

NIPPON STEEL Plans to Make NIPPON STEEL TRADING a Consolidated Subsidiary—Limited Impact on Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the announcement by NIPPON STEEL CORPORATION (security code: 5401) that it plans to make NIPPON STEEL TRADING CORPORATION (security code: 9810) a consolidated subsidiary through a tender offer (TOB).

- (1) NIPPON STEEL CORPORATION (“NSC”) announced that it plans to make NIPPON STEEL TRADING CORPORATION (“NST,” 35.3% of voting rights as of March 31, 2022), an equity method affiliate, a consolidated subsidiary through a TOB and take it private through a squeeze-out. The transaction is expected to commence around late February 2023, subject to the completion of procedures and actions required under domestic and foreign competition laws. After the TOB and squeeze-out, the shareholder composition of NST will be 80% for NSC and 20% for Mitsui & Co. In addition, approximately 137 billion yen is expected to be incurred as share acquisition costs.
- (2) Previously, the capital relationship between the two companies was limited, and there were restrictions on the realization of synergies between the two companies, as well as the possibility of conflicts of interest with minority shareholders in the implementation of measures from a medium- to long-term perspective. After the transaction, the above factors will be eliminated, and the Group's competitiveness will be enhanced over the medium term by strengthening sales capabilities through increased direct contact with customers and optimizing and streamlining the entire supply chain.
- (3) NSC's business profit (IFRS) for the fiscal year ending March 2023 (FY2022) is expected to remain strong at 870 billion yen (down 7.3% YoY). Its DER (after taking into account the equity content of hybrid securities) as of the end of the second quarter of FY2022 was at a favorable level of 0.5x. Although the financial position of NSC is expected to deteriorate as a result of the stock acquisition costs and the consolidation of NST's interest-bearing debt (approx. 420 billion yen), JCR believes that the impact on the rating will be limited if the change is within the range NSC currently expects (DER of approx. 0.12x). JCR will confirm the actual balance sheet after the consolidation and the realization of synergy effects between the two companies.

Masayoshi Mizukawa, Akihiro Kondo

<Reference>

Issuer: NIPPON STEEL CORPORATION

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: NIPPON STEEL TRADING CORPORATION

Long-term Issuer Rating: #A+/Positive

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR receives a rating fee paid by issuers for conducting rating services in principle. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)