

# Feature 2 Evolution of Sustainability Management

## Initiatives to Respect Human Rights

### I Basic approach

Due to the increasing importance of respect for human rights in business globally, plus other factors such as diverse values and globalization of supply chains, there are strong expectations that companies will consider human rights in their corporate activities. To realize sustainable society, the Aichi Steel Group will provide value to society and remain a company of choice that is trusted by society at large. We will promote efforts to respect the human rights of all people involved in our corporate activities by dealing with each and every one of our stakeholders with sincerity.

### I Human rights policy

Through the Aichi Way, which is the Aichi Steel Group's set of common values, and the Aichi Steel Group's Action Guidelines, the Group has always demonstrated the importance of human rights and managed its business in a way that values people. In March 2023, however, we created the Aichi Steel Group's Human Rights Policy with the approval of the Board of Directors to clarify our human rights policy, promote understanding outside the Group, and raise awareness among our employees. In accordance with the United Nations "Guiding Principles on Business and Human Rights," it is positioned as the Aichi Steel Group's highest policy regarding human rights that all officers and employees should comply with. We have also advised all of our business partners, including suppliers, of this policy to gain their understanding and support.

See the following link for the Aichi Steel Group's Human Rights Policy.  
[https://www.aichi-steel.co.jp/sustainability/policy\\_humanrights.pdf](https://www.aichi-steel.co.jp/sustainability/policy_humanrights.pdf) (Japanese only)



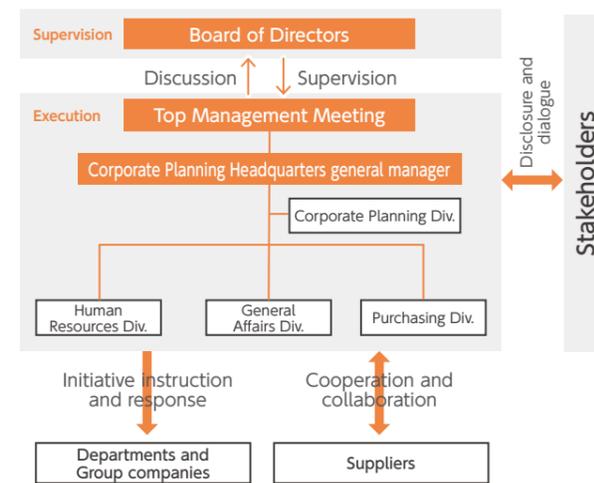
### I Initiative scheme

The following is a representation of development of the Aichi Steel Group's Human Rights Policy, based on the United Nations "Guiding Principles on Business and Human Rights."



### I Promotion structures

Initiatives to respect human rights are discussed by members of the executive in the Top Management Meeting and regularly reported to the Board of Directors.



#### Roles of each meeting

Meetings	Composition	Respect for human rights roles
Board of Directors	Chair: Chairperson of the Board - Outside directors (2) - Inside directors (4)	· Discuss formulation and revision of human rights policy · Receive and supervise reports from the executive on status of initiatives to respect human rights, etc.
Top Management Meeting	Chair: President - Chairperson, president, executive vice president - In-house company presidents (4) - Headquarters general managers (4)	· Discuss policy and planning related to respect for human rights - Corporate action guidelines, procurement policies, etc. - Human rights issue evaluation/identification and prevention/mitigation measures, etc.

#### Roles of each division

Divisions	Roles
Human Resources Div.	· Human rights awareness and education, etc. · Support for participation of diverse human resources, etc. · Human rights due diligence (internal and Group companies)
General Affairs Div.	· Development and operation of the grievance remedy mechanisms
Purchasing Div.	· Human rights due diligence (suppliers) · Collaboration and cooperation activities with suppliers
Corporate Planning Div.	· Planning and implementation of initiatives to respect human rights · Information disclosure

