Financial Strategy

Contents

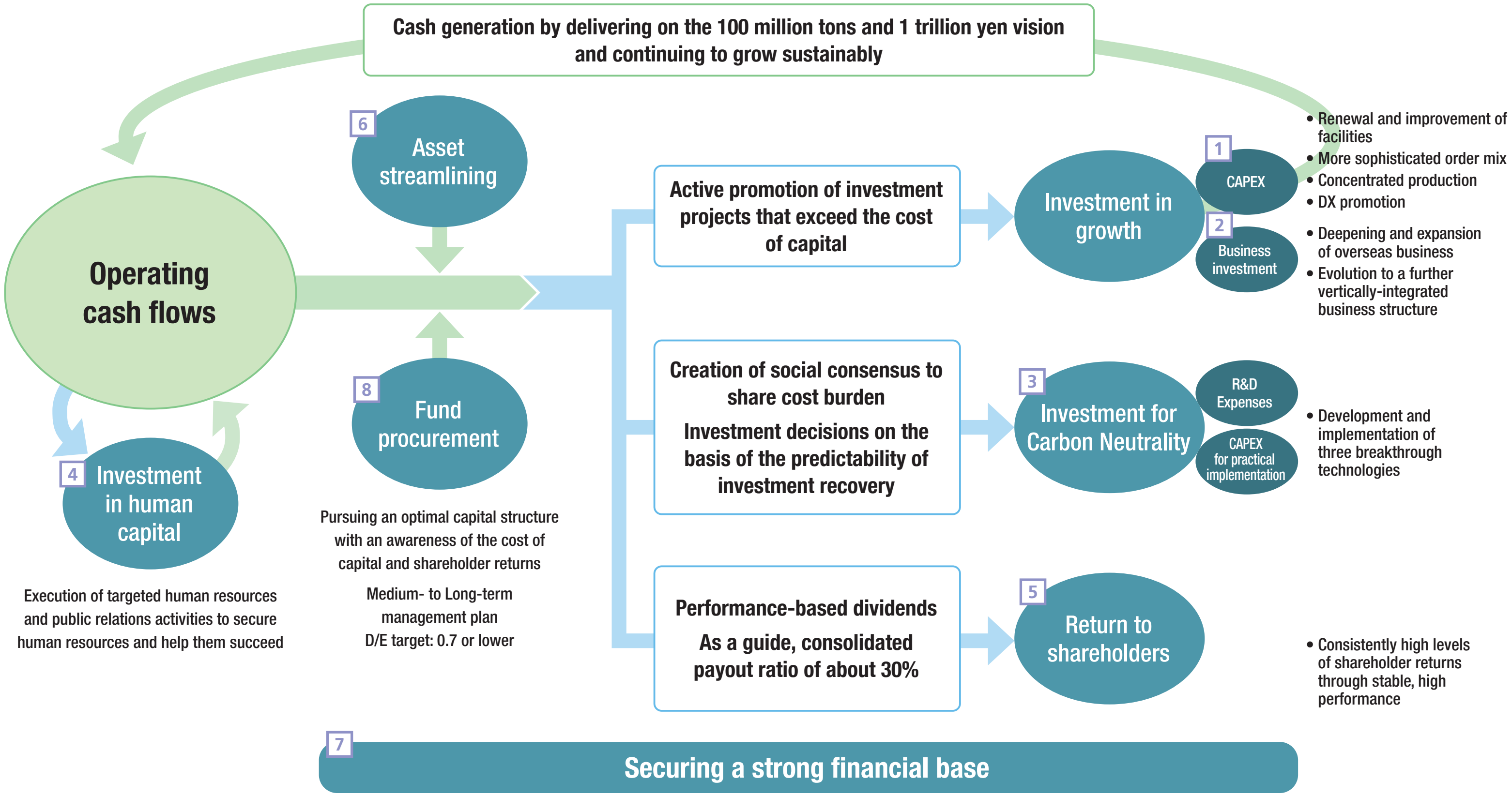
Financial Strategy

By establishing a virtuous cash cycle, we will achieve profit growth toward our vision of 100 million tons and 1 trillion yen, as well as carbon neutrality.

Virtuous cash cycle

We proactively promote growth investments that generate returns exceeding the cost of capital and achieve sustainable profitable growth. We also make investments necessary to make the steelmaking process carbon neutral by ensuring the predictability of investment recovery based on a consensus on sharing the needed cost burden by the entire society, including government support and the formation of a green steel market. By doing so, we secure a sound financial base and at the same time aim at stable, high-level shareholder returns.

[Virtuous cash cycle]



[Investment plan (FY2021-2025)]

Capital expenditures	¥2,400 billion over 5 years
Business investment	¥600 billion over 5 years
Payout ratio	Around 30%

[Targets (FY2025)]

ROS (Return on Sales)	About 10%
ROE (Return on Equity)	About 10%
D/E Ratio	0.7 or lower even in a deteriorating environment
Assumption: Non-consolidated crude steel production	About 38 million tons/year

Financial Strategy

1 Capital expenditures

We will implement capital expenditures of ¥2,400 billion over the five years FY2021 to FY2025.

We promote the production facility structural measures with suspending less-competitive facilities and consolidating production to competitive ones.

