Message from CFO

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



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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.