

Sanyo Special Steel Co., Ltd.  
ESG Update  
Q&A Summary

Date : Wednesday, December 13, 2023

Speaker : Katsuhiro Miyamoto, Representative Director and President

Kozo Takahashi, Director, Member of the Board and Managing Executive Officer

Takashi Yatsunami, Managing Executive Officer

*\* Please be noted that the actual Q&A session was in Japanese and this English translation is prepared for reference purpose only.*

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**Q . Could you tell us about current and future OVAKO's CN initiatives?**

A . In September 2023, OVAKO inaugurated fossil free hydrogen plant constructed at Hofors mill. OVAKO's location in the Nordics, blessed with cost effective green electricity and abundant land space, offers economic advantages in utilizing hydrogen. Furthermore, this plant was granted generous financial support from the Swedish government as a leading initiative towards CN. Based on OVAKO's robust financial position, we will consider expanding hydrogen plant to OVAKO's other mills by utilizing knowledge and experience gained in Hofors. We expect OVAKO to consistently be the frontrunner in decarbonization.

**Q . Regarding governance, could you tell us positive examples of external directors participating in management? Does Sanyo conduct monitoring for conflicts of interest between the parent and subsidiary companies, and for transactions that may be disadvantageous to minority shareholders?**

A . Sanyo has initiated introduction of an Audit & Supervisory Committee, and persons with diverse backgrounds are appointed as external directors. These external directors firmly believe that their role is to protect the interests of minority shareholders and continuously question, "What are the benefits for Sanyo?". Additionally, we hold meetings and gatherings with external directors to exchange opinions about issues and matters that are still in the planning stages. All external directors possess broad range of knowledge and experience, and they always provide valuable information and advice. When we do anything correlated or related to our parent company, Nippon Steel, the primary consideration is whether there are no disadvantages or damages to Sanyo. The parent company is acutely aware of this issue as well, and we have always deliberate discussions based on this premise.

**Q . We would like you to plan roundtable discussions with external directors.**

A . Sanyo and OVAKO's external directors held a dialogue, where they had very meaningful exchanges. We will actively continue these kinds of opportunities and events in the future.

**Q . Do you see any possibility for OVAKO to increase sales volume in the future by leveraging its environmental initiatives?**

A . We are constantly working to increase sales volume. OVAKO is involved in the production of high-end to mid-range products, and we aim to further expand our mid-range product line. We dispatch engineers from Sanyo and Nippon Steel to improve production efficiency and product quality of OVAKO, and also make investments in facilities to increase OVAKO's sales volume. OVAKO has already introduced climate surcharge (premium) for its' all steel products as CN steel, which clearly distinguishes OVAKO from competitors. In Europe, there is a very high level of awareness for green steel. Outside of Europe, the awareness for green steel is not as high, so there are some concerns about the resistance to significant premium of CN steel. However, we firmly believe that the demand and value for green steel will continue to increase worldwide in the future.

**Q . The company has a strong financial position, but may it be difficult to ensure independence with regard to capital policy and shareholder returns due to the parent company's intentions?**

A . Regarding our financial position, the current net D/E ratio is approx. 0.3x and it gives us flexibility in terms of funding. While it is difficult for us to acquire treasury stock as it reduces tradable share ratio, we have revised our dividend payout ratio to 35% in the revised mid-term plan.

**Q . Could you tell us about relationship between Sanyo and OVAKO? We assume that it may not be easy for parent company to control a large-scale subsidiary after acquisition.**

A . Sanyo and OVAKO have built a very good relationship. We consider there are following backgrounds. (a) Many of the members involved in the acquisition are present in both companies, sustaining mutual understanding. (b) OVAKO's productivity has significantly improved through the support by engineers dispatched from Sanyo and Nippon Steel, earning recognition for Japanese technology. (c) Both parties' corporate culture, such as a serious and sincere approach to manufacturing, are compatible. (d) Sanyo and OVAKO's management and administrative departments interact with each other quite frequently, and simultaneously respect each other's approach to business, avoiding unilateral and excessive controls.

**Q . Please share the scope of exploration for growth opportunities at the present time. If the opportunities are overseas, does the availability of global talent pose a constraint?**

A . We are constantly exploring growth opportunities both domestically and globally, but it all depends on timing and opportunity. We are considering options such as M&A and capital investments. Regarding development of global human resources, we will progress based on our human resource strategy, and as a matter of fact are confident already retaining many personnel with international business experience, including OVAKO.

**Q . I consider that the perspective of "process omission" represented by ECOMAX® will become more important. Could you tell us about the strengths and unique features of Sanyo?**

A . From the perspective of process omission, we consider one of our strengths is relationship with customers that allows joint development and early supplier involvement. By conducting R&D in collaboration with customers, we can profoundly understand customer needs to develop and provide solutions using our products. Additionally, becoming a subsidiary of Nippon Steel has made it possible for Nippon Steel, OVAKO, and Sanyo to conduct joint research, and for Sanyo and OVAKO to utilize immense research facilities owned by Nippon Steel. This provides significant benefits to Sanyo and OVAKO, and in this aspect, the three companies generate significant synergies as well.

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