

## OFFERING CIRCULAR

# KOBELCO

## KOBE STEEL, LTD.

(incorporated in Japan with limited liability under the laws of Japan)

**¥25,000,000,000 Zero Coupon Convertible Bonds due 2028**

**OFFER PRICE: 102.5 PER CENT**

**¥25,000,000,000 Zero Coupon Convertible Bonds due 2030**

**OFFER PRICE: 102.5 PER CENT**

This Offering Circular relates to the issue by Kobe Steel, Ltd. (the “Company”) of ¥25,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2028 (the “2028 Bonds”) and ¥25,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2030 (the “2030 Bonds”), and together with the 2028 Bonds, the “Bonds”, being bonds with stock acquisition rights (*tenkanshasaigata shinkabu yoyakukentsuki shasai*), and each a “Series”, and which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated therein.

The Bonds will be issued in registered form in the denomination of ¥10,000,000 each with a stock acquisition right (*shinkabu yoyakuken*) (the “Stock Acquisition Rights”).

The Stock Acquisition Rights will be exercisable from, and including, 28 December 2023 to, and including, 30 November 2028, in the case of the 2028 Bonds, and 29 November 2030, in the case of the 2030 Bonds, and will entitle the Bondholder (as defined in Condition 1.2 of the terms and conditions of the Bonds for the relevant Series (the “Conditions of the 2028 Bonds” and the “Conditions of the 2030 Bonds”, respectively and, collectively, the “Conditions”)) to acquire fully-paid and non-assessable shares of common stock of the Company (the “Shares”) at an initial conversion price, subject to adjustment in certain events and as set out in the Conditions for the relevant Series of Bonds, of ¥2,456.0 per Share, in the case of the 2028 Bonds, and ¥2,349.5 per Share, in the case of the 2030 Bonds. However, prior to (and including) 14 August 2028, in the case of the 2028 Bonds, and 13 August 2030, in the case of the 2030 Bonds, and subject to the Conditions for the relevant Series of Bonds, a Bondholder may exercise its Stock Acquisition Rights during any particular calendar quarter only if as of the last Trading Day (as defined in Condition 3.1 of the Conditions for the relevant Series of Bonds) of any immediately preceding calendar quarter, the Closing Price (as defined in Condition 3.1 of the Conditions for the relevant Series of Bonds) of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent (rounded down to the nearest yen) of the Conversion Price (as defined in Condition 5.1.3 of the Conditions for the relevant Series of Bonds) in effect on the last Trading Day of such calendar quarter. Such condition to the exercise of the Stock Acquisition Rights shall not be applicable, in general, (i) during any period in which any rating assigned by a specified rating agency to the Company’s long-term issuer rating is below a specified level or certain other ratings events occur, (ii) if a notice of redemption is given to the Bondholders, or (iii) if the Company is required to give notice of certain specified Corporate Events (as defined in Condition 6.1 of the Conditions for the relevant Series of Bonds) to the Bondholders. In addition, where a Parity Event (as defined in Condition 5.1.9 of the Conditions for the relevant Series of Bonds) has occurred pursuant to Condition 5.1.9 of the Conditions for the relevant Series of Bonds, such conditions to the exercise of the Stock Acquisition Rights shall not be applicable during the period of 15 consecutive Tokyo Business Days (as defined in Condition 5.1.4 of the Conditions for the relevant Series of Bonds) from and including the first Tokyo Business Day immediately following the Company Notification Date (as defined in Condition 5.1.9 of the Conditions for the relevant Series of Bonds) in respect of the occurrence of such Parity Event.

Unless previously redeemed, acquired or purchased and cancelled, or unless the Bonds have become due and repayable, the Bonds will be redeemed at 100 per cent of their principal amount on 14 December 2028 in the case of the 2028 Bonds, and 13 December 2030 in the case of the 2030 Bonds.

At any time during the period from, and including, 15 August 2028 to, and including, 15 September 2028, in the case of the 2028 Bonds, and at any time during the period from, and including, 14 August 2030 to, and including, 13 September 2030, in the case of the 2030 Bonds, the Company may, but shall not be bound to, give an Acquisition Notice (as defined in Condition 7.2.1 of the Conditions for the relevant Series of Bonds) to the Bondholders, in which event the Company shall acquire each Bond on the Acquisition Option Date (as defined in Condition 7.2.1 of the Conditions for the relevant Series of Bonds) specified on the Acquisition Notice from those Bondholders which deliver a duly completed Acquisition Election Notice (as defined in Condition 7.2.2 of the Conditions for the relevant Series of Bonds) on or before the date falling 14 calendar days prior to the Acquisition Option Date.

The Company may also redeem all of each Series of Bonds, in whole but not in part, at 100 per cent of their principal amount if Japanese withholding taxes are imposed on payments in respect of the Bonds, as set out in the Conditions for the relevant Series of Bonds. Further, if, at any time prior to the date of the giving of the notice of redemption, the outstanding principal amount of the relevant Series of Bonds is less than 10 per cent of the aggregate principal amount of the relevant Series of Bonds as at the date of issue thereof, the relevant Series of Bonds may be redeemed in whole but not in part at 100 per cent of their principal amount, at the option of the Company as set out in the Conditions for the relevant Series of Bonds. Each Series of Bonds may also be redeemed by the Company in whole but not in part in certain other limited events (including Corporate Events (as defined in the Conditions for the relevant Series of Bonds)), at the percentage of their principal amount specified in the Conditions for the relevant Series of Bonds, as set out in the Conditions for the relevant Series of Bonds.

The Shares are listed on the Prime Market of the Tokyo Stock Exchange, Inc. (the “Tokyo Stock Exchange”) and the Premier Market of the Nagoya Stock Exchange. The closing price of the Shares on 28 November 2023, as reported by Tokyo Stock Exchange, was ¥1,780 per Share.

Payments of principal, premium (if any) and any other amount due in respect of the Bonds will be made without withholding or deduction for or on account of Japanese taxes to the extent set out herein (see “Japanese Taxation” and Condition 9 of the Conditions for the relevant Series of Bonds).

Approval in-principle has been received for the listing of each Series of Bonds on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed, or reports contained in this Offering Circular. Approval in-principle for the listing of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds. Each Series of Bonds will be traded on the SGX-ST in a minimum board lot size of ¥300,000 with a minimum of 100 lots to be traded in a single transaction for so long as such Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.

Each Series of Bonds will be evidenced by a global certificate (each, a “Global Certificate”) evidencing the relevant Series of Bonds in registered form, which is expected to be deposited with and registered in the name of, or a nominee for, a common depository for each of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”) on or about 14 December 2023 (the “Closing Date”) for the accounts of their respective accountholders. The Joint Lead Managers (as defined in “Subscription and Sale”) expect to deliver each Series of Bonds through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

This Offering Circular does not constitute an offer of, or solicitation of an offer to buy or subscribe for the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the US Securities Act of 1933, as amended (the “Securities Act”) and, subject to certain exceptions, may not be offered or sold within the United States. For a summary of certain restrictions on offers and sales of Bonds and Shares issuable upon exercise of the Stock Acquisition Rights, see “Subscription and Sale”.

See “Investment Considerations” for a discussion of certain factors that should be considered in connection with an investment in the Bonds.

*Active Bookrunners and Joint Lead Managers  
for the 2028 Bonds*

**Nomura**

*Passive Bookrunners and Joint Lead Managers  
for the 2028 Bonds*

**Morgan Stanley**

**Mizuho**

**SMBC NIKKO**

*Active Bookrunners and Joint Lead Managers  
for the 2030 Bonds*

**Mizuho**

*Passive Bookrunners and Joint Lead Managers  
for the 2030 Bonds*

**Morgan Stanley**

**Nomura**

**SMBC NIKKO**

The date of this Offering Circular is 28 November 2023.

*The Company accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Company (the Company having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*The Company, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to the Company, the Group (as defined below), the Bonds and the Shares which is material in the context of the issue and offering of the Bonds, the statements contained herein relating to the Company and the Group are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this Offering Circular with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Company, the Group, the Bonds or the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.*

*In this Offering Circular, unless otherwise specified or the context otherwise required, references to the “Group” are to the Company and its consolidated subsidiaries and its affiliates taken as a whole.*

*No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by the Company or the Joint Lead Managers. Neither the delivery of this Offering Circular nor any sale made in connection herewith at any time implies that the information contained herein is correct as of any time subsequent to the date hereof, nor does it imply that there has been no change in the affairs or the financial position of the Group since the date hereof.*

*This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company, the Joint Lead Managers or The Law Debenture Trust Corporation p.l.c. (the “Trustee”) to subscribe for, or purchase, any of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights. The distribution of this Offering Circular and the offering of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights and distribution of this Offering Circular, see “Subscription and Sale”.*

*To the fullest extent permitted by law, none of the Joint Lead Managers (or their respective affiliates), the Trustee, the Principal Agent, the Registrar, the Custodian nor the Custodian’s Agent (each as defined herein) accept any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made on their behalf in connection with the Company, the Group or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee, the Principal Agent, the Registrar, the Custodian and the Custodian’s Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.*

*No action is being taken to permit a public offering of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or the distribution of this Offering Circular (in preliminary or final form) in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, the European Economic Area (including the United Kingdom), Singapore, Hong Kong and to persons connected therewith. See “Subscription and Sale”.*

*The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the “FIEA”). Each Joint Lead Manager has represented and agreed that it has not offered or sold, directly or indirectly, any Bonds in Japan or to, or for the account or benefit of, any resident of Japan, or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organised under the laws of Japan.*

***Potential investors should note that prior notification under the Foreign Exchange and Foreign Trade Act of Japan (Act No. 228 of 1949, as amended) (the “FEFTA”) may be required in the case of the acquisition of a certain proportion of the total issued shares of the Company upon exercise of Stock Acquisition Rights. Potential investors should consult their own legal and other advisers on the consequences of the acquisition of Shares (including any***

*Shares to be acquired upon exercise of the Stock Acquisition Rights), including specifically the applicable notification, reporting and other procedures and any available exemptions therefrom under the FEFTA and related cabinet orders and ministerial ordinances.*

*The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights may not be offered, sold or delivered within the United States or to US persons. See “Subscription and Sale”.*

*There are restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights in the United Kingdom. All applicable provisions of the Financial Services and Markets Act 2000 (“FSMA”) with respect to anything done by any person in relation to the Bonds in, from or otherwise involving the United Kingdom must be complied with. See “Subscription and Sale”.*

***Prohibition of sales to EEA retail investors:*** *The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of EU MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “Prospectus Regulation”). Consequently, no key information document required by Regulation (EU) No. 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.*

***Prohibition of sales to UK retail investors:*** *The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No. 2017/565448 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97449, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No. 600/2014450 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No. 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.*

***Disclosure of Demand and Allocation:*** *Each prospective purchaser who places an order for the Bonds consents to the disclosure by the Joint Lead Managers to the Company of the prospective purchaser’s identity, the details of such order and the actual amount purchased, if any.*

## **STABILISATION AND OVER-ALLOTMENT**

**IN CONNECTION WITH THE ISSUE OF THE BONDS OF EACH SERIES, NOMURA INTERNATIONAL PLC (THE “STABILISING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT BONDS OF SUCH SERIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS OF SUCH SERIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE BONDS OF THE RELEVANT SERIES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS OF SUCH SERIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS OF SUCH SERIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise stated, references in this Offering Circular to “euro” and “€” are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, references to “US dollars”, “US\$” and “\$” are to United States dollars and references to “yen” and “¥” are to Japanese yen.

In this Offering Circular, where financial information is presented in millions of yen, amounts of less than one million have been rounded to the nearest one million (with half a million being rounded up), and where financial information is presented in billions of yen, amounts of less than one-tenth of a billion have been rounded down to the nearest one-tenth of a billion. Accordingly, the total of each column of figures may not be equal to the total of the individual items. All other figures and percentages, including operating data, have been rounded up or down (in the case of percentages, to the nearest 0.1 per cent or to the nearest 0.01 per cent), unless otherwise specified; however, certain percentages in tables may have been rounded otherwise than to the nearest 0.1 per cent or 0.01 per cent, as the case may be, to make the total of the relevant column equal to 100 per cent.

The Company’s fiscal year-end is 31 March of each year. The Company’s consolidated financial statements are prepared in accordance with generally accepted accounting principles in Japan (“Japanese GAAP”), which differ in certain respects from generally accepted accounting principles in certain other countries. Potential investors should consult their own professional advisers for an understanding of the difference between Japanese GAAP and International Financial Reporting Standards (“IFRS”), or generally accepted accounting principles in other jurisdictions and an understanding of how those differences might affect the financial information contained herein. See “Investment Considerations—Considerations Relating to the Company’s Financial Information—Differences in Generally Accepted Accounting Principles”.

This Offering Circular contains the audited consolidated financial statements of the Company, prepared and presented in accordance with Japanese GAAP, as of and for the fiscal years ended 31 March 2021, 2022 and 2023, which have been audited by the Company’s independent auditor as indicated in the audit reports with respect thereto included herein at page F-3 and F-53. This Offering Circular also contains the unaudited quarterly consolidated financial statements of the Company as of and for the six-month period ended 30 September 2023 (together with corresponding figures for the six-month period ended 30 September 2022), which have not been audited, but have been reviewed by the Company’s independent auditor in accordance with the quarterly review standards generally accepted in Japan as indicated in the quarterly review report with respect thereto included herein at page Q-2. Such unaudited quarterly consolidated financial statements have been prepared and presented in accordance with the accounting principles for quarterly consolidated financial statements generally accepted in Japan.

Unless otherwise stated or the context requires, the description of the Company’s business and financial information relating to the Company contained herein are given on a consolidated basis.

### Segment Data and References

The Group divides its business into seven reportable business segments, namely: (i) Steel & Aluminium, (ii) Advanced Materials, (iii) Welding, (iv) Machinery, (v) Engineering, (vi) Construction Machinery and (vii) Electric Power, and an “Other” business segment. Within the Group’s reportable business segments, the three segments of Steel & Aluminium, Advanced Materials and Welding, are together referred to herein as the “materials business”, and the three segments of Machinery, Engineering and Construction Machinery, are together referred to as the “machinery business”.

Unless otherwise specifically noted, in this Offering Circular, where figures for net sales and ordinary profit are presented on a per segment basis, such figures represent the total net sales and total ordinary profit for such segment, without taking into account any inter-segment eliminations.

Commencing on 1 April 2023, the results of Kobelco Research Institute, Inc. (engaged in material analysis and testing), which had previously been included in “Other”, have been included in the “Machinery” segment. Segment information for the six-month period ended 30 September 2022 has been adjusted to conform to the new presentation.

### Construction of Certain References

Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the “Companies Act”), the Company may issue new Shares to a Bondholder (as defined in the Conditions) and/or transfer Shares that it holds as treasury stock to a Bondholder, in each case upon exercise of a Stock Acquisition Right, or upon acquisition by the Company of

the Bonds. Accordingly, unless otherwise specified or the context requires, references in this Offering Circular to the issuance of Shares shall be read as including both the issuance of new Shares and the transfer of Shares held by the Company as treasury stock and the words “issue”, “issued”, “issuance” and “issuable” shall be construed accordingly, except where the context otherwise requires. In addition, references to the word “acquire” used in connection with the Shares shall be read as including both of the words “issue” and “transfer”, and the words “acquired” and “acquisition” shall be construed accordingly (other than where such references to “acquired” and “acquisition” are to the acquisition of the Bonds pursuant to Condition 7.2 of each Series of Bonds) and references to “delivery” used in connection with the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system of Japan Securities Depository Center, Inc. (“JASDEC”).

## **FORWARD-LOOKING STATEMENTS**

Many of the statements included in this Offering Circular contain forward-looking statements and information identified by the use of terminology such as “may”, “might”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “project”, “believe” or similar phrases. The Company bases these statements on beliefs as well as assumptions made using information currently available to the Company. As these statements reflect the Company’s current views concerning future events, these statements involve risks, uncertainties and assumptions. The Company’s or the Group’s actual future performance could differ materially from these forward-looking statements. Important factors that could cause actual results to differ from the Company’s expectations include those risks identified in “Investment Considerations” and the factors discussed in “Recent Business” and “Business”, as well as other matters not yet known to the Company or not currently considered material to the Group by the Company. The Company does not undertake to review or revise this Offering Circular or any forward-looking statements contained in this Offering Circular to reflect future events or circumstances. The Company cautions prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Company or persons acting on the Company’s behalf are qualified in their entirety by these cautionary statements.

## TABLE OF CONTENTS

	<b>Page</b>
PRESENTATION OF FINANCIAL AND OTHER INFORMATION .....	iv
FORWARD-LOOKING STATEMENTS .....	vi
SUMMARY INFORMATION .....	1
GLOSSARY .....	11
INVESTMENT CONSIDERATIONS .....	13
TERMS AND CONDITIONS OF THE 2028 BONDS .....	30
TERMS AND CONDITIONS OF THE 2030 BONDS .....	81
SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM .....	132
USE OF PROCEEDS .....	135
INFORMATION CONCERNING THE SHARES .....	136
CAPITALISATION AND INDEBTEDNESS .....	140
KOBE STEEL, LTD. ....	142
RECENT BUSINESS .....	145
BUSINESS .....	156
MANAGEMENT AND EMPLOYEES .....	171
SUBSIDIARIES AND AFFILIATES .....	174
JAPANESE FOREIGN EXCHANGE AND CERTAIN OTHER REGULATIONS .....	179
DESCRIPTION OF THE SHARES .....	182
JAPANESE TAXATION .....	190
SUBSCRIPTION AND SALE .....	191
GENERAL INFORMATION .....	196
INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS .....	F-1
INDEX TO THE UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS .....	Q-1

(This page is intentionally left blank)

## SUMMARY INFORMATION

*The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and the notes thereto contained elsewhere in this Offering Circular. For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Bonds, see “Investment Considerations”.*

### **KOBE STEEL, LTD.**

The Group is a leading Japanese manufacturer of steel and aluminium products, welding materials, industrial machinery and construction machinery. The Group engages in a wide range of businesses, with principal operations concentrated on materials, machinery and electric power. Historically, the majority of the Group’s net sales have been to customers in Japan. Sales to overseas customers accounted for 31.7 per cent and 32.2 per cent of the Group’s net sales for the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, respectively.

The Group divides its business into seven reportable business segments and one “other” business segment:

- *Steel & Aluminium.* This segment is engaged in the manufacture and sale of wire rod and bar products, steel sheets and plates, aluminium flat rolled products and other products such as steel billets, pig iron, slag products, building materials and special steel products. For the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, sales to outside customers in this segment amounted to ¥1,065.7 billion and ¥531.1 billion, respectively.
- *Advanced Materials.* This segment is engaged in the manufacture and sale of steel castings and forgings, aluminium castings and forgings, titanium, suspensions, aluminium extrusions, copper rolled products and steel powder. For the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, sales to outside customers in this segment amounted to ¥266.1 billion and ¥134.9 billion, respectively.
- *Welding.* This segment is engaged in the manufacture, sale and/or provision of welding materials, welding robots and robot systems, welding power sources, and welding-related testing, analysis and consulting services. For the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, sales to outside customers in this segment amounted to ¥87.3 billion and ¥46.0 billion, respectively.
- *Machinery.* This segment is engaged in the manufacture and sale of industrial machinery such as equipment for energy and chemical fields, equipment for nuclear power plants, tyre and rubber machinery, plastic processing machinery, ultra-high-pressure presses, physical vapour deposition systems, metalworking machinery, compressors, refrigeration compressors, heat pumps, plants (steel rolling and nonferrous) and internal combustion engines. For the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, sales to outside customers in this segment amounted to ¥181.5 billion and ¥97.9 billion, respectively.
- *Engineering.* This segment is engaged in the provision of various plants and equipment (direct reduced iron, pelletising, petrochemical, nuclear power-related, water treatment, waste treatment and others), civil engineering, advanced urban transit systems, and chemical and food processing equipment. For the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, sales to outside customers in this segment amounted to ¥143.7 billion and ¥74.3 billion, respectively.
- *Construction Machinery.* This segment is engaged in the manufacture and sale of construction machinery such as excavators, mini excavators, wheel loaders, crawler cranes, rough terrain cranes, work vessels. For the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, sales to outside customers in this segment amounted to ¥381.7 billion and ¥192.6 billion, respectively.
- *Electric Power.* This segment is engaged in the supply of electric power. For the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, sales to outside customers in this segment amounted to ¥324.3 billion and ¥172.7 billion, respectively.
- *Other.* This business includes the manufacture, sale and/or provision of special alloys and other new materials (e.g. target materials), material analysis and testing services, high-pressured gas cylinders, superconducting products, and general trading company operations. For the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, sales to outside customers in this segment amounted to ¥20.1 billion and ¥3.5 billion, respectively.

