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Key Takeaways from This Section

We will achieve enhancing corporate value stemming from profit growth and ensuring sound financial health at the same time

Under the 2030 Medium- to Long-term Management Plan, we will implement growth investment of approximately 6 trillion yen, aiming for a consolidated underlying business profit of 1 trillion yen or more. We aim to enhance corporate value over the medium to long term through capital allocation that balances growth investment, capital efficiency, financial soundness, and shareholder returns.

Detailed financial policies

- **Growth investment and capital allocation**
  We will strengthen our domestic revenue base and promote growth investment overseas, ensuring the allocation of resources to future investments that yield returns in excess of the cost of capital.
- **Shareholder returns**
  We will target a consolidated dividend payout ratio of around 30% and seek to enhance shareholder returns and improve their predictability by setting a minimum dividend.
- **Asset streamlining**
  We will continue to sell strategic shareholdings, securing funding for growth investment and improving capital efficiency.
- **Financial health and financing**
  While promoting growth investment, we will manage our financial discipline by targeting a D/E ratio of around 0.7 and a debt/EBITDA ratio not exceeding 3.5 times at the end of FY2030.
- **Cost of capital and dialogue with the market**
  We aim to increase EPS and enhance our market valuation through profit growth and dialogue with the market.

Message from CFO

Achieve sustainable enhancement of corporate value by pursuing the optimal balance between investment for growth and financial discipline



Naohiko Iwai
Senior Managing Executive Officer and Chief Financial Officer (CFO)

As CFO of the Nippon Steel Group, I believe my role is to optimize the balance among "investment for growth," "capital efficiency," "financial soundness," and "shareholder returns" to enhance corporate value over the medium to long term. Over the 2030 Medium- to Long-term Management Plan period, which began this year, we will prioritize investments to drive medium- to long-term growth. However, looking ahead to 2031 and beyond, we will manage the company by focusing on the following key visions, while remaining mindful of our share price and cost of capital: "investment for growth toward the framework of our global crude steel production capacity of 100 million tons," "profit growth toward the vision of ¥1 trillion in underlying profit," "an ROE of around 10%," "a D/E ratio of around 0.7 and a Debt-to-EBITDA ratio not exceeding 3.5 times," and "a target dividend payout ratio of around 30% and a minimum dividend of ¥24 per share."

Proactive investment for growth toward profit growth

Drive profit growth over the next five years toward achieving an underlying profit exceeding ¥1 trillion

In the 2030 Medium- to Long-term Management Plan, we will make our revenue base more robust and maintain and expand our profitability level in Japan, where the market is expected to continue shrinking due mainly to population decline, through "pursuing cost competitiveness," "expanding technological advantage," "enhancing our ability to propose new products and solutions," and "improving supply chain competitiveness." On the other hand, overseas, with the United States, Europe, India, and Thailand positioned as our four priority regions, we aim to dramatically increase profits by executing investment for growth.

In FY2030, U. S. Steel will be the biggest driver of profit growth toward the vision of ¥1 trillion in underlying profit. With approximately 100 staff members currently dispatched to U. S. Steel from Nippon Steel, we are in the process of introducing our advanced operational, equipment, and product technologies to the U.S. base. Anticipating $500 million in operational synergies and $2.5 billion in capital investment benefits, we are doing our utmost to achieve this as early as possible. Generally, it takes several years for capital investment in the steel industry to produce an effect after the planning, construction, and commissioning phases. In contrast, operational synergies are already delivering results, and we expect to achieve $300 million of the $500 million by the end of FY2026. In addition, supported by the benefits of past capital investments and favorable conditions in the U.S. steel market, U. S. Steel is expected to deliver a significant improvement in earnings in FY2026 and emerge as the primary earnings driver of the Group.

In the steel industry, net income can diverge significantly from underlying earnings due to non-cash valuation gains and losses that swing in either direction with market conditions and exchange-rate fluctuations, such as changes in inventory valuation, as well as temporary losses from structural measures. To measure our progress in improving profitability, Nippon Steel regards "underlying consolidated business profit," which excludes one-off gains and losses, as our most important KPI. We are working

together as one to enhance our earning power by linking employee bonuses and executive compensation to this indicator. Over the past five years, Nippon Steel has established an "earnings base capable of generating underlying profit of ¥600 billion or more regardless of the external environment." Over the next five years, we aim to grow underlying profit to ¥1 trillion or more.

Capital efficiency and financial soundness management

Balance investment for growth and financial discipline through investment decisions conscious of the cost of capital

I believe managing capital efficiency and financial soundness is a CFO's responsibility.

Over the next five years, starting this fiscal year, we plan to invest approximately ¥6 trillion across the Group in sustainable growth, including capital and business investments such as M&A. While carefully selecting domestic investments, we will make focused investments to pursue overseas growth opportunities, including investments in U. S. Steel to improve cost competitiveness and expand production of high-value-added products. When deciding on individual growth investment projects, we do so only after ensuring profitability exceeds the cost of capital.

That said, because growth investments take time to take effect and contribute to revenue growth, the company's overall capital efficiency and financial soundness may temporarily deteriorate. However, while continuing to balance financial discipline with investment for growth, we aim to achieve the goal of "an ROE of around 10%" and "a D/E ratio of around 0.7 and a Debt-to-EBITDA ratio not exceeding 3.5 times" in FY2030.

We will also continue our efforts to generate cash by reducing assets. We have sold about 80 percent of our strategic shareholdings since the end of FY2013. We plan to sell more shares once we confirm that we can achieve our purpose without retaining ownership.

In June 2025, we temporarily covered the ¥2 trillion needed to finance the acquisition of U. S. Steel with short-term bridge loans, but we switched to permanent financing by March 2026. By improving financial soundness through a combination of hybrid financing and convertible bonds, the D/E ratio, which had deteriorated to 0.85 at the time of the acquisition, recovered to 0.71 by the end of March 2026.

Shareholder returns

Enhance the appeal of Nippon Steel's stock by improving the predictability of dividends

As part of its shareholder return policy, Nippon Steel targets a dividend payout ratio of around 30%. To continue driving profit growth through proactive investment, and given the significant investment burdens of future decarbonization, we must balance investment for growth, financial soundness, and shareholder returns. From this perspective, we believe a shareholder return policy based on a dividend payout ratio that adjusts dividends to our profit levels is the most appropriate approach.

