Message from the President and COO

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Nippon Steel's Management Strategies and Policy on Future Initiatives

My name is Tadashi Imai. I have been appointed President and COO as of April 1, 2024.

Considering the many management challenges we face today, the next few years will significantly determine our future, and I am humbled to assume the duties. To use a relay analogy, I received the baton of our growth strategy to achieve the 100 Million Tons/1 Trillion Yen vision set by former President Hashimoto, and I have just begun to run at full speed.

I would now like to explain our management strategies and future policies.

Tadashi Imai
Representative Director, President and COO

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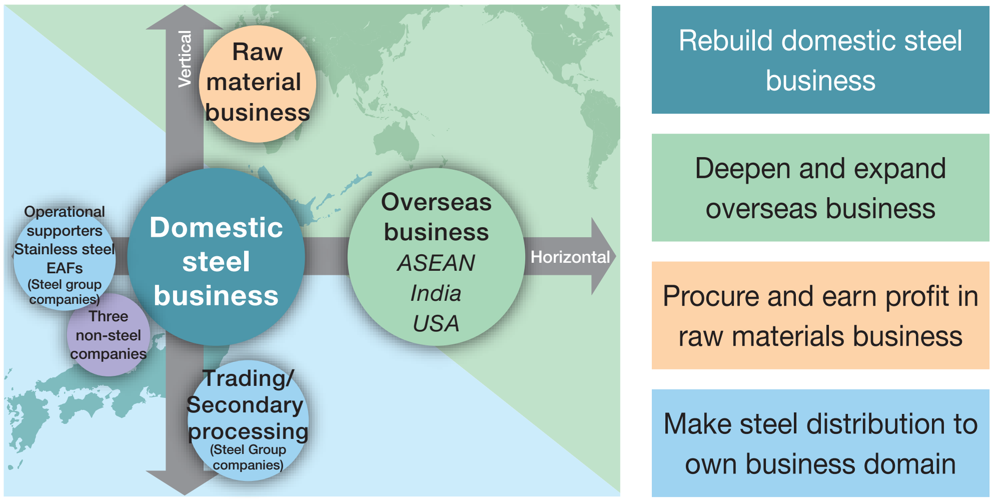
Progress of the Medium- to Long-Term Management Plan

We have carried out group-wide management reforms such as the consolidation of production lines through structural measures in Japan, a significant margin improvement in direct contract-based sales, and the selection and concentration of overseas businesses. Our efforts have paid off and we are coming close to reaching the target of 1 trillion yen in underlying consolidated business profit, far exceeding the initial target of 600 billion yen.

We will continue to implement the existing profit structure measures. At the same time, we will steadily promote measures to evolve into a further robust business structure, and to advance toward achieving the Group's future vision of 1 trillion yen in business profit, while building a foundation that enables us to record even higher revenues regardless of the external environment. We will also make investments in forward-looking initiatives to recruit human resources and promote their active engagement.

Specifically, we aim to create a more robust business structure by expanding horizontally from the core domestic business and increasing the depth of our business domains vertically. The horizontal axis shows the global expansion of steel production itself, and we are working to expand our integrated steelmaking bases that start with upstream processes overseas such as in the ASEAN countries, India, and the United States. The vertical axes show the expansion in upstream and downstream business domains such as raw materials and distribution/processing. We have already completed investment in a Canadian coking coal business and the consolidation of Nippon Steel Trading, which is engaged in distribution. We will continue such initiatives. By evolving the procurement of raw materials into a "business" and making distribution a part of our own business domains, we aim to build an integrated business structure and strengthen our competitiveness throughout the supply chain. At the same time, we will create a more resilient business structure to achieve carbon neutrality.

Details of the progress of the medium-term management plan will be explained separately in the "Strategy" section of this report.



Our growth opportunities

Nippon Steel's management policy based on our macroeconomic recognition is exactly what we are implementing in the Medium- to Long-term Management Plan up to fiscal 2025. We need to carry through this plan to the finish line. In addition, I would like to talk about growth opportunities and decarbonization measures, in particular.

First, at this time of great change in society, we must capture new business opportunities. Responding to global climate change issues has become a major force in industry, and new demand has been created in the materials field through changes in the industrial structure. Currently, the expansion of renewable energy, the decarbonization of industrial complexes, and the electrification of automobiles are advancing while measures to ensure national resilience and cope with intensifying disasters are needed. Addressing increasing needs for new steel products and solutions, where Nippon Steel's technologies can be utilized, we need to harness the total power of our group, from product development to our distribution/processing network, and take measures that will lead to the growth of our domestic business. In addition, the declining working population and other changes in the social structure, and the acceleration of DX stimulated by the rapid development of AI are challenges as well as business opportunities for the Nippon Steel Group.

