Strategic Capital

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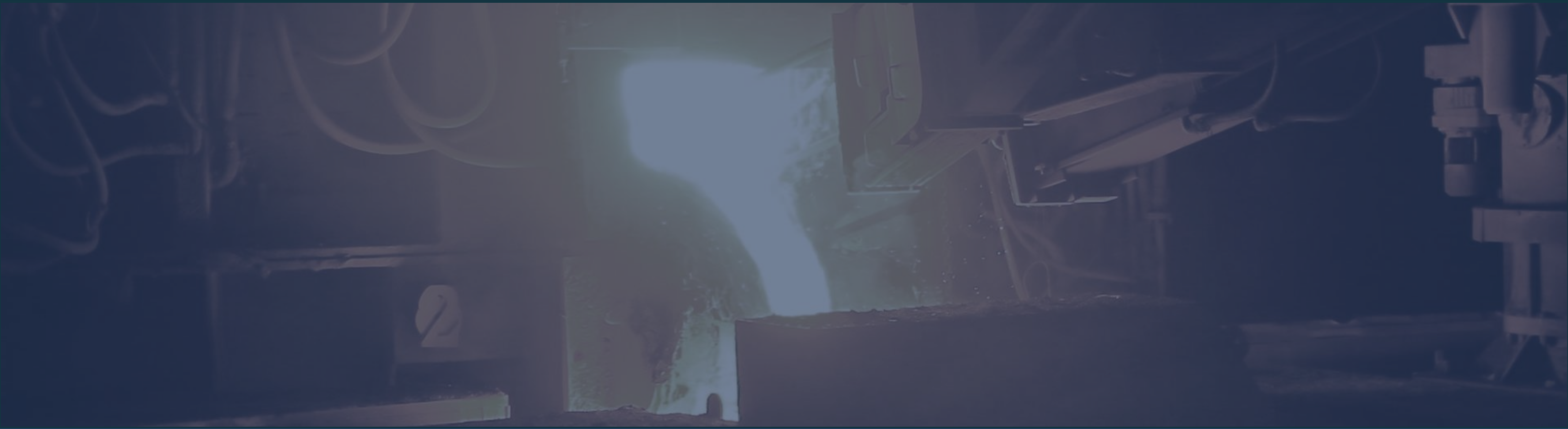


Proposal for Nippon Steel Corp (5401) to strengthen shareholder value

Disclaimer

Last updated May 13, 2025

Executive Summary

Strategic Capital, Inc.'s (SC) goal is to unlock enterprise and shareholder value through dialogue with the company management team and the exercise of shareholder rights.

SC and the funds managed by our company are shareholders of Nippon Steel Corp. ("Nippon Steel or the Company") and one of its listed subsidiaries, Osaka Steel Co., Ltd ("Osaka Steel", 5449). In order to increase shareholder value, we have submitted the following proposals to Nippon Steel by exercising our right to make a shareholder proposal

i. Protect minority shareholder of listed subsidiaries (appropriate disclosure, dealing with problematic listed subsidiaries etc.)

ii. Grant restricted stock compensation and to change the composition of fixed, performance-linked and stock-based compensation of the Representative Director

iii. Add a clawback clause to the remuneration of the Representative Director

Background and key points of the proposals

Parent-child listing has damaged minority shareholder interest of the subsidiaries → Protect minority shareholders of listed subsidiaries *(FSP 1)*

As of March 2025, Nippon Steel has five listed subsidiaries, four of which have PBRs less than 1x, leaving the negligent management of the subsidiaries unattended. (The Company announced that one of these, Sanyo Special Steel Co., Ltd (5481), will become a wholly owned subsidiary but at a price equal to only 0.66x PBR)

It has also been pointed out that there is a risk of conflicts of interest with minority shareholders of subsidiaries in parent-child listings, but the Company group has been experiencing typical problems, and the interests of minority shareholders continue to be impaired.

Therefore, we propose that the Company disclose the significance of maintaining a company as a listed subsidiary instead of making it a wholly owned subsidiary, and that corrective action be taken to resolve problems where the listed subsidiaries have a PBR of less than 1x or ROE of less than 8%, as well as those listed subsidiaries that are or are expected to be in conflict with the listing maintenance standards.

Details cont'd

High remuneration for Representative Directors despite PBR less than 1x→ Grant SOP to CEO and adjust remuneration ratio *(FSP 2)*

Not only its subsidiaries but the Company itself has impaired shareholder value with a PBR less than 1x. Despite that six of the Company's representative directors receive JPY 100m in annual remuneration.

