarding interest rates, in addition to including 12 months' worth of interest for U. S. Steel in FY2026 (compared to 9 months' worth in FY2025), the scale of the permanent loan interest amount is relatively large, resulting in an overall interest burden of approximately ¥100.0 billion.

Q Regarding the cash flow plan for FY2026: Please provide a breakdown of investment cash flow, including for domestic, overseas, and U. S. Steel operations. Also, how much cash inflow do you expect from asset reduction?

A In FY2025, due to the acquisition of U. S. Steel, free cash flow fell into a deficit exceeding ¥2 trillion. Although we carried out asset reductions on a scale of ¥100.0 billion, interest-bearing debt increased by around ¥2.6 trillion. For FY2026, based on consolidated business profit excluding the current impact of the Middle East situation, operating cash flow is expected to be close to ¥1 trillion. However, investment cash outflow will be front-loaded, reflecting ongoing capital expenditures, including the next-generation hot-rolled mill in Nagoya Steelworks for domestic operations and investments related to U. S. Steel overseas. Looking ahead to FY2030, we expect to return to profitability and positive free cash flow with the benefits of U.S. Steel's capital investments and synergy effects, etc., however, for FY2026, free cash flow is expected to remain negative.

Regarding asset reduction, the balance available for sale is around ¥300.0–400.0 billion. As we need to proceed carefully while engaging in dialogues with relevant stakeholders, we cannot sell all such assets immediately. In addition to equity sales, we are also considering inventory reductions and land sales as part of our asset reduction efforts.

◆ Other

Q Are there business opportunities in AI and data center-related demand sectors in the U.S.? Also, what kind of products are you providing? Can we also expect demand in the Chemicals & Materials business?

A Demand related to AI and data centers, including power generation, is robust not only in the U.S. but also in other regions. In these high-grade segments, we provide products such as electrical steel sheets. Regarding electrical steel sheets in the U.S., since the investment plan for grain-oriented electrical steel (GO) at U. S. Steel's Big River remains under consideration. Accordingly, high-grade electrical steel will contribute to profits through exports from Japan.

In addition, the functional materials business of our group company, Nippon Steel Chemical & Material Co., has been performing strongly, with its profit contribution continuing to expand. As for electrical steel sheets, the supply-demand balance will temporarily soften into an inventory adjustment phase, however, we believe full-scale profit contributions will resume from 2H onward.

End

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