Second, we will further strengthen our global business—our growth engine in terms of both production scale and profit—and enhance the management that supports it. We will expand our integrated steelmaking business in growing markets, particularly in India, ASEAN and North America following the acquisition of U.S. Steel. This means we are entering a new stage in our global expansion. Under these circumstances, our divisions and production bases in Japan will be acting as our global headquarters, deploying the necessary resources according to local needs, and providing strong support for the sound development of our locally based companies. In this way, the domestic steelmaking business needs to become a linchpin that brings together overseas businesses. We will therefore further enhance the strategic headquarters management functions. At the same time, on the technology side in areas such as R&D, manufacturing technology, facility maintenance and engineering, the true value of our manufacturing strength, which has been honed in our domestic business, will be shown on the world stage.

With regard to the acquisition of U.S. Steel, we intend to secure a base in the United States, the largest market for high-grade steel, and fully share all of our cutting-edge leading technologies. By combining U. S. Steel's powerful business assets (organically comprised of its iron ore mines, blast furnaces and electric arc furnaces), extensive U.S. customer base and brand value backed by its long history, we believe that we can help grow U. S. Steel.

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Markets where **steel demand growth is promising**
Markets where Nippon Steel's **technologies and products are highly valued**

Expansion of **integrated steel production bases**

M&A, acquisition of **brownfield** production bases

- Growing **India**
- Home market **ASEAN**
- The largest market of high-grade steel **USA**

Strengthen the strategic management functions of Japan as the **global HQ** and also focus on **developing global personnel** for global development

Third, I would like to talk about decarbonization, which could be the greatest challenge for us.

To achieve carbon neutrality by 2050, our immediate aim is to reduce greenhouse gas emissions by 30% or more by 2030. Fundamentally, among industrial materials, steel materials have the lowest emissions of greenhouse gases to produce one ton of product and are recyclable materials that can be recycled endlessly. The importance of steel remains unwavering even in the age of carbon neutrality. However, a little tricky fact is that because it is inexpensive and has excellent properties, it is used overwhelmingly in large quantities, which makes the steel industry account for about 40% of CO_2 emissions from Japan's industrial sector. In recent years, there have been cases where CO_2 emissions have become an international trade constraint, and it is no exaggeration to say that the success or failure of our decarbonization measures may affect Japan's industrial competitiveness.

To achieve carbon neutrality in the steel industry, there are three interrelated challenges that we must overcome: Technical challenges, predictability of investment recovery, and infrastructure development. As a technological challenge, there is no existing decarbonization technology for emissions from blast furnaces that reduce iron ore, which dominate the CO_2 emissions of the entire supply chain. This means the steelmaking processes need to be innovated. As for investment recovery, the challenge in making investments is to promote the environmental value to consumers and the market to pass on to prices. This is because, despite huge investments and increases in operating costs, steel products based on decarbonized processes will remain the same as current products. In terms of infrastructure, a low-cost stable supply of green power and green hydrogen must be established by the national and local governments as their policy. Prior to the full-scale supply of green steel products, we will work to establish a shared understanding of the appropriate economic value of the environmental value of CO_2 emissions reduction, not only in the industrial world but also in society.

Technical challenges	• Most of the CO_2 emissions (Scope 1 to 3) in the entire supply chain of the steel industry is generated by the production process (Scope 1), particularly the key process for reducing iron ore in blast furnaces. → Need for innovative production process • There are no existing, proven decarbonization technologies such as use of renewable energy and nuclear power for electric power, and EVs for automobiles
Predictability of investment recovery	• Innovation in production processes inevitably entails significant investment and rising operating costs • But steel products are the same before and after CN conversion. → The challenge is to promote awareness of environmental value (CO_2 reduction) among consumers (price pass-through)
Infrastructure	• Need of a government policy to develop social infrastructure(stable supply of green electricity and hydrogen, CCUS)

Let me also explain the carbon-neutral steelmaking process we aim at.

In the first place, there is not enough steel scrap alone in the world to meet global steel demand in steel production, and iron ore reduction is essential. Also, we have only two types of processes that allow mass production of steel: The blast furnace (BF) method and the electric arc furnace (EAF) method. Therefore, the basic premise is that technological options for achieving carbon neutrality are limited to either decarbonization of the BF method or melting of pre-reduced iron in an EAF. On top of that, the BF method and the EAF method each have their advantages and disadvantages. We therefore need to aim for an optimal steelmaking process portfolio, using the features of either method, according to energy, raw materials, and other economic conditions. Nippon Steel is therefore promoting the development of decarbonization of the BF method, which is superior in productivity and quality and can utilize existing infrastructure. At the same time, we are continuing to study the EAF method, which can be implemented relatively early toward 2030. This is our double-track approach aiming for decarbonization.

