

**KOBELCO**

# **Dialogue with the Capital Market**

## **FY2022**

June 2023  
Kobe Steel, Ltd.

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- ◆ The Company has established the following policy regarding dialogue with capital markets.

## System Aimed at Dialogue with the Capital Market

### Fundamental Policy on Disclosure

- The Company recognizes that information transmission is a tool and the foundation for dialogue with the capital market. In addition to disclosing information required under the Companies Act, the Financial Instruments and Exchange Act, and securities listing regulations of financial instruments exchanges, etc. under supervision of the Board of Directors, the Company makes efforts to actively deliver information that is easy to understand through the Company's website, integrated report and other self-produced publications, etc. This includes non-financial information such as environmental, social (human rights, human resources development, diversity, co-existence with society), governance, and R&D initiatives.
- As a company that conducts global business, the Company makes efforts to improve the English translations of these disclosures and to prepare English and Chinese versions of its website.
- The Company handles information transmission strictly in accordance with internal rules and regulations regarding trade secret control and prevention of insider trading, under the supervision the relevant departments.

## System for Dialogue with the Capital Market

The Company engages in dialogue, when necessary, with principal shareholders holding investment policies that will lead to the enhancement of the medium- to long-term interest of shareholders, regarding corporate governance and important management policies. Its systems for this purpose are as follows.

- The Director who oversees the General Administration and CSR Department will control dialogue with the capital market, supported by the Executive Officer responsible for the General Administration and CSR Department.
- Under the supervision of these Director and Executive Officer, the General Administration and CSR Department will serve as the contact point, supported by the Corporate Planning Department, Legal Department, and Finance and Accounting Department.
- As the contents of meetings requested by investors are expected to cover diverse matters ranging from management policy to the detailed information gathering, the departments and members selected by the management team or the General Administration and CSR Department will respond as required, depending on the nature of the requests.
- The Company will also make efforts to improve dialogue with the capital market by holding quarterly meetings to explain its financial results to investors (including telephone meetings), visiting institutional investors, and holding factory tours for shareholders.
- If important dialogue or expression of opinion takes place with investors, including shareholders, the person who conducted the dialogue will report its contents to the management team.
- The Company will conduct dialogue strictly pursuant to the various regulations from the perspectives of trade secret control and prevention of insider trading and will place restriction on the timing of interviews if necessary.
- To understand the composition of shareholders on which dialogue is premised, the Company obtains shareholder register data from Japan Securities Depositor Center on a quarterly basis and identifies institutional investors holding the Company's shares in the name of trust banks, etc. once every six months.

Note: The above is stated in the Basic Policy and Initiatives on the Corporate Governance of Kobe Steel, Ltd. under VIII. System for Dialogue with the Capital Market, 2. Fundamental Policy on Disclosure and 3. System for Dialogue with the Capital Market.

## 2. Dialogue with the Capital Market: Overview of Company Responders and Dialogue Counterparts











### [FY2022 Results]

	Contents	Company Responders (Positions are as at time of dialogue)	Number of companies met/ Number of meetings (Cumulative)
1-1	Exchanges of opinions with institutional investors and securities analysts	Mitsugu Yamaguchi, President, CEO and Representative Director	12 companies
1-2	Meetings with overseas institutional investors	Yoshihiko Katsukawa, Director & Executive Officer (Responsible for Corporate Planning Dept. and Finance and Accounting Dept.)	9 companies
1-3	Meetings with Japanese and overseas institutional investors (ESG, exercise of voting rights, etc.)	Hajime Nagara, Director & Executive Officer (Sustainability Management Committee Chair)	19 companies
2-1	Interviews on IR topics	General Administration and CSR Dept	134 companies
2-2	Responses to inquiries	General Administration and CSR Dept	As required
3-1	Financial results briefings	Yoshihiko Katsukawa, Director & Executive Officer (Responsible for Corporate Planning Dept. and Finance and Accounting Dept.) Kazuaki Kawahara, Executive Officer (Responsible for Finance and Accounting Dept.)	4 times
3-2	Business briefings, etc.	Mitsugu Yamaguchi, President, CEO and Representative Director Business division heads, presidents of relevant affiliates, other	4 times
3-3	General Meeting of Shareholders	Mitsugu Yamaguchi, President, CEO and Representative Director, other	Once
3-4	Briefings for individual investors	—	Suspended due to pandemic

