

10 Questions & Answers about “Fair Rules for the Acquisition of Substantial Shareholdings (Takeover Defense Measure)”

The following summarizes as “10 Questions & Answers” responses to major inquiries which the Company has received regarding the “Fair Rules for the Acquisition of Substantial Shareholdings (Takeover Defense Measure)” (the “Plan”) since the announcement of the Plan on March 29, 2006.

Q1. Please describe the features of the Plan.

A1. To sum up, the plan is adopted on a “clear day” when no takeover proposal has been made or is expected and the will of shareholders is confirmed when a takeover proposal is made.

The most distinctive feature of the Plan is that the ultimate decision as to whether to issue the Rights (as defined in the Plan), which serve as a countermeasure to a takeover, is made by the shareholders of the Company at the time when a specific takeover proposal is made. This decision is not made based on individual decisions as to whether or not to subscribe to a tender offer, but rather through a specific voting process to confirm shareholders’ will through a shareholder vote (at a shareholders will confirmation meeting or by written ballot).

The Plan sets forth a clear and objective path to a decision by the shareholders of the Company through a shareholder vote and is designed to prevent the Board from arbitrarily slowing or halting the process of obtaining the shareholder vote.

Q2. In determining whether a bidder falls within the specified category of harmful bidders, in which case issuance of the Rights is permitted without shareholder approval, what prevents the Board from making an arbitrary decision?

A2. The Plan is designed to prevent the Board from making any arbitrary decision.

In the Plan, the definition of a harmful bidder is limited to bidders who fall under four categories identified by the Japanese courts (see e.g. the Tokyo high court ruling in Nippon Broadcasting System, Inc.) as bidders which will cause irreparable damage or loss to a company. Moreover, issuance of the Rights by the Board under the Plan can only occur when the bidder fits into one of these four limited categories and the proposal is likely to cause apparent damage to the

common interests of the shareholders. With respect to a bidder who does not meet these conditions, no matter how harmful it actually might be, the decision whether to issue the Rights will still be up to a judgment of the shareholders through a shareholder vote, rather than that of the Board. Further, any judgment by the Board that a proposal is likely to cause apparent damage to the common interests of the shareholders must be made under the Plan based on consultation with or receipt of advice from its outside counsel and an investment banking firm, both of international reputation.

In light of the above, as a practical matter, it is likely to be an exceptional case in which a bidder would be determined to be a “harmful bidder” by the Board.

The reason why NSC considered it necessary to provide for the category of harmful bidders, even though such bidders would rarely exist, as a cases where the Board may issue the Rights upon its own resolution is because the nature of this bidder, together with the finding that the proposal is likely to cause apparent damage to the common interests of the shareholders, makes the time and cost (as of the end of March 2006, NSC had approximately 480,000 shareholders) entailed in following the shareholders vote process counterproductive for the purpose of enhancing the common interests of shareholders. It is important to note that the Rights would not become exercisable until such bidder actually acquired shares at or in excess of the threshold, and thus such a bidder could always reconsider and formulate a new proposal which would not be likely to cause apparent damage to the common interests of the shareholders, which could then proceed to a shareholders will confirmation.

Q3. Under what circumstances will the Rights be issued?

A3. Because the Plan sets forth a process for the shareholders to make the ultimate decision concerning issuance of the Rights as a countermeasure when a takeover proposal is made, the issuance of the Rights is generally limited to when shareholder approval for the issuance of the Rights has been obtained through the process to confirm shareholders’ will at a shareholders will confirmation meeting or by written ballot.

However, the Rights may be issued by the Board without shareholder approval in the event that (1) a bidder falls under any of four categories which have been designated to cause irreparable damage or loss to a company in the rulings of the Japanese courts, such as a so-called “greenmailer”, and it is determined that a takeover proposal is likely to cause apparent damage to common interests of the shareholders (based on consultation with or receipt of advice from an outside counsel and an investment banking firm, both of international reputation), or (2) a bidder fails to follow the process

to permit a shareholder vote in accordance with the Plan.

Q4. Have you considered obtaining shareholder approval for the adoption of the Plan at your next annual general shareholders meeting?

A4. Rather than submitting the Plan to a vote of shareholders at a time when there is no takeover proposal to consider, the Plan operates to have those shareholders who have a direct interest in the matter vote on the implementation of the rights at the time when a specific takeover proposal is made.

In public companies where shareholder composition changes on a daily basis, shareholders at the time of implementation and shareholders at time a bidder emerges inevitably differ, as do the company's circumstances and market conditions. When a specific takeover proposal is made, the shareholders at that time are the ones who have a direct interest in whether or not to accept the proposal. Therefore, NSC believes that a vote at the time of a specific takeover proposal is the best means to determine the shareholders' will.

Q5. Doesn't the tender of shares into a TOB reflect shareholders' will as to whether or not to accept the proposal of the bidder? Is it necessary to go through all the procedures required under the Plan?