Currently the representative director's remuneration consists of a fixed and performance-linked component. While the most important indicators are set at 100m tons of global crude steel production capacity and JPY 1 trillion in profit from the consolidated business, the expansion of scale will not necessarily lead to an increase in shareholder value unless investments, acquisitions etc. are made at appropriate prices.

As such we propose that stock-based remuneration be provided as an incentive for representative directors to increase shareholder value, and to change the ratio of fixed to performance-linked to stock based remuneration.

Concern that large-scale acquisitions will not increase shareholder value→ Add clawback clause to CEO remuneration *(FSP 3)*

The Company is currently seeking to acquire U.S. Steel (Ticker X US).

While the acquisition has great growth potential, there are concerns as to whether expanding scale through the acquisition will lead to an increase in shareholder value. With the PBR of most of its listed subsidiaries below 1x, there is doubt the corporate value of U.S. Steel will necessarily increase just because it is acquired.

Therefore, we propose that is the Company incurs any impairment or other loss in connection with a company acquired after the AGM, the performance-linked remuneration be reduced after taking such loss into account.

What's New

04.17.2025

Submitted Formal Shareholder Proposal to the Company

Leaving negligent management of subsidiaries unattended and using them as an *amakudari** destination

Nippon Steel has **five listed subsidiaries, four of which have PBRs less than 1x**, leaving the negligent management of the subsidiaries unattended. (The Company announced that one of these, Sanyo Special Steel Co., Ltd (5481), will become a wholly owned subsidiary but at a price equal to only 0.66x PBR)

In addition, the **majority of the directors are from Nippon Steel as well as all the presidents**, giving it complete control over and effectively making them an *amakudari* destination for the Company.

Nippon Steel Subsidiaries

Name	Nippon Steel ownership (09/2024)	PBR (03/2025)	Full-time Director from Nippon Steel/Total
NS Solutions (2327)	63.4%	2.76	8/8
Osaka Steel (5449)	60.6%	0.72	5/5
Sanyo Special Steel (5481)	52.9%	0.66	5/8
Kurosaki Harima (5352)	42.8%	0.94	3/6
Geoster (5282)	40.3%	0.40	3/5

All Presidents from Nippon Steel

4 of 5 have PBR of less than 1x

Data Source: QUICK Workstation （Astra Manager）

* amakudari – (天下り,literally "descent from heaven"), similar to the revolving door metaphor, is the institutionalized practice where Japanese senior bureaucrats, executives descend to high-profile positions in the private and public sectors

Typical parent-child listing issues

The TSE requests companies with parent-subsidiary listings disclose efforts regarding group management and minority shareholder protection given the need as there exists a gap between investor expectations and the response of companies. The Company group is a perfect example of this.

The Company's Corporate Governance Report only highlights the benefits of having a listed subsidiary for the Company, and **no explanation is given as to why it should be a listed subsidiary instead of a wholly owned subsidiary.** Making it a wholly owned subsidiary, the Company would get 100% of the benefits, so **if there is a reason for it to remain a listed subsidiary the reason should be clearly stated**.

In addition, as the parent company, Nippon Steel is obviously required to increase the profits of shareholders of the listed subsidiary other than Nippon Steel, but the Company is completely ignoring capital efficiency and the sluggish stock price and is taking measures that impair the shareholder value of the listed subsidiaries.

Investor Comments

✓ There are many cases where the parent company merely cites the advantages of listing its subsidiaries and does not consider or explain **whether this is optimal in terms of capital efficiency and improving the group's corporate value.**

TSE Comments

⇒ In addition to qualitative analysis, the parent company needs to perform quantitative analysis from the perspective of **capital returns** (e.g., ROE and ROIC) and **market valuation** (e.g., PER and PBR) to determine such things as **whether the subsidiary is achieving a return on capital that exceeds the cost of capital.**

⇒ It is also important for the parent company to consider **the best owner principle (whether it is the holding entity that maximizes its subsidiary's corporate value).** As a result, it may choose to sell its subsidiary to a third party. Investors applauded companies like Hitachi and Fujitsu for **considering their business portfolio strategy and selling some of their subsidiaries.**

Current state of Nippon Steel

- Most subsidiaries have s PBR less than <1x yet they have left the negligent management unchecked.
- Explanation for listing a subsidiary is limited to simply listing the benefits (a typical case of the above investor comment.)