As at 30 September 2023, the Company had 202 subsidiaries (of which 174 were consolidated) and 47 affiliates (of which 34 were accounted for by the equity method). The Company's consolidated net sales, operating profit, ordinary profit and profit attributable to owners of parent for the fiscal year ended 31 March 2023 amounted to ¥2,472.5 billion, ¥86.3 billion, ¥106.8 billion and ¥72.5 billion, respectively and for the six-month period ended 30 September 2023 amounted to ¥1,253.8 billion, ¥92.1 billion, ¥91.6 billion and ¥80.3 billion, respectively.

The Company is incorporated under Japanese law with limited liability as a joint stock corporation (*kabushiki kaisha*). The registered office of the Company is at 2-4, Wakinohama-Kaigandori 2-chome, Chuo-ku, Kobe, Hyogo 651-8585, Japan. The Shares are listed on the Prime Market of the Tokyo Stock Exchange and the Premier Market of the Nagoya Stock Exchange.

## THE OFFERING

<b>Issuer</b> .....	Kobe Steel, Ltd.
<b>Securities Offered</b> .....	2028 Bonds: ¥25,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2028 (bonds with stock acquisition rights, <i>tenkanshasaigata shinkabu yoyakuken-tsuki shasai</i> ).  2030 Bonds: ¥25,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2030 (bonds with stock acquisition rights, <i>tenkanshasaigata shinkabu yoyakuken-tsuki shasai</i> ).
<b>Issue Prices</b> .....	2028 Bonds: 100.0 per cent 2030 Bonds: 100.0 per cent
<b>Offer Prices</b> .....	2028 Bonds: 102.5 per cent 2030 Bonds: 102.5 per cent
<b>Closing Date</b> .....	On or about 14 December 2023.
<b>Delivery</b> .....	It is expected that a Global Certificate in respect of each Series of Bonds will be deposited with, and registered in the name of, or a nominee for, a common depository for Euroclear and Clearstream, Luxembourg on or about the Closing Date.
<b>Form</b> .....	Each Series of Bonds will be issued in registered form, evidenced by a Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See “Summary of Provisions Relating to the Bonds While in Global Form”.
<b>Listing</b> .....	Approval in-principle has been received for the listing of each Series of Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed, or reports contained in this Offering Circular. Approval in-principle for the listing of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds. Each Series of Bonds will be traded on the SGX-ST in a minimum board lot size of ¥300,000 with a minimum of 100 lots to be traded in a single transaction for so long as such Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.
<b>Lock-up Arrangements</b> .....	In connection with the issue and offering of the Bonds, the Company has agreed that it will not, and will procure that none of its directors or officers or any person acting on the direction of the Company will, for a period beginning on the date of the Subscription Agreements (as defined in “Subscription and Sale”) and ending on the date 180 calendar days after the Closing Date:  (i) issue, offer, pledge, lend, sell, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that constitutes the right to receive, Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares;  (ii) enter into a transaction (including a derivative transaction) that transfers, in whole or in part, directly or indirectly, ownership (or

any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale;

- (iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depository receipt facility; or
- (iv) publicly announce any intention to do any of the above,

without the prior written consent of the Representatives (as defined in “Subscription and Sale”) on behalf of the Joint Lead Managers (as defined in “Subscription and Sale”), other than:

- (a) the issue and sale by the Company of the Bonds or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights (or the acquisition of the Bonds at the option of the Company);
- (b) the issue, sale or disposition of the Shares to directors and corporate officers of the Company and directors and corporate officers of any of its subsidiaries pursuant to the performance-linked share compensation plan of the Group as described in this Offering Circular;
- (c) the sale of Shares by the Company to any holder of Shares constituting less than one unit for the purpose of making such holder’s holding, when added to the Shares held by such holder, constitute one full unit of Shares;
- (d) the issue of Shares by the Company as a result of any stock split or the pro rata allocation of Shares or the stock acquisition rights to holders of Shares without any consideration and the issue or transfer of Shares upon exercise of such stock acquisition rights; and
- (e) any other issue or sale of Shares required by the Japanese laws and regulations.

See “Subscription and Sale”.

**Use of Proceeds** . . . . . The net proceeds from the issue of the Bonds are estimated to amount to approximately ¥50 billion, and are expected to be used by the Company as follows:

- approximately ¥20 billion by the end of March 2027, as part of investments related to taking on the challenge of realising carbon neutrality, primarily in the Steel business and the Electric Power business; and
- approximately ¥30 billion by the end of March 2025, as part of the repayment of borrowings.

See “Use of Proceeds”.

## THE BONDS

**Form and Denomination** ..... The Bonds are issued in registered form in the denomination of ¥10,000,000 each.

**Initial Conversion Prices** ..... 2028 Bonds: ¥2,456.0 per Share  
2030 Bonds: ¥2,349.5 per Share,  
  
subject in each case to adjustment in certain events. See Condition 5 of the Conditions for the relevant Series of Bonds.

**Coupon** ..... 2028 Bonds: Zero  
2030 Bonds: Zero

**Exercise of Stock Acquisition Rights** ... Subject to and upon compliance with the provisions of Condition 5 of the Conditions for the relevant Series of Bonds, any holder of a Bond may exercise the Stock Acquisition Right in respect thereof, at any time on and after 28 December 2023 up to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on:

- in the case of the 2028 Bonds, 30 November 2028 (but in no event thereafter), except for the period from, and including, 15 August 2028 to, and including, 15 September 2028 or (if an Acquisition Notice (as defined in Condition 7.2.1 of the Conditions for the relevant Series of Bonds) is given pursuant to Condition 7.2 of the Conditions of the relevant Series of Bonds, to and including the Elected Redemption Date (as defined in Condition 7.2.3 of the Conditions for the relevant Series of Bonds); or
- in the case of the 2030 Bonds, 29 November 2030 (but in no event thereafter), except for the period from, and including, 14 August 2030 to, and including, 13 September 2030 or (if an Acquisition Notice (as defined in Condition 7.2.1 of the Conditions for the relevant Series of Bonds) is given pursuant to Condition 7.2 of the Conditions of the relevant Series of Bonds, to and including the Elected Redemption Date (as defined in Condition 7.2.3 of the Conditions for the relevant Series of Bonds),

in each case, to acquire fully-paid and non-assessable Shares. See Condition 5 of the Conditions for the relevant Series of Bonds.

The Conditions provide, among others, that the Stock Acquisition Right may not be exercised during such period whereby the relevant Stock Acquisition Date (as defined in Condition 5.9.4 of the Conditions of the relevant Series of Bonds) (or, if the Stock Acquisition Date would not be a Tokyo Business Day (as defined in Condition 3.1 of the Conditions for the relevant Series of Bonds), the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period (as defined in Condition 5.1.4 of the Conditions for the relevant Series of Bonds).

**Conditions to the Exercise of Stock Acquisition Rights** ..... Prior to (and including) 14 August 2028, in the case of the 2028 Bonds, and 13 August 2030, in the case of the 2030 Bonds, and subject to the Conditions for the relevant Series of Bonds, a Bondholder may exercise its Stock Acquisition Rights only if, as of the last Trading Day of any calendar quarter, the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent (rounded down to the nearest yen) of the Conversion Price for the relevant Series of Bonds in effect on the last Trading Day of such calendar quarter, in each case as determined by the Principal Agent and notified to the

Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds, subject to adjustment in the manner provided in Condition 5.2 of the Conditions for the relevant Series of Bonds.

If the condition set out above is satisfied, then a Bondholder may (subject to the Conditions of the relevant Series of Bonds) exercise the Stock Acquisition Rights on and after the first day of the immediately following calendar quarter (or, in the case of the calendar quarter commenced on 1 October 2023, on and after 28 December 2023) until the end of such calendar quarter (or, in the case of the 2028 Bonds, in the case of the calendar quarter commencing on 1 July 2028, until 14 August 2028 or, in the case of the 2030 Bonds, in the case of the calendar quarter commencing on 1 July 2030, until 13 August 2030), provided the relevant Deposit Date (as defined in Condition 5.9.4 of the Conditions for the relevant Series of Bonds) falls during the Exercise Period (as defined in Condition 5.1.4 of the Conditions for the relevant Series of Bonds).

The above condition to the exercise of the Stock Acquisition Rights shall not be applicable (i) during any period in which the long-term issuer rating assigned to the Company by Japan Credit Rating Agency, Ltd. or its successors (together, "JCR") is BBB- (or equivalent if the rating category is changed) or lower, a long-term issuer rating is no longer assigned to the Company by JCR, or the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn; (ii) if a notice of redemption is given pursuant to Condition 7.3, 7.4 (except in the case of the Stock Acquisition Rights attaching to the Bonds elected by the relevant Bondholders not to be redeemed), 7.5, 7.6 or 7.7 of the Conditions for the relevant Series of Bonds; or (iii) if the Company is required to give notice of certain Corporate Events to the Bondholders. See Condition 5 of the Conditions for the relevant Series of Bonds.

In addition, where a Parity Event has occurred pursuant to Condition 5.1.9 of the Conditions for the relevant Series of Bonds, the above conditions to the exercise of the Stock Acquisition Rights shall not be applicable during the period of 15 consecutive Tokyo Business Days from and including the first Tokyo Business Day immediately following the Company Notification Date in respect of the occurrence of such Parity Event. See Condition 5.1.9 of the Conditions for the relevant Series of Bonds.

For the avoidance of doubt, during the period from and including 15 August 2028, in the case of the 2028 Bonds, and 14 August 2030, in the case of the 2030 Bonds, to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 30 November 2028, in the case of the 2028 Bonds, and 29 November 2030, in the case of the 2030 Bonds, the conditions to the exercise of the Stock Acquisition Rights set forth above shall not be applicable.

**Status** ..... The obligations of the Company in respect of the Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 2 of the Conditions for the relevant Series of Bonds) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 of the Conditions for the relevant Series of Bonds and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

**Negative Pledge** ..... So long as any of the Bonds of any Series remains outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1 of the Conditions for the relevant Series of Bonds) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined in Condition 2 of the Conditions for the relevant Series of Bonds) unless the same security or such other security or guarantee as provided in Condition 2 of the Conditions for the relevant Series of Bonds is accorded to the relevant Series of Bonds.

**Redemption at Maturity** ..... Unless the relevant Series of Bonds have previously been redeemed, acquired or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised, the Company will redeem the 2028 Bonds at 100 per cent of their principal amount on 14 December 2028, and will redeem the 2030 Bonds at 100 per cent of their principal amount on 13 December 2030.

**Acquisition by the Company of Bonds** ..... At any time during the period from, and including, 15 August 2028 to, and including, 15 September 2028, in the case of the 2028 Bonds, and at any time during the period from, and including, 14 August 2030 to, and including, 13 September 2030, in the case of the 2030 Bonds, the Company may, but shall not be bound to, give an Acquisition Notice to the holders of the relevant Series of Bonds, in which event the Company shall, subject to the provisions of Condition 7.2 of the Conditions for the relevant Series of Bonds, acquire each Bond of the relevant Series on the Acquisition Option Date specified on the Acquisition Notice from those Bondholders which deliver a duly completed Acquisition Election Notice on or before the date falling 14 calendar days prior to the relevant Acquisition Option Date. As consideration for each Bond so acquired, the Company will (i) pay an amount equal to 100 per cent of the principal amount and (ii) issue and deliver any Acquisition Shares (as defined in Condition 7.2.1 of the Conditions for the relevant Series of Bonds), in each case to each such Bondholder.

Bonds in respect of which a duly completed Acquisition Election Notice has not been received on or prior to the relevant Acquisition Election Date will be redeemed at 100 per cent of their outstanding principal amount on the date falling two Tokyo Business Days after the relevant Acquisition Option Date.

See Condition 7.2 of the Conditions for the relevant Series of Bonds.

**Early Redemption—Redemption at the Option of the Company upon Reduced Outstanding Amounts** ..... The Company may, having given not less than 30 nor more than 60 days' prior irrevocable notice of redemption to the Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds, redeem all, but not some only, of the relevant Series of Bonds then outstanding at 100 per cent of their principal amount if, at any time prior to the date of giving that notice, the outstanding principal amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as of the date of issue thereof. See Condition 7.3 of the Conditions for the relevant Series of Bonds.

**Early Redemption—Redemption for**

**Taxation Reasons** ..... If the Company satisfies the Trustee, immediately prior to giving the notice to the Bondholders, that:

- (i) the Company has or will become obliged to pay any Additional Amounts (as defined in Condition 9 of the Conditions for the relevant Series of Bonds) in accordance with Condition 9 of the Conditions for the relevant Series of Bonds as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 28 November 2023, and
- (ii) the Company is unable to avoid such obligation by taking reasonable measures available to it,

the Company may, at any time, having given not less than 30 nor more than 60 days' prior irrevocable notice to the relevant Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds, redeem all, but not some only, of the relevant Series of Bonds then outstanding at 100 per cent of their principal amount.

If, however, the outstanding principal amount of the relevant Series of Bonds at the time of such notice of redemption is 10 per cent or more of the aggregate principal amount of the relevant Series of Bonds as of the date of issue thereof, the relevant Bondholders will have the right to elect that their Bonds should not be redeemed and that, in respect of payments on the relevant Bonds to be made after that date, payments will be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges. See Condition 7.4 of the Conditions for the relevant Series of Bonds.

**Early Redemption—Corporate**

**Events** ..... In the case of a Corporate Event, the Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds of such Corporate Event and the anticipated effective date of such transaction and the provisions set out in Condition 6 of the Conditions for the relevant Series of Bonds shall apply.

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 of the Conditions for the relevant Series of Bonds to redeem all, but not some only, of the relevant Series of Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the relevant Series of Bonds) determined by reference to the table set out in Condition 7.5 of the Conditions for the relevant Series of Bonds and in accordance with the provisions of Condition 7.5 of the Conditions for the relevant Series of Bonds, on the Corporate Event Redemption Date (as defined in Condition 7.5 of the Conditions for the relevant Series of Bonds) specified in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date (as defined in Condition 6.3 of the Conditions for the relevant Series of Bonds) or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which

notice shall be given as soon as practicable after the date of occurrence of the Corporate Event) if any of the following conditions is satisfied:

- (i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation of such laws) to effect a scheme provided for by Condition 6.4.1 of the Conditions for the relevant Series of Bonds; or
- (ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company cannot effect such a scheme in compliance with Condition 6.4.1 of the Conditions for the relevant Series of Bonds; or
- (iii) despite the Company using its best endeavours pursuant to Condition 6.4.2 of the Conditions for the relevant Series of Bonds, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing (as defined in Condition 6.4.2 of the Conditions for the relevant Series of Bonds) has been obtained for the shares of common stock of the New Obligor (as defined in Condition 6.1 of the Conditions for the relevant Series of Bonds) and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or
- (iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate.

See Condition 7.5 of the Conditions for the relevant Series of Bonds.

**Early Redemption—Delisting of the Shares** .....

In certain circumstances where a tender offer is made to holders of Shares of the Company by an Offeror (as defined in Condition 7.6.1 of the Conditions for the relevant Series of Bonds) where, *inter alia*, the Company expresses its opinion to support such offer, the Company or the Offeror publicly announces or admits that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange (as defined in Condition 3.1 of the Conditions for the relevant Series of Bonds), and the Offeror acquires any Shares pursuant to the offer, then the Company shall redeem all, but not some only, of the relevant Series of Bonds then outstanding at the redemption price each calculated in the same manner as referred to in Condition 7.5 of the Conditions for the relevant Series of Bonds, subject to the provisions of Condition 7.6 of the Conditions for the relevant Series of Bonds. See Condition 7.6 of the Conditions for the relevant Series of Bonds.

**Early Redemption—Squeezeout Event** .....

Upon the occurrence of a Squeezeout Event (as defined in Condition 7.7.1 of the Conditions for the relevant Series of Bonds), the Company shall redeem all, but not some only, of the relevant Series of Bonds then outstanding at the redemption price calculated in the same manner as referred to in Condition 7.5 of the Conditions for the relevant Series of Bonds, subject to the provisions of Condition 7.7 of the

Conditions for the relevant Series of Bonds. See Condition 7.7 of the Conditions for the relevant Series of Bonds.

<b>Cross Default</b> .....	Each Series of Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Company or of any Principal Subsidiary in respect of amounts of at least ¥1,000,000,0000 (or its equivalent in any other currency or currencies). See Conditions 10.3 and 10.4 of the Conditions for the relevant Series of Bonds.
<b>Taxation</b> .....	All payments by the Company in respect of the Bonds will be made without any deduction for withholding taxes of Japan, except to the extent described in Condition 9 of the Conditions for the relevant Series of Bonds.
<b>Governing Law</b> .....	English law.
<b>Jurisdiction</b> .....	English courts.
<b>International Securities Identification</b>	
<b>Numbers (“ISINs”)</b> .....	2028 Bonds: XS2727915899 2030 Bonds: XS2727920626
<b>Common Codes</b> .....	2028 Bonds: 272791589 2030 Bonds: 272792062
<b>Legal Entity Identifier (“LEI”) of the</b>	
<b>Company</b> .....	549300ZDCYYUPHEE5K87
<b>Trustee and Custodian</b> .....	The Law Debenture Trust Corporation p.l.c.
<b>Principal Agent and Registrar</b> .....	Mizuho Trust & Banking (Luxembourg) S.A.
<b>Custodian’s Agent in Japan</b> .....	Mizuho Bank, Ltd.

## GLOSSARY

Certain industry and other terms are used in this Offering Circular to describe the Group’s business and financial performance. Some of the terms used in this offering circular may not correspond to common industry definitions for such terms.