## 2. Dialogue with the Capital Market: Main Dialogue Topics

E	<ul style="list-style-type: none"><li>✓ Setting of CO<sub>2</sub> reduction targets, including Scope 3 (including for electric power business)</li><li>✓ Disclosure of financial impact of opportunities and risks (TCFD disclosures)</li><li>✓ Concrete roadmaps for products that contribute to CO<sub>2</sub> reduction, e.g., Kobenable Steel and MIDREX® Process (investment amounts, profit contributions, etc.)</li></ul>
S	<ul style="list-style-type: none"><li>✓ Human rights due diligence</li><li>✓ Supply chain management</li><li>✓ Human capital / Employee engagement</li><li>✓ Diversity &amp; Inclusion</li><li>✓ Health and safety</li></ul>
G	<ul style="list-style-type: none"><li>✓ Strategic shareholdings</li><li>✓ Governance of listed subsidiaries</li><li>✓ Skills matrix</li><li>✓ Nomination &amp; Compensation Committee (succession planning, remuneration system for directors and executive officers, etc.)</li><li>✓ Evaluation of effectiveness of Board of Directors</li></ul>
Corporate Value	<ul style="list-style-type: none"><li>✓ Progress of medium-term management plan, long-term vision</li><li>✓ Management conscious of capital costs and capital efficiency</li><li>✓ Business portfolio management (synergies, etc.)</li><li>✓ Cash allocation (including shareholder returns)</li></ul>
Other	<ul style="list-style-type: none"><li>✓ Information disclosures, e.g., integrated report, results briefings</li><li>✓ Executive's IR policy</li><li>✓ Matters related to General Meeting of Shareholders</li></ul>

## 2. Dialogue with the Capital Market: Examples of Dialogue

	 <b>Capital Market</b>	 <b>Kobe Steel</b>	 : Response provided  : Dialogue ongoing  : Under consideration
<b>E</b>	Request for disclosure of financial impact of risks and opportunities		<ul style="list-style-type: none"> <li>✓ With many preconditions and variables, there are concerns from the perspective of the credibility of the figures.</li> <li>✓ We want to make judgments after looking at future carbon pricing trends, etc.</li> <li>✓ We want to seek advice from investors, e.g., their thoughts and examples at other companies</li> </ul>
<b>E</b>	Request for disclosure of CO <sub>2</sub> reduction targets, including Scope 3		<ul style="list-style-type: none"> <li>✓ We recognize the growing interest in Scope 3.</li> <li>✓ The Group operates many diverse businesses, and, in our deliberations, we need to take into consideration how to relate the Scope 3 impact and the size of that impact for each individual business.</li> <li>✓ The CO<sub>2</sub> Reduction Promotion Subcommittee, which is directly under the Sustainability Management Committee, is considering the identification of the current situation and initiatives.</li> </ul>
<b>E</b>	Request for growth story regarding products that contribute to CO <sub>2</sub> reduction, e.g. Kobenable Steel and MIDREX® Process		<ul style="list-style-type: none"> <li>✓ <b>Kobenable Steel</b> <ul style="list-style-type: none"> <li>• We began selling Kobenable Steel in October 2022, and it has drawn a high level of interest from customers in a wide range of fields.</li> <li>• We have already received orders for the full sales target volume for FY2022 (8,000 tons premised on hot-rolled steel sheets). We are aiming for sales of over 1 million tons toward 2030.</li> <li>• Because low-CO<sub>2</sub> steel products cost more to produce than conventional manufacturing processes, the key challenge is how to obtain recognition of their value.</li> <li>• The GX (Green Transformation) Implementation Council has also set a target of 10 million tons of green steel supply in 2030, and we will take the lead in expanding the green steel market.</li> </ul> </li> <li>✓ <b>MIDREX® Process</b> <ul style="list-style-type: none"> <li>• We have three types, MIDREX NG™, which uses natural gas, MIDREX H2™, which uses 100% hydrogen, and MIDREX Flex™, which is for partial hydrogen use, and we can provide optimal solutions for the transition period toward the expansion of the use of hydrogen.</li> <li>• Also, to respond to future growth in demand for low-carbon iron sources, the Group is also considering the commercialization of low-carbon iron sources using the MIDREX® Process.</li> </ul> </li> </ul>

