

April 30, 2024

To Whom It May Concern

Strategic Capital, Inc.
Tsuyoshi Maruki, President &CEO

Re: Shareholder Proposal to OSAKA STEEL CO., LTD (5449)

Strategic Capital, Inc. (hereinafter referred to as "Strategic Capital") is under a discretionary investment contract with INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP (hereinafter referred to as the "Fund") and the Fund and Strategic Capital hold over 300 units of voting right of Osaka Steel Co., Ltd. (hereinafter referred to as "Osaka Steel" or the "Company" as the context requires) over 6 months.

The Fund and Strategic Capital are pleased to announce that, on April 25, 2024, we notified the Osaka Steel of our execution of the shareholders' right to make a proposal at the annual shareholder meeting held in the coming June and confirmed that, on April 26, 2024, the Company certainly received the documents of the proposal. Details are provided below, but the main points are 1) prohibit provision of funds to Nippon Steel Corporation through deposit or loans, 2) pay a special dividend, 3) develop and disclose a plan to achieve a 1X PBR or greater, 4) make the majority of directors be outside directors, 5) develop and disclose a plan to reduce GHG emissions.

The background to the proposal and a detailed explanation will be posted on a special campaign website to be opened in May. Please visit [website](#) for up-to-date information.

Details

<p>The following is a reference translation of the original in Japanese. In the event of any differences between the original Japanese version and the English translation, the original Japanese version shall prevail.</p>
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1. Details and reason for the proposals

1) Partial revision to the provision of articles (prohibition of provision of funds to Nippon Steel Corporation through deposit or loans)

(1) Outline of proposal

Add the following Chapter and Article to the current Articles of Incorporation.

CHAPTER VII. PROHIBITION OF PROVIDING FUNDS BY DEPOSIT OR LOAN TO

CONTROLLING SHAREHOLDER

(Prohibition of Providing Funds by Deposit or Loan to Controlling Shareholder)

Article 43 The Company shall not provide funds by way of deposits or loans to Nippon Steel Corporation or any of its subsidiaries or affiliates.

(2) Reason for the proposal

The Company has been providing funds to its parent company through CMS for about 20 years. As the last fiscal year, the amount was JPY 68.6B or more than 70% of the Company's market cap, but the interest received was only JPY 150 M (interest rate of about 0.2%), which is much lower than the Company's WACC.

As a result, the PBR has never exceeded 1x since 2008 and as of March 29, 2024 was extremely low at 0.56x.

Furthermore, the Company raised the funds in US dollars and lent the entire amount to its overseas subsidiaries for which the interest expense was approx. JPY 400m (interest rate of approximately 3%) as of the end of the previous FY. This expense would not have been incurred if the above funding had been reversed and converted to dollars and loaned. As a result, an annual loss of approx. JPY 370m was incurred when the difference between the above interest expense and interest income is taken into account.

Although the Company has repaid the dollar-denominated debt, the provision of funds through CMS is a system that contributes to the parent company's cash management while undermining the Company's shareholder value and should be prohibited.

2) Partial revision to the provision of articles (Decision-making body for determining dividends from surplus)

(1) Outline of proposal

Amend Article 30 of the current Articles of Incorporation as follows.

CURRENT ARTICLES OF INCORPORATION

(Decision-making body for determining dividends from surplus)

The Company shall determine the matters provided for in each item of Article 459 Paragraph 1 of the Companies Act, including dividend of surplus, by a resolution of the Board of Directors, not by a resolution of the General Meeting of Shareholders, unless otherwise provided for by laws and regulations.

PROPOSED AMENDMENT (Underline indicates the changes)

(Decision-making body for determining dividends from surplus)

The Company shall determine the matters provided for in each item of Article 459 Paragraph 1 of the Companies Act, including dividend of surplus, by a resolution of the Board of Directors, not by a resolution of the General Meeting of Shareholders, unless

otherwise provided for by laws and regulation. However, with respect to the matters concerning dividends of surplus provided in Item 4of Article 459 Paragraph 1 of the Companies Act, the Company may, pursuant to Article 454, Paragraph 1 and Paragraph 4 of the Companies Act, pay year-end dividends to the shareholders or registered share pledges appearing or recorded in the final shareholders' register at the end of each fiscal year by resolution of the shareholders' meeting.