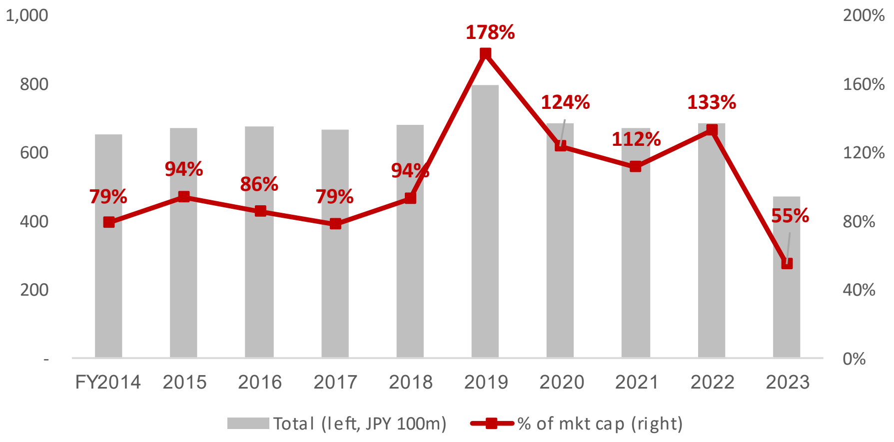
Source: The Investor's Perspective on Such Matters as Parent-Subsidiary Listings, TSE, 2/4/2025

Siphoning funds from the listed subsidiary through CMS etc. worsening their capital efficiency

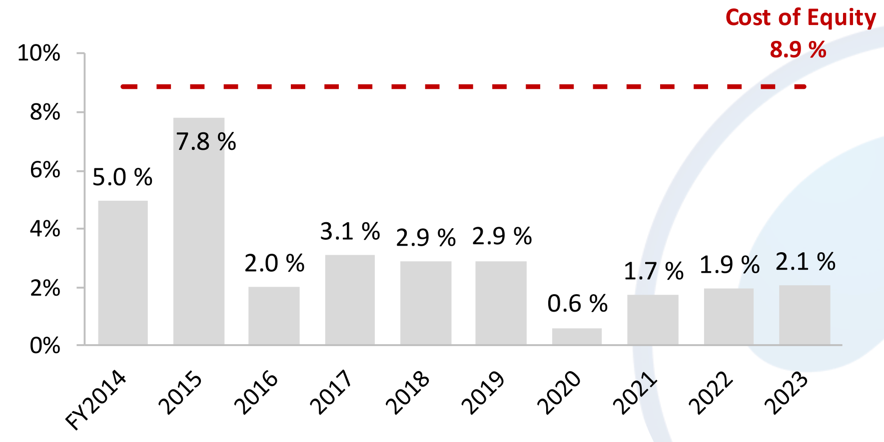
The listed subsidiaries have deposited large surplus funds in the form of deposits and loans (“CMS”). **Osaka Steel, one of Nippon Steel’s listed subsidiaries, has for years maintained a CMS balance that is almost equal to, or even exceeds its market capitalization**. The interest earned was a mere 0.2% for FY2023, which is, of course, far below the cost of capital for a listed company. Surplus funds should be used for business investment and shareholder returns, but because of the large funds being deposited with Nippon Steel, Osaka Steel’s ROE has averaged only 3% over the past 10 years and since 2008, capital efficiency has not exceeded 1x PBR.

While the CMS decreased in FY2023, the **CMS for NS Solutions (2327) and Geoster (5282) equate to 20% and 40% of market cap respectively** and the same problem has arisen at the other listed subsidiaries.

Osaka Steel - Pcnt CMS to Market Cap



Osaka Steel - ROE and Cost of Equity



Data Source: QUICK Workstation （Astra Manager）

Siphoning funds from the listed subsidiary through CMS etc. worsening their capital efficiency cont'd

Concerns with CMS has also been raised by other investors. Osaka Steel stance is "the level of cash on hand is appropriate, and they are merely holding it in the CMS". However as **all of the full time directors came from Nipon Steel, there is a possibility that due to the consideration for the parent, they have carelessly continued the CMS that ignores capital efficiency and damages the interests of minority shareholders**. The outside directors only considered the CMS from the perspective of their suitability compared to market interest rates.