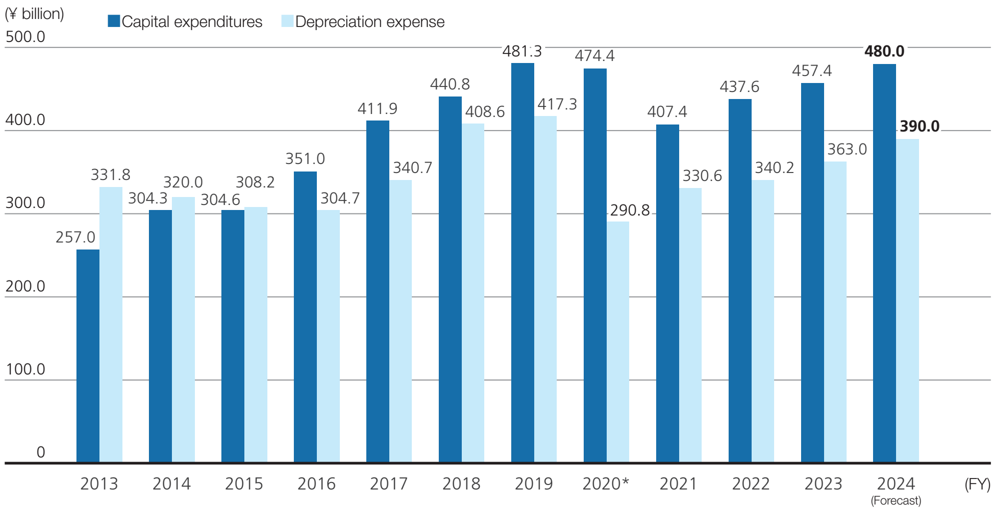
We are reducing investment in facilities scheduled for suspension, while selectively investing in remaining facilities to upgrade equipment and improve capacity and quality of high value-added products. Up to the present, we have decided to make investment of ¥213 billion for improving the capacity and quality of electrical steel sheets, investment of ¥270 billion for installing a new next-generation hot strip mill at the Nagoya Works and others.

Meanwhile, many of our steelworks were built during Japan's high growth era and are passing a 50-year milestone. Since construction, the facilities have been appropriately maintained and refurbished and are in good condition but some facilities for infrastructure and others are in an extremely long refurbishment cycle, which are approaching refurbishment time. Due to the concentration of refurbishment investment for these equipment and facilities, capital expenditures will be at a high level for the near term. We seek to efficiently inject capital based on the long-term refurbishment plan, aiming for reduction in overall capital expenditures.

For determining capital expenditures, we set a hurdle rate for collection period of investment aimed at profit improvement and manage to secure that the internal rate of return (IRR) of overall capital expenditures, including spending for replacing aged facilities, exceeds the cost of capital.

[Capital expenditures and depreciation expense]

The amounts of capital expenditures are on a construction basis; from FY2018 onwards they are calculated on the changed accounting system.



* Depreciation expenses in FY2020 Impact of the change to the straight-line Method: -70 billion yen
Impact of impairment loss: -60 billion yen

2 Business investment

We are making strategic moves towards achieving a global crude steel production capacity of 100 million tons by acquiring and investing in integrated steel mills (brownfields) in areas where demand is expected to grow and in sectors in which our technologies and products are appreciated. To date, we acquired G Steel and GJ Steel in Thailand in March 2022 (total purchase price 55.6 billion yen). In India, we decided to expand AM/NS India's sheet manufacturing facilities in April 2022 (approximately 140 billion yen), invest in the installation and expansion of facilities for iron-bearing materials and hot rolling in September of the same year (approximately 730 billion yen), and acquire critical infrastructure companies and assets (approximately 340 billion yen). (The investment amount is that of AM/NS India. We provide debt guarantees to AM/NS India as required in proportion to our 40% stake.)

In addition, we invest in the upstream raw materials and downstream distribution domains of the steelmaking value chain to broaden our business scope. Our aim is to evolve into a further vertically-integrated business structure through these initiatives. In January 2024, we invested 200 billion yen for a 20% stake in Elk Valley Resources, a Canadian coal mine, and in April 2023, we invested in Nippon Steel Trading Co., Ltd. (approximately 137 billion yen), which became our consolidated subsidiary and was delisted from the stock market.

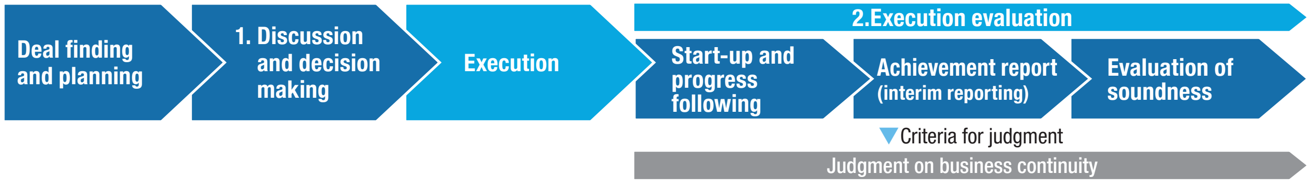
Meantime, in view of boosting overseas steel business profit and reallocating management resources, we have almost completed asset sale of and withdrawal from businesses that could not move into the black, businesses that had completed their roles, and businesses that lost synergies. We intend to continue improving our asset portfolio.

As for business investment, we set a hurdle rate for the IRR that exceeds the cost of capital, even with consideration of diverse risks, and runs a PDCA system, which enables us to track the execution status and make judgment on restructuring, withdrawal, and other options, as needed.

COLUMN

Business investment management system

Nippon Steel has embedded in its business investment procedures a management system with a clearly-defined PDCA cycle, in order to (1) make appropriate decisions on business investments, such as for founding and equity investing in companies in Japan and overseas, as well as for M&A deals, (2) identify early and solve promptly issues during the stage of execution of those deals, and (3) share and preserve such know-how within the organization.



1.Discussion and decision making

Proposed projects are considered in terms of significance to business strategy, market growth, competitive landscape, and individual risks (country, partner, foreign exchange, and other risks). In the case of M&A deals, based on due diligence, their risks are to be understood and appropriately hedged. After such a procedure and considered risk scenarios, the certainty of generating return that matches investment is confirmed.

Investment and Loan Committee

The Investment and Loan Committee discusses projects from a professional perspective of each corporate unit and division.

The business investment projects are submitted to the Corporate Policy Committee after being discussed at the Investment and Loan Committee. Especially important projects are then submitted to the Board of Directors.

2.Execution evaluation

Start-up and progress following

For about three years since start-up, KPIs for operation, production, shipment, financials, and other items are set up for each project, and the corporate division follows its performance relative to the plan once every three months, and reports to the Investment and Loan Committee and the Corporate Policy Committee. The status of particularly important projects is reported to the Board of Directors once a year.

Achievement report

About three years from the start-up, the entire processes from decision making to full-scale operation are reviewed and reported to the Investment and Loan Committee and the Corporate Policy Committee. The status of particularly important projects is reported to the Board of Directors once a year.