First and foremost, we aim to meet our shareholders' expectations by increasing EPS (earnings per share) through early achievement of ¥1 trillion in underlying profit. However, if dividends fluctuate due to one-time gains or losses, such as inventory valuation adjustments, this approach would reduce dividend predictability for our shareholders. For the previous Medium- to Long-term Management Plan period, we tried to stabilize dividend levels based on an average dividend payout ratio calculated over a five-year period rather than on a single fiscal-year basis. However, for the 2030 Mid- to Long-Term Management Plan period, we have set a minimum annual dividend of ¥24 per share. We aim to enhance the appeal of our company's stock by making our dividends more predictable.

Cost of capital and stock prices

Aim to enhance trust and recognition from the market by consistently achieving profit growth

In the stock market, a deeply entrenched view persists that the steel industry is "economically sensitive" and "susceptible to the influence of China," leading to high profit volatility. We believe this perception is one factor driving up our cost of capital. To date, Nippon Steel has lowered its breakeven point for domestic steelmaking operations by 40% and established a revenue structure independent of production volume through structural reforms to its domestic production facilities and efforts to secure appropriate levels of spreads. Furthermore, we plan to realize a resilient business portfolio by positioning "high-value-added products, our areas of expertise" as growth areas and targeting regions like the United States, Europe, and India, which are "less susceptible to the impact of China's supply-demand gap." Moreover, by increasing our investment in raw material mines and



treating raw materials as a "business" to generate profits, we have established a structure that mitigates the impact of cost fluctuations in the raw material market through profits from our raw materials business. As such, Nippon Steel has lower profit volatility than other global steel manufacturers, as shown by a comparison of profit-per-ton trends with our competitors. In addition, our establishing a minimum dividend starting in FY2026 has enhanced the stability and predictability of our dividends. To ensure this recognition takes hold in the stock market, we will conduct IR activities of sufficient quality and quantity.

We also believe that concerns about the feasibility and economic viability of achieving carbon neutrality in steel production by 2050 increase our company's cost of capital and weigh on our stock price. The execution conditions for investment in decarbonization include steadily advancing decarbonization technologies, communicating our progress, and ensuring predictable returns on investment. Therefore, we intend to ease market concerns by sharing information about our collaborative efforts with the government and our customers to build a market for GX steel and ensure predictable returns.

Above all, we will do whatever it takes to enhance our profitability and strengthen market confidence that we will achieve an underlying profit of ¥1 trillion in FY2030. We believe the most important factor is for U. S. Steel, our biggest growth driver, to steadily enhance its earning power.

As CFO, I am fully committed to devoting my full efforts to making these happen.

Financial Strategy

With profit growth as the starting point for value creation, our financial strategy allocates capital by balancing growth investments, capital efficiency, financial soundness, and shareholder returns, with a focus on enhancing corporate value over the medium to long term.

As part of the strategy, we will implement capital and business investments totaling approximately 6 trillion yen in the 2030 Medium- to Long-term Management Plan. Because investments take time to yield results, cash flows from investing activities will exceed operating cash flows during the first half of the 2030 Medium- to Long-term Management Plan. However, we will gradually increase our ability to generate operating cash flows by realizing the benefits of our investments, thereby improving our financial indicators over the period.

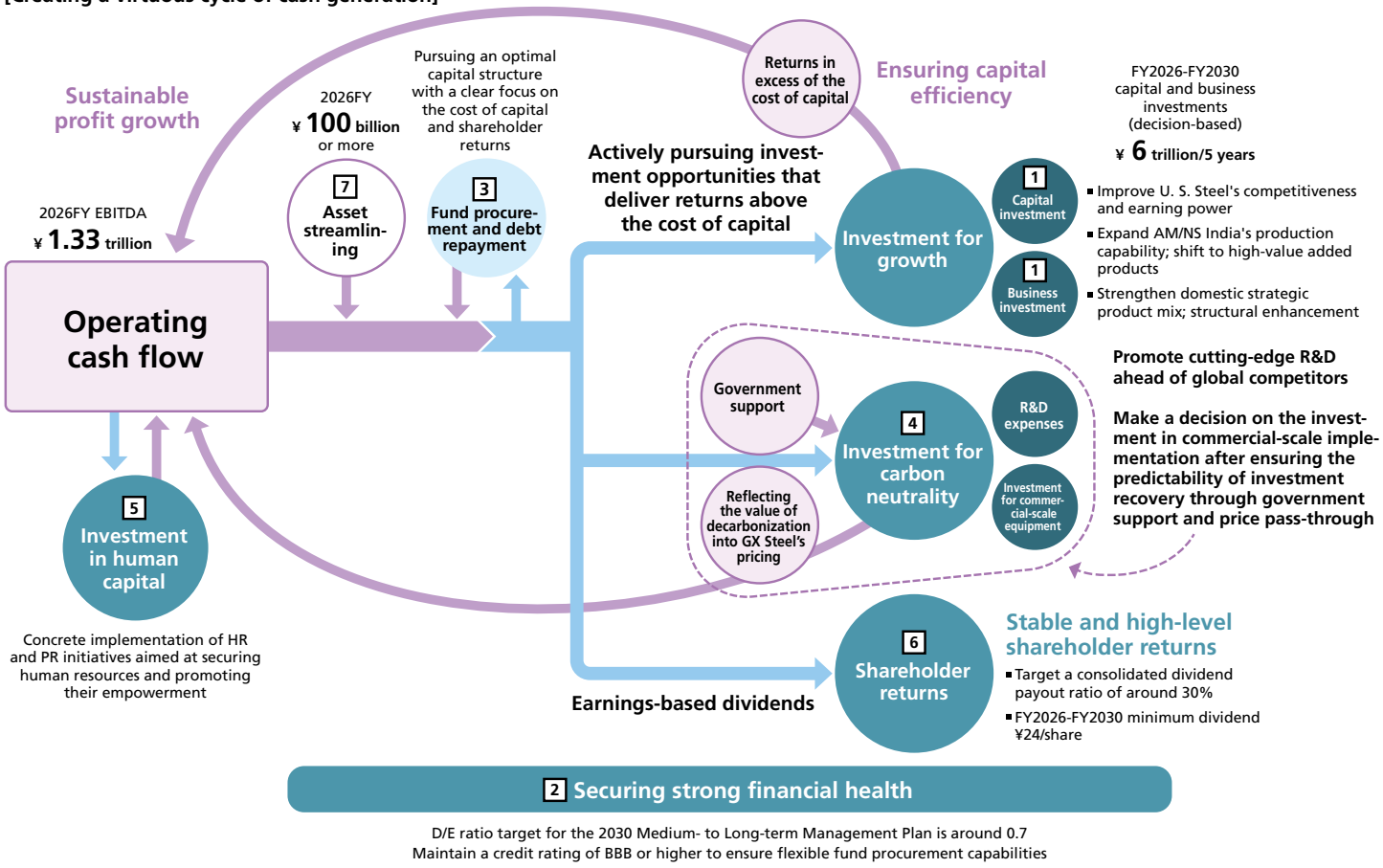
When making investment decisions, we will rigorously scrutinize investment returns based on the cost of capital and ensure thorough management, including follow-up on implemented investments.