In fact, in the revision to the MTBP announced on January 31, 2025, Osaka Steel **significantly changed the policy where from what was repeatedly stated "cash on hand that accounts for the majority of market capitalization", to "monthly sales of about one to two months".**

Investor Comments

- ✓ Most listed subsidiaries explained their reasons for participating in the group's cash management system only by saying that the interest rate is more favorable than bank interest rates.
- ✓ **Essentially, there are significant issues with the listed subsidiaries' capital efficiency and their balance sheets.** In fact, many of them have deposited large sums of excess funds relative to their market capitalization at their parent companies at low interest rates below the cost of capital. **This results in low ROEs and PBRs.**

TSE Comments

- ⇒ Listed subsidiaries need to reexamine **their reasons for participating in group cash management in terms of capital efficiency and medium- to long-term improvements in their corporate value**, as well as in light of TSE's request to take "Action to Implement Management that Is Conscious of Cost of Capital and Stock Price."
- ⇒ Listed subsidiaries are also expected to disclose **the actual state** of the group's cash management system **(details on interest rates and other arrangements)**.

Current state of Osaka Steel

- Has held CMSs that account for more than half of our market capitalization for many years
- Has explained that cash on hand is at an appropriate level, and that CMS is favorable compared to external investment (e.g., bank interest rates). However, on January 31, 2025, they announced a major change in policy and would use its cash reserves to buy back shares from Nippon Steel

Source: The Investor's Perspective on Such Matters as Parent-Subsidiary Listings, TSE, 2/4/2025

Shareholder Proposal 1 – Management of a subsidiary

In this way Nippon Steel is leaving the negligent management of its listed subsidiaries unattended and is also contributing to further damage the interest of the minority shareholders of these subsidiaries through the CMS and as an *amakudari* destination for its executives.

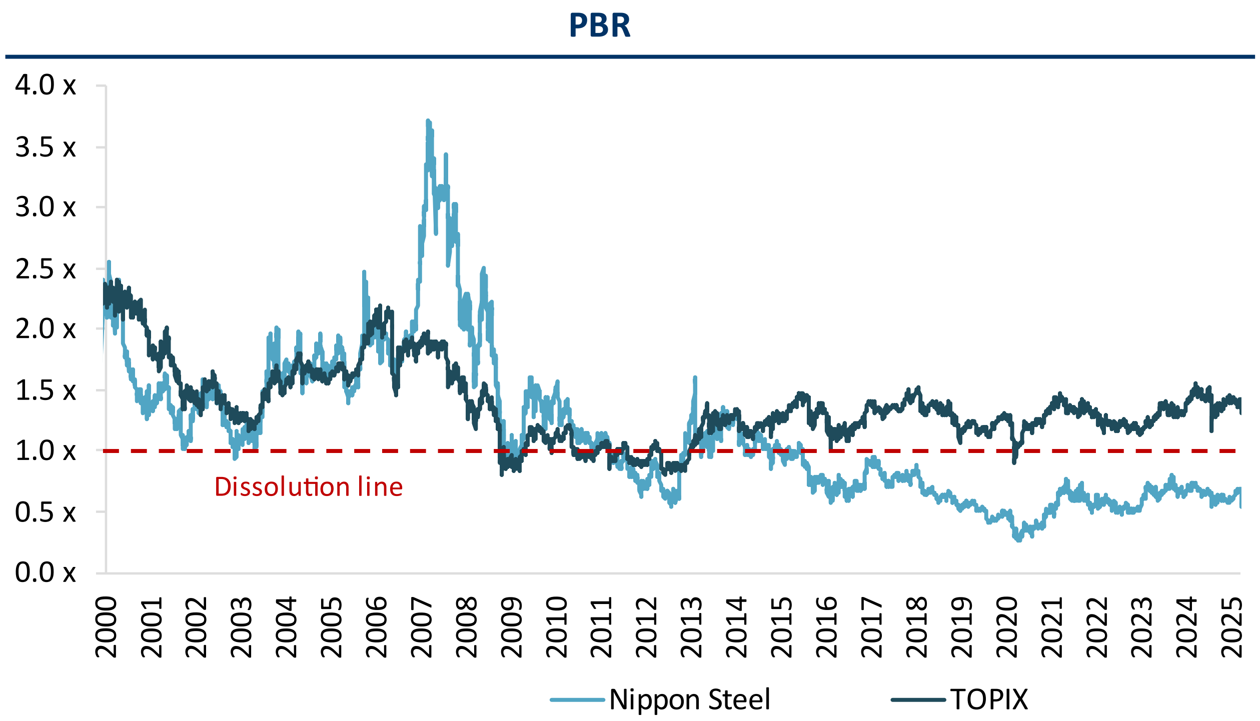
Therefore, we propose that the Company **disclose the significance of maintaining a company as a listed subsidiary instead of making it a wholly owned subsidiary, and that corrective action be taken to resolve problems where the listed subsidiaries have a PBR of less than 1x or ROE of less than 8%, as well as those listed subsidiaries that are or are expected to be in conflict with the listing maintenance standards**.