Evaluation of soundness

All Group companies in which Nippon Steel has made direct investment are evaluated in terms of financial soundness, based on their financial data, and the results are reported at the Corporate Policy Committee every half year. Those companies in which Nippon Steel has made indirect investment are similarly evaluated but only once a year. They are also reported to the Board of Directors once a year.

<Decision on exit or restructuring>

Concerning group companies that are determined not contributing to raise the company's corporate value in terms of financial soundness based on quantitative standards (future cash flow, financial position) and qualitative standards (sustainability, compliance, etc.), the Investment and Loan Committee discusses whether to continue business and the status of particularly important project are to be approved by, or reported to, the Corporate Policy Committee to determine whether to exit (or be reorganized) or restructure.

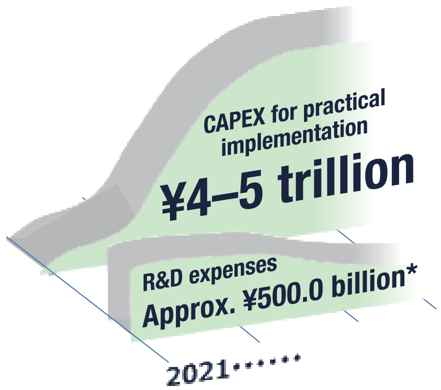
Financial Strategy

3 Investment for achieving carbon neutrality

Nippon Steel is taking a multi-track approach of making the steelmaking process carbon neutral through the development of three breakthrough technologies and the implementation of CCUS. In responding to economic conditions including those related to energy and raw materials, we seek to achieve optimal process structure. Developing the three breakthrough technologies and implementing equipment will require huge expenditures. We currently expect a need for 500 billion yen in research and development and 4 to 5 trillion yen in capital expenditures up to 2050. The breakdown of investments will be clarified in the future, depending on the state of future technological developments and economic conditions such as energy and raw materials.

As the transition to a carbon-neutral steelmaking process will improve neither product functionality nor its quality, we critically need comprehensive and effective government support and the establishment of a green steel market that transforms environmental value (CO_2 reduction) to economic value (to be passed on to the sales price) for us to invest in equipment implementation aimed at CO_2 reduction. Under the premise of these conditions being prepared and the predictability of investment recovery being ensured, we are taking up the challenge of materializing economically viable measures.

[Conceptual illustration of investments required to achieve carbon neutrality at Nippon Steel]



* Minimum level estimated to be required for the time being

4 Investment in human capital

Amid intensifying recruitment competition due to a declining population, diversification of individual career perspectives, and increasing mobility in the labor market, we need to secure human resources and promote their active participation in our business to advance our diverse management strategies toward realizing the 100 Million Tons and 1 Trillion Yen Vision, and we have positioned it as one of the most important management issues.

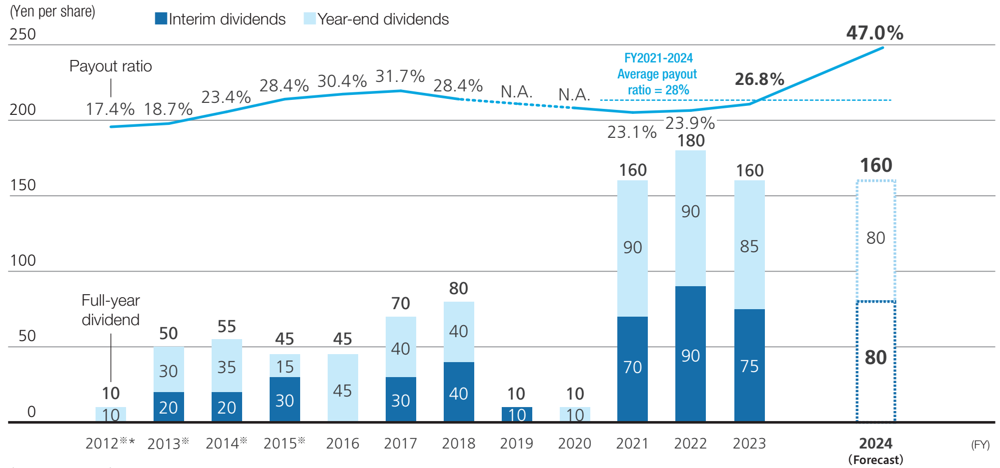
In April 2024, as an investment in human resources for our productivity enhancement, we implemented a major revision of the employee benefit plan, with the objective of providing our employees with top-class benefits in the domestic manufacturing industry. The list of actions we will continue to implement includes: diverse measures for hiring, support for balancing work and personal life, work, and human resource development, etc. in order to secure and promote human resources, as well as PR measures to raise favorable recognition of the company.

5 Return to shareholders

With regard to shareholder return, we retain our current dividend distribution policy with the target range of around 30% as the payout ratio to consolidated net profit. This shall be based on the allocation of profits in accordance with operating and financial performance, and by taking into account funds needed for investment in improving corporate value, and other factors including performance forecasts and consolidated and non-consolidated financial positions.

As a result of building a revenue base that secures stable underlying business profit of 600 billion yen or higher regardless of the external environment, underlying business profit has continuously remained at a high level, exceeding 600 billion yen from fiscal 2021 onward. In contrast, the net profit (consol.) has fluctuated significantly due to a huge amount of one-off unrealized gains (losses) such as inventory valuation difference and foreign exchange valuation difference and losses on reorganization as individual disclosure items, and others. Against this backdrop, we are managing our affairs based on the above-mentioned dividend policy while also taking into consideration the continuous high level of shareholder returns. In fiscal 2021 and 2022, when large amounts of inventory valuation gains and foreign exchange valuation gains were recorded, and in fiscal 2023, when earnings were sharply revised upward toward the end of the fiscal year, we adopted a somewhat restrained payout ratio compared to the dividend guideline. In fiscal 2024, profit is expected to decrease compared to fiscal 2023 due to factors such as effects of the transition phase of growth strategy amid a sluggish business environment and the large losses on reorganization associated with the structural reforms. Despite this, we intend to maintain the same level of dividend per share as in the previous year at 160 yen per share, in light of anticipating a recovery in underlying business profit and almost eliminating losses on reorganization in fiscal 2025. We will continue to aim for a high level of shareholder returns.