To enhance asset efficiency, we will continue reducing our strategic shareholdings to free up capital for growth investments and improve capital efficiency.

We will select and implement the most appropriate financing methods while maintaining financial soundness, enabling us to handle projects that require a long time to recover their investment. We completed the permanent financing for the acquisition of U. S. Steel through a ¥500 billion hybrid loan executed in September 2025, ¥600 billion in convertible bonds issued in March 2026, and a ¥900 billion JBIC syndicated loan executed in March 2026. This has established a financial structure that enables us to focus on realizing returns from the investment.

Through the capital allocation outlined above, we will achieve profit growth, improve capital efficiency, and strengthen financial soundness to meet our key financial targets for FY2030, including a consolidated underlying profit of 1 trillion yen/year or more, an ROE of around 10%, and a D/E ratio of around 0.7 (after recognizing equity credit attributes of the subordinated loans).

[Creating a virtuous cycle of cash generation]



[Key financial targets in the 2030 Medium- to Long-term Management Plan]

Item	FY2030 target
Profit growth	Underlying profit: ¥1 trillion or more
Capital efficiency	ROE: around 10% (over 10% from FY2031 onward)
Financial soundness	D/E ratio of around 0.7
	Debt/EBITDA: 3.5 times or less
Shareholder returns	Target dividend payout ratio: around 30%
	Minimum annual dividend: ¥24 per share

1 Capital and business investments

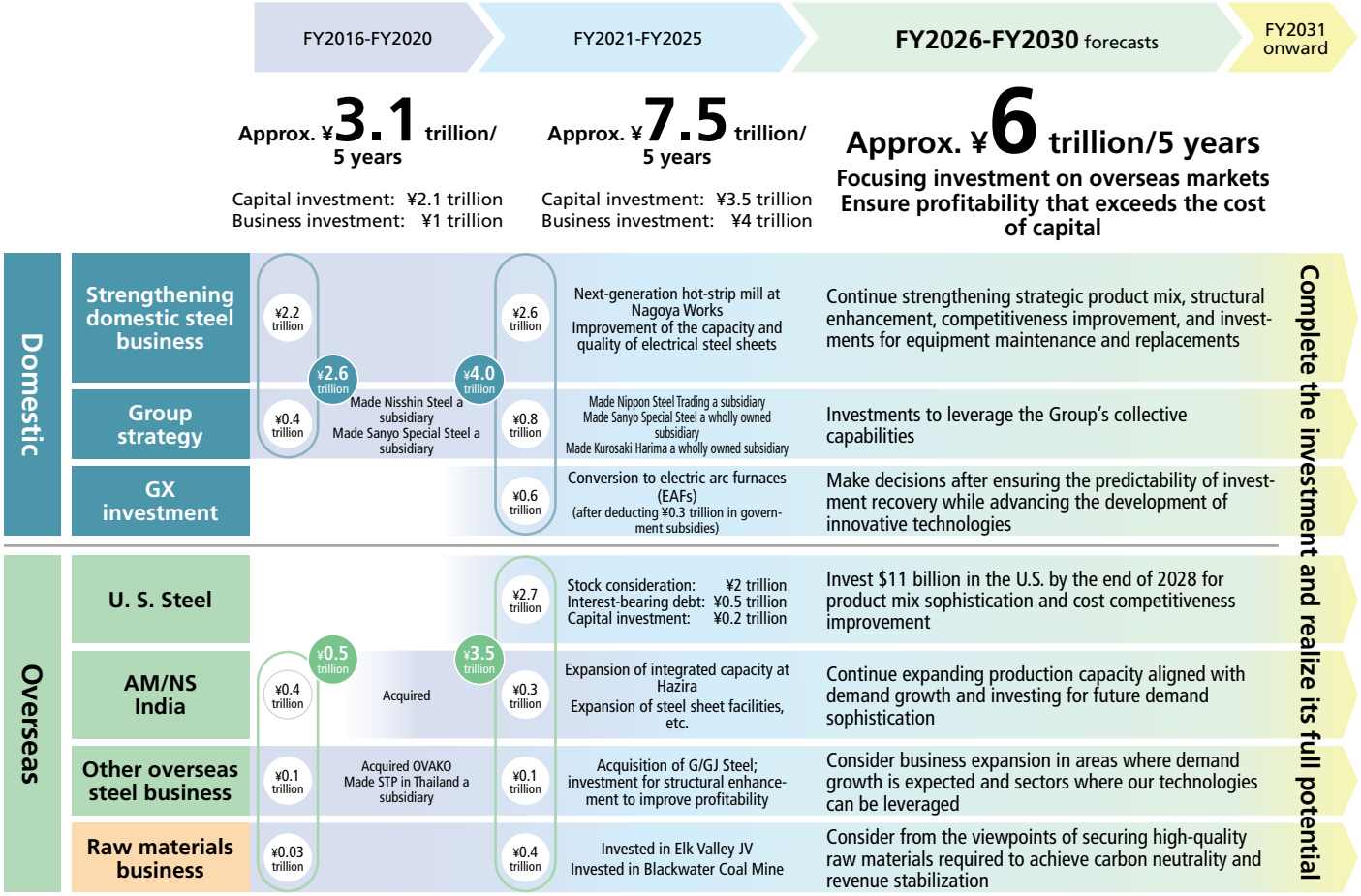
The 2030 Medium- to Long-term Management Plan represents a transitional phase in which we will fully leverage the domestic production structure established under the previous plan, accelerate growth investments primarily overseas, and realize returns from those investments as early and reliably as possible.

Specifically, over the five years from FY2026 through FY2030, we will implement capital and business investments totaling approximately 6.0 trillion yen, including capital investments at U. S. Steel. About 60% of the planned investments will be allocated to overseas projects.

As large-scale investments will be front-loaded in the early years of the current plan, free cash flow is expected to remain negative during this transitional phase toward profit growth. Therefore, we will not only ensure our investments yield results early and reliably, as mentioned earlier, but also implement other measures to improve earning power without delay. Precisely because we are in an upfront investment phase, we will strengthen project-by-project governance and monitoring throughout the investment process. Together with ongoing earnings-improvement initiatives and asset sales, including the sale of strategic shareholdings, we aim to return free cash flow to positive territory within the current plan period.