The following is a list of certain specialised terms used in this Offering Circular:

<b>Term</b>	<b>Description</b>
AHSS . . . . .	Advanced high-strength steel. See definition of “high-strength steel sheet”.
billet . . . . .	A semi-finished piece of metal with a cross-section usually with an area less than 36.0 square inches. The Group processes blooms into billets and subsequently into steel products such as wire rods through rolling mill.
blast furnace . . . . .	A vertical reactor used for smelting to produce molten pig iron from iron ore using carbon sources, such as coke and coal. It produces molten pig iron which is transported to basic oxygen furnaces in molten form to be refined into steel.
bloom . . . . .	A semi-finished piece of metal which has a bigger cross-section than a billet. The Group produces blooms through the continuous caster and subsequently process the bloom into billets through the blooming mills.
casting . . . . .	A manufacturing process by which molten metal is poured into a mould that contains a hollow cavity of the desired shape, and then allowed to solidify. Through this process, billet, bloom, ingot or slab is produced in accordance with the mould shape.
cold-rolled . . . . .	A process to roll material without heating. It improves the surface finish and thus is commonly used in the finishing stage of production.
copper strip . . . . .	A coiled copper product. It is used for lead frame materials for semiconductors and terminals and connectors for automobiles.
crankshaft . . . . .	A part of an engine that translates reciprocating linear piston motion into rotation. The Group manufactures large crankshafts for the engines of medium- and large-size vessels and for the engines of power generation.
DRI . . . . .	Direct reduced iron, which is produced from the direct reduction of iron ore into iron by a reducing natural gas. It is generally high in iron content and low in copper and other undesirable metals and nitrogen content.
forging . . . . .	The process by which heated metal is shaped by compressive force using a hammer, a press machine or by other methods. Forging increases the strength of metal by improving the density of metal and refining the microstructure within the metal and then gives a desired form or shape to a metal.
HBI . . . . .	Hot briquetted iron. HBI is DRI in a briquetted form. Since hot DRI is not suitable for long-distance transportation, it is pressed into a compact solid (briquette) upon being discharged from the reduction furnace.
high-strength steel sheet . . . . .	A steel sheet with a high tensile strength. Generally, a steel sheet with a tensile strength of 340 MP or greater is defined as high-strength steel sheet, whereas a steel sheet with tensile strength under 340MPa is called “mild steel sheet”. A steel sheet with a tensile strength of 590MPa or greater is called advanced high-strength steel (AHSS).
hot-rolled . . . . .	The process to form semi-finished products into plates, sheets, bars and wire rods by heating and subsequently processing in a rolling mill.
LNG . . . . .	Liquefied natural gas.

<b>Term</b>	<b>Description</b>
MIDREX®	<p>MIDREX® is an innovative ironmaking process that has been specifically developed to produce DRI from iron ores by converting iron oxides, in the form of pellets or lump ore, into DRI. In comparison to the blast furnace process, the MIDREX® process can significantly reduce CO<sub>2</sub> emissions in the ironmaking process.</p> <p>The Group offers three MIDREX® options in its engineering business: (i) MIDREX NG™, which uses natural gas as reducing gas; (ii) MIDREX H2™, which uses 100 per cent hydrogen; and (iii) MIDREX Flex™, which offers the flexibility to use any mixture of natural gas and hydrogen (up to 100 per cent hydrogen) in the reduction process.</p>
mm	Millimetres.
MPa	Megapascals.
MW	Megawatts.
pig iron	Metal produced from iron ore in a blast furnace or by other methods. It contains 3 per cent to 4 per cent carbon and small amounts of silicon, sulphur and phosphorus and other impurities. It is not suitable for manufacturing finished products because it is hard and brittle. Therefore, it is refined in basic oxygen furnaces or electric arc furnaces into steel and subsequently processed into semi-finished and finished products. In some cases, it is used for the material to produce casting products.
rolling	A metal forming process in which metal stock is pressed through one or more pairs of rolls to reduce its thickness or diameter.
rolling stock	The term rolling stock in the rail transport industry refers to railway vehicles, including both powered and unpowered vehicles: for example, locomotives, freight and passenger cars, and non-revenue cars.
solid wire	A general term for wire electrode applied on a semi-automatic or automatic arc welding process.
standard compressors	A small- and medium-size standardised device that increases the pressure of air by reducing its volume. Pressurised air is used for actuating pneumatic tools or instruments, air separation systems and other industrial processes.
steel bar	A steel product with a diameter over approximately 10mm. The Group mainly manufactures special steel bars for automobiles, which are further processed into forged parts and components.
steel castings and forgings	Steel products manufactured by casting and/or the forging process. The Group mainly manufactures crankshafts for the engines of medium- and large-size vessels, parts and components for ships, rolling mills and pressure vessels.
steel plate	Steel products processed into flat shapes of 3mm or more thickness. The Group mainly manufactures steel plates for shipbuilding, construction and construction machinery and other applications.
steel sheet	Steel products processed into flat shape less than 3mm in thickness. The Group mainly manufactures high quality steel sheet for automotive, home electronics and construction materials and others.
valve spring	Springs used to control the flow of fluid (gas) on the cylinders of engines.
welding wire	Electrode that is in the form of a wire. Normally used as a general term for solid wires and flux-cored wires used for welding that are long and coiled.
wire rod	Steel products with a round diameter generally ranging from approximately 5mm to 20mm (some special wire rod has the diameter of approximately 50mm). They are usually processed through the drawing process into finer diameters ( <i>i.e.</i> , wires). The Group manufactures special steel wire rod mainly for automotive applications.

## INVESTMENT CONSIDERATIONS

*Prior to making an investment decision, prospective investors should carefully consider, along with the other information set forth in this Offering Circular, the following considerations:*

### **Considerations Relating to Economic and Market Conditions**

#### ***Macroeconomic Conditions***

The Group's business is affected by the variation in demand for the Group's products in a number of industries, including automotive, shipbuilding, electrical machinery, construction and civil engineering, information technology ("IT"), beverage containers and industrial machinery. Macroeconomic factors, such as the rate of economic growth, levels of employment, interest rates, rates of inflation, exchange rates, the prices of commodities (including crude oil), demographic trends and fiscal policies of governments can have a significant effect on such industries. From time to time, these industries have experienced significant and sometimes prolonged downturns, which in turn have negatively impacted the Group's business (including, for example, following the global financial crisis beginning in 2008). Certain of these industries are also affected by cyclical demand. For example, the semiconductor markets are generally considered to be affected by the "silicon cycle" (being the previously observed growth and decline in consumption of semiconductors in three-to-four-year cycles, although such cycles may have been less pronounced in recent years), which can affect demand for the Group's products used in the semiconductor industry (such as aluminium plates for semiconductor manufacturing equipment and copper plates for lead frames).

Sales to overseas customers accounted for 31.7 per cent and 32.2 per cent of the Group's net sales for the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, respectively, with sales to customers in Asia accounting for a majority of overseas sales. In particular, sales to customers in China accounted for 8.0 per cent and 6.8 per cent of the Group's net sales for the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, respectively. Recently, the global economy has been experiencing, and is expected to continue to experience a period of significant difficulty. Increasing inflation, supply shortages, the continued effect of the COVID-19 pandemic, moves to less accommodative monetary policy, high volatility in global financial markets, a continued slowdown in economic growth in China are having a significant negative effect on global economic conditions. Furthermore, geopolitical instability in various parts of the world, including the deterioration of relations between the United States and China surrounding the legal status of Taiwan and ongoing tensions in Hong Kong, as well as the ongoing military conflicts between Russia and Ukraine and between Israel and Hamas, could contribute to further economic instability. These factors are resulting in, among other things, fears of a potential global recession.

These changes in the environment in which the Group operates may lead to, amongst other things, increases in the prices of fuel or other raw materials, delays in the collection of accounts receivables, declines in demand for the Group's products, and thereby reduced sales and inefficient inventory levels and/or production capacities, which could cause the Group to record lower profitability and incur additional expenses and losses. As a result, the Group's results of operations and financial condition may be adversely affected.

#### ***Economic Conditions in Japan***

Net sales in Japan accounted for 68.3 per cent and 67.8 per cent of the Group's total consolidated net sales in the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, respectively, with automotive, shipbuilding, electrical machinery, construction and civil engineering, IT, beverage containers and industrial machinery constituting the principal areas of product demand. Demand for the Group's products and services in Japan is mainly affected by the health in Japan of the industries that are the principal consumers of steel as well as the strength of the Japanese economy in general. A weak economy generally results in decreases in private and public construction investments and manufacturing activities, both of which would reduce demand for the Group's products and services. The Japanese economy could be impacted by various factors, such as an aging population, a reversal of the expansionary monetary and fiscal measures that the Japanese government and the Bank of Japan have been pursuing since 2016, and political tensions between Japan and some of its neighbouring countries. The Japanese economy could also be impacted by economic and geopolitical instability that does not directly involve Japan (see "— Macroeconomic Conditions" above). Any economic volatility in or affecting Japan, whether widespread or localised, may adversely affect the Group's business, financial condition and results of operations.

#### ***Structural Overcapacity in the Global Steel Industry***

The steel industry is affected by global and regional production capacity and fluctuations in steel imports and exports, including from established producers expanding in new markets, smaller producers increasing production in anticipation of demand increases or amid recoveries, or exporters selling excess capacity from markets such as China. At times, there is structural overcapacity and this can be amplified during periods of global or regional economic weakness due to weaker global or regional demand.

Weaker demand often results in manufacturers in certain countries exporting significant amounts of steel and steel products at lower-than-market prices, even at prices that are below their costs of production, in order for them to maintain their production output levels. Production overcapacity in the global steel industry may further intensify if the global economy slows or demand from developing countries, particularly from China, continues to lag behind the growth in production capacity. Production overcapacity in the global steel industry may increase price and product competition and negatively affect demand for the Group's products. Any such changes may adversely affect the Group's business, financial condition and results of operations.

## **Considerations Relating to the Group's Business**

### ***Competition***

The Group faces intense competition in the product markets and regional markets in which it operates. The Group's main competitors may be more geographically diversified and may possess greater financial, marketing, technological and personnel resources than the Group.

Larger competitors may be able to:

- procure raw materials at lower cost;
- realise lower manufacturing costs and offer products at lower prices;
- offer more technologically advanced, more environmentally friendly or more reliable products;
- market, promote and sell their products more effectively;
- develop stronger relationships with customers; and
- better adapt to changing market conditions or survive an adverse business environment.

One of the Group's key strategies is to differentiate itself from larger competitors by focusing on products where the Group's technological expertise and manufacturing knowhow give it an advantage. However, if competitors are able to improve their own product offerings more quickly than the Group anticipates, or introduce attractive alternatives to the Group's main products, the Group may face challenges in distinguishing its products and executing its business strategy.

In particular, the Group faces strong competition in the steel business in which it operates. The Group's sales of steel products span across many areas of demand, including automotive, shipbuilding, electrical machinery, construction and civil engineering, and industrial machinery, and sales are made through a variety of channels. Major global steel manufacturers with which the Group competes may be more vertically integrated and may be less dependent on a single market. The Group also faces competition from other steelmakers in Japan, which is the Group's largest market in its steel business. Japan's two largest steelmakers, Nippon Steel Corporation and JFE Steel Corporation, were both formed through domestic industry consolidation and have a larger global and domestic market share than the Group's steel business. While the Group expects demand for steel products in Japan to continue to decline, it also expects that global demand for steel will steadily increase over the long term amid economic growth in emerging countries, especially in Asia. With respect to overseas markets in particular, the Group may face increasingly intense competition due to structural changes that include increases in export volumes from China, due to falling domestic demand in China (see "—Chinese Market" below), and increases in steel production capacity in Southeast Asia.

In the Group's machinery business, the Group is facing stronger competition from Chinese domestic manufacturers in the hydraulic excavators market. Market share of foreign-capital manufacturers in the Chinese hydraulic excavators market has fallen from approximately 50 per cent in 2018 to approximately 20 per cent in 2022. In response to such competition, the Group is planning to restructure its global production and supply system to reduce reliance on the Chinese hydraulic excavators market. However, if the Group fails to do so, its business, results of operations and financial condition could be adversely affected.

### ***Greenhouse Gas Emissions***

Certain of the Group's operations, such as the blast furnaces and power plants used in its steel manufacturing process, as well as its wholesale electricity supply business which generates electricity using coal-fired and gas-fired thermal power plants, emit large amounts of carbon dioxide ("CO<sub>2</sub>").

The Group believes, however, that reaching carbon neutrality needs to be its mission as a responsible business. As such, the Group is working to implement various measures towards reducing emissions, such as continuing to develop technologies to reduce CO<sub>2</sub> emissions from blast furnaces in its steel business and making efforts towards co-firing of ammonia in its electricity supply business (see "Business—The Group's Medium-Term Management Plan—Taking on the challenge of realising carbon neutrality").

However, the Group expects to face many significant challenges and risks in pursuing the goals it has set towards carbon neutrality, including pressure on its profitability due to the cost increases related to its sustainability efforts, the need to command commensurate pricing for its products, the need to develop new technologies and the need to finance the required capital expenditures and development costs as further described below. In particular:

- The Group will need to fund the necessary capital expenditures and research and development costs, both of which could be significant, and devote other relevant corporate resources, to move towards (and expand the production capacity of) furnaces which utilises CO<sub>2</sub> reduction technologies, work towards ammonia co-firing in its power generation business, and/or implement other emission reduction technologies in other business areas;
- In order to support higher pricing that reflects increased production costs, demand for low carbon emission products will need to increase; and
- The Group will rely upon continued and successful deployment of the Green Innovation Fund (a Japanese government-funded initiative established in 2020, which, among other activities, has commissioned and provided funding to the Company and other major Japanese steel manufacturers as well as relevant research institutions for the development and instalment of technological innovations in connection with the goal of achieving carbon neutrality on a national basis by 2050) or other similar government financial support structures.

In pursuing these goals, the Group may incur significant additional costs without commensurate increases in revenue and profit, which could materially affect its business, financial condition and results of operations. In addition, in order to meet the Group's emission reduction targets, the Group expects that it will require collaboration from a wide range of interested parties, including government (including through support such as the Green Innovation Fund mentioned above), industry and society, leading to long-term and continuous government support for research and development and implementation costs for radical innovation and the creation of a framework for the bearing of related costs by society. It is unclear whether such collaboration will be forthcoming, including at a level sufficient to make the Group's emission goals feasible. Even if the required support is forthcoming, there can be no assurance that the requisite technologies will be developed successfully and in a timely manner, or become accessible to the Group on the terms which it may require.

Furthermore, if the Group does not make adequate progress towards achieving carbon neutrality, it may suffer reputational damage, become subject of removal from the supply chain of its customers (which are also increasingly subject to requirements to assess and review emission levels in their supply chains), face difficulties in obtaining funding (as financial institutions are increasingly subject to scrutiny in lending to high emission businesses), become target of divestment by investors, or become subject of criticisms and actions by investors, activists or society in general. Any of these developments could materially affect the Group's business, financial condition and results of operations as well as the price of the Shares.

### ***Raw Materials and Supplies***

The Group procures a large amount of its essential raw materials, such as iron ore, coking coal, ferroalloys and non-ferrous metals, from sources outside of Japan. The Group imports iron ore primarily from Australia, Brazil and India and coking coal from Australia, Canada and the United States.

The purchase prices of these raw materials may rise or be disrupted due to changes in global supply and demand, foreign exchange rates, ocean freight changes, changes in laws and regulations, natural disasters, force majeure events or accidents in major producing countries and geopolitical instabilities (see “—Macroeconomic Conditions” above). The Group is exposed to price changes in all of the raw materials which it uses, and is particularly exposed to increases in the prices of iron ore and coking coal, which represent the largest components of its cost of sales. There have been significant fluctuations in the price of iron ore and coking coal in recent years owing to changes in global supply (with supply capacity being increasingly limited) as well as global demand (including increased demand from China, which has become a major consumer of these materials), natural disasters and accidents in Australia and Brazil, as well as the ongoing military conflicts between Russia and Ukraine and between Israel and Hamas, each of which has or may affect supply and/or transportation costs.

The Group is also exposed to price fluctuations in other raw materials such as metal bullion, as well as supplies such as auxiliary materials (such as refractories), materials for machinery manufacturing capital investments, and other machinery and equipment including electrical components, hydraulic equipment and internal combustion equipment, which it procures from third parties.

If prices of raw materials and other supplies were to rise, the Group may be unable to reflect such price increases in the prices at which it sells its products in a timely manner or at all. Even where agreements with customers

are subject to price adjustments on a regular basis based on factors such as raw material prices and other benchmarks, they may still be subject to delays in reflecting increases in raw material costs due to the price adjustment intervals. Rapid fluctuations in raw material prices may have other effects, such as on inventory valuation, resulting in significant inventory valuation gains and losses in the Group's results of operations. For example, in its aluminium and copper businesses, while the Group's pricing structure is generally designed to pass on increases in costs of raw materials (principally bullion) to customers, if raw material costs were to fluctuate significantly within a short time period, the Group's results of operations may be affected due to the effect of such fluctuation on inventory value for accounting purposes. Increases in prices of machinery and equipment purchased by the Company may also negatively affect the costs to the Group of its machinery manufacturing and capital investment activities. Any of these factors may adversely affect the Group's profitability, results of operations and financial condition.

### ***Supply Chains***

The Group relies on third party suppliers throughout the world to procure raw materials and supplies for its businesses. The Group is therefore exposed to risks involving major suppliers, such as force majeure events involving raw material suppliers (such as natural disasters, accidents, pandemics and wars) that may affect their production and supply, as well as macroeconomic and geopolitical events which may affect their transportation. In the event the Group needs to find substitute suppliers in such situations, there is no guarantee that the Group will be able to obtain raw materials under the same terms as the predecessor suppliers in a timely fashion or at all. In addition, shortages of raw materials and other supplies (due to factors such as the limited production capacities of suppliers and supply chain disruptions), supplier distress or insolvency, multilateral export/import controls imposed by governments, increased international shipment times due to factors such as the lack of qualified personnel at ports globally to load and/or unload cargo, or other issues, may make it difficult for the Group to engage in the timely procurement of raw materials and supplies and to manufacture its products. To the extent that lost production due to supply chain problems cannot be compensated for at unaffected facilities and depending on the length of the outage, the Group's sales and unit production costs could be adversely affected. Further, the Group is working towards "establishment of a responsible supply chain", and to the extent that there are any regulatory, labour, human rights or other social issues relating to any supplier in its supply chain, the Group's reputation, as well as its procurement and production activities, may suffer damage. Any disruptions to or issues relating to the Group's supply chain may materially adversely affect the Group's business, results of operations and financial condition.

### ***Competition from Alternative Materials***

Various materials offered by the Group, including steel and aluminium, competes with other materials that may be used as substitutes, such as carbon fibre, concrete, composites, glass, plastic and wood. In particular, with respect to steel, as a result of increasingly stringent regulatory requirements or developments in alternative materials, designers, engineers and industrial manufacturers, especially those in the automotive industry, are increasing their use of lighter weight and alternative materials, such as composites and plastics in their products. Furthermore, advancements in the automobile industry, including advancements in technology such as the electrification of automobiles, may reduce the demand for heavier steel products. For example, the electrification of automobiles may increase the need for lighter or stronger components, and non-steel products may better meet these needs and cause decreased use of steel parts. For these or other reasons, competition from alternative materials or advancements in the customers' industries could significantly reduce the market prices of, and demand for, certain of the Group's products such as steel products and have a material adverse effect on the Group's business, financial condition and results of operations.

### ***The Group's Medium-Term Management Plan***

The Group announced a new medium-term management plan in May 2021 covering the three years ending 31 March 2024. Under the plan, the Group's strategy included establishing a stable earnings base by strengthening earnings its steel business, ensuring a smooth start-up and stable operation of new electric power projects, strategically investing in its materials businesses, restructuring its unprofitable businesses, stabilising earnings in its machinery business, strengthening its financial structure, and taking on the challenge of realising carbon neutrality.

The implementation of the Group's strategies and achievement of its management targets and future sustainable growth involve challenges and are subject to risks and uncertainties, including the following:

- The Group may be unable to promptly pass on changes in raw material and energy costs through product pricing or to command prices with respect to its high-value-added products that it deems appropriate based on its costs and the value-add inherent in the relevant product, in each case due to the lack of customer cooperation, unfavourable market environment or other factors;
- The Group may be unable to increase the proportion of high-value-added products within its product mix due to slower-than-expected growth in demand for, or increased competition in sales of, such products;

- The Group’s strategic investment in its materials business, particularly relating to aluminium, may not lead to its expected sales volume due to the ongoing sluggish automobile production and slow progress in expanding aluminium applications, impacted by the acceleration of electrification of vehicles, which in turn may impede the passing on of the higher costs of aluminium products to selling prices;
- The Group may be unsuccessful in achieving the anticipated cost reductions from implementing its cost-reduction initiatives and enhancement of productivity and operational efficiency through the increased utilisation of digital tools under its digital transformation (DX) strategy as well as other cost-reduction measures; and
- The Group may incur unexpected additional costs related to its general operations or unexpected and significant one-time costs in connection with the ongoing implementation of the structural reforms under its business plan (see also “—Electric Power Business”).