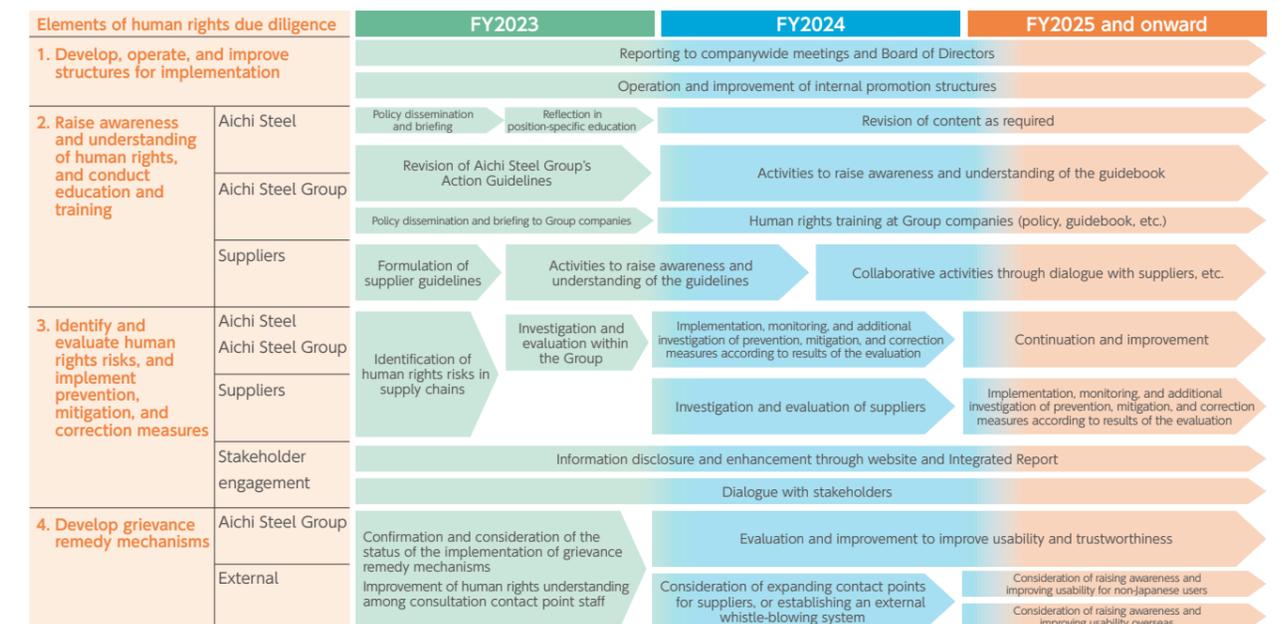
### I Employee awareness and understanding

Aichi Steel is conducting activities to promote employee understanding of human rights to encourage them to act in line with its human rights policy. We have previously provided education on respect for human rights at various times, including when joining the company and receiving promotions, but we took the opportunity of our new human rights policy to update this education. In addition to new online human rights education videos for all Group employees, and briefings on the human rights policy for general managers, we are conducting other activities to promote awareness and understanding of human rights.

### I Human rights due diligence

Aichi Steel started conducting human rights due diligence in April 2023 in response to human rights risks to society through its corporate activities. We are developing due diligence structures for Aichi Steel and domestic Group companies while interviewing relevant parties and conducting written surveys. Going forward, we will identify and evaluate important risks and confirm the management status of specific expected human rights risks, and we will implement prevention and mitigation measures if necessary, and verify their impact. In addition to reporting progress of these activities to the Board of Directors, we also publish them when appropriate through our website and the Integrated Report.

#### Respect for human rights roadmap



### I Consultation contact point

In addition to establishing an internal whistle-blowing system for the Aichi Steel Group and suppliers in Japan, Aichi Steel has also established a contact point for all consultations on topics including harassment, childcare and nursing care, and mental health at the company. Including the human rights consultation contact point that we established in fiscal 2023 for all stakeholders, both internal and external, we are developing grievance remedy mechanisms.

Going forward, we will continue to improve the level of our human rights activities, from improved structures for respect for human rights due diligence and the grievance remedy mechanisms to a steady improvement in understanding of our human rights policy.



Human rights policy briefing for general managers



Briefing materials (Japanese only)

## Climate Change Response

### I Basic approach

Aichi Steel emits CO<sub>2</sub> both directly and indirectly through the manufacturing processes of its various products, such as heating of steel materials, and melting of steel scrap, which is the raw material of its main product, specialty steel. For this reason, our response to climate change is a serious management issue from the perspectives of risks and opportunities. In September 2021, we made a commitment to take on the challenge of carbon neutrality by 2050, so we are accelerating initiatives for decarbonization.