When we make capital investments, we set a payback-period hurdle for investments aimed at improving profitability. We also manage our overall capital investments, including those for replacing aged equipment, to ensure the internal rate of return (IRR) exceeds the cost of capital.

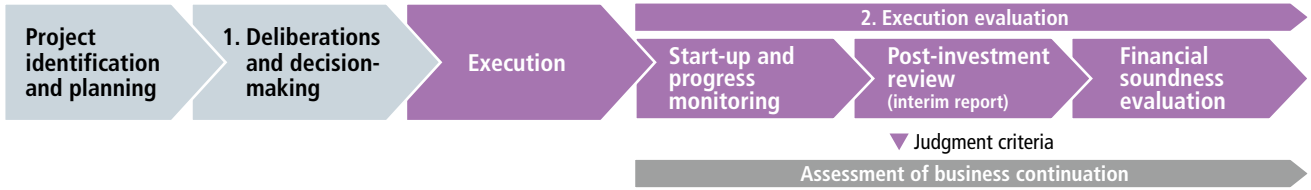
For business investments, we set risk-adjusted hurdle rates designed to ensure an IRR above the cost of capital. Following execution, we continuously monitor each investment through a structured review process, enabling timely decisions regarding restructuring, withdrawal, or other corrective actions when necessary.



COLUMN

Business Investment Management System

Nippon Steel has established a clearly defined management framework covering investment decision-making, execution monitoring, post-investment evaluation and knowledge sharing for business investments in Japan and overseas.



1. Deliberations and decision-making

We evaluate the strategic significance, market growth potential, competitive landscape, and individual risks (such as country, partner, and foreign exchange risks). For M&A projects, we identify and appropriately address risks based on due diligence, then analyze risk scenarios and confirm the certainty of returns commensurate with the investment.

Investment Committee

The Investment Committee deliberates projects from the specialized perspectives of each corporate division. Business investment proposals are reviewed by the Investment Committee before decisions are made. Particularly important projects are then submitted to the Corporate Policy Committee or the Board of Directors for further approval.

2. Execution evaluation

Start-up and progress monitoring

For approximately three years following project launch, we establish KPIs for operations, production, shipments, and financial performance for each project. As a rule, corporate divisions follow up on the achievement of business plans every three months and report progress to the Investment Committee and the Corporate Policy Committee. Additionally, for particularly important projects, an annual report is made to the Board of Directors.

Post-investment Review

After approximately three years from project start-up, we conduct a comprehensive review of the entire process, from decision making to full operation, and report the results to the Investment Committee and the Corporate Policy Committee. For particularly important projects, an annual report is also submitted to the Board of Directors.

Financial soundness evaluation

All Group companies in which Nippon Steel has made direct investment are evaluated in terms of sound financial health, based on their financial data, and the results are reported at the Corporate Policy Committee semi-annually. Those companies in which Nippon Steel has made indirect investment are similarly evaluated but only once a year. Their evaluation results are also reported annually to the Board of Directors. For companies deemed to be subject to intensive management based on our soundness assessment, we deliberate on their reconstruction plans in the Investment Committee.

Decision on exit or restructuring

Based on the evaluation of soundness using quantitative criteria (such as future cash flow and financial health) and qualitative criteria (including sustainability and compliance), group companies that are determined not to contribute to enhancing Nippon Steel's corporate value are subject to deliberation by the Investment Committee regarding whether to continue their operations. For particularly important cases, proposals or reports are submitted to the Corporate Policy Committee, which decides on policies for exit (including restructuring) or business revitalization.

2 3 financial health and financing

The steel industry is capital-intensive, requiring significant investment in fixed assets, including machinery and equipment. Funds equivalent to these assets are financed through shareholders' equity and long-term debt, thereby ensuring financial stability. Nippon Steel's basic financial policy is to pursue growth investments proactively while maintaining a sound financial position, with the D/E and Debt/EBITDA ratios positioned as key financial indicators. For FY2030, we set the target D/E ratio at around 0.7 and the debt-to-EBITDA ratio at 3.5 times or less.

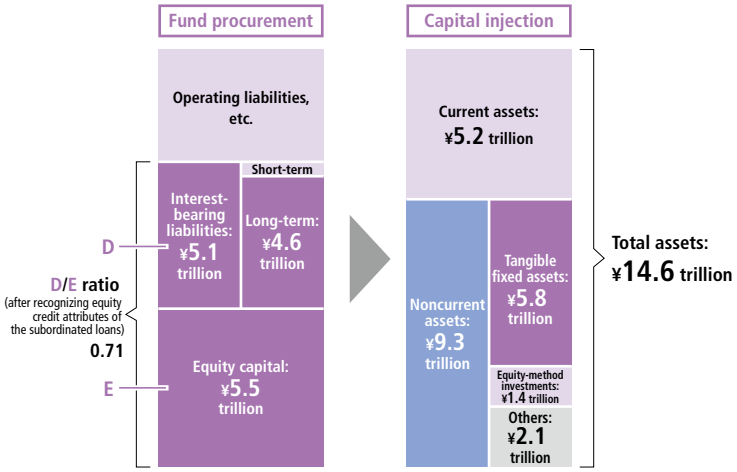
The merger with U. S. Steel, which was closed in June 2025, represents a rare growth opportunity toward building a global crude steel production capacity of 100 million tons. Accordingly, we made the decision to proceed with this large-scale investment after carefully assessing its profitability. We initially raised 2 trillion yen in bridge loans as part of the merger consideration, which raised the D/E ratio to about 0.85. However, the D/E ratio decreased to 0.71 as of the end of March 2026 by converting the bridge loans into permanent financing through an optimal financing mix, including 500 billion yen in a hybrid loan (September 2025), 600 billion yen in convertible bonds (March 2026), and approximately 900 billion yen in a JBIC syndicated loan (March 2026).

We plan to continue investing a total of 6 trillion yen over the next five years. For U. S. Steel in particular, we plan to make a large-scale growth investment of $14 billion or more. As the first step of this plan, we will make maximum use of U. S. Steel's cash-generating capability and funding capacity. We will then explore and implement the most appropriate financing strategy, including parent company guarantees, parent-subsidiary loans, and subscription to new shares, as needed.

In addition to the above, we will continue to make growth investments in Japan and abroad, capital investments related to carbon neutrality, and other investments aimed at maximizing the Group's overall capabilities. We will continue to implement these initiatives while maintaining financial discipline and a sound financial position.

Our credit ratings as of July 2026 are shown in the table below. We will continue to engage in dialogue with rating agencies to maintain and enhance our medium- to long-term creditworthiness.