The three breakthrough technologies we are striving for to realize these processes are: BF hydrogen reduction, reduced iron production using hydrogen, and high-grade steel production in large-size EAFs. The three external conditions that must be established by government policies are the low-cost and stable supply of green hydrogen and green power, which are necessary for this purpose, and the social implementation of CCUS.

With regard to the progress of technological development and future prospects, technological development has generally been proceeding smoothly, and by the end of 2023, the Kimitsu experimental blast furnace succeeded in reducing CO_2 emissions by 33%, which is the world's highest reduction level for a BF-type reaction chamber. As for the large-size EAFs, which can be implemented relatively early, we have built up a track record of high-grade steel production at the Hirohata #1 EAF since 2022, and the construction of an experimental EAF for development will be completed at the Hasaki R&D Center by the end of fiscal 2024. We aim to launch operations by 2030.

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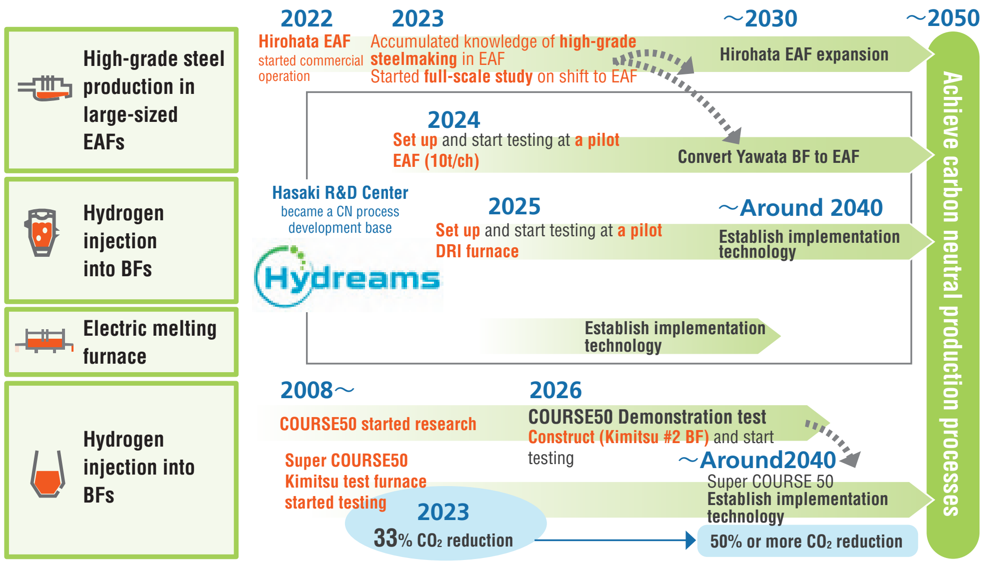
We have thus far completed planning and budgeting and are undertaking technology development. For predictability of investment recovery and infrastructure development, national policies are indispensable. In order to overcome these challenges, we are taking every opportunity to make various proposals on Japan's climate change measures and energy policies, and to spearhead activities through industry organizations and promote them widely to society. We will continue to make efforts to appropriately disclose information on these initiatives.

[Roadmap to achieve the Carbon Neutral]



Sustainability initiatives

Sustainability issues are considered as one of our priority management issues, which form part of the base that supports the sustainable growth of the company. We have identified our materiality, namely priority issues, among sustainability issues, that we should focus on, with due consideration to our corporate philosophy, values, stakeholders' expectations, and our growth strategy. We aim at achieving higher performance by promoting and following up on the activities based on the Key Performance Indicators evaluating the results.

With regard to climate change issues, in order to contribute to the Japanese government's measures against global warming based on the Paris Agreement and Japan's Nationally Determined Contributions (NDC), we will continue to work on technological development and commercialization, and the promotion of these objectives to society as a whole.

Creating a circular economy is an essential issue from the viewpoint of further growing the economy while building a sustainable society. Steel itself is a material that "can be reborn as any types of steel products again and again," and is a material that embodies the circular economy. We intend to contribute to the realization of a circular economy through persistent technological innovation including recycling of by-products generated in steelmaking processes and resource recovery from packaging/container plastics generated in society.

As for biodiversity conservation, we endorse the "Declaration of Biodiversity by Keidanren and Action Policy" and are participating in the "30 by 30 Alliance for Biodiversity." We are contributing to actively undertaking initiatives for the conservation of biodiversity and nature positive through the "Creation of Hometown Forests" and the "Creation of Sea Forests" among others.