As a resource-recycling company that uses steel scrap as a raw material in manufacturing, we will utilize our strengths, which have contributed to sustainable manufacturing through materials and parts, to help realize a decarbonized society. To this end, we will also continue to develop and provide products and services that contribute to reduced CO<sub>2</sub> emissions across the entire supply chain.

### I Information disclosure and support of TCFD recommendations

In December 2021, Aichi Steel declared its support of recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We are analyzing various scenarios based on the impacts, and associated risks and opportunities, that climate change may have on our business, and we are considering how to reflect the results in management strategy to achieve sustainable growth. We detail our climate-related initiatives here in line with the framework (governance, strategy, risk management, and metrics and targets) recommended by the TCFD.

See the following link for our disclosures based on TCFD recommendations.  
<https://www.aichi-steel.co.jp/ENGLISH/sustainability/environment/tcfd/>



### Governance

We have identified climate change as a priority issue (materiality) for management, so we are setting KPIs and working to accomplish our targets. As the organization responsible for considering important business management-related matters, the Top Management Meeting discusses and considers response policies, business strategies, and the status of initiatives related to risks and opportunities that can severely impact business management, such as climate change. The Board of Directors performs its supervisory function by receiving subsequent reports and considering matters that are particularly important.

We have also established an Environmental Working Group to execute strategies, set targets, and manage progress related to



climate change. It comprises six subcommittees, each with clear areas of responsibility, to conduct efficient and targeted activities.

### FY2022 achievements

Meetings	Agenda items
Board of Directors	<ul style="list-style-type: none"> <li>Revision of CO<sub>2</sub> emission reduction targets (discussion)</li> <li>Disclosures based on TCFD recommendations (reporting)</li> <li>Carbon neutral trends and Aichi Steel progress (discussion of special topics)</li> </ul>
Top Management Meeting	<ul style="list-style-type: none"> <li>Consideration of adoption of solar power generation (Seki Plant and Gifu Plant)</li> <li>Disclosures based on TCFD recommendations (discussion)</li> <li>GX League endorsement and participation</li> <li>Actual CO<sub>2</sub> emissions (monthly)</li> </ul>

### Risk management

We follow the process below to identify, evaluate, and supervise all risks. We also discuss and report climate change-related risks in the Environmental Working Group and Top Management Meeting to clarify impacts and our responses.



### Strategies

While referencing reports of the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC), we developed two scenarios (1.5°C scenario and 4°C scenario) of what society would look like in 2030 assuming a global average temperature rise of 1.5°C and 4°C by the end of this century (compared to pre-industrial levels), and analyzed the risks and opportunities.

### Analysis results by scenario

Scenarios	Analysis results
1.5°C	<ul style="list-style-type: none"> <li>While risks include expansion of CASE applications in the automotive industry where our major customers are, and demands for decarbonization in the steel industry, we are confident that addressing climate change will lead to the creation of new business opportunities.</li> </ul>
4°C	<ul style="list-style-type: none"> <li>We reconfirmed the potential for natural disaster risks, which are increasing on a yearly basis, to impact our company and the rest of the supply chain. We will continue efforts to adapt to natural disasters, revise our business continuity plan (BCP), strengthen the supply chain by enhancing information gathering, and improve communication.</li> </ul>