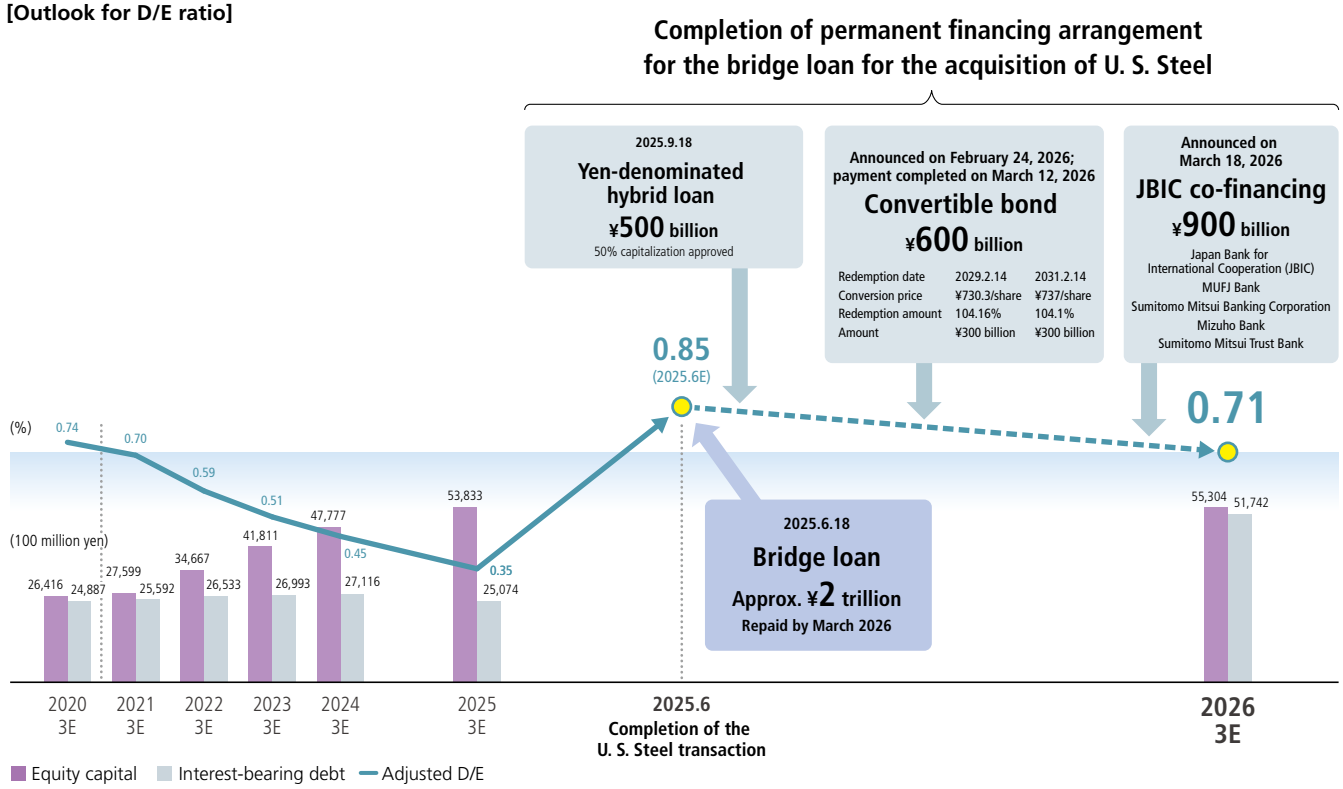
[Nippon Steel's asset and liability management] (as of March 31, 2026)



Rating agency		Our rating
Domestic	R&I	A+ (stable)
	JCR	AA (stable)
Overseas	Moody's	Baa2 (stable)
	S&P	BBB (negative)

(as of July 2026)

[Outlook for D/E ratio]



4 Investment for carbon neutrality

Nippon Steel is taking a multi-track approach toward realizing carbon-neutral steel production processes by utilizing three innovative technologies and CCUS, aiming to achieve the optimal process configuration in response to economic conditions such as energy and raw material prices. Among these initiatives, the development of innovative technologies and capital investments for their commercialization will require substantial funding. At present, we expect to invest approximately 500 billion yen in research and development and capital expenditures exceeding the previously estimated ¥4–5 trillion level by 2050. The detailed breakdown of these investments will be clarified in the future, depending on the progress of technological development and changes in economic conditions such as energy and raw materials.

The transition to a carbon-neutral steelmaking process does not in itself improve the functionality or quality of steel products. Therefore, the transition to carbon-neutral steelmaking processes, which requires massive capital investment for commercial-scale implementation and higher operating costs in order to reduce CO_2 emissions, depends on two indispensable conditions: the establishment of a GX Steel market framework that appropriately recognizes the value of low-emission steel products and enables the additional costs to be reflected in selling prices, and fundamental, comprehensive government support. Sustainable and economically viable decarbonization initiatives can be pursued only when these conditions are in place and sufficient visibility on investment recovery has been secured. On this basis, we will continue to develop and implement measures that support both sustainable growth and efforts to address climate change.

5 Investment in human capital

Amid intensifying hiring competition due to a declining population, along with diversifying individual career perspectives and increasing labor market fluidity, we must secure talented human resources and empower them to drive our diverse management strategies toward realizing the 100 Million Tons, 1 Trillion Yen Vision. Therefore, we position this initiative as one of our highest-priority management issues.

As we did in 2024 and 2025, we conducted "investment in people" in April 2026 to secure talented human resources and promote their empowerment, including significant improvements in compensation and benefits. In addition, we continue to implement human resources diversification, growth support, and work-life balance support, including developing global human resources and the hiring of more experienced personnel, in tandem with productivity improvement initiatives, such as business innovation and efficiency enhancement. Through these initiatives, we will strive to enhance the individual employees' capabilities and maximize organizational performance. We will also continue implementing public relations initiatives to build positive brand awareness across society.