A5. Since it is possible in Japan to make a partial tender offer, a bidder is able to potentially acquire a controlling position, and even if complete control is not acquired, strongly affect the ability of any subsequent party to acquire control, without buying the shares of all shareholders. Such a partial tender offer may, as seen in the recent cases of hostile takeover attempts, cause considerable uncertainty as to control over the target and its subsequent business operations without regard to shareholders' will, thereby posing a threat of apparent damage to corporate value and the common interests of the shareholders. For a company of the size of NSC in particular, the threat of a partial tender offer for the purpose described above cannot be discounted. Therefore, NSC believes it is necessary to explicitly determine where control over the company should rest by specifically ascertaining shareholders' will through a shareholders vote as set forth in the Plan.

In addition, tender offers by their very nature may be coercive. A shareholder may tender not because it believes the terms are desirable, but rather because the shareholder does not wish to remain a shareholder in the corporation once it is controlled by the bidder or because there is no second step transaction that assures the same value to the shareholder as whatever premium the

tender offer provides. By requiring a shareholder vote, shareholders are able to indicate whether they believe the terms of the takeover proposal are desirable, without the inherently coercive effects of a tender offer.

Q6. Have you considered establishing an independent committee (a third party committee) to decide whether to implement the rights?

A6. Taking into account NSC's business size and type of operations, NSC has determined that having the shareholders who are its owners at the time of a specific takeover proposal, rather than third parties such as an independent committee, should make the decision with respect to a matter as significant as the implementation of the rights with respect to a takeover proposal.

Q7. What is the reason for setting the 15% threshold?

A7. NSC believes that 15% is the appropriate threshold to ensure that potential control of the corporation does not pass to a third party without the shareholders having a say in the matter.

In the United States, where rights plans were originated, 15% is the most widely used standard.

Q8. How did you determine the length of the Review Period?

A8. Taking into account the size, type of operations, regional expansion and history of NSC, NSC believes that an appropriate amount of time is required to analyze a takeover proposal, seek advice from outside advisers, pursue alternatives, potentially negotiate to improve the bid, and provide full disclosure to the shareholders of all of the foregoing so they can make an informed decision. Having the time necessary to fully implement all of these steps is essential both to maximize corporate value and the common interests of the shareholders, as well as to ensure that shareholders can make an informed judgment.

It is not uncommon for hostile takeovers of large companies to involve periods lasting for several months to almost one year.

In addition, the Review Period stipulated in the Plan commences on the date of submission of the Required Information, as explained in A9 below. The Plan clearly and objectively sets forth and discloses in advance the details of the Required Information and the process for its submission,

enabling a bidder to emerge with the Required Information already prepared, and preventing the Board from arbitrarily delaying the timing of commencement of the Review Period. With this in mind, NSC believes that the Plan sets forth an appropriate length for the Review Period.

Q9. Please explain the rationale for the Required Information process.

A9. The Required Information is an element of the Plan to ensure that shareholders are able to act on a fully-informed basis. Because the Plan clearly and objectively sets forth and discloses in advance the details of the Required Information and the process for its submission, a bidder can submit its takeover proposal after thoroughly preparing the Required Information in advance.

Further, with respect to the sufficiency of the Required Information, as long as the information submitted is not on its face deficient, the Plan provides that it shall be deemed to fulfill the requirements. In addition, as an alternative method of satisfying the requirements, if an outside counsel to the bidder provides a written opinion that the information submitted contains no untrue statement of a material fact, the Plan provides that it shall be deemed to fulfill the requirements.

The Plan is thus designed to prevent the Board from arbitrarily delaying the process. In light of the foregoing, a bidder is able to ensure that the Review Period commences upon the emergence of the bidder under the Plan.

Q10. Because the best takeover defense is enhancing shareholder value, why do you need the Plan?

A10. Enhancement of corporate value is NSC's main objective. NSC and its consolidated subsidiaries focused on steel manufacturing have a corporate philosophy of contributing to industrial development and the enhancement of people's lives through creating and supplying valuable products and ideas and are committed to enhancing corporate value and the common interests of shareholders in order to further gain shareholders' confidence and continue effective management.

In recent years, the Japanese capital market has become increasingly vulnerable to abrupt large-scale stock accumulations without shareholders or other related parties being provided sufficient information, which may result in harm to the corporate value of the target and the common interests of its shareholders. However, unfortunately in Japan, it cannot yet be said that systematic measures addressing large-scale stock accumulations that damage corporate value and common interests of shareholders have been sufficiently developed.

In light of such circumstances, the Board has determined that it is its responsibility to adopt on a “clear day” when no takeover is expected, as a specific measure for when a takeover proposal is made, highly transparent rules concerning acquisition of substantial shareholdings in order to preserve and enhance corporate value and common interests of the shareholders of the Company.

* This Q&A is provided to enhance understanding of the Plan, and does not in any way affect the application or interpretation of the Plan. Please refer to the main text “Fair Rules for the Acquisition of Substantial Shareholdings (Takeover Defense Measure)” for details of the Plan.