NIPPON STEEL

Nippon Steel Corporation, IR Briefing
on 2030 Medium- to Long-term Management Plan
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Summary of Q&A[1]

Presented by:
Tadashi Imai, Representative Director, President and COO
Takahiro Mori, Representative Director, Vice Chairman and Executive Vice President
Hirofumi Funakoshi, Representative Director and Executive Vice President
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◆ **Strategy**

Q **I would like to ask <u>whether your profit expectation for the domestic steelmaking business can be sustained in an extremely harsh market environment in which you are assuming a decline in crude steel production volumes.</u> Meanwhile, as for overseas business, you are planning substantial profit growth at U. S. Steel. My understanding is that, out of the capital investment and synergistic effects ($3 billion) of U. S. Steel's medium-term business plan, about half of that, or about $1.5 billion would be realized by fiscal 2030. However, in the bar chart showing overseas business profits (IR Presentation Materials, page 23), the estimated amount appears to have increased even more significantly. I suspect that there must be other factors of <u>earnings growth at U. S. Steel</u> besides the benefits of capital investment. Could you elaborate on <u>how you expect them to grow,</u> including your assumptions regarding market conditions and the business environment?**

A First for Japan. We assume that domestic steel demand will decline by several million tons over the next five years from the current level of approximately 50 million tons. In particular, based on the harsh assumption that a certain amount of domestic automobile production will be transferred to the U.S., we plan to consolidate our manufacturing bases for automotive steel sheets in Japan from six into three competitive ones. With respect to crude steel production, we believe it would not be surprising if this drops to a level below 80 million tons in five years. In the past five years, Nippon Steel has taken the lead among our peers in reviewing our production structure, reducing excess capacity, and simultaneously making strategic investments to enhance competitiveness. Given the fact that our breakeven point has been lowered sufficiently, we plan to implement a strategy over the next five years that leverages the strong domestic production structure we have built up so far. In particular, we

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

believe that hot coils will be the key that supports the overall production volumes. As a result of examining how we can even further reduce costs in our highly competitive bases in Oita and Kashima, we have developed a plan that enables us to compete with overseas mills. We have therefore concluded that we can maintain our domestic production structure over the next five years. Regarding the profitability of U. S. Steel, the U.S. market itself has considerable potential to begin with, and if U. S. Steel can strengthen its own competitiveness in costs and products, it can also upgrade its product mix and expand both production and shipment volumes. Moreover, if it can reduce costs, earnings per ton and marginal profit will also increase. In essence, U. S. Steel's profitability depends on how competitive U. S. Steel can make itself. Since the completion of the acquisition, Nippon Steel has dispatched a substantial number of personnel to U. S. Steel to dig deeper into its issues. This has enabled us to plan with considerable accuracy how our capital investment execution will improve U. S. Steel's cost structure, quality, delivery, product mix, and other key factors. The combined effect of capital investment and synergies is estimated to be $3 billion in EBITDA. Taking into account the effects of various measures that had already been considered prior to the completion of the acquisition, we believe U. S. Steel will be able to generate more than half of our estimated overseas underlying business profit of ¥500 billion. Because the realization of investment effects is a critical prerequisite, we are confident that this target can be achieved relatively reliably by deploying our engineers and help oversee construction.

Q I got the impression that you presented your medium- to long-term vision and concept this time. I felt you explained extensively the strategy to focus more on pursuing scale as a whole, relatively less on efficiency. Could you elaborate on <u>your five-year scenario and milestones for spread and cost improvements, including the concept?</u>

A Regarding spread in the domestic steelmaking business, one of the key pillars is the expansion of average spread through a more sophisticated product mix. Over the past five years, we have invested over ¥200 billion to expand production capacity for electrical steel sheets. Although the pace of automobile electrification has slowed somewhat recently, we expect steady progress going forward, and we aim to increase production of high-grade products with high profit spread. For automotive steel sheets, we will utilize the Nagoya Works' next-generation hot-rolled steel to improve costs, including variable costs for ultra-high-tensile steel, and shift to high-grade steel products by providing comprehensive solution-based offerings. We believe there remains room for the marginal profit per ton to increase through a more sophisticated product mix, even amid declining automobile production. In addition, through the accumulation of detailed initiatives, we intend to thoroughly reduce costs and to maintain spread.