6 Shareholder returns

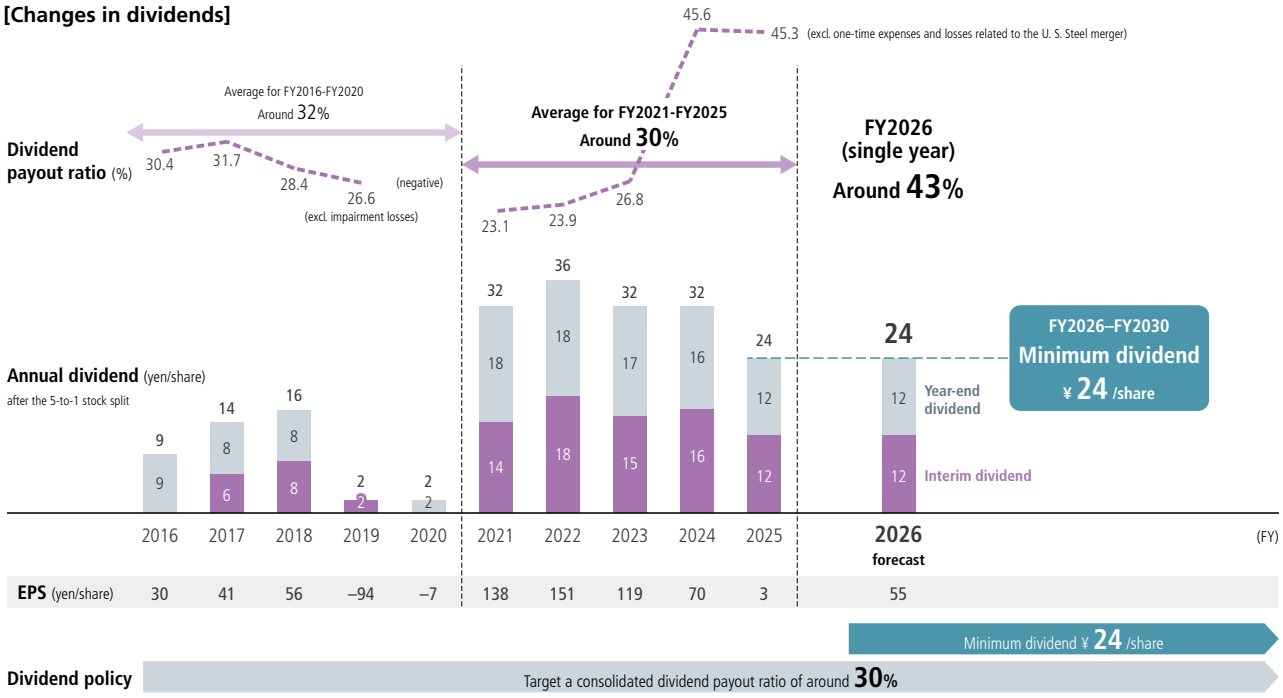
We consider enhancing shareholder value through stronger shareholder returns a key management priority. Our basic policy in pursuing this goal is to strike an appropriate balance among medium- to long-term growth investments, shareholder returns, and a sound financial position.

Under this policy, we will maintain the current dividend policy, targeting a consolidated dividend payout ratio of around 30%.

In addition, having established a stable revenue base in the previous Medium- to Long-term Management Plan, we are now in a growth phase aimed at a consolidated underlying profit of 1 trillion yen or more in the 2030 Medium- to Long-term Management Plan. In light of this situation, and aiming to enhance dividend predictability for our shareholders and investors and increase the attractiveness of Nippon Steel's stock, we have introduced a new minimum dividend to ensure stable dividend payments at a consistent level, regardless of changes in our business performance. Specifically, we have established a minimum annual dividend of ¥24 per share for the five-year period from FY2026 to FY2030. This level should be regarded as a floor, not a ceiling. In the current five-year period, we do not anticipate now any large-scale one-off items disclosed separately, such as those during the previous Medium- to Long-term Management Plan. Therefore, we intend to further enhance shareholder returns in line with revenue growth driven by progress in our growth strategy.

Going forward, we will continue to strive for sustainable enhancement of corporate value accompanied by improved capital efficiency while maintaining a balance between growth investments and shareholder returns.

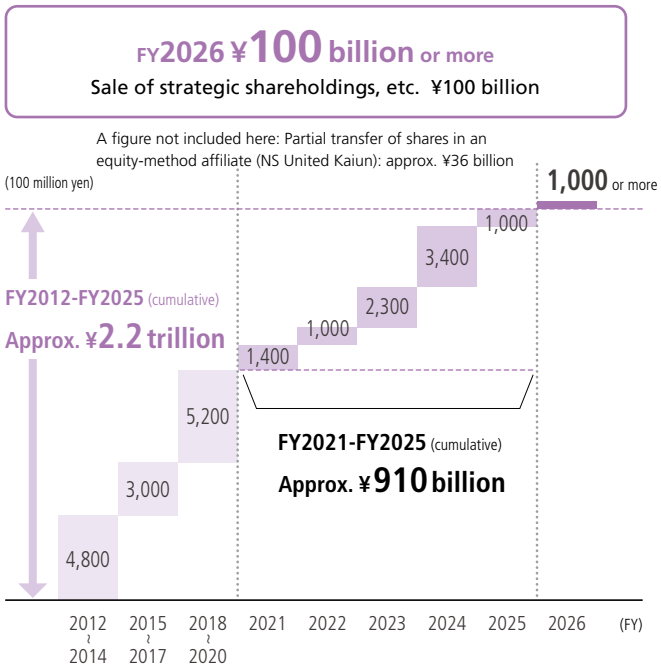
[Changes in dividends]



7 Asset streamlining

Nippon Steel has been continuously working on asset sales as one of the highest priorities of our financial strategy to improve capital efficiency and ensure financial soundness. We have executed asset sales totaling approximately ¥2.2 trillion over the 14 years from FY2012 to FY2025 through the sale of strategic shareholdings, inventory reduction, real estate sales, and improvement of consolidated capital efficiency.

In the near term, we expect our continued growth investments to drive cash outflows that outpace growth in profits and operating cash flows, increasing our interest-bearing debt during the transitional phase toward earnings growth. This is precisely why we will continue and strengthen these asset sales and other asset optimization initiatives in order to achieve sustained improvements in profitability and capital efficiency.