(2) Reason for the proposal

The proposal is to make the AGM the decision-making body for the year-end dividend. Although the Company currently limits the decision-making body for dividends, etc., to the Board, the Company's stock price has been stagnant for a long period of time, and it is difficult to say that the Board is managing in a way that contributes to increasing shareholder value.

The Company's MTBP calls for a dividend PO ratio of "around 30% as a target," but the Company's shareholder equity ratio is extremely high at approximately 70% as of the last FY. In addition, the Company holds an abnormally high level of cash-like assets, including loans through CMS, and any further increase in equity capital will only result in a decline in ROE.

Since 2008, the Company's PBR has never exceeded 1x mainly due to the fact that ROE is less than the cost of shareholders' equity. The Company should improve its governance by having the AGM as the decision-making body for dividends and change its management policy to one that contributes to increasing shareholder value by improving ROE and lowering the cost of equity.

3) Dividend of Surplus (Special Dividend)

(1) Outline of proposal

Subject to the approval at this AGM of proposal 2 for partial amendment to the Articles of Incorporation to grant the AGM the authority to decide on the distribution of surplus, a special dividend of surplus will be distributed as follows.

This proposal will be made as an independent and compatible proposal with the Company's proposal for appropriation of surplus in the event that a proposal for appropriation of surplus is proposed to this General Meeting of Shareholders.

A) Type of dividend

Cash

B) Allocation and the total amount of dividends

A dividend per share of common stock of 881 yen, in addition to the dividend amount per share of common stock, if any, pursuant to the proposal for the distribution of surplus approved by the Company at this meeting. The total special dividend amount to be paid pursuant to this agenda item will be the dividend amount per share of common stock

multiplied by the number of shares with the right to receive dividends attached as of March 31, 2024.

C) Effective date of dividend payment from surplus

The day after the Annual General Meeting of Shareholders of the Company is held.

(2) Reason for the proposal

This proposal contemplates a special dividend of 50% of the balance of funds provided through the CMS. As stated in the reasons for Proposition 1, the CMS continues to undermine the Company's shareholder value and should be promptly prohibited by the Company.

If the Company ends the provision of funds through CMS, the Company will have JPY 68.6 B in cash available as of the last FY, of which 50% could be used for special dividends and the remainder for business investments and other purposes.

The Company's shareholder equity ratio is very high at approximately 70% as of the last FYE and is expected to remain at around 65% even after the special dividend is paid. Thus, the Company's financial soundness can be maintained at an adequate level.

4) Partial revision to the provisions of articles (Development and disclosure of a plan to achieve a PBR of 1x or greater)

(1) Outline of proposal

Add the following Chapter and Article to the current Articles of Incorporation.

CHAPTER VIII. MANAGEMENT PLAN

(Management Plan)

Article 44. If the PBR as of the last trading date on the Tokyo Stock Exchange during the previous fiscal year of the Company is less than 1x, the Company shall establish a management plan to increase the PBR to 1x or more. The PBR shall be calculated by dividing the share price of the Company's common stock by the Company's net asset per share ("calculated in accordance with Guidance 4 of the "Guidance on Accounting Standard for Earnings per Share" including deducting treasury stock from the number of shares issued and outstanding.")

The management plan must be reasonable and include the establishment of ROE target that exceeds the cost of capital and a plan to achieve it.

The Company shall announce the Management Plan through Company Announcement Disclosure Service ("TDnet") operated by the Tokyo Stock Exchange by the announcement date of the second quarter of the fiscal year.