[Dividend Trends]



(Yen per share)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (Forecast)
EPS	-162	267	235	159	148	205	282	-469	-35	692	753	596	326

Dividend policy (consolidated dividend payout ratio): Around 20% as a base → Around 30%

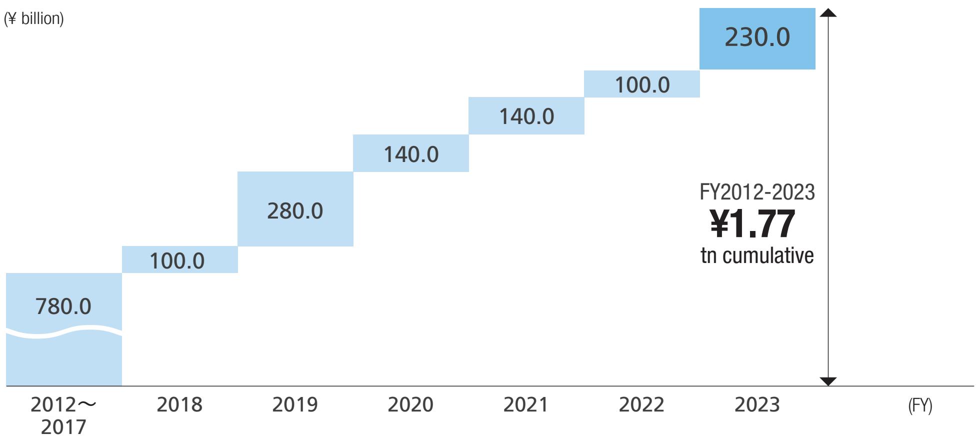
* FY2012: Dividends for the second half
* FY2012-2015: Dividends prior to the reverse stock split are adjusted in accordance with the assumptions following the completion of the reverse stock split (from 10 shares to 1 share on October 1, 2015).

Financial Strategy

6 Asset streamlining

Nippon Steel has reduced assets by a cumulative total of 1.77 trillion yen over the 12 years to FY2023. This was achieved through sales of strategic shareholdings and properties, inventory reduction, and improved efficiency in managing consolidated funds. Going forward we will continue asset streamlining.

[Asset Streamlining]



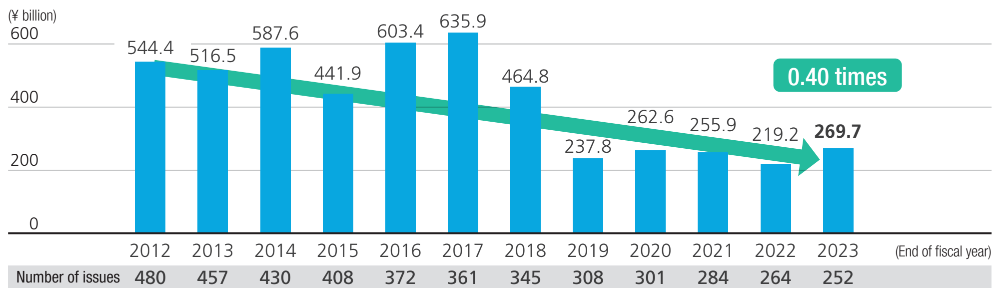
Asset streamlining by disposing of strategic shareholdings

Strategic shareholdings are seen as contributing to maintenance and strengthening of the business foundation by means such as the business and alliance relationships between Nippon Steel and the investees, enhancing the profitability of both parties, and thereby contributing to sustainable growth and improving medium to long-term corporate value of Nippon Steel and the Group. However, we dispose of holdings of companies, when we confirmed, based on sufficient dialogues with them, that the above objectives could be achieved without holding their shares.

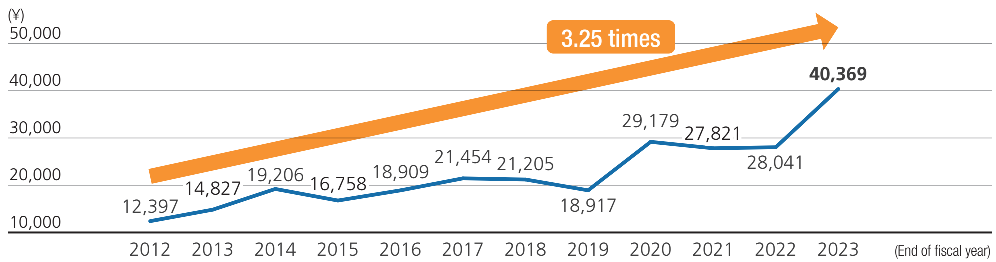
Over the 11-year period from March 2013 to March 2024, we sold and reduced our strategic shareholdings by 60%. Considering the fact that the Nikkei Stock Average has increased 3.25 times during that period, this can be considered as equivalent to a reduction of 85%* or more.

*Balance at the end of FY2023: 269.7 billion yen / (Balance at the end of FY2012: 544.4 billion yen × Growth rate of the Nikkei Stock Average: 3.256 times) = 15% reduction, or around 85% reduction in real terms

[Total value of strategic shareholdings on the balance sheet]



[Nikkei Stock Average]



Financial Strategy

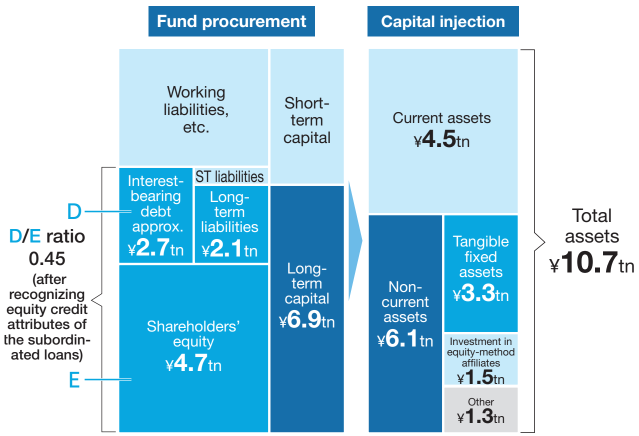
7 Financial base

The steel industry is a gigantic equipment-based industry, which uses an immense amount of fixed assets, including machinery equipment and other tangible fixed assets, in its business. Procurement for fixed assets is financed by shareholders' equity and long-term borrowings, ensuring financial stability.