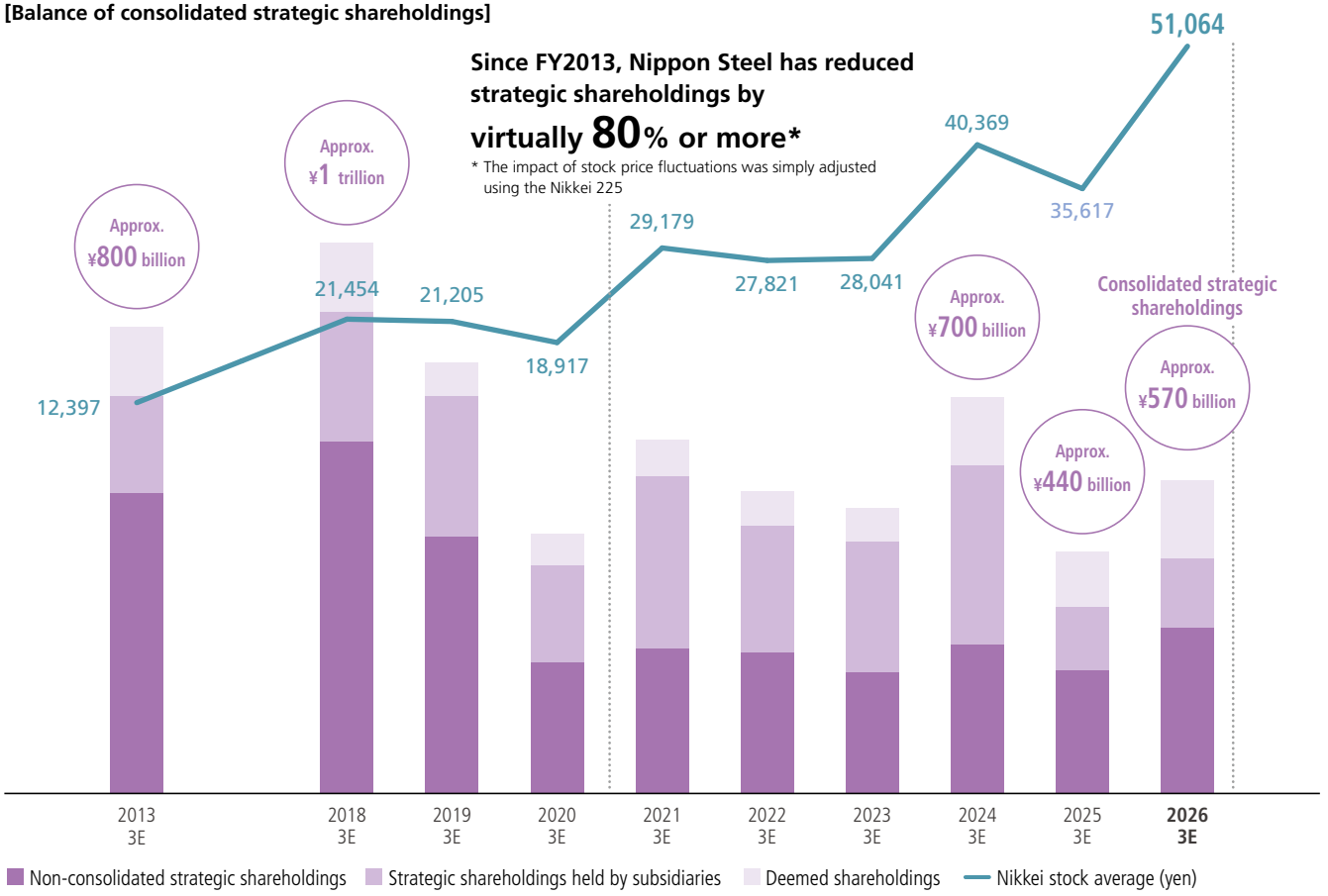


Promoting asset sales by selling strategic shareholdings

Nippon Steel continues to hold strategic shareholdings only when it reasonably determines that such holdings contribute to maintaining and strengthening the business foundations of both Nippon Steel and its business partners, as well as enhancing their earning power. Conversely, after engaging in sufficient dialogue with the relevant business partners, we proceed with the phased sale of such shares when we confirm that the original objectives can be achieved without maintaining the holdings. Under this policy, we have reduced our strategic shareholdings since 2013 by more than 80% (*the impact of stock price fluctuations was simply adjusted using the Nikkei 225).

As of the end of March 2026, consolidated strategic shareholdings amounted to approximately 570 billion yen. We will continue to sell monetizable holdings in accordance with the above policy.

[Balance of consolidated strategic shareholdings]



Initiatives to enhance corporate value with a focus on capital cost and share price performance

1. Basic policy

Nippon Steel manages its business with a focus on the cost of capital and share price performance, while incorporating capital market perspectives, with the aim of enhancing corporate value over the medium to long term. We believe what it takes to enhance corporate value includes making proactive growth investments to realize sustainable profit growth while ensuring capital efficiency and financial soundness from a medium- to long-term perspective, as well as earning appropriate market recognition for the Company's growth potential, business stability and sustainability.

In the 2030 Medium- to Long-term Management Plan, we will make 6-trillion-yen growth investments over the five-year period, achieving an underlying profit of 1 trillion yen, an ROE of around 10%, a D/E ratio of around 0.7, and a debt/EBITDA ratio of 3.5 times or less in FY2030. Through these initiatives, we aim to deliver sustained growth in EPS.

We will continue to enhance market understanding of these initiatives through proactive dialogue and disclosure.

2. Stock market indicators and our initiatives

Our price-to-book ratio (PBR) has remained below 1. The table below shows changes in PBR, ROE, and price-to-earnings ratio (PER).

Reference: Changes in PBR (= ROE × PER) (FY)

	2021	2022	2023	2024	2025
PBR (times)	**0.6**	**0.7**	**0.7**	**0.6**	**0.5**
ROE (%)	20.5	18.1	12.3	6.9	Around 6*
PER (times)	3.1	4.1	6.1	9.1	Around 10*

*Excluding one-time impacts associated with the U. S. Steel acquisition

(1) ROE

We target an ROE of around 10% for FY2030 in the 2030 Medium- to Long-term Management Plan. While our ROE exceeded 10% from FY2021 to FY2023, the most recent ROE stands below 10%. The decline in ROE is partly attributable to temporary inventory valuation losses and one-off costs associated with the acquisition of U. S. Steel. More fundamentally, however, the earnings contribution from our overseas growth strategy and domestic group restructuring has not yet been fully realized. Going forward, we will deliver earnings growth by realizing the benefits of our growth investments, including U. S. Steel, thereby improving ROE. From the perspectives of maintaining financial soundness and securing reliable access to funding at an appropriate cost, we believe a D/E ratio of around 0.7 is appropriate for our capital structure. Although the current ROE is below 10%, we will continue to make growth investments in the 2030 Medium- to Long-term Management Plan and drive profit growth by realizing the benefits of these investments. As a result, we aim for an ROE of around 10% for FY2030 and 10% or higher from FY2031 onward, when the benefits of our investments are expected to be fully realized.

(2) PER

Although our PER has shown a slight upward trend in recent years, it remains at a low level compared to the average of around 20 times for companies listed on the Tokyo Stock Exchange Prime Market. We believe that PER reflects market expectations for earnings growth as well as the cost of capital.