In addition, the medium-term management plan was formulated based on a number of assumptions and estimates. If the assumptions and estimates underlying its medium-term management plan prove to be inaccurate or they unexpectedly change in a significant manner, the Group may not be able to compensate for such inaccuracies or changes by modifying its strategies or otherwise.

Furthermore, any of the risks set forth in this section could result in the Group’s inability to achieve the initiatives set forth in its medium-term management plan or future sustainable growth. The Group’s financial condition and results of operations may be adversely affected, and it may fail to achieve its targets set forth in the medium-term management plan if it fails to successfully implement or achieve any of the strategic initiatives set forth therein as described in “Business—The Group’s Medium-Term Management Plan”.

#### ***Demand for Innovative Products***

As the markets for the Group’s products develop and become more competitive, changes in product designs and technological advances allowing for better performance and/or lower cost occur. The Group works to create cutting-edge elemental technologies through research and development. Developing and marketing new products requires start-up costs that may not be recouped if these products or production techniques are not successful. There are numerous risks inherent in product development, including the risks that the Group will be unable to anticipate the direction of technological change or that it will be unable to develop and market new products and applications in a timely fashion to satisfy customer demands. The introduction and development of new technologies by competitors may rapidly make the Group’s products less attractive. Further, competitors may also develop product or service innovations that could put the Group’s products at a disadvantage. If all or any of the above occurs, the Group could lose customers and its business, results of operations and financial condition may be materially adversely affected.

#### ***Product Quality***

The Group provides a wide variety of products and services to its customers. The occurrence of quality defects in the Group’s products could subject it to claims from customers and/or claims from authorities. The Group’s customers may become dissatisfied with products sold by the Group for various reasons, including allegations that they had defects (including false data) or otherwise did not meet the customer’s expectations or specifications. Furthermore, there could be significant consequential damages resulting from defects in the Group’s products that are sold to, and used in, certain safety-critical applications, such as, for example, in automotive applications. With an increasing focus by the Group on high quality products for high-end applications, the risk posed from potential quality-control issues is increasing.

In October 2017, the Group announced that through data falsification and/or fabrication of inspection results, products (“Affected Products”) that did not meet, among others, public standards or customer specifications were shipped or provided to 688 customers as if they had met these requirements (the “Misconduct”). As a result, the Group was indicted by the Tokyo District Prosecutors’ Office for violating the Unfair Competition Prevention Act, and a fine of ¥100 million was imposed on the Group in a final court judgment. Various class actions and civil proceedings were also brought against the Group, which were settled between the Group and the plaintiffs. The Misconduct caused considerable reputational damage to the Group. In light of the Misconduct, the Group published a report in March 2018 (the “Report”) that analysed the causes of the Misconduct and recommended remedial measures to prevent similar occurrences in the future, which the Group considered and used to formulate and implement a variety of preventative measures.

While the Group has put in place various measures to assure the quality of the Group’s products, problems could still arise with the Group’s products, services and quality management systems. However developed a quality management system may be, it may still be affected by problems caused through factors such as misjudgement, malicious misconduct, or fraud. If unexpected defects were to be identified with respect to the Group’s products and

services, the Group may be required to take remedial measure to address any issues and make improvements to such product, including by recalling the product, as necessary. Claims from dissatisfied customers, whether litigated or settled out-of-court, as well as any civil or criminal actions against the Group in respect of any defects, may adversely affect the Group's business, results of operations and financial condition. Any adverse publicity could also damage the Group's reputation and brand image, as well as the trust of its customers, which could have a material adverse effect on its business, results of operations and financial condition.

### ***Global Operations***

The Group actively seeks to develop businesses in overseas markets to capture demand and meet customer trends towards obtaining supplies locally. In the Group's materials businesses, the Group engages in capital alliances with local steel companies in the United States, Thailand and China. In the Group's machinery business, the Group had manufacturing sites in 34 overseas sites in 15 countries as of 30 September 2023. The Group is currently constructing a slitting plant in Vietnam for copper strips for use in electronic materials, and is also taking part in a feasibility study relating to the Low-CO<sub>2</sub> Iron Metallics Project in Oman with a view to commercialising the manufacture and sale of DRI produced through the MIDREX<sup>®</sup> process. Some of the countries in which the Group's businesses are based have experienced political and/or economic instability in the past or are located in parts of the world where such instability is present. The Group's global operations are subject to risks similar to those affecting its Japanese operations as well as a number of additional risks including:

- difficulties in enforcing contractual and intellectual property rights;
- impositions or increases of withholding and other taxes on remittances and other payments by subsidiaries and affiliates or changes in tax policies in the jurisdictions in which the Group operates;
- exposure to different legal standards;
- trade restrictions and changes in tariffs;
- fluctuations in foreign currency exchange rates;
- impositions or increases of investment and other restrictions by foreign governments;
- the requirements of, and possible changes in, a wide variety of foreign laws;
- political and economic instability or slowdown and social turmoil;
- acts of terrorism, war, natural disasters, adverse weather conditions and epidemics;
- changes in the political and/or economic relationship between Japan and the countries in which the Group or its customers operate;
- changes in raw material prices and demand due to fluctuating exchange rates or other factors;
- unexpected events and accidents caused in particular by less developed infrastructure (such as power failures);
- differences in business practices;
- industrial action, general strikes or other disruptions in working conditions; and
- difficulties associated with managing local personnel and operations, including supervision, compliance, monitoring and management control.

In addition, if the overseas operations of the customers of the Group are similarly affected, this may affect such customers' demand for the Group's products and the Group's business, results of operations and financial condition may be negatively affected.

### ***Acquisitions, Alliances, Joint Ventures and Other Relationships***

From time to time, the Group has entered into and implemented alliances, joint ventures, collaborations, mergers and acquisitions and other corporate actions with various business partners. The Group aims to enter into these arrangements or transactions with various goals and objectives, including to reinforce its international competitiveness, to improve and expand its product development or production, sales and service capabilities. The Group enters into alliances, joint ventures and collaboration arrangements when it believes that such arrangements offer synergies with its businesses and could enhance its competitiveness globally. However, there can be no assurances that the Group will realise the anticipated benefits of or recoup any investments it makes in connection with such alliances, joint ventures

or arrangements. While the Group strives to attain a consistent understanding with its alliance, joint venture or collaboration partners as to the business goals and strategic objectives that such arrangements are intended to achieve before entering into them, there may be situations in which such goals and objectives subsequently diverge, which could result in an inability by the Group to achieve the intended goals and objectives of such arrangements or the termination of such arrangements, which in turn could adversely affect the Group's business, results of operations and financial condition. Further, such alliances, joint ventures or arrangements may be varied or terminated by the Group's counterparties, for reasons such as change in ownership or the strategic direction of such counterparties. For example, in August 2023, United States Steel Corporation ("US Steel"), the Company's joint venture partner in respect of the operation of PRO-TEC Coating Company, LLC (engaged in the manufacture and sale of galvanised steel sheet and cold-rolled, high-tensile strength steel) in the United States, became subject of an unsolicited takeover offer from a rival steelmaker; while US Steel has so far rejected such offer, it has announced that it is undertaking an evaluation of strategic alternatives for the company. These or other similar developments may affect the Group's business partners, and affect the Group's business through changes in relationships with them.

In addition, the Group enters into merger and acquisition transactions or capital participations from time to time. The pursuit and successful completion of these transactions require the commitment and dedication of significant management and capital resources and there can be no assurances that the Group will be successful in identifying attractive opportunities or completing such transactions. Further, even though the Group carefully considers any potential transactions, including performing due diligence where relevant, after the completion of such transaction the Group may discover unanticipated liabilities or unforeseen issues that limit or decrease the value of the acquired business. Integrating the operations and personnel of acquired businesses is also often a complex and time-consuming process in these transactions, and if the Group is unable to successfully manage such process or realise expected synergies, it may not be able to fully derive the benefits of such transactions, it may recognise impairment losses, and the Group's business, results of operations and financial condition may be adversely affected. Acquisitions may also lead to the recording of significant goodwill, which may increase amortisation expenses; it may also be subject to future impairment, depending on the performance of the acquired business. These factors could negatively impact the Group's results of operations and financial condition.

The Group has also entered into a wide variety of commercial contracts, including sales contracts, purchasing contracts, and technical contracts, power supply contracts and agreements relating to its project finance transactions. Under such contracts the Group is subject to various obligations and covenants. The Group may need to make certain decisions and resource allocations that it may not otherwise choose to make, in order to meet the requirements of those obligations and covenants. Furthermore, in the event that the Group is not able to meet the requirements under such agreements, there may be financial or other consequences of such inability. Any such events may have an adverse effect on the Group's business, operations or results of operations.

### ***Chinese Market***

The Group operates both production and sales bases in China, one of the world's primary economic powers. In addition, many of the Group's customers also operate production bases in China and the growth strategies of some of such customers are dependent on economic growth in China. Sales to customers in China accounted for 8.0 per cent and 6.8 per cent of the Group's net sales for the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, respectively. The impact of economic reforms and other policies implemented by the Chinese government can be unpredictable and may have unforeseen results. In addition to the risks described in "— Macroeconomic Conditions" above, in the event that unexpected events occur due to political factors such as changes in laws, regulations and policies, economic factors such as weaknesses or defaults in major industry sectors (such as the real estate sector weakness currently being experienced), a slowdown in economic growth, trade tensions between China and the United States, exchange rate fluctuations between the Renminbi and the US dollar and/or the Japanese yen, problems with electric power supply and other infrastructure systems, the development of electric vehicle technology and the reduced presence of Japanese automobile manufacturers in the Chinese market, changes in sentiment towards Japanese companies such as the Group as a result of reaction to political events such as the release of ALPS (Advanced Liquid Processing System) treated water into the Pacific Ocean by Japan following the Fukushima Daiichi nuclear disaster, and/or social factors such as widespread disease, there could be a material adverse effect on the Group's business, results of operations and financial condition.

### ***Currency Exchange Rates***

There have been considerable fluctuations in foreign exchange rates in recent years, which has seen the Japanese yen weaken significantly against the US dollar and other currencies. The Group engages in foreign currency-denominated transactions, primarily denominated in US dollars, but also in euro and Renminbi. The Group's results of operations can be affected by exchange rate fluctuations if, for instance, amounts it received in foreign currencies as the value of its export products and amounts it paid in foreign currencies as the value of import raw materials do not completely offset each other.

If the Japanese yen depreciates against other foreign currencies, the yen equivalent cost of raw materials would typically increase, and if the Group is unable to reflect in a timely manner the adverse impact of its cost increases in the pricing for its sales to customers, its margins would be adversely affected. If the Japanese yen appreciates against other foreign currencies, the domestic demand for the Group's products can decrease due to the weaker price competitiveness for the Japanese manufacturers that use the Group's products such as automotive manufacturers, and the Group's products can lose its price competitiveness in the foreign markets. These factors could affect the Group's results of operations and financial condition.

Furthermore, the Group's foreign currency-denominated assets and liabilities are reported in the relevant local currencies and then translated to yen and the financial statements of its foreign subsidiaries are also translated from the relevant local currencies into yen, which may cause consolidated assets, liabilities, income and expenses to fluctuate.

Over the short term, the Group enters into foreign exchange contracts to limit the impact of fluctuations in exchange rates. However, because of the difficulties in fully hedging fluctuation risks, sharp changes in foreign exchange rates could adversely affect the Group's results of operations.

### ***Facilities and Outages***

The Group manufactures a variety of its products using many large-scale manufacturing facilities such as blast furnaces, coke furnaces, converters, continuous casting machines, rolling mills, annealing furnaces and power plants. Some of these facilities, such as the Kakogawa Works which commenced its steelmaking operations in 1970, have been in operation for decades and are approaching their renewal dates. If the Group's facilities and operations, or renewals of the Group's arrangements in relation thereto, are disrupted or delayed due to unforeseen equipment and system issues, earthquakes, explosions, fires, floods, droughts, typhoons, heavy rain, pandemics, terrorism, accidents or other severe weather conditions, the Group's production volume may decrease, and renewal costs or repair and maintenance costs may increase. As a result, the expected cost reductions and sales growth set out in the Group's Medium-Term Management Plan may not be achieved, which could adversely affect its results of operations. Furthermore, because the majority of its domestic steel manufacturing is concentrated in its Kakogawa Works, if the Group's operations are disrupted or delayed at this site due to unforeseen circumstances, the adverse impact may be worse compared to if the Group had manufacturing facilities that are more dispersed domestically across multiple sites.

### ***Accidents***

The Group engages in businesses in industries that are characterised by relatively high rates of accidents, including those involving work at considerable heights or in high-temperature environments in blast furnaces and converters and handling of flammable gases, chemicals and other hazardous materials, which may result in fires, explosions, spills and other unexpected or dangerous accidents causing property damage as well as personal injuries or death. The Group strives to create work environments which are safe and free from accidents. However, in the event a workplace injury or serious accident at the Group's production facilities occurs, the Group's business activities may be significantly interrupted, and it may be exposed to losses and liability, which could materially affect its results of operations and financial condition in addition to significant damage to its reputation. To the extent such significant interruptions cause delays in fulfilling customer orders, the Group's customer relations may be adversely impacted and as a result materially affect its business, financial condition and results of operations. In addition, the Group's insurance may only provide the Group with limited coverage in the event it is exposed to significant losses and liability from certain workplace injuries or serious accidents (see "—Insurance").

### ***Natural Disasters, Pandemics, Wars, and Terrorism***

Natural disasters such as major earthquakes, typhoons floods, tsunamis and volcanic eruptions, rapid outbreaks of infectious diseases, wars, internal disturbances, riots and acts of terrorism could interrupt the Group's business activities. In the past, the Group suffered a significant impact from the Great Hanshin-Awaji Earthquake in Kobe in 1995. If any of these were to occur in the future in any area where the Group's assets, operations, suppliers or customers are located, the Group's business and results of operations could be adversely affected. For example, a serious natural disaster affecting any of the Group's major manufacturing sites may lead to catastrophic loss of facilities as well as personnel, leading to halting of operations, suspension or delay in shipment of products, and substantial reduction of revenues and recording of extraordinary losses. As another example, a serious outbreak of an infectious disease could lead to measures such as travel bans and restrictions, quarantines, shelter-in-place orders and shutdowns, and adversely affect the Group's business activities and sales volume as well as those of its customers. The Group could also face a similar decrease in its sales volume due to lower production levels in its client industries as a result of international conflicts, including wars and acts of terrorism, that affect the global economy. Furthermore, the Group's production volumes may also be adversely affected if the production or shipment of raw materials is interrupted due to natural disasters or other unexpected events such as the suspension of port facilities in regions where the Group's suppliers are located. Any of these events could materially adversely affect the Group's business, results of operations and financial condition.

### ***COVID-19 and Other Diseases***

During the course of the COVID-19 pandemic, the Group's customers significantly decreased the amount of the Group's products they purchased and, as a result, the Group saw a significant decrease in sales for the fiscal year ended 31 March 2021, particularly in the automotive, aircraft, and construction sectors. Moreover, the Group's ability to operate certain of its overseas facilities and the ability of certain of its suppliers to operate were impaired by lockdown or similar orders, and the ability of those suppliers or other vendors may be impaired again in the future, whether due to additional governmental measures or due to localised outbreaks at the Group's facilities or among its employees (or those of the Group's suppliers or other vendors).

While most global economies are no longer being as severely impacted by the more restrictive constraints on activities imposed during periods of higher COVID-19 infections, the full impact of the COVID-19 pandemic remains unclear. If COVID-19 infections, or any other type of infectious diseases, were to become widespread again, governments may re-impose travel restrictions, curfews and shutdowns to restrict the movement of people and control the spread of the disease. Such restrictions could affect demand for the Group's products and services, or lead to new supply chain disruptions or the worsening of existing supply chain disruptions (see "—Supply Chains"), and adversely affect the Group's business, results of operations and financial condition.

Furthermore, the after-effects of the COVID-19 pandemic have significantly influenced the competitive landscape. For example, Chinese steel producers were able initially to increase production faster than competitors in other countries as it emerged from restrictions on economic activity relatively earlier. Moreover, the strain on shipping and logistics caused by restrictions on movement as a result of the pandemic have accelerated existing trends of customers using local steel production facilities to supply their operations caused by pre-existing economic and political conditions, which may negatively affect the Group's business, particularly if it is unable to successfully increase the proportion of its production that occurs outside of Japan.

### ***Electric Power Business***

In the Group's electric power business, the Group operates the Kobe Power Plant and the Moka Power Plant to provide contract partners with a large amount of electricity on a stable, long-term basis. The electric power business in Japan is subject to ongoing regulatory changes, which seeks to ensure balanced overall electricity supply and demand in Japan at affordable rates to end users while taking into consideration various other factors, including economic conditions, national standard of living, long-term energy supply and demand plans and seasonality. Significant shifts in regulations, industry practices or in prices for fuel or power, such as a push towards reduction in use of power generated by fossil fuel-fired power plants, as well as the significant uncertainty regarding the future demand for independently produced power from major utilities and end users, could adversely affect the demand for electricity generated by the Group or the profitability of the Group's electric power business. In addition, the Group generates the majority of its electric power business revenue from single contracts for sale of power to Kansai Electric Power Co., Inc. and Nijio Co., Ltd. (a subsidiary of Tokyo Gas Co., Ltd.). In the event the Group is not able to renew or extend such contracts, its revenue from its electric power business may be materially adversely affected.

The Group's electric power business is also particularly exposed to certain environmental and legal risks (see "—Disputes" and "—Considerations Relating to Legal, Regulatory, Compliance and Reputational Risks—Environmental Liabilities"). In particular, a lawsuit was filed in Japan in 2018 against several Group entities, seeking an injunction to prevent the construction and operation of certain of the Group's Kobe Power Plant operations, on the basis that such operations would violate certain rights of residents, impact air quality and conflict with Japan's climate targets. The Kobe District Court dismissed the claim in March 2023, although the claimants have filed an appeal. This or any further or similar claim, if determined adversely, would materially adversely affect the Group's electric power business by restricting operations, reducing revenue and resulting in impairments of asset values. Such claims can also cause reputational damage which may also negatively impact the Group's operations. Further, the Group's involvement in supplying power through fossil fuel-powered power plants may make it the subject of criticism and other actions by parties such as investors and activists (see "—Greenhouse Gas Emissions"), which may adversely affect the Group's business as well as the price of the Shares.

### ***Tariffs and Duties***

Countries to which the Group makes export sales may take restrictive measures, such as trade tariffs, or anti-dumping duties and other non-tariff barriers, to protect their home markets. Such actions can significantly undermine the competitiveness of the Group's exports to the affected countries. Moreover, uneven application of waivers or exemptions from tariffs has a negative effect on the Group's competitive position. Any increases in or new imposition of tariffs, anti-dumping duties, countervailing duties or quotas on the Group's sales in major overseas markets could result in a material reduction in the Group's export levels, which could have a material adverse effect on its business, operating results and financial condition.

### ***Information Security***

During the course of the Group's business activities, the Group acquires confidential information and personal information of its customers and business partners. While the Group implements internal policies and regular training for employees with respect to the proper handling of confidential information and place rigorous controls across the Group to ensure protection of these types of information, there can be no assurance that its efforts to ensure the security and proper management of such information will be fully effective. In addition, system interruptions and malfunctions can occur for a number of reasons, including natural disasters, power failures, software errors, hardware problems, network failures, difficulties with the Group's service providers, overwhelming online traffic, sabotage, hacking, computer viruses, malware and other similar factors. Any leakages or tampering of confidential information or personal information as a result of these incidents could lead to a loss of the Group's technological advantage and could give rise to significant liability or litigation, any of which could harm its reputation and adversely affect its business. Furthermore, the Group may have greater exposure to such incidents as it advances its digital transformation (DX) initiatives and become more susceptible to system failures.