Nippon Steel's basic financial policy is to actively make growth investments and to secure a sound financial base at the same time. Our target is to keep the D/E ratio at 0.7 or lower even if the business environment further deteriorates. Moreover, our ultimate target is the D/E ratio of 0.5, a level that allows us to maintain the A international credit rating. The status of the credit ratings obtained as of July 2024 is shown in the table.

We are committed to secure both solid financial strength and financial flexibility to enable confident, flexible execution of the following investments: 1) growth investment in Japan and overseas; 2) in carbon neutral-related facilities investment from fiscal 2025; and 3) investment in initiatives to achieve 100 million tons of global crude steel production and to evolve into a further vertically- and horizontally-integrated business structure.

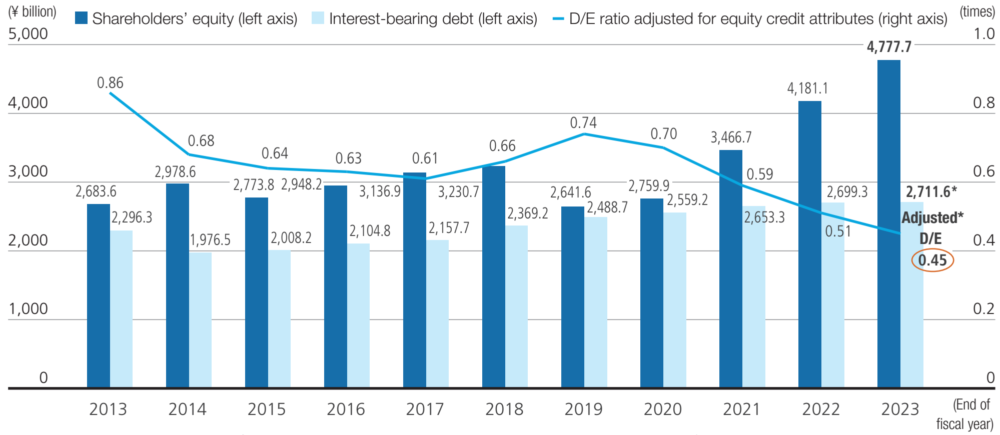
[Nippon Steel's asset and liability management (March 31, 2024)]



Rating agency		Nippon Steel's rating
Japan	R&I	A+ (Positive)
	JCR	AA (Stable)
Overseas	Moody's	Baa2 (Stable)
	S&P	BBB+ (Positive)

(as of July 2024)

[Consolidated shareholders' equity, Interest-bearing debt, and D/E ratio]



*Impact of consolidation of Nippon Steel Trading: +430 billion yen in interest-bearing debt and +0.10 in D/E ratio

8 Fund procurement

Nippon Steel is currently undertaking the acquisition of U. S. Steel, which will be paid approximately $1.4 billion at the time of closing. We have already received commitment letters of bridge financing from Japanese financial institutions to finance the acquisition. If all funds for the acquisition will be procured through the bridge loan, the D/E ratio immediately after the acquisition is expected to deteriorate from the current 0.5 level to around 0.9. However, in June 2024, we already had raised part of the acquisition funds in the form of hybrid funds of 250 billion yen, 50% of which is deemed as equity by rating agencies. In addition, our existing convertible bonds of 300 billion yen issued in 2021 will be converted to equity due to the arrival of their maturity date or the exercise of the soft call. These factors are estimated to temporarily raise the post-acquisition D/E ratio to around 0.8. Further, mainly by permanent financing by optimal means, the D/E ratio is expected to recover to the 0.7 level by the end of fiscal 2024. Moreover, we will aim to swiftly restore the D/E ratio to the target level of our Medium- to Longer-term Management Plan, 0.7 or lower, with a contribution from our consolidated profit and cash flow including U. S. Steel, permanent financing by optimal means, and other measures.

Financial Strategy

Initiatives to raise share price indicators

We are aiming for "becoming the best steelmaker with world-leading capabilities." We believe that an objective indicator of being No. 1 in overall strength is becoming No. 1 in market capitalization, which summarizes the market's assessment of our performance. However, we do not hold the top position in terms of market capitalization at present. In addition, our PBR remains below 1.0.