### Main risks and opportunities, and response policies (excerpt)

Scenarios	Climate-related matters	Impact on Aichi Steel	Response policies
1.5°C	<b>Major transition in the automotive industry</b> · Electrification · Autonomous driving	<b>Risks</b> · Reduced demand for specialty steel and parts (forged products, etc.) due to increased electrification	▶ Maintain business by capturing demand for specialty steel and forged products for electrified vehicles
		<b>Opportunities</b> · Increased demand for materials and products for electrified vehicles · Expansion of the autonomous driving market	▶ Develop highly functional, high value-added materials and products (next-generation electric axles, etc.) ▶ Expand use of the GMPS autonomous driving support system
	<b>Increased demand for decarbonization in society</b> · Demand for electric furnace steel, etc.	<b>Opportunities</b> · Increased demand for electric furnace steel with low CO <sub>2</sub> emissions and outstanding recycling properties	▶ Develop high-quality, highly functional products that meet the diverse needs of users, and build stable supply systems
		<b>Risks</b> · Increased operation costs associated with use of fossil fuels, etc. · Increased operation costs associated with increased prices for renewable energy	▶ Develop energy-saving production technologies and consider adoption of highly efficient equipment ▶ Expand adoption of renewable energy, including through in-house energy generation
4°C	<b>Adoption of carbon pricing</b> (carbon taxes, etc.)	<b>Risks</b> · Supply shortages, reduced quality, and increased costs associated with increased demand for steel scrap · Unstable procurement of rare metals and rare earth materials	▶ Strengthen and expand recirculating schemes in collaboration with users, and establish technologies for using low-grade scrap ▶ Enhance supply chain management by adopting a multi-source procurement policy, etc.
		<b>Risks</b> · Restricted supply of raw materials and other resources	▶ Strengthen and expand recirculating schemes in collaboration with users, and establish technologies for using low-grade scrap ▶ Enhance supply chain management by adopting a multi-source procurement policy, etc.
4°C	<b>Natural disasters</b> (increased intensity and frequency, etc.)	<b>Risks</b> · Damage to own facilities, and operation stoppages due to supply chain disruptions	▶ Minimize impacts through ongoing BCP measures and supply chain resilience
		<b>Risks</b> · Restricted supply of raw materials and other resources	▶ Strengthen and expand recirculating schemes in collaboration with users, and establish technologies for using low-grade scrap ▶ Enhance supply chain management by adopting a multi-source procurement policy, etc.

### Metrics and targets

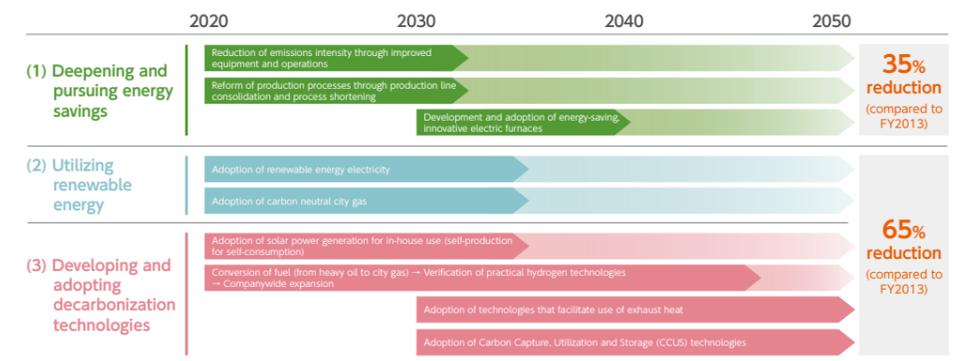
We set ourselves a target to reduce CO<sub>2</sub> emissions from our corporate activities by fiscal 2030, but we have now lifted that 35% target to 50% (compared to fiscal 2013). We have been actively implementing initiatives for this purpose, including thorough promotion of energy savings in our production processes and adoption of non-fossil energy sources, such as solar power generation. With the appearance and increasingly serious nature of climate change risks, and an urgent need to shift to a decarbonized society, we considered more active efforts to achieve carbon neutrality and decided to raise our target as a result.



Scope of calculations: Total of Scope 1 and 2 emissions from Aichi Steel on a non-consolidated basis  
 Calculation method: Calculations based on the Act on Rationalizing Energy Use and Shifting to Non-fossil Energy (Agency for Natural Resources and Energy) and emissions coefficients from contracted power companies for each fiscal year

### I Roadmap to carbon neutrality by 2050

Aichi Steel has formulated and is systematically implementing a roadmap for achieving its targets. We also created plant-specific roadmaps, and we are systematically conducting activities focused on (1) deepening and pursuing energy savings, (2) utilizing renewable energy, and (3) developing and adopting decarbonization technologies.