Under the new plan, we will focus not only on high-grade steel but also on mass-produced commodity products, from the perspective of maintaining domestic production capacity.

Specifically, starting with building materials, we promote our initiatives, starting with the steel sheets for construction and civil engineering, by including the utilization of electric arc furnaces of Nakayama Steel Works, Ltd. I would like to emphasize that this plan focuses not only on the unit price of marginal profit but also on how to secure the total amount of marginal profit.

We have not disclosed quantitative milestones in the Presentation Materials. Because this management plan involves front-loaded cash outflows associated with growth investments, financial indicators will be under pressure in the first half of the five-year period. Therefore, measures to improve cost and earnings that can be implemented in a front-loaded manner must be promptly carried out. Internally, we have set numerical targets for FY2028 and intend to accelerate our efforts in order to prevent necessary measures being postponed, but we would like to refrain from providing quantitative details at this time.

Q Regarding the strengthening of competitiveness in steel sheets (IR Presentation Materials, page 14), you explained that hot coil production will be concentrated at two domestic bases, Oita and Kashima. My understanding is that these two bases are already sufficiently cost-competitive. What additional measures can be implemented to further strengthen their competitiveness as hot coil production bases?

A As you noted, our two hot coil production bases in Japan—Oita and Kashima—remain the most competitive among our bases. However, given the extremely severe business environment I mentioned earlier, and the hot coil market conditions represented particularly in ASEAN, we believe that even our current cost levels will not be sufficient. There is still considerable room we can do to further strengthen our competitiveness. For example, both Oita and Kashima Works are currently manufacturing steel sheets for automobiles, incurring various costs such as quality control and technical services. If we concentrate production of steel sheets for automobiles at three other bases—Nagoya, Kimitsu and Yawata—, Oita and Kashima Works can be dedicated to the operation of hot coils for export. We are also thinking about how to pursue further marginal cost reductions through a more advanced operating structure, including a review of indirect costs and approaches to facility maintenance.

Q Regarding the target to dramatically increase overseas business profit to ¥500 billion (IR Presentation Materials, page 23), you explained that U. S. Steel's profit will account for more than half of the estimated overseas business profit in FY2030. Could you provide more detail in what time frame you expect to increase the earning contributions in India and Thailand, including any new initiatives.

A In India, the new pickling and cold-rolling lines will start operation in 1H of FY2026. Combined with the existing galvanized plating line, we can start manufacturing steel sheets for automobiles. At the same time, the upstream (ironmaking and steelmaking) and hot-rolling facilities, currently under construction, will start operation from 2H of FY2026 onward, and the production capacity of the Hazira Works will increase by 6 million tons to a total of 15 million tons. Together with a more sophisticated product mix, the expansion in volume will be completed once these upstream and hot-rolling facilities become fully operational. In Rajayyapeta in southern India, there is a plan to construct an integrated steel works with a potential capacity of 7 million tons. To explain within the scope of the new management plan, we would like to start commercial production by the end of FY2028, prioritizing the start-up of downstream processes.

As for Thailand, G/GJ Steel is currently facing an extremely challenging situation, struggling against the inflow of cheap steel products from China. We are working on restructuring G/GJ Steel, including strengthening collaboration within our group in Thailand in addition to making capital investments. Having said that, Thailand's contribution to our estimated overseas business profits of ¥500 billion or more in the new plan will not represent particularly large.

◆ Assumptions of the plan

Q Your <u>steel shipment volume</u> forecast for FY2025 is 31.5 million tons. In your new medium- to long-term management plan, <u>do you plan to increase the shipment volume</u> from the present level? Also, do you plan <u>to increase market share and profit per ton</u> even amid declining domestic demand?

A We assume that overall domestic demand will decrease by several million tons from the current level by FY2030. In this context, we expect steel shipments in our domestic business to decrease slightly from the current level of around 31 million tons, but we intend to maintain the overall production scale, including exports, as much as possible. Looking at both our production scale and domestic profit figures, we estimate our per-ton profit to remain flat or slightly increase. By product type, we aim to capture demand for steel sheets by leveraging our competitive production structure and multi-mill configuration, which are supported by our domestic production structural measures and strategic investments so far. In addition, we believe that there is potential to capture further demand in the special steel bar and wire market, contributed by factors including the acquisition of Sanyo Special Steel as a wholly owned subsidiary.