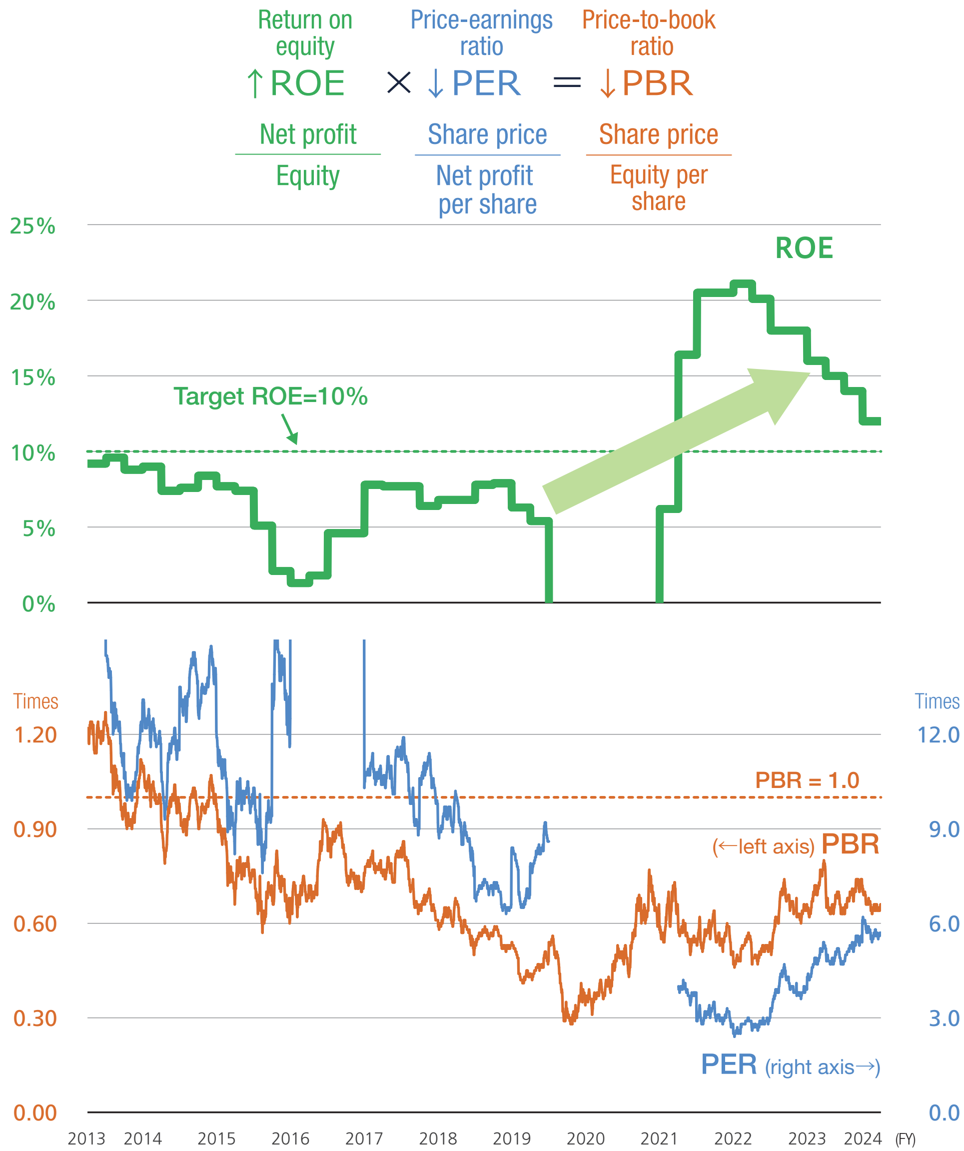
We believe that our stock's PBR has remained below 1.0 mainly because of two reasons:

1) it has taken time for the market to appreciate that Nippon Steel has established a profit structure that secures stable, high-level earnings;
2) the market is not yet fully convinced whether Nippon Steel's Carbon Neutral Vision is realistic and economically viable.

Nippon Steel has established an earnings base to surely generates a steady underlying consolidated business profit of more than 600 billion yen per year, driven by our efforts for structural reform of the domestic steel business and the deepening and expansion of overseas operations. We are now advancing to a new phase toward our vision of 100 million tons and 1 trillion yen. We are also committed to advancing breakthrough technologies for achieving carbon neutrality ahead of our counterparts in Europe, the U.S., China, and other countries. This requires significant R&D expenditures and investments in equipment acquisition. We will make such investment decisions only when the investment return becomes predictable as a consequence of securing comprehensive and effective government support and after a green steel market that transforms environmental value (CO_2 reduction) to economic value (to be passed on to the sales price) is established and active.

We intend to more effectively disclose and communicate our management strategy. In addition, we will also continue efforts to promote the understanding of shareholders and investors of our dual goals of "delivering robust and sustainable earnings with continued growth" and "ensuring the practicality and economic viability of our carbon-neutral vision." By doing so, our ultimate goal is to become the world's leading steelmaker in terms of market capitalization.

[Stock price related indices]



* The ROE, PER, and PBR figures are based on average net assets and average net income of the last four quaters

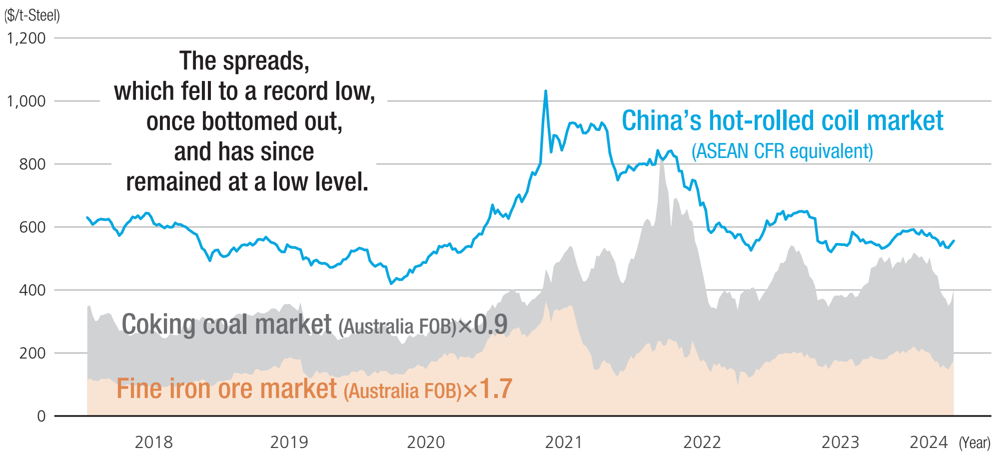
FY2023 Operating Results, FY2024 Forecasts and FY2025 Outlook

Nippon Steel reached a record high in underlying business profit in fiscal 2023, for the third consecutive year, amid the unprecedented harsh environment. Overcoming the transitional period of our growth strategy measures in fiscal 2024, we aim to achieve 1 trillion yen in profit level from fiscal 2025 onward.