## Climate Change Response

### I Specific initiatives

#### Use of renewable energy

The large amounts of electricity used in Aichi Steel's specialty steel manufacturing processes have made it essential for the company to shift to electricity derived from renewable energy. Therefore, in addition to thorough efforts to conserve energy and improve efficiency, we are actively promoting adoption of such electricity. In fiscal 2022, five of our seven plants (Seki Plant, Gifu Plant, Higashiura Plant, Electronic Components Plant, and Kariya Plant) effectively achieved carbon neutrality through the purchase of FIT non-fossil certificates with tracking\*1 and adoption of carbon neutral city gas\*2. In fiscal 2023, we also plan to start operating in-house solar power generation facilities at two of our plants (Seki Plant and Gifu Plant). Going forward, we will continue expanding use of renewable energy.



Solar panels installed on the roof of Gifu Plant (in operation from 2023)

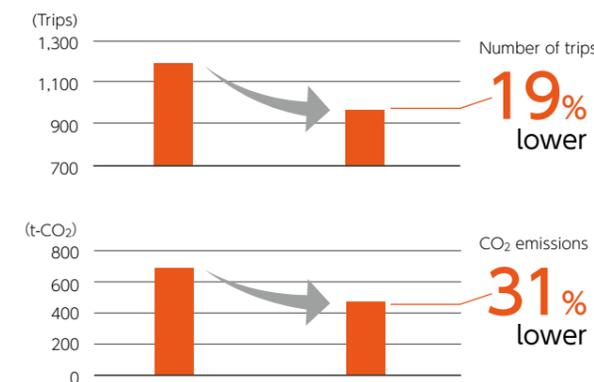
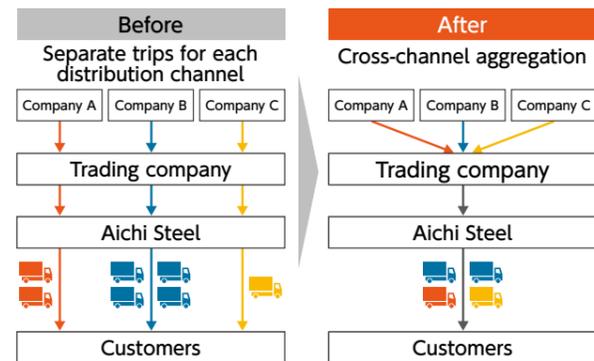
#### Toward hydrogen adoption

We have already begun working toward use of hydrogen, which carries many hopes as a next-generation clean energy that does not emit CO<sub>2</sub> during combustion. We have traditionally used city gas as a burner fuel in the industrial furnaces we use in the heat treatment process of steel materials. However, in fiscal 2022, we started using burners that can operate on hydrogen as well. Going forward, we will conduct verification trials to determine things like the impact of hydrogen combustion on steel materials, and work to achieve practical application of this technology.

Supply chains that ensure stability of supply must be developed to expand the use of hydrogen, and we are helping to achieve this goal through participation in the Chubu Region Hydrogen Utilization Council. This organization was launched as Japan's first initiative that brings together private sector companies to create cross-regional demand and supply chains for hydrogen. As a member of the council, we aim to reduce our CO<sub>2</sub> emissions by converting our plants to hydrogen from city gas and other energy sources. Consequently, we are considering use of at least 1,000 tons of hydrogen in fiscal 2030. Going forward, we will contribute toward realizing a decarbonized society by continuing to take on the challenge of shifting to various clean energies.

#### Supply chain initiatives

To realize a decarbonized society, it is essential that the entire value chain participate, not just Aichi Steel. For this reason, we are working in collaboration with suppliers and logistics operators to reduce CO<sub>2</sub> emissions. Two logistics issues that we have traditionally faced are how to improve truck loading rates and reduce the number of trips required. To address these issues, we have been asking for the cooperation of all suppliers while aggregating logistics across distribution channels through visualization of routes with low loading rates. As a result, we have succeeded in reducing annual logistics-related CO<sub>2</sub> emissions by 31% year-on-year. In recognition of this activity, Aichi Steel and Group company Aichi Steel Logistics Co., Ltd. received a Special Award under the Excellent Green Logistics Commendation Program operated by the FY2021 Green Logistics Partnership Conference. In light of workstyle reform law that the logistics industry is facing, known as the "2024 Problem," we will continue to work towards ongoing improvements in this area.