As efforts to meet the Sustainable Development Goals (SDGs) adopted by the United Nations progress around the world, we will conduct our operations to proactively contribute to creating sustainable communities by providing integrated solutions to issues related to climate change measures, the creation of a circular economy, and the conservation of biodiversity, including maintaining and improving a favorable living environment.

The Nippon Steel Group is engaged in business activities based on its Corporate Philosophy that we will pursue world-leading technologies and manufacturing capabilities, and contribute to society by providing excellent products and services. We would like to continue to be a company that contributes to solving diverse social issues through our business activities. As a part of efforts to earn the trust of all of our stakeholders, we will actively fulfill our corporate social responsibility in the future by placing importance on safety, environment, and disaster prevention first and then on quality, production, respect for human rights, diversity & inclusion, social contribution via support of the arts, culture, and sports, and community-based educational support.

In addition, securing human resources and promoting their active participation are extremely important in advancing our growth and decarbonization strategies. Amid social conditions such as a declining Japanese population, especially the working population, and the increasing mobility of human resources, we need to promote the diverse management strategies we have described, and our human resources are the key to supporting these strategies. We will maximize the abilities of each and every employee through various measures, which start with measures to raise our recognition, expand hiring of experienced personnel, revise their compensation, and increase engagement. We will thus improve productivity.

In addition, as stated in the Nippon Steel Group Human Rights Policy, we will continue to conduct business activities with high ethical standards while giving maximum consideration to respect for human rights.

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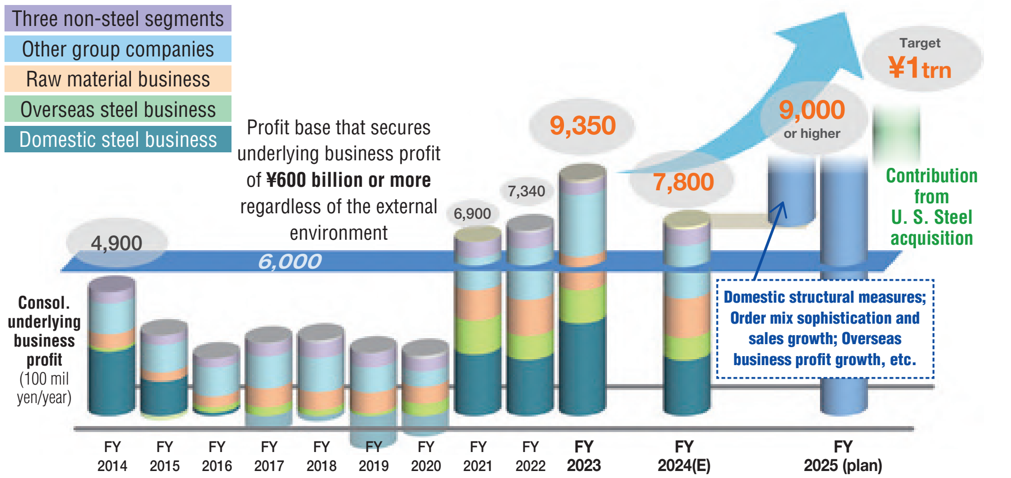
Outlook for future performance

Lastly, I would like to talk about our future performance.

In fiscal 2024, the unprecedented severe situation concerning global steel demand is likely to continue for the foreseeable future. Recovery in actual demand is hard to predict at this point, and it is expected to take time for the market to recover. There is also a risk that the decoupling structure between raw materials and products – high raw materials prices vs. low steel product prices - will continue for the time being. Based on this assumption, business profit is expected to be at the level of 780 billion yen. On an ongoing basis, we have secured an earnings structure that consistently ensures business profit that far exceeds 600 billion yen.

In fiscal 2025, we will work to secure profits of 900 billion yen or more even if the business environment does not improve, by demonstrating the effects of our growth strategy. Once the acquisition of U.S. Steel is completed, we will aim to achieve a revenue structure that enables us to secure a profit of more than or equal to 1 trillion yen.

[Earnings growth in a challenging environment: Toward the Vision of 1 trillion yen in underlying business profit]



Looking ahead

The business environment surrounding the steel industry is likely to remain harsh, and there are management challenges that need to be overcome over the medium to long term, such as addressing various challenges to realize a carbon-neutral society. I am determined to take the lead in our group-wide efforts to tackle these challenges. We will seize global growth opportunities, become a pioneer in decarbonization, and take a giant step forward as the best steelmaker with world-leading capabilities.