An unprecedented harsh environment

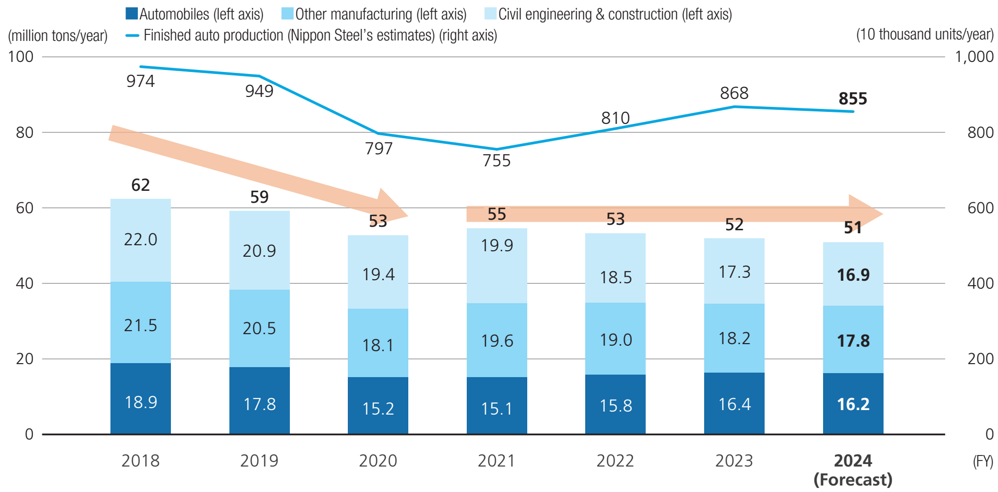
In fiscal 2023, the global economy increasingly showed signs of weakness due to the progressive inflation stemming from the situation in Ukraine and the monetary tightening in Europe and the United States. Since the second half of fiscal 2023, the Asian steel market has experienced an unprecedented harsh environment, with spreads in the Asian commodity-grade steel market at record lows. Despite sluggish demand for steel products in China, high levels of production have continued, and the iron ore market has remained high. Large amounts of steel products that could not be sold domestically have been exported to the Asian market, resulting in a sluggish steel market there. In India, on the back of steady growth in steel demand and production, the coal market remains at a high level as coal is not internally sourced and is bought in the spot market. As a result, a decoupling of high-priced raw materials and low-priced steel products has emerged.

[Spreads in Overseas Markets]



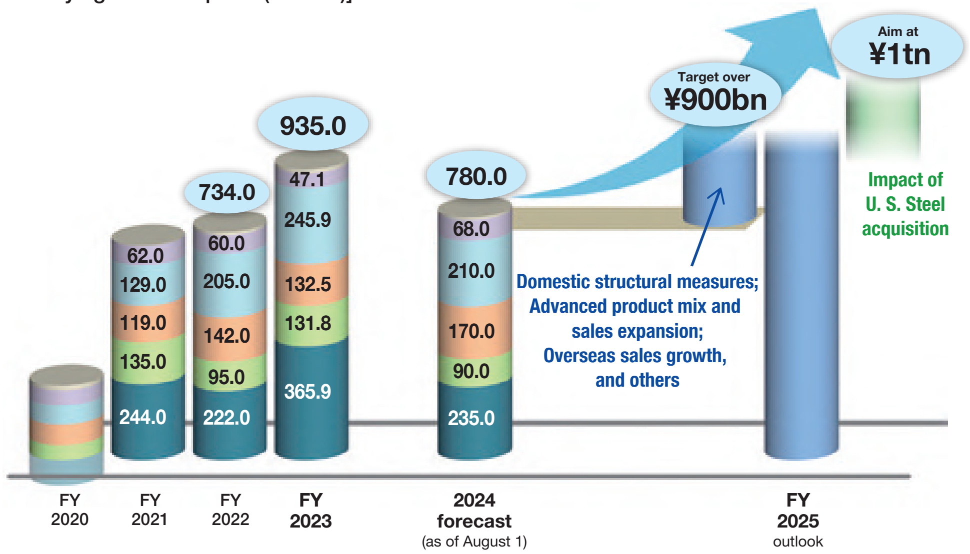
In Japan, too, demand for steel products in the civil engineering, construction, and manufacturing industries is sluggish, and the anticipated increase in demand in the automobile industry, driven by normalization of the supply chain, has been delayed due to its quality problems. Domestic demand for steel products is therefore expected to decrease for the third consecutive year from fiscal 2021 to 2024.

[Domestic steel demand]



FY2023 Operating Results, FY2024 Forecasts and FY2025 Outlook

[Underlying business profit (consol.)]



Operating results in FY2023

Despite the harsh business environment, underlying business profit (consol.) in fiscal 2023 reached a record high for the third consecutive year, achieving 935 billion yen. This is proof that the Company has established a strong profit structure that can stably secure earnings of 600 billion yen or higher regardless of the external environment thanks of our efforts of the past four years: 1) drastic improvement of the break-even point of the domestic steel business through the production facilities structural measures, improved spreads of contract-based sales, and the sophisticated product mix; 2) deepening and expansion of overseas operations, and 3) shifting to a further vertically- and horizontally-integrated business structure. In addition, more stabilized operations resulted in cost reductions, contributing to earnings. One-off positive factors in Japan and overseas also boosted earnings.

Forecast for FY2024

We expect the unprecedented harsh environment to continue through fiscal 2024. Concerning contract-based sales, which account for more than half of our steel product shipments, our policy is twofold: 1) a fair allocation of external cost burden across the entire supply chain; and 2) fair prices based on the value of our products and solutions. We will continue to maintain and secure an appropriate spread level. However, due in part to the current sluggish domestic demand, we have no choice but to rely on exports of commodity-grade steel products, and this field will also be affected by the severe environment in the Asian market.

We have actually assumed the current harsh situation in formulating the Medium- to Long-term Management Plan, and have implemented various growth strategies, such as the production facilities' structural measures and the deepening and expansion of overseas businesses. A tricky thing is that fiscal 2024 falls into a transitional period of not yet showing the effects of these strategies. Profit in fiscal 2024 is therefore expected to decrease temporarily due to the deterioration of the environment and the absence of one-time profit, which was recorded in fiscal 2023.

Actions we are taking include: 1) to secure stable production and shipment while controlling the cost disadvantages of low production, 2) to improve cost competitiveness including variable and fixed costs through further improvement of performance specifications, thorough productivity improvement, and operational efficiency, 3) to appropriately reflect increases in logistic, labor and other costs in sales prices of steel product, and 4) to promptly and appropriately respond to changes in the supply-demand environment. By doing so, we expect to steadily secure underlying business profit of 780 billion yen and ambitiously strive for an upward revision in fiscal 2024.