#### Collaboration with society

Having endorsed the GX League Basic Concept in September 2022, we began participating in the GX League\*3, led by the Ministry of Economy, Trade and Industry, in fiscal 2023. We are currently a member of a working group for considering adding value to green products\*4, which is one of the GX League's initiatives around drafting rules for market creation. In cooperation with fellow member companies, we are formulating recommendations about the creation of common rules for disparate industries on the value of green products and low-carbon products, which are expected to grow in demand going forward.

Through these activities, we seek to expand the use of products and services that contribute to decarbonization, and to maintain and strengthen competitiveness in the specialty steel industry in Japan.



\*3 The GX League is a forum for companies actively working on Green Transformation (GX), providing opportunities for discussion around transformation of the entire economic and social systems, and for practical implementation to create new markets. It was established by the Ministry of Economy, Trade and Industry in March 2022.

\*4 A consultative working group of companies that have endorsed the GX League. It is working to formulate recommendations about common rules for value creation in green products and low-carbon products

### I Actual CO<sub>2</sub> emissions by Scope

Management indices	CO <sub>2</sub> emissions (1,000 t-CO <sub>2</sub> )				Calculation methods
	FY2013 (Base year)	FY2020	FY2021	FY2022	
Scope 1	239	217	258	<b>220</b>	• Refer to Scope 1 and 2 calculation method below
Scope 2	556	345	379	<b>397</b>	
Scope 1 + Scope 2 (reduction compared to FY2013)	795	562	637	<b>617 (-22%)</b>	
Emissions intensity of production (kg-CO <sub>2</sub> /t)	546.4	470.0	441.5	<b>456.0 (-16%)</b>	
<b>Scope 3</b>					
1. Purchased goods and services	N/A	718	948	<b>793</b>	• Calculated by multiplying purchased amounts of raw materials and other resources (purchase price) by the emissions intensity
2. Capital goods	N/A	44	30	<b>37</b>	• Calculated by multiplying capital expenditures by the emissions intensity
3. Fuel- and energy-related activities (not included in Scope 1 or 2)	N/A	111	126	<b>121</b>	• Calculated by multiplying usage amounts of purchased electricity and fuel by the emissions intensity
4. Upstream transportation and distribution	N/A	28	34	<b>29</b>	• Calculated by multiplying transportation distances, and transportation means and distances for Category 1 purchases, according to the Energy Saving Act report, by the emissions intensity
5. Waste generated in operations	N/A	11	11	<b>10</b>	• Calculated by multiplying the emissions intensity for each type of waste
6. Business travel	N/A	0	0	<b>0</b>	• Calculated by multiplying payment amounts for each travel means by the emissions intensity
7. Employee commuting	N/A	3	4	<b>4</b>	• Calculated by multiplying payment amounts for each travel means by the emissions intensity

Figures in the above table are rounded to the nearest thousand tons, with "0" representing "less than 500 tons."

<Scope of calculations> Scope 1 and 2: Aichi Steel alone; Scope 3: Aichi Steel alone in relevant categories

<Scope 1 and 2 calculation method> Calculations are based on the Act on Promotion of Global Warming Countermeasures, Act on Rationalizing Energy Use, and Standard Calorific Value and Carbon Emission Factors by Energy Source (Agency for Natural Resources and Energy), and emissions coefficients from contracted power companies for each fiscal year

<Scope 3 emissions intensity> According to the "Database on Emissions Unit Values for Accounting of Greenhouse Gas Emissions, etc." by Organizations Throughout the Supply Chain" (Ver. 3.2, March 2022) from the Ministry of the Environment; and the "IDEA LCI Database" (Ver. 2.3) created by the Advanced LCA Research Group at the Research Institute of Science for Safety and Sustainability of the National Institute of Advanced Industrial Science and Technology (AIST), and Sustainable Management Promotion Organization (SuMPO)

\*1 Certificates of the environmentally friendly value of electricity generated by non-fossil power sources (power sources that generate electricity without using fossil fuels such as coal and oil), which are subject to the FIT program established to promote the spread of renewable energy

\*2 City gas produced using carbon neutral LNG, in which CO<sub>2</sub> generated in the processes from mining to the combustion of natural gas is offset by CO<sub>2</sub> credits (carbon offsetting)