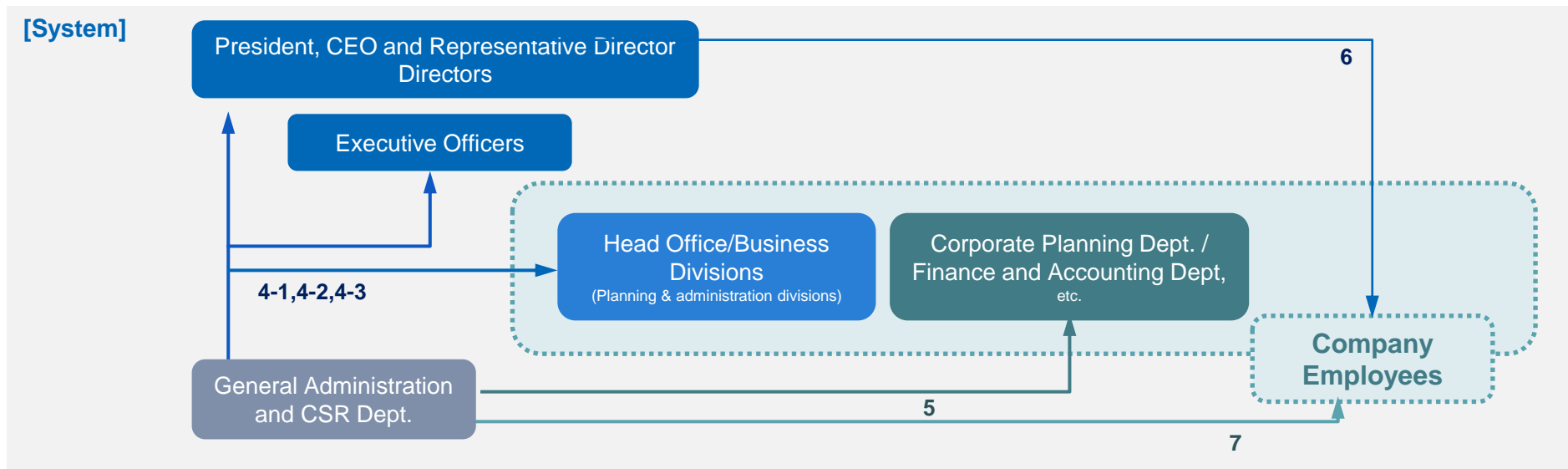
The Company reported the above details at the Medium-term Management Plan Progress Briefing held in May 2023, and we will continue in our efforts to achieve timely and appropriate disclosure.

## 2. Dialogue with the Capital Market: Examples of Dialogue

	Capital Market	Constructive dialogue	Kobe Steel	: Response provided : Dialogue ongoing : Under consideration
<b>S</b>	Expectation of expansion of disclosures regarding human capital and employee engagement		<ul style="list-style-type: none"> <li>✓ To date, we have worked to establish various personnel systems and to strengthen our human resources development to promote the active participation of diverse human resources. These initiatives have been disclosed in our integrated reports, on our website, and elsewhere.</li> <li>✓ In FY2023, we plan to disclose data concerning diversity indicators and our personnel strategies in our annual securities report. In addition, we will expand our disclosures in our integrated report to be published in September.</li> </ul>	
<b>G</b>	Request for incorporation of non-financial KPIs into remuneration for directors and executive officers	 	<ul style="list-style-type: none"> <li>✓ The portion linked to individual evaluation in the performance-based compensation system introduced in FY2021 is determined by comprehensively taking into account the status of ESG-related initiatives in the assigned duties of each director and executive officer.</li> <li>✓ Regarding non-financial indicators, because (1) there are many issues that should be addressed across medium- to long-term timeframes, making short-term evaluation difficult, and (2) indicators would need to be common indicators that evaluate and motivate directors and executive officers who have different assigned duties, setting specific KPIs will be a challenge.</li> <li>✓ We will first implement the current remuneration system, while continuing to consider these issues.</li> </ul>	
<b>G</b>	Strategic shareholdings are seen as problematic in terms of capital efficiency and governance. If such holdings are strategically necessary, those strategies and their relevance to holdings should be clearly disclosed.		<ul style="list-style-type: none"> <li>✓ In April 2023, we changed our policy to state that such holdings will be kept to a minimum and gradually reduce them.</li> <li>✓ The Corporate Governance Committee is monitoring discussions of the significance of such holdings and the progress of their reduction.</li> </ul>	
<b>Corp- orate Value</b>	What is the Company's approach to cash allocation (including shareholder returns)?		<ul style="list-style-type: none"> <li>✓ There is a need to strengthen our financial foundations to enable us to withstand future large investments in carbon neutrality,</li> <li>✓ While remaining conscious of the D/E ratio, which is an indicator of financial safety, we conduct investments after careful selection, based on our medium-term management plan.</li> <li>✓ In the consideration of shareholder returns, we will take future carbon neutrality investments, medium- to long-term business results, and our financial status into comprehensive account.</li> </ul>	



