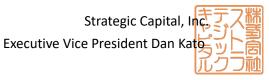


November 26, 2024

Nippon Steel Chairman & CEO Eiji Hashimoto



Re: Issues and solutions for your listed subsidiary OSAKA STEEL CO., LTD (5449)

Strategic Capital, Inc. ("SC") manages a fund that holds 300 units of your company's shares. The fund also holds 10% of the number of shares issued of Osaka Steel Co., Ltd. ("Osaka Steel")

Since we started investing in Osaka Steel, we have exchanged various opinions with them on measures to improve shareholder value, etc. As a parent company who holds more than 60% of Osaka Steel, we believe that the policies of your entire group will have a strong impact on Osaka Steel, and on November 21, 2024, we had the opportunity to discuss with your IR office about improving the shareholder value of Osaka Steel.

As mentioned during the meeting, as a parent company we would like you to take the lead and solve the problems we highlighted for Osaka Steel, so we are sending this letter to the directors of Nippon Steel.

Details

< Problems of Osaka Steel >

1. Funding Nippon Steel to the detriment of its own shareholders' interests

Over the past five years, Osaka Steel's ROE has averaged 1.9% and a high of 2.9%, which is well below the expectations of a listed company. In addition to the low profitability of the core business, this is largely due to the deposits and loans with which Osaka Steel has been providing Nippon Steel for many years, funds which could have been used more effectively for the business. The interest rate on the financing is approx. 0.2%, which is nothing compared to Osaka Steel's cost of capital. Given this situation, we believe that it will be impossible for Osaka Steel to achieve an ROE that exceeds the cost of capital and escape a PBR of less than 1.

2. Conflicts of interest between Nippon Steel and minority shareholders

Over the years, Osaka Steel has continued to contribute to your company's profits by providing the above funds and accepting directors from Nippon Steel but at the cost of low ROE and stagnant shareholder value, impairing the interests of minority shareholders. Considering this situation, we believe that there is a conflict-of-interest between your company and the minority shareholders of Osaka Steel. To begin with, all of Osaka Steel's full-time directors have descended from your company, and the governance system does not objectively secure the interests of minority shareholders. In fact, at Osaka Steel's AGM this year, among the shareholder proposals made by SC, the approval rate when excluding your company was 50% or more for Proposal No. 8: Partial revision to the Articles of Incorporation (development and disclosure of a plan aiming for a PBR of 1x or greater) and Proposal No. 9: Partial revision to the Articles of Incorporation (number of directors, etc.). It is indicating that your company and minority shareholders have different interests.



3. Delisting due to lack of tradeable shares

Combined, Nippon Steel and SC own more than 70% of Osaka Steel's outstanding shares, resulting in a very low ratio of tradeable shares, which violates the listing standards of the Tokyo Stock Exchange. If this continues, Osaka Steel will be monitored for improvement starting at the end of March 2025, become a supervised stock at the end of March 2026, and be delisted in June 2026.

Osaka Steel has asked us to refrain from acquiring shares, but for some reason they have not approached you with the same request.

< Suggested Resolution >

1. If Osaka Steel is to continue listing

For Osaka Steel to continue to be an independent listed company, (1) stop naively providing funds to your company and formulate and implement a concrete plan to achieve an ROE greater than the cost of capital and increase shareholder value, and (2) build a governance system that reduces the number of directors from your company and protect the interests of minority shareholders. You also have the option of (3) reducing your stake in Osaka Steel.

2. If Osaka Steel is delisted

Osaka Steel is a listed company with an unspecified number of shareholders, and you own more than 60% of the outstanding shares. Naturally there are minority shareholders whose interests do not necessarily align with yours, and we believe that conflicts of interest have occurred over the years. Therefore, if Nippon Steel makes Osaka Steel a wholly owned subsidiary or merges with it, Nippon Steel will continue to enjoy the benefits while avoiding disadvantaging other shareholders.

We understand the only option for your acquisition of US Steel was to make it a wholly owned subsidiary as was the intention on the part of US Steel. Since directors of U.S. companies are highly conscious of securing shareholder interests, it may have been judged that it would be difficult to secure the interests of existing shareholders and minority shareholders after the acquisition if the acquirer only acquired a majority stake and maintained a controlling interest while remaining listed on the stock exchange.

< Conclusion>

Although there are two major options, we believe that your company making Osaka Steel a wholly owned subsidiary or merging with Osaka Steel would be a more appropriate measure to resolve the above issues, considering Osaka Steel's past management decisions and our dialogue with their management.

In addition, while we understand that Nippon Steel is also facing various management strategy related issues, we believe that it would be meaningful for us as a shareholder of Osaka Steel to exchange opinions with you on this matter. We recently requested a meeting with the director in charge at your company, but unfortunately, we have only been able to meet with the IR office. We would appreciate if you would reconsider our request to meet with the director in charge.