

Outside Directors' Dialogue

Confronting Change and Supporting the Challenges of a New Future



Flexible business development responsive to change

Yasui When considering our sustainable growth, the most important themes are addressing carbon neutrality and electrification. The decline of internal combustion engines due to the shift to electrification has also directly impacted our business in the mobility sector, which is centered on forged products. Furthermore, green energy is often accompanied by increased costs, and which non-fossil energy sources survive will depend on their cost competitiveness. That is why I believe we need to prepare for a variety of options, including hydrogen.

Arai Regarding hydrogen, we started demonstration tests of hydrogen combustion technology at Kariya Plant in July 2024. While this initiative is aimed at developing heat treatment technology for steel material, it has the potential for broader applications in the future, including power generation, and I expect it to become a strength for the Toyota Group.

Yasui As we proceed with replacing aging equipment, we are working to increase the effectiveness of energy conservation and CO₂ reduction. However, the

various measures set out in our Medium-term Management Plan cannot remain just plans, but must be translated into real action, executed reliably, and show progress with measurable results.

Arai With regard to the Medium-term Management Plan, we need to firmly maintain our core businesses based on the trust and contributions we have built over the years. For new businesses, however, our development speed cannot yet be considered adequate. Cross-departmental collaboration is essential for product development, and I believe we should also consider creating cross-departmental organizations if needed.

Yasui As for our core businesses, I foresee a certain level of demand continuing, due to growing automobile demand from development in emerging economies and the spread of hybrid vehicles in developed countries. Foreign exchange risks and market instability notwithstanding, I believe that business development at our overseas locations, such as capital participation in Vardhman Special Steels in India, is an important theme for our future growth. In Japan as well, we are making steady progress with the replacement of production lines, and I consider it vital

Arai to continue implementing these initiatives as planned. In overseas markets, it is not just about expanding sales channels, but of responding swiftly and flexibly to the specific needs of each country and region, such as specifications and pricing. Since these initiatives necessitate strengthened governance and preparedness for business risks, we will continuously verify and monitor whether we have adequate systems and mechanisms in place.

Board effectiveness and market evaluation of the company

Yasui Regarding the Board of Directors, its small size and appropriate participation by business executive leaders enable practical, business-focused discussions and timely deliberation on important topics that arise. However, I do feel there is a lack of discussion on medium- to long-term management direction and strategy. So we need to find ways to foster deeper discussions there. As for executive compensation and personnel matters, we need to make improvements by reviewing past practices and focusing on future challenges aimed at enhancing

Arai the effectiveness of our decision-making processes and succession planning. What I find impressive is the quick response when I express an opinion. There is a strong sense of urgency, and the action taken in response to a proposal is swift. I also feel that preliminary briefings have improved compared to before, in terms of both frequency and content of information provided. That said, regarding diversity promotion, although I have been offering recommendations on supporting women's careers for some time, there has been a lack of substantive discussion at Board level. While I believe initiatives are being implemented internally, I feel we need more active Board discussions and clearer communication of our progress and challenges to the outside world.

Yasui With respect to how the market evaluates us, PBR serves as an important indicator. Asset structures differ depending on the industry, but because the steel industry requires large-scale facilities, our PBR has remained consistently low. Our current Medium-term Management Plan reflects



this, having been updated following discussions at the Board of Directors. To be able to continue increasing our market value going forward, I believe it is crucial that we monitor management strategy from both operational and financial angles with a medium- to long-term view.

Paying attention to our employees fosters engagement

Yasui As for human capital management, I value the fact that "safety" is the first item addressed in the Board's regular reports. That said, I see cases where the focus is on reactive measures after an incident occurs, rather than on preventative measures to prevent any kind of recurrence. We should devote adequate time and resources to build a robust risk management system. With this in mind, at a recent Board of Directors meeting, I discussed and offered recommendations on the importance of safety measures, citing a serious incident I witnessed at another company. I believe that advancing each of these initiatives and practicing "people-oriented management" will lead to greater employee engagement.

Arai I too consider employee engagement to be a very important indicator. Especially in terms of diversity, I feel the steel industry faces more difficulties than other industries when it comes to women's advancement and the hiring of foreign nationals. First and foremost, it is important to manage women, elderly employees, and foreigners who are already working in a fair manner, without the constraints of stereotyping.

Yasui Alongside efforts to achieve numerical targets,



initiatives are needed to ensure effectiveness, such as fostering a climate of mutual acceptance of diverse opinions and values.

Arai That's exactly right. If senior leaders, including managers, take the initiative in embracing diversity and this attitude is conveyed to employees, it will lead to acceptance and empathy, which in turn will create a greater sense of organizational unity and employee engagement.

To our stakeholders

Yasui Going forward, I want to effectively share valuable insights utilizing the expertise I have gained in different industries.

Arai With regard to safe and secure manufacturing, there are some risks and issues that can only be identified with an external perspective like mine. I intend to continue making suggestions based on my experience, and to provide ongoing support to preserve the high level of employee awareness and positive organizational culture.