Outlook for FY2025

By fiscal 2025, the ongoing construction and the implementation of the facility measures will be completed, and we will start to see the effects of the following growth strategies:

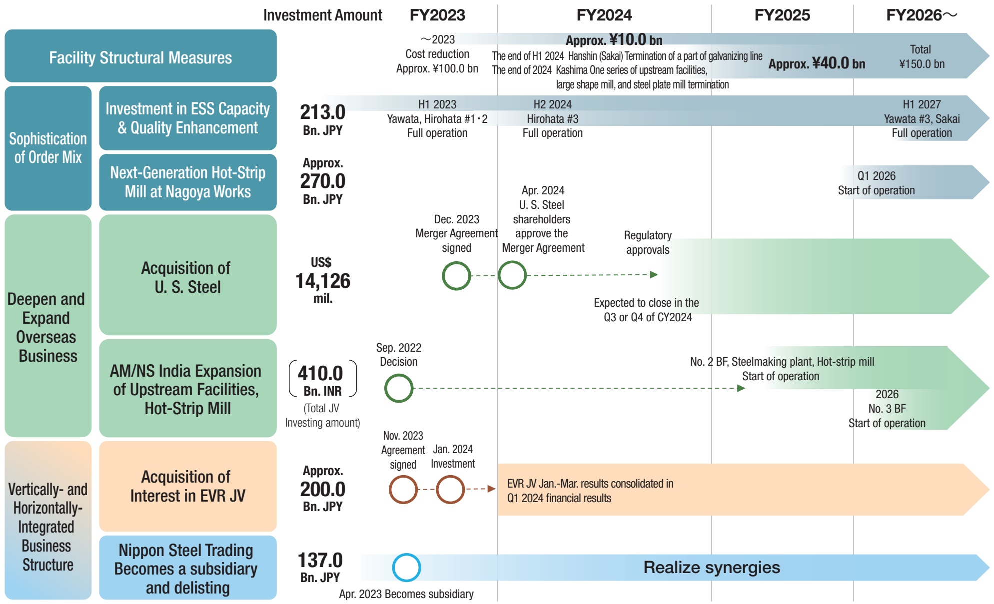
1) Production facilities structural measures (Suspension of Kashima One series of upstream facilities, large shape mill and steel plate mill, etc.)
2) More sophisticated order mix (sales expansion of high value-added products, including the effect of investment in measures to improve the quality of electrical steel sheet capacity)
3) Growth of overseas businesses (production volume growth of AM/NS India, etc.)
4) Cost improvement

We will implement these measures as set in the Medium- to Long-term Management Plan without delay and intend to steadily demonstrate their effects, even if the current harsh environment continues. By these measures we anticipate securing underlying business profit of 900 billion yen or more in fiscal 2025, the final year of the Management Plan. Once the acquisition of U. S. Steel is completed and its profits are added, our consolidated underlying business profit will be in the range of more than 1 trillion yen.

As for individual disclosure items not included in business profit, losses for facility suspension (associated with the production facilities structural measures), were recorded in fiscal 2023 and are expected in fiscal 2024, but are most likely to be small in fiscal 2025. Including this factor, net profit is expected to recovery significantly in fiscal 2025.

FY2023 Operating Results, FY2024 Forecasts and FY2025 Outlook

[Roadmap of Growth Strategy]



[Overview of Profit]

August 1, 2024

(Billion yen/year)	FY2022 results	**FY2023 results**	**FY2024 forecast**	**FY2025 outlook**
Crude steel production (non-consol., 10,000 tons)	3,425	3,499	Approx. 3,450	
Steel product shipment (non-consol., 10,000 tons)	3,147	3,203	Approx. 3,200	
Yen/$ exchange rate	135	144	Approx. 153	
Domestic steel business	222.0	365.9	235.0	
Overseas steel business	95.0	131.8	90.0	
Raw material business	142.0	132.5	170.0	
Other group companies	205.0	245.8	210.0	
Three non-steel segments	60.0	47.1	68.0	
Underlying business profit excl. inventory valuation	734.0	**935.0** Record-high	**780.0**	Target over ¥900 bn + Impact of U. S. Steel acquisition
Inventory valuation differences, etc.	182.4	▲65.5	▲80.0	
Consol. business profit	**916.4** Record-high	**869.6**	**700.0**	
ROS	11.5%	9.8%	8.0%	
Losses on reorganization	▲32.8	▲90.9	▲130.0	Drastic decline in losses on reorganization
Net profit*	**694.0** Record-high	**549.3**	**340.0**	Improvement in net profit

*Profit for the year attributable to owners of parent

* Impact of U. S. Steel acquisition
U. S. Steel earnings before tax
CY2023 actual: US$1,047 mil/yr (¥152.0 bn)/yr
CY2021-2023 average: US$2,883 mil/yr (¥418.0 bn/yr)
(@ ¥145/US$)

Currency sensitivity

The impact of exchange rate fluctuation on the consolidated financial results of Nippon Steel as a whole is insignificant.

In the domestic steel business, the proportion of foreign currency-denominated costs to overall steel costs has risen due to the rise in raw material and fuel prices in recent years, and the foreign currency balance is in excess of imports. This means that the stronger yen has a positive impact to the performance of the domestic steel business.

A majority of the overseas steel business and the raw materials business are denominated in U.S. dollars, and the weaker yen has a positive impact on the performance of these businesses, while the stronger yen has a negative impact on it due to differences in the translation of profits. As for items not incorporated in underlying business profit, the weaker yen has a positive impact on inventory valuation difference and foreign currency translation difference.

Overall, the exchange rates tend to be almost neutral to Nippon Steel's overall consolidated business profit, with the weaker yen having a slight positive impact.

[Currency fluctuation sensitivity]

	Impact from Yen depreciation	
Domestic Steel Business	Negative	Excess of import to export Q1 FY2024 0.7 bn. USD/Q (import 4.0 – export 3.3)
Overseas Steel Business / Raw Material business	Positive	Increase in profit translated into Yen basis
Other Group Companies / Three Non-Steel Segments	Positive	Excess in export, gain in foreign asset valuation
Underlying consol. business P/L	Negative	
Inventory valuation Non-operating P/L	Positive	Gain in valuation for imported materials, gain in foreign asset valuation
Consol. business P/L	Neutral or slightly positive	

Cf. Rough figure for our steel manufacturing cost structure