### ***Human Resources***

In order to support its growth and provide high-quality products and services, the Group depends on its ability to attract, employ and retain a diverse group of skilled employees. Amid an ageing population, a decrease in the working-age population and relative labour shortage in Japan, the Group is enhancing its efforts to attract and employ a sufficient number of skilled employees, develop a capable workforce through its human resource development programs and improve labour productivity through labour-saving initiatives. However, if the Group is unable to secure a sufficient number of skilled employees or adequate workforce, it may lose stability of its manufacturing operations and lose its competitive advantage, which could negatively affect its financial condition and results of operations. In addition, the Group may incur additional labour costs in connection with retaining skilled employees, including increased salaries, especially in light of the recent upward pressure on wages in Japan. Furthermore, inadequate labour management could result in increased turnover of employees and significant harm to the Group's credibility, which could adversely affect the Group's business and financial conditions. The Group also depends on the services of its senior management team and any unexpected loss of key personnel could have an adverse effect on its results of operations, financial condition and competitive position.

### ***Intellectual Property***

Patents and other forms of intellectual property rights are competitive factors in the markets in which the Group operates, which are characterised by constantly evolving technology. The Group holds intellectual property rights in Japan and overseas to protect its rights to use the technologies and trademarks necessary for its business activities. However, there can be no assurance that the Group will always be successful in adequately protecting its technologies and effectively deterring its competitors from improper use of its proprietary technologies. To the extent the Group enters into joint ventures with third parties, it may face particular challenges in protecting its intellectual property and clarifying the ownership of any jointly developed intellectual property.

In addition, a successful invalidation of the Group's intellectual property rights by third parties may result in a decline in its competitiveness in the relevant business area, which could affect its results of operations. If a third party infringes on the Group's intellectual property rights, or an external or internal member leaks its intellectual property information, the Group's results of operations could be negatively affected due to a decline in the value of its technologies or products, the failure to collect damages or similar results.

Furthermore, in the normal course of the Group's business, the Group investigates intellectual property rights that are held by third parties and take measures to avoid infringing upon such rights. However, there can be no assurance that third parties will not assert infringement claims against the Group or that such claims will not be successful. Such infringement claims could result in payment of monetary damages, suspension of the Group's operations involving subject technologies, necessity to develop or acquire non-infringing technologies, increased legal expenses, damage to the Group's reputation and other costs, any of which could negatively impact the Group's results of operations.

### ***Disputes***

Due to the nature and scope of the Group's business, it is subject to the risk of litigation and out-of-court disputes from a wide range of third parties including customers, vendors, suppliers, regulators or other governmental entities, employees and other parties such as activists, in connection with a wide variety of claims (including claims related to breach of contract, personal injury and product defects) or controversies in the ordinary course of business. In the event of an adverse judgment or out-of-court settlement, the Group may incur significant damages or expenses and its financial condition and results of operations could be adversely affected. In addition, negative publicity arising from litigation, whether justified or not, could harm the Group's brand and reputation. See “—Greenhouse Gas Emissions”, “—Product Quality” and “—Electric Power Business”.

## ***Funding***

The Group's business requires capital expenditures for facilities and equipment in order to expand or technologically develop its production capabilities, as well as investments in research and development for new technologies and products. In addition, the Group has significant ongoing and planned capital expenditures, aimed at improving the quality of the Group's strategic products as well as gaining manufacturing efficiencies, emission reductions and cost reductions.

Where the Group needs to incur additional indebtedness to fund such expenditures, there can be no assurance that the Group will be able to obtain financing when necessary on terms acceptable to it to meet its future capital needs. Market trends such as increases in global inflation, increases in interest rates, an end to or reduction in accommodative monetary policy by many governments, and scrutiny by investors requiring environmental impact assessments of the companies in which they invest (including financial institutions which provide funding to the Group), may all impact the Group's ability to raise funds. The Group's interest-bearing debt (comprising of short-term and long-term loan and bonds payable) consist principally of bank loans and bonds; it has also utilised project financing structures to finance its electric power generation projects. The Group has significant interest-bearing debt, amounting to ¥590.5 billion (¥861.8 billion if including project financing liabilities) as at 31 March 2023, and ¥563.3 billion (¥817.6 billion if including project financing liabilities) as at 30 September 2023. While fixed rate obligations account for the majority of the Group's interest-bearing debt, and its policy is to not take interest rate risk exposure for long-term financing, any increases in the prevailing market interest rates for debt denominated in Japanese yen or other currencies, however, could increase its interest expenses in the future with respect to any new borrowings or other fundraising such as the issuance of corporate bonds. Any such increase in interest expenses could have a negative impact on the Group's results of operations and financial condition. Further, the Group is subject to certain financial covenants in relation to its general borrowings, as well as in relation to the project finance loans relating to its electric power projects (see "Recent Business—Liquidity and Capital Resources—Funding"). If the Company or the borrowers under the project financing were to fail to comply with such covenants, they may be required to repay such borrowings, or to negotiate waivers at terms unfavourable to the borrower, which may adversely affect the Group's results of operations and financial condition, as well as its ability to raise funding.

The Group also provides loans to its affiliates, and guarantees certain liabilities of its affiliates and customers (for contingent liabilities regarding notes and loans guaranteed by the Company, see Note 11 to the audited consolidated financial statements of the Company as of and for the fiscal year ended 31 March 2023, and Note 1 to the unaudited quarterly consolidated financial statements of the Company as of and for the six-month period ended 30 September 2023, included elsewhere in this Offering Circular). If any of these loans were to be defaulted upon, or if the Company is required to perform its guarantee obligations, this may adversely affect the Group's results of operations and financial condition.

## ***Insurance***

The occurrence of an event that is uninsurable or not fully insured could have a material adverse effect on the Group's business, financial condition, results of operations or prospects. The Group maintains fire insurance on property and equipment in amounts that it believes are commercially reasonable in consideration of possible risks, but the Group is not fully insured against all such risks. The Group's insurance policies cover physical loss or damage to its property and equipment as arising from a number of specified risks and certain consequential losses, including business interruption arising from the occurrence of an insured event under the policies. However, not all of the Group's properties are covered by insurance in respect of floods, and the Group does not have significant insurance coverage with respect to, earthquakes, volcanic eruptions, tidal waves, terrorism, acts of war or certain other kinds of risks. The Group generally chooses its insurance policies by balancing premium costs with coverage amount, and as a result, its insurance policies may only provide it with limited coverage for certain types of events. Notwithstanding the insurance coverage that the Group has, the occurrence of an event that causes losses in excess of limits specified under the relevant policy, or losses arising from events not covered by insurance policies, could materially harm the Group's financial condition and results of operations.

## ***Provision of Credit to Business Customers***

The Group extends credit to its business customers in the form of trade receivables and sets what it believes are appropriate payment terms and limits and reserves for credit losses to avoid exposure to credit risk. However, these measures do not ensure complete avoidance of exposure to credit risk, and if the financial condition of the Group's business counterparties (in particular, customers to which the Group regularly provides a large volume of its products) were to deteriorate, which may occur simultaneously if the markets in which the Group's business counterparties operate were to deteriorate, the Group's credit losses may increase, which may adversely affect the Group's results of operations and financial condition.

### ***Retirement Benefit Plans***

The Group operates two defined benefit retirement plans, which consist of unfunded lump-sum payment plans and funded non-contributory pension plans, for its employees. Costs related to retirement benefit liabilities are calculated based on actuarial assumptions, including discount rates. Fluctuations in interest rates and the fair value of assets or changes in the retirement allowance system could affect the Group's results of operations and financial condition. For more information on the Group's pension plans, see Note 26 to the audited consolidated financial statements of the Company as of and for the fiscal year ended 31 March 2023 included in this Offering Circular.

### ***Equity Holdings***

As at 31 March 2023 and 30 September 2023, the Group held ¥204.6 billion and ¥232.4 billion, respectively, in investment securities, comprising principally of Japanese equities. Fluctuation in the prices of listed shares held by the Group could affect the Group's operating results, particularly if the Group is required to recognise any impairment in the value of such investment securities. In certain cases, the Group holds equity securities of other Japanese companies (with such latter companies holding the Shares) in view of the strategic relationships that the Group has with such companies. If such companies were to sell the Shares which they hold, due to the change in relationship with the Group or for other reasons, that could create a downward pressure on the price of the Shares.

### ***Impairment***

The Group's long-lived assets primarily consist of property, plant and equipment. The Group periodically reviews the carrying values of its long-lived assets to determine if the expected amounts to be realised from these assets will be sufficient to recover their respective carrying values. If these long-lived assets do not generate sufficient cash flows, the Group will need to recognise impairment losses. The value of the Group's inventory, which principally consists of merchandise and finished goods, work-in-process and raw materials and supplies, can also be subject to impairment if market conditions result in a decrease in net realisable value below the recorded cost.

The Group recorded impairment losses of ¥49.9 billion in the fiscal year ended 31 March 2020, primarily in respect of manufacturing assets for titanium, steel castings and forgings, aluminium forgings for suspensions (in Japan), and aluminium castings and forgings, due to the decrease in profitability resulting from worsening demand environment and productivity, as well as investments in facilities that did not start up as planned. The Group also recorded impairment losses amounting to ¥13.5 billion and ¥4.4 billion in the fiscal years ended 31 March 2021 and 2023, respectively (see Note 19 to each of the audited consolidated financial statements of the Company as of and for the fiscal year ended 31 March 2022 and as of and for the fiscal year ended 31 March 2023 for impairment losses recorded in the fiscal years ended 31 March 2021 and 2023).

A significant amount of judgement is involved in determining if an indication of impairment exists. Factors may include, among others: continued recording of losses or a significant decline in the expected future cash flows of the business or product line which benefits from the asset in question; a significant adverse change in legal factors or in the business climate; and unanticipated competition. Any adverse change in these or other factors could have a significant impact on the recoverability of these assets and negatively affect the Group's results of operations and financial condition. It is difficult to accurately predict the amount and timing of any impairment required. Should the relevant assets not generate sufficient cash flows, and if the Group recognises impairment of the value of such assets, there could be a material adverse effect on the Group's results of operations and financial condition.

### ***Deferred Tax Assets***

The Group recorded ¥46.6 billion of deferred tax assets as at 31 March 2023 to the extent that deductible temporary differences and tax losses carryforwards were expected to reduce future taxable income. The amount of gross deferred tax assets as at 31 March 2023 before being offset by deferred tax liabilities amounted to ¥87.1 billion; of this amount, the gross deferred tax assets held by the Company and certain of its domestic subsidiaries that apply the "Group Tax Sharing System" having the Company as the parent company of the tax sharing group (the "tax sharing group") accounted for ¥56.8 billion, representing 2.0 per cent of total assets in the consolidated financial statements as of such date. As the Group applies the Group Tax Sharing System, the Group determines the recoverability of deferred tax assets relating to corporation tax and local corporation tax with consideration for the total amount of taxable income of the entire tax sharing group, which is based on the taxable income projections of the tax sharing group. The estimated income before the aggregation to be generated in the taxable income projections of the tax sharing group, which was used to determine the recoverability of the deferred tax assets, was based on the business plan prepared by the Company's management.

The Group has estimated taxable income over a certain future period based on its Medium-Term Management Plan, budget, and other business plans that management has judged to be appropriate, and has made judgments about when specific deductible temporary differences are expected to reverse. The Group has incorporated key assumptions, including forecasts of demand and sales prices in the main businesses, when formulating business plans. There tends to

be a high degree of uncertainty in such estimations. If projections of future taxable income fluctuate significantly as a result of the impact on the demand for the Group's products, and the recoverability of deferred tax assets fluctuates significantly as a result, there may be a material impact on the recorded amount of deferred tax assets in the following consolidated fiscal year. This may materially adversely affect the Group's results of operations in the relevant year.

## **Considerations Relating to Legal, Regulatory, Compliance and Reputational Risks**

### ***Compliance and Internal Control***

In connection with its various businesses, the Group is subject to a broad array of laws and regulations in Japan and other jurisdictions in which it operates, including those pertaining to the environment, labour, health and safety, commerce and trade, embargoes, exports and imports, national security, foreign exchange, intellectual property, taxation, antitrust and competition. Such regulatory frameworks, including economic sanctions, are constantly evolving, and the Group may, as a result, become subject to increasing limitations on its business activities or the risk of penalties or other sanctions for non-compliance. Certain of the laws and regulations, such as those relating to anti-corruption, sometimes not only require compliance by the Group but also by parties acting on its behalf. Changes and developments in these laws and regulations may require the Group to incur significant costs associated with enhancing its compliance functions, which could negatively affect its business, results of operations and financial condition. Any violation of relevant regulations could result in fines, mandatory suspension from certain business activities, other governmental actions or proceedings or civil litigation and could also adversely affect the Group's reputation, business and results of operations.

While the Group has in place risk management, internal control and compliance systems for the purpose of complying with such laws and regulations, such systems may require frequent monitoring, maintenance and continual improvements. Such internal control and compliance systems, no matter how sophisticated in design, still contain inherent limitations caused by misjudgement or fault, or deliberate acts of misconduct or fraud. There can be no assurance that efforts to maintain these systems will at all times be effective and adequate, or that efforts made by the Group to promote compliance will always succeed in ensuring compliance or in preventing deliberate misconduct by employees or relevant third parties.

### ***Environmental Liabilities***

The Group is subject to a broad range of environmental laws and regulations in each of the jurisdictions in which it operates. These laws and regulations impose increasingly stringent environmental protection standards including regarding wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices and the remediation of environmental contamination. The costs of complying with, and the imposition of liabilities pursuant to, current and future environmental laws and regulations could potentially be significant, and compliance with new and more stringent obligations in the future may require the Group to make additional capital expenditures or modify its operating practices. Despite the Group's efforts to comply with environmental laws and regulations, environmental incidents or accidents may occur that negatively affect its reputation or the operations of key facilities. The Group could also be exposed to civil liabilities, administrative penalties, criminal sanctions and suspension or closure orders for non-compliance with these regulations, as well as encounter delays in obtaining or suspension of environmental or other operating licenses. Waste disposal and emission practices may result in the need for the Group to clean up or retrofit its facilities at substantial costs or subject it to substantial liabilities. Environmental regulatory restrictions imposed by foreign markets to which the Group exports its products may also materially and adversely affect the Group's export sales.

Furthermore, heightened global awareness and international and national commitments to reduce greenhouse gas emissions and counteract climate change (including increased activism by non-governmental and political organisations campaigning against fossil fuel extractions) may lead to increased costs for the Group. For example, the Glasgow Climate Pact which was agreed to at the 2021 United Nations Climate Change Conference ("COP26") in November 2021 includes commitments to phase down the use of unabated coal power and inefficient fossil fuel subsidies. The Japanese government also announced its commitment to reduce greenhouse gas emissions by 46 per cent by 2030. These trends may require the Group to substantially alter its operations in order to reduce the level of its emissions. See also "Considerations Relating to the Group's Business—Greenhouse Gas Emissions".

## **Considerations Relating to the Company's Financial Information**

### ***Differences in Generally Accepted Accounting Principles***

The Company's consolidated and non-consolidated financial statements are prepared and presented in accordance with Japanese GAAP, which differs in certain respects from IFRS and generally accepted accounting principles and quarterly financial reporting standards in other jurisdictions. The Company's financial statements may therefore differ from those prepared for companies outside Japan. This Offering Circular does not include a

reconciliation of the Company's or the Group's financial statements to IFRS or to any other generally accepted accounting principles or reporting standards. Such reconciliation may identify quantitative differences between Japanese GAAP and IFRS or between Japanese GAAP and such other generally accepted accounting principles or reporting standards.

#### ***Unaudited Quarterly Consolidated Financial Statements***

This Offering Circular contains unaudited quarterly consolidated financial statements as of and for the six-month period ended 30 September 2023 (together with corresponding figures for the six-month period ended 30 September 2022), which are not required to be, and have not been, audited by the Company's independent auditor. The unaudited quarterly consolidated financial statements of the Company as of and for the six-month period ended 30 September 2023 (together with corresponding figures for the six-month period ended 30 September 2022) included in this Offering Circular have been reviewed by the Company's independent auditor in accordance with the quarterly review standards generally accepted in Japan.

The unaudited quarterly consolidated financial statements contained in this Offering Circular are not wholly comparable with the annual audited consolidated financial statements contained in this Offering Circular and should not be so compared. In particular, such unaudited quarterly consolidated financial statements may reflect seasonal factors, which do not affect other periods or the annual results to the same degree, or at all, and/or may reflect temporary economic or market trends which are not sustainable. Accordingly, the information contained in or based on such unaudited quarterly consolidated financial statements may not be indicative of the Group's consolidated annual results as of and for the year ending 31 March 2024 or for future fiscal periods.

#### **Considerations Relating to the Bonds and the Shares**

##### ***Limitations on the Timing of Exercise of Stock Acquisition Rights***

Since the coming into effect of the Act on Book-Entry Transfer of Corporate Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended) (including regulations promulgated thereunder, the "Book-Entry Act") in January 2009, under the current rules and practices of the JASDEC, delivery of the Shares to the Bondholders after the Stock Acquisition Date will take at least three business days. In order to avoid any JASDEC system processing errors around the record dates, the Stock Acquisition Rights have been designed under Condition 5.1.4 of the Conditions for each Series of Bonds so that they may not be exercised during such period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period. Bondholders should therefore note in particular that exercises of Stock Acquisition Rights are restricted in the period around any record date in respect of Shares set by the Company (under the Company's Articles of Incorporation as at the date of this Offering Circular, 31 March and 30 September in each year).

##### ***No Cash Amounts in respect of Non-unit Shares***

Since the coming into effect of the Book-Entry Act, making it possible for listed shares of Japanese companies comprising less than one whole unit to be delivered through the JASDEC book-entry transfer system, JASDEC has given guidance to the effect that stock acquisition rights of Japanese companies issued since then should be structured so that exercising holders should have shares not constituting one whole unit delivered to their accounts, instead of automatically selling back such shares to the issuer of such stock acquisition rights and receiving cash amounts in respect of them. Bondholders exercising their Stock Acquisition Rights will therefore not be receiving cash amounts in respect of the Shares of less than one whole unit which would have been issuable upon such exercise, which had been paid, in the practice before the Book-Entry Act came into effect, but will be receiving those Shares themselves. Currently, the Company's Articles of Incorporation provide that one unit comprises of 100 Shares. Accordingly, the holders of Shares constituting less than one full unit will need to request the Company to purchase them in accordance with the Companies Act, the rules of the JASDEC book-entry transfer system, the Company's Articles of Incorporation and the Company's Share Handling Regulations if they would like the Company to do so; alternatively, such holders may require the Company to sell sufficient number of Shares in order to make its holding a full unit in accordance with the Companies Act, the rules of the JASDEC book-entry transfer system, the Company's Articles of Incorporation and the Company's Share Handling Regulations. The rights of holders of Shares not constituting one whole unit are limited under the Company's Articles of Incorporation, and may not be tradable on the stock exchanges on which they are listed. See "Description of the Shares—Unit Share System".

##### ***Limitations on Anti-dilution Protection for Bondholders***

The Conversion Price at which the Stock Acquisition Rights may be exercised will be adjusted in certain events having a dilutive impact on the Shares, to the extent described in the Conditions for each Series. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

### ***Trading Market for the Bonds***

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although approval in-principle has been received for the listing of each Series of Bonds on the SGX-ST, there can be no assurance that an active trading market for the Bonds of any Series will develop. Furthermore, even if such a market does develop, it may not be liquid.