Summary of Revision Articles Relating to Management of Subsidiaries

All Listed Subsidiaries	▪ Board of Directors to deliberate on the following matters at least once a year and disclose them in the Corporate Governance Report. – How maintaining a listed subsidiary contributes to enhancing shareholder value of the Company and it's listed subsidiaries (e.g. **reason for maintaining listing instead of privatizing** etc.) – Is **current governance system capable of** disciplining management of listed subsidiary and **protecting the interest of their minority shareholders**
Subsidiaries with PBR <1x, ROE less than 8%	▪ Board to deliberate on **appropriateness of management plan**, and **request formulation of an improvement plan** from the listed subsidiary
Subsidiaries conflicting or expected to be in conflict with listing maintenance standards	▪ From the **perspective of securing the interest of subsidiary's minority shareholder, deliberate at least once a year, on appropriate response including taking private** and disclose details in the Corporate Governance Report.

Nippon Steel's PBR is also below 1x

The stock price for Nippon Steel Group's parent, Nippon Steel is also sluggish. **Since 2015, PBR has continued to underperform the TOPIX and has not exceeded its dissolution value, 1x PBR in the last 10 years.**



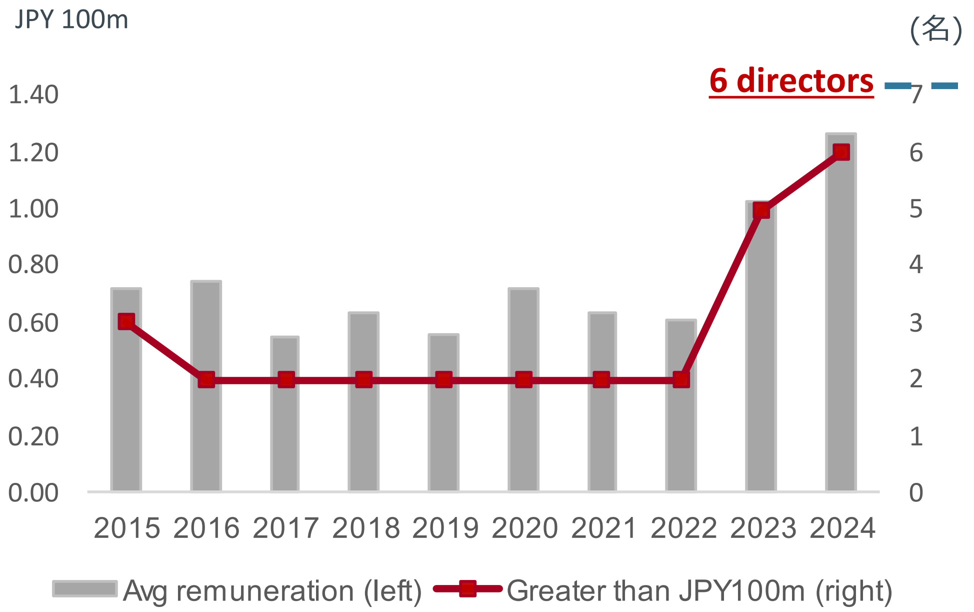
Data Source: QUICK Workstation （Astra Manager）

Directors who receive high remuneration in contrast to the stagnant stock price

In contrast to the stagnant stock price, director remuneration has doubled over the last few years. As of FY2024, the average remuneration for the full-time directors was approx. JPY 126 m, with four directors receiving more than JPY 100 m and two more than JPY 200 m.

Remuneration of Full-time Directors (Nippon Steel)

<Avg remuneration and Number greater than JPY 100m>



<Remuneration > JPY100m>

Name	Remuneration
Kosei Shindo	JPY239 million
Eiji Hashimoto	
Naoki Sato	JPY116 million
Takahiro Mori	
Takashi Hirose	
Tadashi Imai	

Data Source: QUICK Workstation （Astra Manager）

Shareholder Proposal 2 – Provide incentives to representative directors to increase shareholder value

Currently the representative director’s remuneration consists of a fixed and performance-linked component with no stock-based component. The most important indicators are set at 100m tons of global crude steel production capacity and JPY 1 trillion in profit from the consolidated business, and the Company is currently looking to acquire U.S. Steel. However, the expansion of scale will not necessarily lead to an increase in shareholder value unless investments, acquisitions etc. are made at appropriate prices and appropriate management is subsequently carried out.

