

Date : Tuesday, March 18, 2025

Respondents: Tatsushi Iwata, Director, Managing Executive Officer

Ikuro Sugie, Managing Executive Officer

Tetsuya Niwa, Executive Officer and General Manager, ESG Management Dept.

Q. Is it correct to say that the reduction in CO₂ emissions is progressing as planned?

A. Our plan for the reduction of CO₂ emissions is well on its way. We believe that we can achieve our 2030 goal of halving CO₂ emissions (compared to fiscal 2013) through various energy-saving measures at each plant and by using CO₂-free electricity as the mainstay of our CO₂ emission reduction activities.

Q. I am aware that the cost increase caused by the introduction of CO₂-free electricity will have to be passed on to the sales prices of the products by selling them as Green Steel. What are your thoughts on this?

A. Our policy remains unchanged of minimizing the cost burden by absorbing the cost increase due to the introduction of CO₂-free electricity with cost reductions achieved through various energy-saving efforts and yield improvement measures, as we did in the past. The cost reductions are the result of continuous improvement activities, and we are systematically promoting the purchase of CO₂-free electricity in parallel with the cost reductions achieved. Attaining the CO₂ reduction targets for 2030 and beyond will require significant investment and further technological development. To prepare for this, we believe it will be essential to work toward the sale and widespread use of green steel, which will probably allow us to pass on the increased costs in the sales prices of the products. On the other hand, while certain rules have been established for green steel in the blast furnace industry, the rules for green steel produced by electric arc furnaces (EAFs) are not yet in place. Currently, in order to stress the environmental value of green steel to the market and customers, the EAF industry as a whole is working to establish guidelines for EAF green steel, and we are participating in this initiative.

Q. While other steel producers are starting to pass on the higher cost of green steel in the sales price of their products, your company is currently trying to absorb the cost mainly through cost-reduction efforts. Why is that?

A. We are well aware of the actions of other steel making companies in Japan and abroad, but we believe that it is indispensable that we gain the full understanding from our key customers in the automotive and industrial machinery industries regarding the introduction of green steel and the passing on of additional costs to their sales prices. Although demand for green steel is high, we have yet to gain sufficient understanding from our customers of the need to pass on additional costs to sales prices. We will continue to engage in dialogue with our customers to help them understand the environmental value of green steel.

- Q. Could you tell us about your future plans and measures to further reduce the lost time incident rate (LTIR) as part of your occupational health and safety initiatives?
- A. In order to lower the LTIR, we are focusing on reducing the risk of accidents during routine work. Even in repetitive work, accidents can occur due to changes in circumstances and conditions, which can lead to serious accidents if not properly addressed. Therefore, drastic measures are being taken through hardware improvements. In addition, we are continuing the risk assessments that we have been conducting since FY2022 to identify potentially hazardous areas with the aim of realizing a safe work environment in terms of hardware and software.
- Q. Would you please tell us about the initiatives and priority issues that you focused on in your ESG activities in FY2024?
- A. We have been focusing on each of the ESG activities, but if I had to single out one in particular, I would say that we have implemented various measures for "human capital investment" activities from a different perspective than in the past. This is a reflection of the fact that we had not sufficiently addressed this issue in the past, and we have reaffirmed the importance of this issue and launched initiatives to address it in the future. Specifically, we have introduced new methods, such as "Appreciative Inquiry" as a tool to revitalize the workplace, with the aim of improving employee engagement scores. In addition, while we have traditionally communicated our management philosophy through our bulletin and handbooks, we are now taking a new approach of sharing it with employees in more effective ways, such as producing a video in which employees are invited to participate and speak about it in their own words. Through these activities, we have deepened our commitment to human capital management more than ever before, and we believe that the new approach we have taken has been a distinguishing feature of our human capital management in FY2024.
- Q. What activities do you consider important to maintain your presence in the market as an independent specialty steel producer, especially in the areas of S and G (society and governance) in the ESG issues?
- A. In terms of S (society), we believe that human capital management is extremely important. We understand that people are the driving force behind our company and that moving forward in a positive manner while sharing our management philosophy is a vital force that will support the growth of the company. Concerning G (governance), however, we recognize that there are some issues to be addressed. While we have touched on the importance of efficient use of capital assets in relation to cross-shareholdings, the P/B ratio is currently below 1x at around 0.7. We believe that improving this situation, aiming for a P/B ratio of 1x or more as a matter of course, and being recognized as a company that is necessary for society are important for ensuring the continuity and presence of Daido Steel.
- Q. You said in your 2026 Medium-Term Management Plan that you plan to improve labor productivity by 20%. What is the definition of this figure? And how do you think this effect will be reflected in the financial statements?
- A. Indeed, in our Medium-Term Management Plan for FY2026, we have set a target of improving labor productivity by 20%. This figure is defined as an indicator of our added value divided by man-hours worked. To achieve this, if the product portfolio and the number of personnel remain unchanged, we need to either reduce the man-hours worked by 20% or increase the added value of our products by 20% with the same number of man-hours worked. We aim to improve labor productivity by 20%, with the main focus being on increasing the added value of our products. In the financial statements, for example, an approximate value can be confirmed by dividing the value added, excluding fixed costs, such as gross profit, by the number of workers. This indicator is positioned as a key performance indicator (KPI) in the Medium-Term Management Plan, and we

will present the progress of this indicator in the annual financial reports and at the time of the announcement of the plan.

- Q. Japan's CO2 emissions trading system, the GX-ETS, will transition to a mandatory ETS in April 2026. I would like to know whether Daido Steel has made any changes to its plans for emission-reduction-related investments or other general plans for such investments in preparation for the mandatory introduction of the GX-ETS in 2026 or whether you are currently discussing such changes.
- A. We believe that the GX-ETS will have a significant impact on our business. Within the Daido Steel Group, only Daido Steel is directly affected by GX-ETS, and we recognize that reducing SCOPE 1 emissions is a major issue. In addition to conventional energy-saving activities, we will revise our internal carbon price to encourage investments in CO2 emission reductions, and we will use J-credits Scheme to convert the Chita Second Plant into a carbon-neutral factory. In conjunction with such measures, we will also expand and diversify our procurement sources to further reduce and offset CO2 emissions.
- Q. With the introduction of the mandatory GX-ETS, the cap for CO2 emissions will be set on the basis of emission intensity. Could you tell us about your company's position in terms of emissions trading in the industry, i.e., what is your outlook on whether you will be required to purchase J-credits or not?
- A. At present, the Ministry of Economy, Trade and Industry (METI) and the steelmaking industry are still discussing CO2 emission allowances for the industry, and no decision has been made. Discussions between METI and the steelmaking industry will continue, and by the end of FY2025, the emission allowances for the steelmaking industry are expected to be determined based on a unified industry approach, and we will prepare specific operations for the allowances.

The figures in our plans contained in this document are based on certain assumptions that cannot be fully evaluated at the present time.

Since changing circumstances may yield different results, please do not rely heavily on them as a basis for your investment decisions. Planned figures are subject to change without notice. Please note that any use of the information in this document for any purpose is at your own discretion and risk, and that we shall not be liable for any consequences arising from the use of the information in this document.