Q What are your <u>assumptions regarding the external environment</u>? Could you give us some insight into assumptions for <u>overseas spreads and raw material prices</u>?

A We believe that overseas spreads have already bottomed out, and we expect the current level to continue. While we cannot disclose quantitative assumptions of the raw material market conditions, our view of iron ore is based on an anticipated decrease in steel production in China, which will be offset by an increase in steel production in India. On top of that, as India possesses iron ore reserves, the supply and demand balance for internationally traded iron ore is expected to ease. As for hard coking coal, our assumption is based on the view that the global output itself will stagnate and that the supply and demand balance will be tight, given that India does not produce hard coking coal.

◆ Finance

Q **Your strategic investment of ¥6 trillion over the next five years suggests annual investment of slightly more than ¥1 trillion. If you generate annual business profits of ¥1 trillion, net income would be about ¥500-600 billion and, at the current pace, depreciation is likely to reach the level of ¥500-600 billion, which results in cash generation of slightly more than ¥1 trillion yen per year, which would be broadly in line with the annual investment scale. However, from FY2026 to around early FY2027, full investment benefits from U. S. Steel are unlikely to be realized, which implies a cash shortage at the initial phase. How should we think about your cash allocation? Could you elaborate on your financial strategy for addressing the fund shortage, including the possibility of asset sales or business divestitures?**

A As you pointed out, the profit level is expected to be relatively bottom-heavy or rise in later phases, taking into account the investment effect of U. S. Steel. We view the next five years as a period in which growth investments will be front-loaded. Over the course of five years, free cash flow will be negative. Accordingly, financing measures will be required. In this regard, we are diligently examining the optimal financing approach while keeping in mind our financial position and key financial indicators.

Q **Your new management plan stated the D/E ratio of approximately 0.7x as one of the main KPIs, and the previous statement of "early realization of 0.7x or less" has been removed. Could you explain the implications behind expression "approximately" of the targeted D/E ratio of approximately 0.7x after adjustment for capitalization, etc.?**

A We believe that maintaining and improving our financial strength is an extremely important factor from the viewpoint of ensuring sufficient capacity for further growth and maintaining our credit ratings for smooth financing. There has been no change in our policy of emphasizing the importance on the D/E ratio as a matter of financial discipline.

At the same time, what we intend to convey in the new expression is that we are not necessarily fixated on "0.7x or less, considering that the next medium- to long-term plan period is a transitional period in which investment for profit growth comes first. As we have stated before, maintaining the D/E ratio of approximately 0.7x is a very comfortable position, which allows us to invest when growth opportunities arise. We do not think it is particularly appropriate to lower the ratio further in the sense of constraining investment for growth. That is why we have expressed it as "approximately 0.7x" over the medium to long term.

Q Please tell us about <u>your approach to refinancing bridge loans</u> and whether anything has changed in the past one to two months. Previously, you explained that if you were to raise equity, the amount would be limited so as not to dilute EPS. Does this policy remain unchanged? If so, given that U. S. Steel is not expected to generate profits in FY2025, at which point in time should EPS be used for comparison?

A We continue to believe that we should not worsen EPS even in the case of capital increase remains unchanged. We are considering an optimal way of financing including whether to raise capital or not, so we would like to withhold a specific answer at this time. Regarding which point in time EPS should be considered, since it is related to U. S. Steel, the comparison should be before and after the U. S. Steel transaction.

Q While <u>PBR</u> levels are depressed across the steel industry, Nippon Steel's PBR is also far below the level of 1x. Could you share your perspective on how you intend to steadily improve PBR to surpass 1x over the next five years? What are your thoughts?

A We take this question very seriously. At this time, we do not believe that we are sufficiently evaluated relative to our profitability from the stock market.

We recognize that it is particularly important to steadily deliver profit growth in our overseas business. In addition, we have strengthened shareholder returns and introduced a minimum dividend. We hope that these measures will be recognized as a reflection of our confidence in profit improvement set out in the new medium- to long-term management plan, and that it will ultimately lead to a fairer evaluation in the stock market.

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