Revision of the remuneration for Representative Director

		Current	SC proposed
Upper limit		JPY 3.312B	JPY 3.312B
Fixed	Portion	50%	30 %
Performance-linked	Portion	50%	30 %
	Threshold	Consolidated business P&L (actual basis) JPY600B	Consolidated business P&L (actual basis) JPY600B
Stock-based	Portion	0%	40%

The stock price of both the Group and its listed subsidiaries has been sluggish. Since the **current Chairman and CEO, Eiji Hashimoto, was first elected as Representative Director in 2016, remuneration has doubled but has never exceeded 1x.** This suggests that there is a large misalignment between the interests of shareholders and the management incentives provided by the current remuneration system.

Therefore, **SC proposes introducing stock-based remuneration for Representative Directors and to change the ratio** as per the table when the performance-based consolidated P&L (consolidated business P&L less inventory valuation differences etc.) exceeds JPY 600B.

Both the upper and lower limit of the total remuneration and the base for the performance-linked remuneration remain the same.

Shareholder Proposal 3 – Add a clawback clause to the remuneration of the representative director

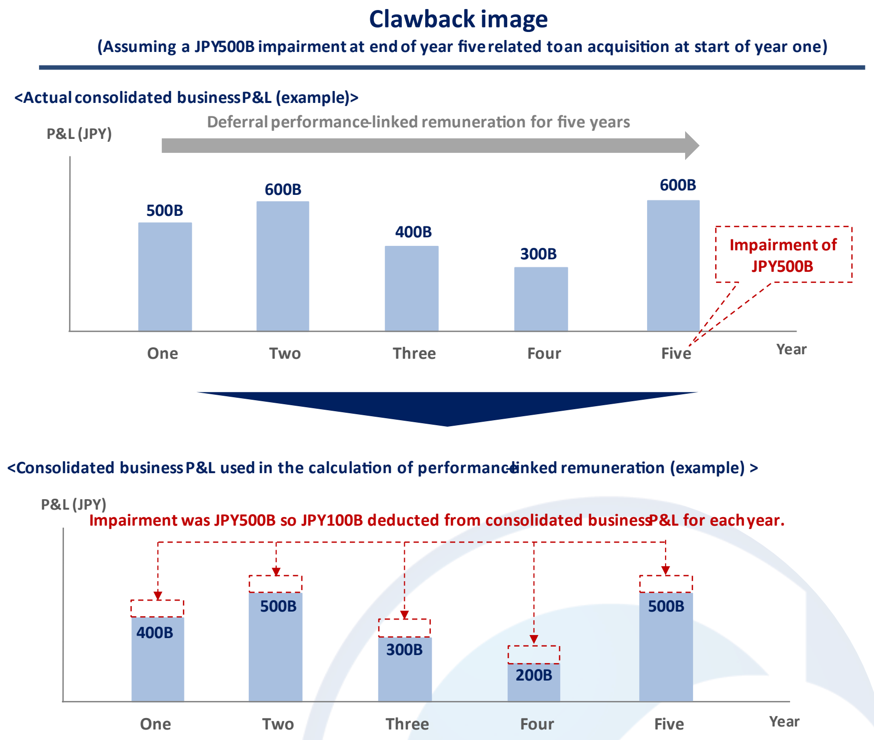
As of April 11, 2025, Nippon Steel was still aiming to complete the acquisition of U.S. Steel at $55 per share, an approx. 40% premium to share price at the time of announcement (December 18, 2023), bringing the **total acquisition to $14.126 Billion (approx. JPY 2.01 Trillion)**.

In March it was reported that the Company could **invest an additional $7 Billion (approx. JPY 1 Trillion)** if the acquisition is completed. While the acquisition could bring great potential to the Company, it is expected that management risks will increase further.

In addition, given the most important indicators are global crude steel production of 100 m tones and consolidated business profit of JPY 1T, there is concern that the **Company will make poor acquisitions and investments with an emphasis on expanding scale**.

Given most of its Japanese listed subsidiaries have a PBR less than 1x, **there is doubt that the corporate value will necessarily increase even after acquiring U.S. Steel.**

Therefore, we propose adding a clawback clause to the performance-linked remuneration of the Representative Director, deferring payment for five years and in the event of loss such as impairment of goodwill, intangible fixed assets etc., related to future acquisitions etc., recalculate the amount to be paid by deducting such loss from the consolidated business profit on a pro-rata basis.



Revisions

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