### ***Market Price of the Bonds***

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Shares and it is impossible to predict whether the price of the Shares will rise or fall. Any decline in the price of the Shares will have an adverse effect on the market price of each Series of Bonds. Trading prices of the Bonds and Shares will be influenced by, among other things, the financial position and results of operations of the Group, including the reporting of its financial results. In addition, the market price of the Bonds is expected to be affected by any downgrade or other events negatively affecting the Company's credit rating.

### ***The Bonds are Unsecured***

The Bonds do not benefit from any security and the Bondholders' claims will rank behind any secured creditors in the event of the Company's liquidation or bankruptcy.

### ***Daily Price Range Limitations under Japanese Stock Exchange Rules***

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell Shares received in exercise of the Stock Acquisition Rights at a price above or below the relevant daily limit may not be able to sell their Shares at such price on a particular trading day, or at all.

### ***Rights of Shareholders under Japanese Law***

The corporate affairs of the Company are governed by and in accordance with the Articles of Incorporation, Regulations of the Board of Directors and Share Handling Regulations and other related regulations thereunder of the Company, as well as the Companies Act. Legal principles relating to such matters as the validity of corporate procedures, directors' and officers' fiduciary duties (including actions that may legitimately be taken by them in respect of unsolicited takeover attempts) and liabilities, and shareholders' rights under Japanese law may be different from those that apply to companies incorporated in other jurisdictions. Holders who acquire the Shares upon exercise of the Stock Acquisition Rights may have more difficulty in asserting their rights as a shareholder than they would as a shareholder of a corporation organised in other jurisdictions. In addition, Japanese courts may not be willing to enforce judgments of non-Japanese courts against the Company which are based on non-Japanese securities laws.

### ***Prior Notification under the Foreign Exchange and Foreign Trade Act of Japan***

As the Company is engaged in certain businesses designated by the Foreign Exchange and Foreign Trade Act of Japan and its related cabinet orders and ministerial ordinances (collectively, the "Foreign Exchange Regulations"), if a foreign investor intends to acquire Shares in circumstances that constitute an "inward direct investment" under the Foreign Exchange Regulations, the foreign investor, in general, must file prior notification of such inward direct investment with the Minister of Finance and any other competent Ministers (the "Ministers"). "Inward direct investment" includes an acquisition of Shares as a result of which such foreign investor, in combination with any existing holdings, directly or indirectly holds 1 per cent or more of the total number of issued Shares or the total number of voting rights.

While certain exemptions from the prior notification requirements are provided for under the Foreign Exchange Regulations, certain foreign investors seeking to make such acquisition may not be eligible for such exemptions. Where such prior notification is filed, the proposed acquisition may not be consummated until a prescribed screening period expires. In some cases, the Ministers may extend the screening period, and may recommend or order a modification or rejection of such acquisition. In addition, if certain conditions including those prescribed in light of national security of Japan under the Foreign Exchange Regulations are met, the Ministers may order the disposal of Shares acquired or take other measures. Consequently, any foreign investor seeking to acquire Shares in a transaction that constitutes an "inward direct investment" may not be able consummate such acquisition within an expected time frame, in accordance with an intended plan, or at all.

Additionally, if a foreign investor directly or indirectly holds 1 per cent or more of the total voting rights and, at a general meeting of shareholders, consents to certain proposals having a material influence on the Company's management such as the (i) election of such foreign investor or any of its related persons (as defined in the Foreign

Exchange Regulations) as Directors or corporate auditors of the Company or (ii) transfer or discontinuation of its business, such consent, subject to certain exemptions, also constitutes an “inward direct investment” requiring prior notification. If such prior notification is filed, such consent cannot be given until the prescribed screening period expires. As a result, such foreign investors may have difficulties giving such consent in accordance with an intended plan, or at all.

The discussion above is not exhaustive of all possible foreign exchange controls considerations that may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall foreign exchange controls consequences of the acquisition, ownership and disposition of Shares or voting rights by consulting their own advisors. For a more detailed discussion on the requirements and procedures regarding the prior notifications under the Foreign Exchange Regulations, see “Japanese Foreign Exchange and Certain Other Regulations”.

#### ***Future Changes in Japanese Law***

Future changes to provisions relating to Stock Acquisition Rights may have mandatory effect under Japanese law. Condition 15.2 of the Conditions for each Series of Bonds provides for amendments to be made to the Conditions of the relevant Series relating to the Stock Acquisition Rights where those amendments are required in order to comply with mandatory provisions of Japanese law even if those amendments are materially prejudicial to the interests of holders of the Bonds of the relevant Series.

#### ***The Trustee’s Right to Request Bondholders to Provide an Indemnity, Security or Prefunding***

In certain circumstances (including, but not limited to, giving notice to the Company pursuant to Condition 10 of the Conditions for each Series of Bonds and taking enforcement steps as contemplated in Condition 16 of the Conditions for each Series of Bonds), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

#### ***Acquisition Option***

Under Condition 7.2 of the Conditions for the relevant Series of Bonds, at any time during the period from and including 15 August 2028 to and including 15 September 2028 (in the case of the 2028 Bonds) or from and including 14 August 2030 to and including 13 September 2030 (in the case of the 2030 Bonds), the Company may, but shall not be bound to, give an Acquisition Notice (as defined in the Conditions for the relevant Series of Bonds) to acquire each Bond at a consideration of 100 per cent of the principal amount in cash plus any Acquisition Shares calculated in accordance with the provisions of Condition 7.2.1 of the Conditions for the relevant Series of Bonds, provided that any Bondholder who wishes its Bonds to be so acquired must deliver a duly completed Acquisition Election Notice (as defined in the Conditions for the relevant Series of Bonds) on or before the date falling 14 calendar days prior to the Acquisition Option Date (as defined in the Conditions for the relevant Series of Bonds). In accordance with Condition 7.2.3 of the Conditions for the relevant Series of Bonds, any Bonds in respect of which a duly completed Acquisition Election Notice has not been delivered prior to such deadline will be redeemed at 100 per cent of their outstanding principal amount on the Elected Redemption Date (as defined in the Conditions for the relevant Series of Bonds), which amount may be lower in economic value than what the Bondholder would have been able to receive had it delivered a duly completed Acquisition Election Notice prior to the relevant deadline. Investors should also note that pursuant to Condition 5.1.4(b) of the Conditions for the relevant Series of Bonds, the Stock Acquisition Rights may not be exercised during the period from and including the Acquisition Notice Period Commencement Date (as defined in the Conditions for the relevant Series of Bonds) to and including the Acquisition Notice Period End Date (as defined in the Conditions for the relevant Series of Bonds), or, if the Acquisition Notice is given pursuant to Condition 7.2 of the Conditions for the relevant Series of Bonds, to and including the Elected Redemption Date (as defined in the Conditions for the relevant Series of Bonds).

#### **Forward-looking Statements**

Statements in this Offering Circular with respect to the Group’s plans, strategies, projected financial results and beliefs, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties. These statements are based on assumptions and beliefs derived from information currently available to the Group, and as such actual results may differ, in some cases significantly, from these forward-looking statements. The Group does not undertake to release the results of any revision of forward-looking statements which may be made to reflect future events or circumstances. Important factors that could cause actual results to differ materially from such

statements include, but are not limited to, macroeconomic conditions, market and industry conditions, competition, technological innovation, volatility in raw material, fuel and supply prices, supply chain issues, product quality issues, accidents, natural disasters and other force majeure events, and disputes with third parties. The Company cautions prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Group or persons acting on the Group's behalf are qualified in their entirety by these cautionary statements.

## TERMS AND CONDITIONS OF THE 2028 BONDS

*The following terms and conditions (the “Conditions”) of the Bonds will, subject to completion and amendment and save for the paragraphs in italics, be endorsed on the Certificates (as defined herein) evidencing the 2028 Bonds.*

The ¥25,000,000,000 Zero Coupon Convertible Bonds due 2028 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the “Bonds”, which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated in the Bonds) issued by Kobe Steel, Ltd. (the “Company”) are constituted by a trust deed (the “Trust Deed”) dated 14 December 2023 made between the Company and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include all persons for the time being as trustee and/or any other trustee appointed under the Trust Deed, as trustee for the holders of the Bonds). Each Bond is issued in the denomination of ¥10,000,000 each and a stock acquisition right (*shinkabu yoyakuken*) (the “Stock Acquisition Right”), entitling the Bondholder (as defined in Condition 1.2) to acquire fully paid and non-assessable shares of common stock of the Company (the “Shares”) as described below, is incorporated in each Bond as an integral part thereof. Copies of the Trust Deed and of the agency agreement (the “Agency Agreement”) dated 14 December 2023 relating to the Bonds among, *inter alios*, the Company, the Trustee, Mizuho Trust & Banking (Luxembourg) S.A. as principal agent (the “Principal Agent”), as calculation agent (the “Calculation Agent”) and as registrar (the “Registrar”), and the other agents referred to therein, are available for inspection by prior appointment during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom, or electronically upon request to and subject to providing satisfactory proof of holding to the Trustee, and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the “Agents” shall, unless the context otherwise requires, include any Agent appointed by the Company in the Agency Agreement (including, where the context permits, the Principal Agent) at their respective specified offices named as paying, transfer and conversion agents in connection with the Bonds for the purposes of, *inter alia*, making payments and transfers, the acceptance of Conversion Notices and the Certificates for the purposes of the exercise of the Stock Acquisition Rights, and the acceptance of Tax Redemption Election Notices (as defined in the Agency Agreement), or such other or further agents for the Bonds as may from time to time be appointed, or at such other or further specified offices as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 (but excluding the Registrar and Custodian).

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of and are bound by all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Any terms defined in the Trust Deed and not in these Conditions shall have the same meanings when used herein except where otherwise indicated.

### 1. **Form, Denomination, Issue Price, Title, Status, Transfers of Bonds and Relationship between Bonds and Stock Acquisition Rights**

#### 1.1 ***Form, Denomination and Issue Price***

The Bonds are issued in registered form in the denomination of ¥10,000,000 each and are not exchangeable for bonds with stock acquisition rights in bearer form. The issue price of the Bonds (excluding the Stock Acquisition Rights) is 100 per cent of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

A bond certificate (each, a “Certificate”) will be issued in respect of each Bond. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the “Register”) of holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

#### 1.2 ***Title***

Title to the Bonds will pass only by transfer and registration of title in the Register. The holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

In these Conditions, a “Bondholder” and (in relation to a Bond) a “holder” mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first named thereof).

*Upon issue, the Bonds will be evidenced by a global certificate (the "Global Certificate") deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.*

*The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.*

1.3 **Status**

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

1.4 **Transfers of Bonds**

1.4.1 *The Register:* The Company will cause to be kept at the specified office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers, acquisitions and redemptions of the Bonds and exercises of the Stock Acquisition Rights.

Each Bondholder shall be entitled to receive one Certificate in respect of each Bond held by such holder.

1.4.2 *Transfers:* A Bond may be transferred upon the surrender (at the specified office(s) of the Principal Agent, the Registrar or any other Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and executed and any other evidence as the relevant Agent or the Registrar (as the case may be) may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon written request.

*Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form".*

1.4.3 *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within three Transfer Business Days (as defined below) of receipt of the duly completed and executed form of transfer, and surrender of the original Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address so specified (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Agent (as the case may be).

1.4.4 *Formalities Free of Charge:* Registration of a transfer of Bonds and issuance of Certificates in relation thereto shall be effected without charge by or on behalf of the Company, the Registrar or the relevant Agent, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Agent may require); and (ii) the Company and the Registrar or the relevant Agent being reasonably satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer*: No Bondholder may require the transfer of a Bond to be registered:

- (i) during the period of seven days ending on (and including) the due date for redemption pursuant to Condition 7.1, 7.2.3, 7.5, 7.6 or 7.7;
- (ii) with respect to any Bond for which Condition 7.2.2 applies, during the period from and including the Acquisition Determination Date (as defined in Condition 3.1) or, if earlier, the time at which an Acquisition Election Notice (as defined in Condition 3.1) in respect of such Bond has been given pursuant to Condition 7.2, up to but excluding the Acquisition Option Date (as defined in Condition 3.1);
- (iii) after a Conversion Notice (as defined in Condition 3.1) has been given with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4, in which event registration of transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn); or
- (iv) after a notice of redemption has been given pursuant to Condition 7.3 or 7.4 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.4).

### 1.5 ***Relationship between Bonds and Stock Acquisition Rights***

The obligations of the Company in respect of the Bonds and the Stock Acquisition Rights incorporated therein shall arise and shall be extinguished or cease to be exercisable simultaneously subject as provided herein.

The Bonds and the Stock Acquisition Rights incorporated therein may not be transferred or dealt with separately from each other.

## 2. **Negative Pledge**

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time or prior thereto, according or procuring to be accorded to the Bonds, (x) to the satisfaction of the Trustee or as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation or (y) such other security or guarantee as the Trustee may in its absolute discretion deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2, "Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

- (a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and
- (b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan.

## 3. **Definitions and Construction of References**

### 3.1 ***Definitions***

In these Conditions (unless the context otherwise requires):

"3-Month Deposit Rate" means, as of any specified time on any date, the rate per annum as of such specified time on such date as shown on Bloomberg page JYDRC Curncy (setting "Bid", and using the pricing source "CMPL") (or any successor page, setting or pricing source), or, if no such rate is available

as of the specified time on such day (for the purposes of this definition, the “Original Date”), the 3-Month Deposit Rate on the Original Date shall be the 3-Month Deposit Rate, determined as aforesaid, as of the specified time on the immediately preceding day on which the same can be so determined, provided however that if such immediately preceding day falls prior to the fifth day before the Original Date, or if the 3-Month Deposit Rate cannot be determined as aforesaid (including without limitation because such Bloomberg page (or any successor) has ceased to exist), the 3-Month Deposit Rate as of the specified time on the Original Date shall be determined in such other manner as determined in good faith to be appropriate by an Independent Financial Adviser. If the 3-Month Deposit Rate determined as aforesaid shall be less than zero, then the 3-Month Deposit Rate shall be deemed to be zero;

“Account Management Institution” means an account management institution (*koza-kanri-kikan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

“Acquisition Determination Date” has the meaning provided in Condition 7.2.1;

“Acquisition Election Notice” has the meaning provided in Condition 7.2.2;

“Acquisition Notice” has the meaning provided in Condition 7.2.1;

“Acquisition Notice Period” has the meaning provided in Condition 7.2.1;

“Acquisition Notice Period Commencement Date” has the meaning provided in Condition 7.2.1;

“Acquisition Notice Period End Date” has the meaning provided in Condition 7.2.1;

“Acquisition Option Date” has the meaning provided in Condition 7.2.1;

“Acquisition Share Value” has the meaning provided in Condition 7.2.1;

“Acquisition Shares” has the meaning provided in Condition 7.2.1;

“Additional Amounts” has the meaning provided in Condition 9;

“Additional Shares” has the meaning provided in Condition 5.3;

“Annual Fiscal Period” means a period commencing on 1 April and ending on 31 March of the immediately following year; provided that, if the Company shall change its fiscal year so as to end on a date other than 31 March, “Annual Fiscal Period” shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Articles of Incorporation” means the articles of incorporation of the Company from time to time in effect;

“Asset Transfer Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the sale or transfer of all or substantially all of the assets of the Company to another entity (the “Asset Transferee”), pursuant to the terms of which the Company’s obligations under the Bonds are to be transferred to or assumed by the Asset Transferee;

“Asset Transferee” has the meaning provided in the definition of Asset Transfer Event;

“Auditors” means the independent auditors for the time being of the Company or, if there shall be joint independent auditors, any one or more of such independent auditors or, if they are unable or unwilling to carry out any action requested of them under these Conditions or the Trust Deed, such other auditors or firm of auditors as may be appointed by the Company to act as such and promptly notified in writing to the Trustee by the Company;

“Authorised Officer” means any one of the directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have notified to the Trustee in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

“Average VWAP per Share” has the meaning provided in Condition 7.2.1;

“Bankruptcy Act” means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

“Base Dividend” has the meaning provided in Condition 5.2.4;

“Bid Price” has the meaning provided in Condition 5.1.9;

“Board of Directors”, in respect of any company, means the board of directors of that company or, where applicable, the board of statutory executive officers of such company, within the meaning of the Companies Act; provided that, if any individual director is authorised by such board of directors to make the relevant decision in accordance with the Companies Act and such company’s articles of incorporation and other internal regulations, any reference to the Board of Directors of such company shall be deemed to mean such director, and any reference to the relevant resolution or approval at a meeting of such Board of Directors shall be deemed to mean the relevant decision of such director;

“Bondholder” and “holder” have the meaning provided in Condition 1.2;

“Bonds without Acquisition Election Notice” has the meaning provided in Condition 7.2.3;

“Book-Entry Act” means the Act on Book-Entry Transfer of Corporate Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended);

“Business Day” in respect of any place means a day, other than a Saturday or Sunday, on which banks are open for business in such place;

“BVAL Price” has the meaning provided in Condition 5.1.9;

“Certificate” has the meaning provided in Condition 1.1;

“Civil Rehabilitation Act” means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

“Clean-up Redemption Notice” has the meaning provided in Condition 7.3;

“Closed Period” has the meaning provided in Condition 7.10;

“Closing Date” means 14 December 2023;

“Closing Parity Value” has the meaning provided in Condition 5.1.9;

“Closing Price” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), for any Trading Day, the last reported selling price (regular way) of the Shares or the shares of common stock of the New Obligor (as the case may be) on the Relevant Stock Exchange on such Trading Day or, if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, the average of the closing bid and offered prices of the Shares or the shares of common stock of the New Obligor (as the case may be) for such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company or the New Obligor (as the case may be);

“Companies Act” means the Companies Act of Japan (Act No. 86 of 2005, as amended);

“Company Notification Date” has the meaning provided in Condition 5.1.9;

“Company’s Territory” has the meaning provided in Condition 12.2;

“Consolidated Financial Statements” means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company prepared as aforesaid;

“Consolidated Subsidiary” means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

“Controlling Shareholder” means a shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as provided in the Articles of Incorporation) or more of the Company’s voting rights as calculated in accordance with the Companies Act;

“Conversion Notice” means the written notice required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in the Agency Agreement;

“Conversion Price” has the meaning provided in Condition 5.1.3;

“Corporate Event” has the meaning provided in Condition 6.1;

“Corporate Event Effective Date” has the meaning provided in Condition 6.3;

“Corporate Event Redemption Date” has the meaning provided in Condition 7.5;

“Corporate Event Redemption Price” has the meaning provided in Condition 7.5;

“Corporate Reorganisation Act” means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

“Corporate Split Counterparty” has the meaning provided in the definition of Corporate Split Event;

“Corporate Split Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any corporate split (*shinsetsu bunkatsu* or *kyushu bunkatsu*) in which the Company’s obligations under the Bonds are to be transferred to or assumed by the corporation which is the counterparty to such corporate split (the “Corporate Split Counterparty”);

“Current Market Price per Share” has the meaning provided in Condition 5.2.9;

“Custodian” means The Law Debenture Trust Corporation p.l.c. at its specified office at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom or such other custodian as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 and shall, unless the context otherwise requires, include the nominee of the Custodian;

“Custodian’s Agent” means Mizuho Bank, Ltd. at its specified office at 5-5, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8176, Japan or such other agent of the Custodian in Japan as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Custodian, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19;

“Delisting Redemption Date” has the meaning provided in Condition 7.6.1;

“Deposit Date” has the meaning provided in Condition 5.9.4;

“Deposit Time” has the meaning provided in Condition 5.9.4;

“Dividend Adjustment Amount” has the meaning provided in Condition 7.2.1;

“Due Date” has the meaning provided in Condition 9;

“Elected Redemption Date” has the meaning provided in Condition 7.2.3;

“Event of Default” means any of the events listed in Condition 10 which, if so required by that Condition, has been certified in writing by the Trustee to the Company in accordance with that Condition that, in the opinion of the Trustee, it is materially prejudicial to the interests of the Bondholders, upon the occurrence of which the Bonds may become due and repayable;