(2) Reason for the proposal

In March 2023, the Tokyo Stock Exchange (TSE) requested companies take "Action to Implement Management that is Conscious of Cost of Capital and Stock Price". As of

March 28, 2024, there is no policy on how to respond to this request despite being required to do so as soon as possible given PBR has been below 1x for so long.

In January of this year, the Company released its “Initiatives to Achieve Management that is Conscious of Cost of Capital and Stock Price,” which merely summarized the existing disclosures without setting any deadlines and with no new measures formulated. Since 2008, the PBR has never exceeded 1x and was only 0.56x as of March 29, 2024. In order to get out of the long-term share price slump, drastic management reform and changes to capital policies are needed. To this end, we request the Company re-formulate and announce a plan that includes reasonable details, such as setting an ROE target that exceeds WACC and a plan to achieve this target.

5) Partial revision to the provisions of articles (Number of Directors, etc.)

(1) Outline of proposal

Amend article 18 of the current Articles of Incorporation as follows.

CURRENT ARTICLES OF INCORPORATION

(Number of Directors)

The Company shall have no less than three (3) and no more than twelve (12) directors.

PROPOSED AMENDMENT (Underline indicates the changes)

(Number of Directors)

The Company shall have no less than three (3) and no more than twelve (12) directors.

The majority of directors of the Company shall be outside directors as defined in Article 2, Paragraph 1, Item 15 of the Companies Act.

(2) Reason for the proposal

Five of the Company's eight full-time directors are from Nippon Steel, effectively making the Company an *amakudari* destination for Nippon Steel.

The Corporate Governance Code stipulates that "controlling shareholders must respect the company and the common interests of shareholders and must not treat minority shareholders unfairly, and listed companies with controlling shareholders are required to establish a governance system to protect the interests of minority shareholders" (*Basic Principle 4*). The "Practical Guidelines on Group Governance System" points out that "With respect to the nomination of management of a listed subsidiary, the issue is to select persons who can contribute to the enhancement of corporate value as a listed subsidiary, taking into consideration the existence of conflict of interest risks between controlling shareholders and general shareholders, and also taking into account the interests of general shareholders."

The Company continues to undermine shareholder value by contributing to the parent company through CMS, among other things. There is a clear conflict of interest between

controlling shareholders and general shareholders, and governance should be strengthened by increasing the number of outside directors.

6) Partial revision to the provisions of articles (Develop and Disclose a Plan to reduce GHG Emissions)

(1) Outline of proposal

Add the following Chapter and Article to the current Articles of Incorporation.

CHAPTER IX. ENVIRONMENTAL MEASURES

(Environmental measures)

Article 45. In order to maintain or enhance the long-term corporate value of the Company, the Company shall develop and disclose business plans, including short- and medium-term greenhouse gas reduction targets and investment plans, based on the risks associated with climate change and impact to business associated with such risks.

The reduction targets in the preceding paragraph shall cover Scope 1 (direct emissions), Scope 2 (indirect emissions from the use of electricity and other resources), and Scope 3 (emissions by other companies related to the business) greenhouse gas emissions and shall be disclosed separately for each scope.

The Company shall disclose the progress of the business plan in the Integrated Report and other documents each fiscal year.

(2) Reason for the proposal

With regard to total greenhouse gas emissions, the Company states that it aims to reduce total emissions by 30% in 2030 compared to 2013 and to be carbon neutral by 2050. However the measures to achieve this goal lack specificity, and there is no timeframe given for achieving this goal nor the necessary financial plan. In addition, the electric furnace business, which recycles steel scrap and manufactures steel products, has a smaller environmental impact than the blast furnace business and is a tailwind toward the realization of a decarbonized society, yet the company's disclosure for this is inadequate.

In light of these circumstances, it is difficult to believe that the Company is adequately recognized by investors who are interested in environmental measures.

Therefore, we request that the Company formulate and disclose its short- and medium-term greenhouse gas reduction targets for Scope 1 through 3 and its financial plan for achieving them, with the aim of lowering its cost of capital.

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