### 3. Internal Feedback: Systems/Results



**[FY2022 Results]**

Contents		Recipients	Frequency
4-1	Evaluation of capital market	Members of Board of Directors, Executive Council members Head Office department heads / planning and management department heads in business divisions	Twice a year
4-2	Regular post-closing reports	Members of Board of Directors, Executive Officers Head office department heads / planning and management department heads in business divisions	4 times a year (after quarterly financial results announcements)
4-3	Reports other than regular reports	Directors, Executive Officers, etc. related to report contents	As appropriate
5	Regular pre-closing reports	Certain Directors & Executive Officers, Corporate Planning Dept., Finance and Accounting Dept.	4 times a year (prior to quarterly closing)
6	Summary explanation of business results by executive	Company employees, labor unions	Around twice a year
7	Financial results briefings for employees	Company employees	From FY2023

### 3. Internal Feedback: Contents of Reports

#### Concrete Feedback Contents

<p>4-1 Evaluation of capital market</p>	<p><b><u>Held in August 2022</u></b></p> <ul style="list-style-type: none"> <li>• Share market trends (trends in share prices, PBR, etc.)</li> <li>• Analysts' evaluations</li> <li>• Opinions received at exchanges of opinions between president and institutional investors</li> <li>• Gap analysis of individual analysts' envisaged share value and the theoretical share price according to Company's simple estimates</li> <li>• Organization of current issues based on gap analysis</li> <li>• Policy for response to issues</li> </ul> <p><b><u>Held in February 2023</u></b></p> <ul style="list-style-type: none"> <li>• Share market trends (trends in share prices, PBR, etc.)</li> <li>• Analysts' evaluations</li> <li>• Opinions received at meetings with institutional investors</li> <li>• Progress of responses to issues</li> <li>• Responses to newly recognized issues</li> </ul>
<p>4-2 Regular post-closing reports</p>	<ul style="list-style-type: none"> <li>• Summary of questions asked at financial results briefings</li> <li>• Summary of analysts' reports etc.</li> </ul>
<p>4-3 Reports other than regular reports</p>	<ul style="list-style-type: none"> <li>• Opinions received at exchanges of opinions between president and institutional investors (1-1)</li> <li>• Opinions received at meetings with institutional investors (1-3) etc.</li> </ul>
<p>5 Regular pre-closing reports</p>	<ul style="list-style-type: none"> <li>• Reactions of capital markets after previous financial results announcement and opinions received during interviews on IR topics after closing</li> <li>• Information expected, envisaged questions, etc. at next financial results announcement</li> </ul>
<p>6,7 Summary explanation of business results by executive Financial results briefings for employees</p>	<ul style="list-style-type: none"> <li>• Summary of business results of Group as a whole and of individual business divisions</li> <li>• Status of progress of medium-term management plan etc.</li> </ul>

# Examples of Initiatives that Incorporated Dialogue Outcomes

- ◆ The Kobe Steel Group has implemented the following kinds of initiatives that reflect dialogues with the capital market in its pursuit of initiatives for sustainable growth and enhancement of corporate value.

## Achievements to Date

<b>E</b>	<b>CO<sub>2</sub> reductions</b>	Formulated reduction targets and reduction contribution targets	From FY2020
<b>G</b>	<b>Skills Matrix</b>	Organized knowledge, experience, and skills officers are expected to demonstrate	From FY2021
<b>G</b>	<b>Remuneration system for directors and executive officers</b>	Introduced system for incorporating status of ESG-related initiatives into individual evaluation of performance-based compensation	From FY2021
<b>G</b>	<b>Management structure</b>	Reviewed structure. See <a href="#">P. 27</a> of Medium-term Management Plan presentation material	From FY2021
Corporate Value	<b>Materiality</b>	Newly formulated	From FY2021
Corporate Value	<b>Capital efficiency</b>	Included ROIC in medium-term management plan achievement targets	From FY2021
Other	<b>Information disclosure</b>	Expanded disclosures, e.g., holding briefings by individual businesses	Ongoing

## [Plans for FY2023]

<b>G</b>	<b>Change in policy for strategic shareholdings</b>	Change completed in April 2023
<b>G</b>	<b>Present status of strategic shareholdings in Notice of General Meeting of Shareholders</b>	Completed in May 2023
<b>S</b>	<b>Disclosure of employee engagement information</b>	Plan to expand disclosures in integrated report to be published in September 2023 and elsewhere
<b>G</b>	<b>Dialogues between outside directors and capital market</b>	Plan to conduct in September 2023
Other	<b>Hold briefings for individual investors</b>	Plan to hold in December 2023