“Ex-Dividend Date” has the meaning provided in Condition 7.2.1;

“Exercise Period” has the meaning provided in Condition 5.1.4;

“Exercise Period End Date” has the meaning provided in Condition 5.1.4;

“Extraordinary Dividend” has the meaning provided in Condition 5.2.4;

“Extraordinary Resolution” means a resolution passed (i) at a meeting of the Bondholders duly convened (including satisfaction of the quorum requirements set out in the Trust Deed) and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than three-quarters of the votes cast thereon, or (ii) by a written resolution or electronic consent in accordance with the provisions contained in the Trust Deed;

“FATCA withholding” has the meaning provided in Condition 9;

“FIEA” means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

“Fiscal Period” means, as the context may require, (i) a period commencing on 1 April and ending on 31 March of the immediately following year; or (ii) three month periods each commencing on 1 April, 1 July, 1 October and 1 January; provided that, if the Company shall change its fiscal year so as to end on a date other than 31 March, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Holding Company” has the meaning provided in the definition of Holding Company Event;

“Holding Company Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the Company to become a wholly-owned subsidiary of another corporation (the “Holding Company”) by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*);

“Independent Financial Adviser” means an independent investment bank, securities company, accounting firm or consultancy firm of established repute appointed by the Company at its own expense and notified to the Trustee in writing or, if the Company fails to make such appointment when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser or otherwise in connection with such appointment, as may be appointed by the Trustee in its absolute discretion (without liability for so doing or not doing) following notification to the Company, which appointment shall be deemed to be an appointment of the Company;

“JCR” has the meanings provided in Condition 5.1.6;

“Last Day Conversion Price” has the meaning provided in Condition 7.2.1;

“Leading Institution” has the meaning provided in Condition 5.1.9;

“Listing” has the meaning provided in Condition 6.4.2;

“Maturity Date” has the meaning provided in Condition 7.1;

“Merged Company” means the corporation formed by the relevant Merger Event or the corporation into which the Company shall have merged following a Merger Event;

“Merger Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any consolidation or amalgamation (*shinsetsu gappei*) of the Company with, or merger (*kyushu gappei*) of the Company into any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation);

“New Obligor” has the meaning provided in Condition 6.1;

“New Obligor Current Market Price per Share” has the meaning provided in Condition 6.5.3;

“New Stock Acquisition Rights” has the meaning provided in Condition 12.2;

“New Territory” has the meaning provided in Condition 12.2;

“Non-unit Shares” has the meaning provided in Condition 5.1.2;

“Notification Date” has the meaning provided in Condition 5.1.9;

“Number of Deliverable Shares” has the meaning provided in Condition 6.5.3;

“Number of Held Shares” has the meaning provided in Condition 6.5.3;

“Offeror” has the meaning provided in Condition 7.6.1;

“Parity Event” has the meaning provided in Condition 5.1.9;

“Parity Notification Event” has the meaning provided in Condition 5.1.9;

“Payment Business Day” has the meaning provided in Condition 8.3;

“Potential Event of Default” means any condition, omission, act, event or circumstance which, upon the giving of notice and/or the lapse of time and/or the issue of a certificate, could constitute an Event of Default;

“Principal Subsidiary” means any Consolidated Subsidiary of the Company (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the net sales of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an Authorised Officer of the Company that in the Company’s opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“Proceedings” has the meaning provided in Condition 21.2;

“Quote for the Bonds” has the meaning provided in Condition 5.1.9;

“Record Date” means the date fixed by the Articles of Incorporation or otherwise specified by the Company for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares; provided, however, that if the Company has fixed no such record date and the context so requires, the “Record Date” shall be construed as a reference to the date of any event in question coming into effect;

“Reference Parity” has the meanings provided in Conditions 7.5, 7.6 and 7.7;

“Reference Period” has the meaning provided in Condition 5.1.9;

“Register” has the meaning provided in Condition 1.1;

“Registered Account” has the meaning provided in Condition 8.1;

“Relevant Debt” has the meaning provided in Condition 2;

“Relevant GAAP” means the accounting principles which are adopted by the Company or the New Obligor (as the case may be) for the preparation of the Consolidated Financial Statements under the FIEA, being one of those generally accepted in Japan or the United States or International Financial Reporting Standards (as issued by the International Accounting Standards Board (or any successor thereto) or, if applicable, as adopted or endorsed by the Accounting Standards Board of Japan (or any successor thereto));

“Relevant Number of Shares” has the meaning provided in Condition 5.2.4;

“Relevant Period” has the meaning provided in Condition 5.2.15;

“Relevant Securities” has the meaning provided in Condition 5.2.8;

“Relevant Stock Exchange” means the Tokyo Stock Exchange or, if at the relevant time the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed on the Tokyo Stock Exchange, the principal stock exchange or securities market in Japan on which the Shares or the shares of common stock of the New Obligor (as the case may be) are then listed or quoted or dealt in;

“Relevant VWAP Period” has the meaning provided in Condition 7.2.1;

“Representative Director” means a director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

“Retroactive Adjustment” has the meaning provided in Condition 5.3;

“Securities” includes, without limitation, the Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

“Shareholder Determination Date” has the meaning provided in Condition 5.1.4;

“Shareholder Determination Date Restriction Period” has the meaning provided in Condition 5.1.4;

“Squeezeout Effective Date” has the meaning provided in Condition 7.7.1;

“Squeezeout Event” has the meaning provided in Condition 7.7.1;

“Squeezeout Redemption Date” has the meaning provided in Condition 7.7.1;

“Stock Acquisition Date” has the meaning provided in Condition 5.9.4;

“Stock Split” means any kind of stock split in relation to the Shares, including a free share distribution to the holders of Shares, a stock dividend or a sub-division of Shares;

“Subsidiary” means a company, more than 50 per cent of the outstanding shareholders’ voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, “voting rights” means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

“Tax Redemption Date” has the meaning provided in Condition 7.4;

“Tax Redemption Notice” has the meaning provided in Condition 7.4;

“Tokyo Business Day” means any day (other than a Saturday, Sunday or a day which shall be a legal holiday in Tokyo or a day on which banking institutions in Tokyo are obliged or authorised by law or executive order to close) on which banks are open for business in Tokyo;

“Tokyo Stock Exchange” means Tokyo Stock Exchange, Inc. (or its successor);

“Trading Day” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), a day on which the Relevant Stock Exchange is open for business, but does not include a day on which (a) no last selling price (regular way) for the Shares or the shares of common stock of the New Obligor (as the case may be) is reported by the Relevant Stock Exchange and (b) if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, no closing bid or offered price of the Shares or the shares of common stock of the New Obligor (as the case may be) is furnished as provided in the definition of Closing Price;

“Transfer Business Day” has the meaning provided in Condition 1.4.3;

“VWAP” has the meaning provided in Condition 7.2.1; and

“yen” and “¥” mean Japanese yen, the lawful currency of Japan.

### 3.2 ***Construction of Certain References***

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the “issue” of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words “issue”, “issued” and “issuable” shall be construed accordingly), references in these Conditions to the word “acquire” used in conjunction with the Shares shall be read as including both the words “issue” and “transfer”, and the words “acquired” and “acquisition” shall be construed accordingly (other than where such references to “acquired” and “acquisition” are to the acquisition of the Bonds pursuant to Condition 7.2), and references to “delivery” used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system

operated by the Japan Securities Depository Center, Incorporated. The words “substitution” and “grant” used in relation to the exchange of the Company’s obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

#### 4. **Default Interest**

The Bonds do not bear interest unless payment of any amount in respect of any Bond is improperly withheld or refused, in which case such unpaid amount will bear interest (both before and after judgment) from the date of default to the earlier of (i) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions) at the rate of interest per annum as being equal to the 3-Month Deposit Rate as at 11:00 a.m. (London time) on the date of such default. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

#### 5. **Exercise of Stock Acquisition Rights**

##### 5.1 ***Conversion Price, Exercise Period, Shares Issuable and Procedure***

5.1.1 *Stock Acquisition Rights and the Contribution of the Bond:* Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which has been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond as of the Stock Acquisition Date.

5.1.2 *Number of Shares:* The number of Shares to be acquired by a Bondholder exercising its Stock Acquisition Rights will be determined by dividing the aggregate principal amount of the Bonds deposited by such Bondholder at the same time upon exercise of the Stock Acquisition Rights by the Conversion Price applicable on the Stock Acquisition Date. Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if two or more Stock Acquisition Rights are exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds in which the Stock Acquisition Rights so exercised are incorporated.

For the avoidance of doubt, if a Bondholder would receive a number of Shares not constituting a unit (*tangen*) of Shares (“Non-unit Shares”) or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares.

*As at the date of this Offering Circular, the Articles of Incorporation specify that one unit of Shares is comprised of 100 Shares. Under the book-entry transfer system established pursuant to the Book-Entry Act, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges. Further, a holder of Shares constituting less than one unit cannot exercise any voting rights pertaining to those Shares. A holder of Shares constituting less than one unit may generally require the Company to purchase such Shares through the relevant Account Management Institution. The Articles of Incorporation currently provide that a holder of Shares constituting less than one unit may also request the Company to sell to such holder Shares representing less than one unit which, when added to the Shares held by such holder, shall constitute one full unit.*

5.1.3 *Conversion Price:* The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the “Conversion Price”) shall initially be ¥2,456.0 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise Period*: Subject to Condition 5.1.5, each Stock Acquisition Right may be exercised at any time during the period from, and including, 28 December 2023 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 30 November 2028 (the “Exercise Period End Date”), or:

- (i) if the relevant Bond shall have been acquired by the Company pursuant to Condition 7.2 and cancelled pursuant to Condition 7.2.1, then up to the time when such Bond is so cancelled;
- (ii) if the relevant Bond shall have been called for redemption pursuant to Condition 7.3 or 7.4, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof (unless, in the case of such Bond being called for redemption pursuant to Condition 7.4, the relevant Bondholder has elected that such Bond shall not be redeemed);
- (iii) if the relevant Bond shall become due to be redeemed pursuant to Condition 7.2.3, 7.5, 7.6 or 7.7, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof;
- (iv) if the relevant Bond shall have been purchased by the Company or a Subsidiary pursuant to Condition 7.8 and cancelled by the Company pursuant to Condition 7.9, then up to the time when such Bond is so cancelled; or
- (v) if the relevant Bond shall become due and repayable pursuant to Condition 10, then up to the time when such Bond becomes so due and repayable,

provided that:

- (a) in no event shall the Stock Acquisition Rights be exercised after the Exercise Period End Date;
- (b) the Stock Acquisition Rights may not be exercised during the period from and including the Acquisition Notice Period Commencement Date to and including the Acquisition Notice Period End Date, or, if the Acquisition Notice is given pursuant to Condition 7.2, to and including the Elected Redemption Date;
- (c) the Stock Acquisition Rights may not be exercised for such period as may be designated by the Company, which period may not exceed 30 days, and which period shall end on a date not later than 14 days after the Corporate Event Effective Date if the Company reasonably determines that such suspension is necessary in order to consummate the relevant transaction in compliance with these Conditions (including Conditions 6.4.1, 7.5 and 7.6); and
- (d) the Stock Acquisition Rights may not be exercised during such period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period; provided that if there is a change to the mandatory provisions of Japanese law, regulation or practice relating to the delivery of shares upon exercise of stock acquisition rights through book-entry transfer system established pursuant to the Book-Entry Act, then this Condition 5.1.4(d) and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law, regulation and practice by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Bondholders in accordance with Condition 19 and to the Trustee in writing.

In these Conditions:

“Shareholder Determination Date” means (i) any Record Date, and (ii) any other date set for the purpose of determination of the holders of Shares in connection with Paragraph 1 of Article 151 of the Book-Entry Act; and

“Shareholder Determination Date Restriction Period” means the period from and including the second Tokyo Business Day falling immediately prior to any Shareholder Determination Date to

and including such Shareholder Determination Date (provided that if such Shareholder Determination Date falls on a date that is not a Tokyo Business Day, then the Shareholder Determination Date Restriction Period means the period from and including the third Tokyo Business Day falling immediately prior to such Shareholder Determination Date to and including the Tokyo Business Day immediately following such Shareholder Determination Date).

The Company shall give the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and the Bondholders in accordance with Condition 19, a notice of the determination and period referred to in Condition 5.1.4(c) above (together with a description of the days included in such period) at least 30 days prior to the commencement of such period.

The Company shall give the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and the Bondholders in accordance with Condition 19, a notice of the determination of any Shareholder Determination Date Restriction Period (together with a description of the days included in such Shareholder Determination Date Restriction Period) at least three Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

*As at the date of this Offering Circular, the Record Dates fixed by the Articles of Incorporation are 31 March and 30 September. By way of example, in respect of the Record Date falling on 31 March 2024, it is currently anticipated that the Stock Acquisition Rights will not be exercisable where the Stock Acquisition Date would fall on any day from (and including) 27 March 2024 to (and including) 1 April 2024.*

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is referred to in these Conditions as the “Exercise Period” (for the avoidance of doubt, the Exercise Period in respect of any Stock Acquisition Right may stop and restart from time to time). Upon final expiration of the Exercise Period, the Stock Acquisition Rights incorporated in the relevant Bonds will lapse and cease to be exercisable or valid for any purposes.

#### 5.1.5 *Condition to Conversion:*

Prior to (and including) 14 August 2028, and subject to the Conditions, a Bondholder may exercise its Stock Acquisition Rights only if, as at the last Trading Day of any calendar quarter, the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter, as determined by the Principal Agent and notified to the Bondholders in accordance with Condition 19, subject to adjustment in the manner provided in Condition 5.2.

If the condition as set out above is satisfied, then a Bondholder may (subject to these Conditions) exercise the Stock Acquisition Rights on and after the first day of the immediately following calendar quarter (or, in the case of the calendar quarter commenced on 1 October 2023, on and after 28 December 2023) until the end of such calendar quarter (or, in the case the calendar quarter commencing on 1 July 2028, until 14 August 2028), provided that the relevant Deposit Date falls during the Exercise Period.

The conditions to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 shall not be applicable (A) during any period that Condition 5.1.6, 5.1.7 and/or 5.1.8 apply, and/or (B) where a Parity Event has occurred pursuant to Condition 5.1.9, during the period of 15 consecutive Tokyo Business Days commencing on (and including) the first Tokyo Business Day immediately following the Company Notification Date in respect of such Parity Event.

For the avoidance of doubt, during the period from and including 15 August 2028 to and including the close of business (at the place where the Stock Acquisition Right is to be exercised) on the Exercise Period End Date, the conditions to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 shall not be applicable.

Further, for the avoidance of doubt, even where a condition to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 is not applicable by virtue of Condition 5.1.6, 5.1.7, 5.1.8 or 5.1.9, the Stock Acquisition Rights shall not be exercisable after the expiration of the Exercise Period.

- 5.1.6 *Conditions to Conversion – Rating Requirements:* The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during any period in which (i) the long-term issuer rating assigned to the Company by Japan Credit Rating Agency, Ltd. or its successors (together, “JCR”) is BBB– (or equivalent if the rating category is changed) or lower, (ii) a long-term issuer rating is no longer assigned to the Company by JCR, and/or (iii) the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn. Upon the occurrence of any of the events set out in (i), (ii) or (iii) above, the Company shall forthwith give notice thereof to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19.
- 5.1.7 *Conditions to Conversion – Redemption Events:* If a notice of redemption is given pursuant to Condition 7.3, 7.4, 7.5, 7.6 or 7.7, the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable on and after the date of notice of such redemption except in the case of the Stock Acquisition Rights attaching to the Bonds elected by the relevant Bondholders not to be redeemed pursuant to Condition 7.4.
- 5.1.8 *Conditions to Conversion – Corporate Events:* Subject to the suspension by the Company as referred to in Condition 5.1.4(c), the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period from (and including) the date upon which the Company is first required to give notice to the Bondholders in accordance with Condition 6.2 to (and including) the relevant Corporate Event Effective Date.
- 5.1.9 *Conditions to Conversion – Parity Event:* The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period of 15 consecutive Tokyo Business Days from and including the first Tokyo Business Day immediately following the Company Notification Date in respect of the occurrence of a Parity Event. Whether or not a Parity Event has occurred for the purposes of these Conditions shall be determined by the Calculation Agent in accordance with the provisions of this Condition 5.1.9.

Any Bondholder shall be entitled to give notice (each, a “Parity Notification Event Notice”) to the Company in writing, with a copy to the Calculation Agent, in each case in accordance with this Condition 5.1.9, if and to the extent that a Parity Notification Event has occurred, provided that such notice shall be accompanied by reasonable supporting evidence (such evidence to be accepted in the opinion of the Company in its absolute discretion) regarding the occurrence of such Parity Notification Event. If any Parity Notification Event Notice is received after 4:00 p.m. in the place of the specified office of the Calculation Agent, such Parity Notification Event Notice shall be deemed for all purposes of these Conditions to have been provided on the date which is the immediately following Business Day in the place of the specified office of the Calculation Agent.

A Parity Notification Event Notice shall include a certification by or on behalf of the relevant Bondholder that it holds at least one Bond and evidence of such holding to the satisfaction of the Company, on which certification the Company and the Calculation Agent shall be able to rely, in the absence of manifest error, without further investigation. If a Parity Notification Event Notice is delivered in accordance with the foregoing, neither the Company nor the Calculation Agent shall be entitled or required to demand any further information from such person.

Each Parity Notification Event Notice to be given by a Bondholder to the Company shall be delivered to the Company by electronic mail only to KSL-Cassiopeia-zimu@kobelco.com, and shall simultaneously be copied to the Calculation Agent by electronic mail only to agencyparity@mizuho.lu, or in each case to such other electronic mail address as may be notified to Bondholders in accordance with Condition 19. Any Parity Notification Event Notice shall be deemed to be received by the Company or the Calculation Agent, as the case may be, only if received by the relevant party in legible form.

At any time when the relevant Bonds are evidenced by the Global Certificate, a Parity Notification Event Notice may be given by (or on behalf of) a person with an entitlement to such Bond, and which may be an accountholder in Euroclear or Clearstream, Luxembourg. Such Parity Notification Event Notice shall include a certification that such person holds (or is delivering such Parity Notification Event Notice on behalf of a person that holds) an entitlement to at least one Bond. Parity Notification Event Notices shall be submitted by electronic mail in accordance with this Condition 5.1.9 rather than through the Euroclear or Clearstream, Luxembourg systems.

The date on which any Parity Notification Event Notice is provided (or deemed to be so provided) to the Company and the Calculation Agent in accordance with the foregoing shall be the “Notification Date” in respect of such Parity Notification Event Notice. Once a Parity Notification Event Notice has been provided (or deemed to be so provided) on a Notification Date (such Parity Notification Event Notice being, for the purposes of this paragraph, the “earlier Parity Notification Event Notice”), any subsequent Parity Notification Event Notice that is provided (or deemed to be so provided) on or prior to the Company Notification Date in respect of the earlier Parity Notification Event Notice shall be disregarded, and no Notification Date shall occur in respect of that subsequent Parity Notification Event Notice.

The following shall apply in respect of each Notification Date which is deemed to occur under this Condition 5.1.9:

- (a) the Company shall give notice of the receipt of the relevant Parity Notification Event Notice, the relevant Notification Date and the expected Reference Period to the Bondholders in accordance with Condition 19 and to the Trustee no later than the second Business Day in Luxembourg and Tokyo immediately following the Notification Date;
- (b) the Calculation Agent shall determine whether or not a Parity Event has occurred in respect of the relevant Reference Period and shall notify the Company of such determination by no later than the second Business Day in Luxembourg and Tokyo immediately following (1) the last Business Day in Tokyo of the Reference Period if the Parity Event shall be deemed to have occurred in such Reference Period, or (2) the first day in the relevant Reference Period on which none of the events set out in the definition of Parity Event has occurred (and therefore it is determined that no Parity Event has occurred in respect of the relevant Reference Period); and
- (c) the Company will give notice of such Calculation Agent’s determination to the Bondholders in accordance with Condition 19 and the Trustee no later than the second Business Day in Luxembourg and Tokyo immediately following the date on which the Calculation Agent notifies the Company of the determination set out in paragraph (b) above (the date on which notice is given by the Company in accordance with this paragraph (c) being referred herein to as the “Company Notification Date”).