(1) Profit growth rate

Under the 2030 Medium- to Long-term Management Plan, Nippon Steel aims to increase underlying profit from the FY2026 forecast of ¥700 billion to ¥1 trillion by FY2030. Assuming that items other than underlying profit (such as inventory valuation differences, non-operating items, consolidation adjustments, interest expenses, and items subject to separate disclosure) remain at the same level as forecasted for FY2026, net profit is expected to increase from 280 billion yen forecasted for FY2026 to approximately 490 billion yen for FY2030. In the same period, EPS is expected to increase from ¥55 per share to approximately ¥80 per share, representing annual growth of roughly 10%, even assuming full conversion of the outstanding convertible bonds.

A key driver of earnings growth will be the realization of operational synergies and the benefits of capital investments at U. S. Steel. We have already deployed approximately 100 employees to U. S. Steel, and operational synergies are already beginning to materialize. In addition, the capital investment projects currently being implemented at U. S. Steel are based on technologies and initiatives with a proven track record in Japan, giving us a high level of confidence that the expected benefits will be realized. We will continue to engage proactively with the market and communicate the drivers of earnings growth in order to build confidence in the achievability of our growth targets.

(2) Cost of capital

We believe that our cost of capital reflects the following market perceptions and concerns.

(A) The capital markets recognize that the steel industry is susceptible to significant earnings volatility and sensitive to economic conditions

(B) The capital markets recognize that the steel industry is highly influenced by Chinese supply-demand conditions and government policies

(C) The capital markets are concerned that achieving carbon neutrality in the steel industry will require massive investments and higher operating costs, creating uncertainty over future profitability and the recoverability of those investments

Nippon Steel has sought to strengthen its resilience to changes in the external environment while steadily translating growth opportunities into earnings growth. To achieve this, we have strengthened the earnings base of our domestic business and expanded our business portfolio into overseas markets as well as upstream and downstream areas of the steel supply chain.

Specifically, we reduced the break-even point for our domestic steel business by about 40% by reducing fixed costs through measures to optimize the structure of production facilities, establishing a mechanism under which fluctuations in externally procured raw material and fuel costs are reflected in prices for sales to specific customers segment and shared across the supply chain, and improving the product mix and order mix. Furthermore, by increasing our investment in the raw materials business, we have established a revenue structure that has allowed us to offset cost increases resulting from fluctuations in raw material prices with profits from that business. At the same time, by bringing distribution activities into our business portfolio, we have expanded our presence across upstream and downstream segments of the steel supply chain. Moreover, we have sought to maximize synergies through the reorganization of our steel group companies.

In expanding our business overseas, we have concentrated our management resources on our priority regions, the U.S., Europe, India, and Thailand, from the perspectives of "areas where steady demand growth is expected" and "areas where our technology and product capability can be leveraged." Against the backdrop of rising nationalism and protectionist trade policies, we are focusing on our investment, particularly in the U.S., Europe, and India, as growth markets less exposed to the impact of imbalances in

Chinese steel supply and demand. Building on the acquisition of G/GJ Steel in Thailand, our top-priority home market in the ASEAN region, we are reinforcing our business foundation and expanding our share in the steel sheet market. U. S. Steel is expected to emerge as the primary earnings driver of the Group in FY2026 and will play a central role in accelerating earnings growth in our overseas business.

Through these initiatives, we have expanded the depth of our operations in upstream and downstream segments and broadened the width of our overseas operations, developing a more resilient business structure with broader geographic exposure and a stronger presence across the steel value chain. As a result, we have built a revenue structure that enables us to consistently generate an underlying business profit of at least 600 billion yen by enhancing our resilience to fluctuations in domestic and international demand, raw material prices, and changes in regional market conditions, without being significantly affected by external factors. Despite the deteriorating external environment, including the impact of the Middle East situation, we expect to generate an underlying business profit of at least ¥700 billion for FY2026. This demonstrates that the reforms to our earnings structure and business portfolio are beginning to deliver tangible results.

Meanwhile, achieving carbon neutrality is a long-term endeavor. While communicating that technological development toward carbon neutrality is progressing steadily, we make it clear that any investment in carbon neutrality following the completion of such development is contingent upon ensuring the predictability of investment recovery. In other words, we clearly state the need to establish a GX Steel market where the value of steel products with low CO_2 emissions is properly recognized, and their additional costs can be reflected in the selling prices. We also communicate our efforts to work with governments, relevant organizations and customers to help establish such a market.

We believe that enhancing market understanding of these initiatives through sustained dialogue and communication will contribute to lowering our cost of capital and improving our PER. We will continue to strengthen engagement through our integrated reports, enhance the content of our earnings presentation materials, expand our IR activities for individual investors, and deepen dialogue with institutional investors in Japan and overseas.

FY2026 Forecast

In FY2026, uncertainty in the external environment is increasing as sluggish underlying demand persists both in Japan and overseas, concerns over a further economic slowdown arising from the Middle East situation remain, and trade measures and economic fragmentation continue to advance in various countries and regions against the backdrop of China's excess supply. We expect underlying consolidated business profit of at least ¥700 billion in FY2026 after incorporating, to a certain extent, the impacts that have already materialized, including increases in raw material and fuel costs and declines in steel exports to the Middle East arising from changes in the external environment, including the impact of the Middle East situation. We expect to generate 250 billion yen in the first half and 450 billion yen in the second half. Notably, the second-half profit level corresponds to an annualized run rate of at least ¥900 billion. Thus, through the expansion of operating revenue from overseas business in FY2027 and beyond, we will build a solid foundation for growing our underlying profit to approximately 1 trillion yen.

U. S. Steel is expected to emerge as the primary earnings driver of the Group, generating underlying business profit of at least ¥180 billion in FY2026. U. S. Steel is expected to generate significantly higher earnings than previously forecast, supported by successful demand capture amid favorable U.S. steel market conditions, the full realization of benefits from the blast furnace restart, contributions from previously completed investment projects, and growing synergies with Nippon Steel.

Regarding the Middle East situation, on the other hand, the impact of rising raw material and fuel costs, as well as decreases in steel product exports to the Middle East, is already becoming apparent. Therefore, our FY2026 forecast factored in approximately 60 billion yen as the impact of the region. However, the Middle East situation could have ripple effects on a wide range of industries and regions through energy supplies, logistics, and global supply chains, and the extent of the impact in the future and when things settle down remains unclear. While continuing to closely monitor the situation and respond appropriately, we will steadily implement measures such as passing higher costs through to selling prices and reducing costs.

We plan to pay a dividend of ¥24 per share for FY2026, taking into account the minimum dividend introduced under the 2030 Medium- to Long-term Management Plan.