None of the Company, the Calculation Agent, the Trustee, the Agents, the Registrar, the Custodian or the Custodian’s Agent will be required to monitor any BVAL Price or Quotes for the Bonds or to take any steps or to perform any related calculations to verify whether a Parity Notification Event or Parity Event has occurred, and they shall not be liable to the Bondholders or any other person for not doing so, save (in the case of the Company and the Calculation Agent only and only as expressly provided in this Condition 5.1.9) where a Notification Date has occurred pursuant to this Condition 5.1.9.

In these Conditions:

“Bid Price” means, in respect of any day, the bid price per ¥10,000,000 in principal amount of the Bonds quoted by a Leading Institution for the purchase by that Leading Institution of a minimum principal amount of the Bonds equal to ¥10,000,000 on such day;

“BVAL Price” means, in respect of any day, the price of the Bonds as derived from the Bloomberg page: XS2727915899 Corp HP (setting “BVAL” or any successor setting) provided by Bloomberg (or any successor service) as the bid price of the Bonds as at 4:00 p.m. (New York time) on such date, multiplied by 100,000, as determined by (i) the Calculation Agent, in the case of the determination of a Parity Event, or (ii) the relevant Bondholder, in the case of the determination of a Parity Notification Event;

“Closing Parity Value” means, in respect of any day, the amount determined in good faith by the Calculation Agent and calculated as follows:

$$CPV = N \times CP$$

where:

CPV = the Closing Parity Value.

- N = ¥10,000,000 divided by the Conversion Price in effect on such day (for the avoidance of doubt, without taking into account Retroactive Adjustments, if any); and
- CP = the Closing Price of the Shares on such day (or if such day is not a Trading Day, the most recent Trading Day prior thereto);

“Leading Institution” means any bank or financial institution which is a leading, internationally recognised market maker in trading exchangeable and/or convertible bonds;

A “Parity Event” shall be deemed to have occurred on the last day of any Reference Period, where the Calculation Agent determines that, in respect of each of the five Tokyo Business Days comprised in such Reference Period, either:

- (i) the BVAL Price in respect of such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (ii) if no BVAL Price is available on such Tokyo Business Day (for any reason, including but not limited to by reason of the temporary unavailability of the relevant page or setting, or the permanent cessation of the provision of such price by the relevant provider), the Quote for the Bonds in respect of such Tokyo Business Day is less than 97 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (iii) neither the BVAL Price nor Quote for the Bonds is available in respect of such Tokyo Business Day;

A “Parity Notification Event” shall occur if, on each Tokyo Business Day during any period of five consecutive Tokyo Business Days ending no earlier than the fifth Business Day in Luxembourg and Tokyo immediately before the relevant Notification Date, either:

- (i) the BVAL Price in respect of such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (ii) if no BVAL Price is available on such Tokyo Business Day (provided that it is not necessary for the relevant Bondholder to provide any evidence that such BVAL Price was so unavailable), such other reasonable evidence to show that the price of the Bonds (indicated as a percentage and multiplied by 100,000) as at 4:00 p.m. New York time on such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day is available;

“Quote for the Bonds” means, in respect of any Tokyo Business Day and in respect of Bid Prices as at or around 4:00 p.m. (Tokyo time) on such Tokyo Business Day, the Bid Price so provided by a Leading Institution selected by the Company (in its absolute discretion) as informed by the Company to the Calculation Agent, provided that where no Bid Price is provided to the Company in respect of such Tokyo Business Day, it shall be deemed that no Quote for the Bonds is available in respect of such Tokyo Business Day; and

“Reference Period” means, in respect of any Notification Date, the period of five consecutive Tokyo Business Days commencing on the third Business Day in Luxembourg and Tokyo immediately following such Notification Date.

References in these Conditions to any Bloomberg page means the relevant page on the Bloomberg terminal (or, if not available from Bloomberg, any successor information service provider thereto determined by the Company in its absolute discretion).

- 5.1.10 *Rights Attached to Shares Acquired upon Exercise of Stock Acquisition Rights:* Shares acquired upon exercise of the Stock Acquisition Rights shall have the same rights in all respects (including in relation to any distribution of dividends) as the Shares outstanding on the relevant Stock Acquisition Date (except for any right relating to the Shares the Record Date for which precedes such Stock Acquisition Date and any other right excluded by mandatory provisions of applicable law).

## 5.2 *Adjustments of the Conversion Price*

Upon the occurrence of any of the events described below, the Conversion Price shall be adjusted as follows:

- 5.2.1 *Stock Split and Consolidation of Shares:* if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or (c) re-classify any of its

Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Stock Acquisition Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5.2.1, shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the coming into effect of any of the events described above had the Stock Acquisition Right in respect of such Bond been exercised immediately prior to the coming into effect of such event (or, if the Company has fixed a prior Record Date for the determination of shareholders entitled to receive any such Shares or other securities issued upon any such Stock Split, consolidations or re-classification, immediately prior to such Record Date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the coming into effect of such event (or such Record Date) or any time thereafter. An adjustment made pursuant to this Condition 5.2.1 shall become effective immediately on the relevant event becoming effective or, if a prior Record Date is fixed therefor, immediately after the Record Date; provided that, in the case of a relevant transaction which must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally effective, and which is so approved after the Record Date fixed for the determination of shareholders entitled to receive such Shares or other securities, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

If the Company shall make a Stock Split and the Record Date therefor is also:

- (i) the Record Date for the allotment, grant or issue of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3; or
- (ii) the last date (in the place of issue) of the period during which payment may be made for the issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.5 or 5.2.8; or
- (iii) the last date (in the place of issue) of the period during which payment may be made for the issue or transfer of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.8; or
- (iv) the date of grant, issue or transfer of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.7 or 5.2.8,

then (except where such Stock Split gives rise to a Retroactive Adjustment of the Conversion Price under this Condition 5.2.1) no adjustment of the Conversion Price in respect of such Stock Split shall be made under this Condition 5.2.1, but in lieu thereof an adjustment shall be made under Condition 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 or 5.2.8, as the case may be, by including in item “n” of the formula described therein the aggregate number of additional Shares to be delivered pursuant to such Stock Split;

5.2.2 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Shares:* if the Company shall allot, grant or issue to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares:

- (i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or
- (ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration, but excluding the number of Shares, if any, contained in the definition of “n” immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares to be allotted, issued or acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with an allotment, grant or issue to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares, any such rights and/or warrants which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such subscription, purchase or acquisition;

5.2.3 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Convertible/Exchangeable Securities:* if the Company shall grant or issue to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire any securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights):

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration.

- n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or ratio following the exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.
- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with a grant or issue to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights), any such securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights) which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are subscribed for, purchased or otherwise acquired by others (whether as places or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such subscription, purchase or acquisition;

- 5.2.4 *Distribution to All, or a Class of, Shareholders of Assets (including Extraordinary Dividends)*: if the Company shall distribute to the holders of Shares (i) evidences of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than Shares), (iii) cash or assets of the Company, or (iv) rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire shares (other than Shares) or securities of the Company (other than those rights and warrants referred to in Conditions 5.2.2 and 5.2.3), in each of the cases set out in (i) through (iv) above, excluding dividends (being “distribution of surplus” within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act) other than Extraordinary Dividends, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{CMP} - \text{fmv}}{\text{CMP}}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- CMP = the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution, including a distribution of an Extraordinary Dividend.
- fmv = (i) in cases other than an Extraordinary Dividend, the fair market value ((a) as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account), or (b) if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court, and in each of the cases set out in (a) and (b) above, described in a certificate of the Company signed by a Representative Director or an Authorised Officer and delivered by the Company to the Trustee) of the portion of the evidences of indebtedness, shares, cash, assets, rights or warrants so distributed applicable to one Share or, (ii) in the case of an Extraordinary Dividend, the amount of such Extraordinary Dividend divided by the Relevant Number of Shares used in the calculation of such Extraordinary Dividend.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution (including a distribution of an Extraordinary

Dividend); provided, however, that (a) if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date and (b) if the fair market value of the evidence of indebtedness, shares, cash or assets, rights or warrants so distributed cannot be determined until after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such Record Date.

“Extraordinary Dividend” means, in relation to an Annual Fiscal Period ending on or after the last day of the Annual Fiscal Period in which the Closing Date falls, the part of any dividend (such dividend being the historical dividend without making any retroactive adjustment resulting from Stock Splits or otherwise) in respect of any number of Shares amounting to the Relevant Number of Shares, the Record Date for which falls within such Annual Fiscal Period which, when aggregated with the amount of all other dividends the Record Date for which falls within such Annual Fiscal Period in respect of such number of Shares amounting to the Relevant Number of Shares, is in excess of the sum of (i) the Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period.

“Base Dividend” means: ¥0.

“Relevant Number of Shares” means, such number of Shares (disregarding fractions of a Share) as Bondholders would be entitled to receive in respect of each Bond deposited (were such Bond, and only such Bond, to be so deposited) for exercise of the Stock Acquisition Right incorporated therein at the Conversion Price in effect at the Record Date in respect of the relevant dividend.

5.2.5 *Issue to Non-shareholders of Convertible/Exchangeable Securities*: if the Company shall issue any securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights (other than the Bonds and bonds with stock acquisition rights due 2030 issued by the Company on the Closing Date, or in any of the circumstances described in Conditions 5.2.2 and 5.2.3), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities;

5.2.6 *Issue of Shares*: if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted or issued by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted or issued by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which (a) merges into the Company upon such merger, (b) becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*), or (c) becomes a subsidiary of the Company by partial share exchange (*kabushiki-kofu*), in proportion to their shareholding in such corporation immediately prior to such merger or such share exchange (in the case of such merger or such share exchange) or in accordance with the plan of such partial share exchange (in the case of such partial share exchange) or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation's business (*kyushu bunkatsu*)), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares being issued or transferred as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue or transfer) of the period during which payment may be made in respect of the issue or transfer of such Shares;

5.2.7 *Issue to Non-shareholders of Rights or Warrants to Acquire Shares or Convertible/Exchangeable Securities*: if the Company shall grant or issue any rights or warrants (including stock acquisition rights) entitling holders thereof to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.5) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant or issue of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the date of the grant or issue of such rights or warrants shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the date of the grant or issue of such rights or warrants.
- n = the number of Shares to be acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price, or upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of all such rights or warrants.
- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the place of the grant or issue of such rights or warrants;

- 5.2.8 *Combined Adjustment*: if the Company shall grant, issue or transfer (as the case may be) securities of a type falling within Condition 5.2.5, 5.2.6 or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto and the date of grant, issue or transfer of such securities or, if applicable, the last day of the period during which payment may be made in respect thereof (in each case, referred to as the “relevant date”) is also the relevant date in respect of securities of another type or types (including a different tranche or issue of a same type) falling within Conditions 5.2.5, 5.2.6 and/or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto (all such securities being hereafter referred to as “Relevant Securities”), then any adjustment of the Conversion Price shall not be made separately under each such Condition but in one calculation in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v1} + \text{v2} + \text{v3}}{\text{N} + \text{n1} + \text{n2} + \text{n3}}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the relevant date but excluding the number of Shares contained in the definition of “n2” below to the extent that such Shares are then issued and outstanding.
- n1 = the number of Shares to be acquired upon conversion or exchange of any convertible or exchangeable securities (included within the Relevant Securities) at the initial conversion or exchange price or rate.
- n2 = the number of any Shares (included within the Relevant Securities) being issued or transferred.
- n3 = the number of Shares to be acquired on exercise of any rights or warrants (included within the Relevant Securities) at the initial subscription, purchase or acquisition price, or upon conversion or exchange of any convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of such rights or warrants.
- v1 = the number of Shares which the aggregate consideration receivable by the Company for such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

- v2 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of such Shares (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).
- v3 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of the total number of Shares to be acquired on exercise of such rights or warrants and (if applicable) upon conversion or exchange of such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue or transfer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

Any such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the relevant place of grant, issue or transfer which is the relevant date.

- 5.2.9 *Current Market Price per Share*: for the purpose of these Conditions, “Current Market Price per Share” on any date shall be deemed to be the average of the daily Closing Prices of the Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such date.

If, during the said 45 Trading Day period or any period thereafter up to but excluding the date as of which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question, and any event which requires an adjustment with reference to the same Current Market Price per Share) shall occur which gives rise to a separate adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of this Condition 5.2, the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall deem to be appropriate and fair in order to compensate for the effect of such event;

- 5.2.10 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the following provisions shall be applicable:

- (i) in the case of the issue or transfer of Shares for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions or any expenses paid or incurred by or on behalf of the Company for any underwriting of the issue or transfer or otherwise in connection therewith;
- (ii) in the case of the issue or transfer of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined by the Company in consultation with an Independent Financial Adviser or, if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof. Such determination shall be final and binding on the Company, the Trustee and the Bondholders;
- (iii) (a) in the case of the issue by the Company of securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights, the aggregate consideration receivable by the Company shall be deemed to be the consideration for any such securities plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate, and (b) in the case of the allotment, grant, issue or transfer of rights or warrants, including stock acquisition rights, to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares, the aggregate

consideration receivable by the Company shall be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise thereof at the initial subscription, purchase or acquisition price and (if applicable) upon the following conversion or exchange of such securities at the initial conversion or exchange price or rate. The consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate (if applicable) following the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above);

- (iv) in the case of the allotment, grant, issue or transfer of rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above), and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such exercise at the initial subscription, purchase or acquisition price; and
- (v) if any consideration referred to in the foregoing provisions of this Condition 5.2.10 is receivable in a currency other than yen, such consideration shall, in any case where there is a fixed rate of exchange between yen and the relevant currency provided for the purposes of the issue of such Shares or the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into yen for the purposes of this Condition 5.2.10 at such fixed rate of exchange and shall, in all other cases, be so translated at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in Japan for buying and selling spot units of the relevant currency by telegraphic transfer against yen on the date as at which such consideration is required to be calculated;

5.2.11 *Later Adjustments*: if, at the time of computing an adjustment (the “later adjustment”) of the Conversion Price pursuant to any of Conditions 5.2.2 to 5.2.8 (both inclusive), the Conversion Price already incorporates an adjustment made (or taken into account pursuant to the proviso to Condition 5.6) to reflect the issue or transfer of such Shares, or the allotment, grant, issue or transfer of rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire such Shares or other securities convertible into or exchangeable for such Shares, but such Shares are not outstanding at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such Shares shall be deemed to be outstanding for the purposes of making such computation to the extent that the number of the Shares so deemed to be outstanding exceeds the actual number of Shares in issue as a result thereof at the time of making such computation. For the purposes of determining the number of Shares outstanding in Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;

5.2.12 *Meaning of “Fixed”*: any reference in this Condition 5.2 to the date on which the consideration is “fixed” shall be construed as a reference to the first day on which such consideration in a cash amount can be ascertained, where the consideration is originally expressed by reference to a formula and not then ascertainable in a cash amount;

5.2.13 *Other Events*: if the Company determines at its sole discretion that a downward adjustment should be made to the Conversion Price as a result of one or more events or circumstances not otherwise referred to in this Condition 5.2, the Company shall, at its own expense, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and, if the adjustment would result in a reduction in the Conversion Price, the date on which such adjustment should take

effect and, upon such determination, such downward adjustment (if any) shall be made and shall take effect in accordance with such determination;

- 5.2.14 *Modification to Operation of Adjustment Provisions:* notwithstanding the foregoing, where the circumstances giving rise to any adjustment pursuant to this Condition 5.2 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of other circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5.2 as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and
- 5.2.15 *Adjustment during the Relevant Period or the Reference Period:* for the purposes of Conditions 5.1.5 and 5.1.9, if the Conversion Price in effect on the last Trading Day of the period of 20 consecutive Trading Days referred to in Condition 5.1.5 (the “Relevant Period”) or the Reference Period reflects any adjustment which has become effective pursuant to this Condition 5.2 during the Relevant Period or the Reference Period, then the Closing Price of the Shares for each Trading Day which occurs during the Relevant Period or the Reference Period but before the effective date of such adjustment shall be adjusted to reflect the same adjustment. For the avoidance of doubt, if the Closing Price of the Shares for any Trading Day within the Relevant Period or the Reference Period reflects (by reason of having become ex-rights or otherwise) an event which gives rise to an adjustment to the Conversion Price pursuant to this Condition 5.2 becoming effective immediately after the end of the Relevant Period or the Reference Period, then such Closing Price shall be appropriately adjusted to be such price prior to such event having been so reflected, for the purposes of Conditions 5.1.5 and 5.1.9.

### 5.3 *Retroactive Adjustments*

If the Stock Acquisition Date in relation to a Stock Acquisition Right shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions of Condition 5.2 and the relevant Stock Acquisition Date falls on a date before the relevant adjustment becomes effective under Condition 5.2 (such adjustment, a “Retroactive Adjustment”), the Company shall procure that the provisions of Condition 5.9.5 shall be applied, *mutatis mutandis*, to such number of Shares (“Additional Shares”) as is equal to the excess of the number of Shares which would have been acquired upon exercise of such Stock Acquisition Right if the relevant Retroactive Adjustment had been given effect as of the said Stock Acquisition Date over the number of Shares previously acquired pursuant to such exercise, and in such event and in respect of such Additional Shares, references in Condition 5.9.5 to the “Stock Acquisition Date” shall be deemed to refer to the date upon which such Retroactive Adjustment is first reflected in the Conversion Price.

### 5.4 *Limitation on Reduction of Conversion Price*

Notwithstanding the provisions of this Condition 5, the Conversion Price will not be reduced as a result of any adjustment made hereunder to such an extent that, under applicable law then in effect, the Stock Acquisition Rights may not be permitted to be exercised at such lower Conversion Price into legally issued, fully paid and non-assessable Shares.

### 5.5 *Employee Share Schemes*

Notwithstanding the provisions of this Condition 5, no adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees, former employees, directors or officers (including directors or officers holding or formerly holding executive office or the personal service company of any such person) of the Company or any of its Subsidiaries or affiliates, their spouses or relatives, or any associated companies of any such person, or to any trustee or trustees for the benefit of any such person, in any such case, pursuant to any employees’ or executives’ share or option scheme.

### 5.6 *Minimum Adjustments*

No adjustment of the Conversion Price shall be required unless such adjustment would result in an increase or decrease in such Conversion Price of at least ¥1 provided that any adjustment which by reason of this Condition 5.6 is not required to be made shall be carried forward and taken into account (as if such adjustment were made at the time when it would be made but for the provisions of this Condition 5.6) in any subsequent adjustment.

## 5.7 *Calculations*

All calculations (including, without limitation, calculations of the Conversion Price and the Current Market Price per Share) under this Condition 5 shall, unless otherwise expressly specified herein, be made to the nearest one-tenth of a yen with five one-hundredths or more of a yen to be considered a full tenth of a yen. None of the Trustee, the Principal Agent, the Registrar, the Custodian, the Custodian's Agent, the Calculation Agent or any other Agents shall be under any duty or responsibility to any Bondholder or any other person to determine, calculate or verify the adjusted Conversion Price or to monitor or make enquiries as to whether any adjustment is required to be made, and none of them will be responsible or liable in any respect to Bondholders or any other person for any loss arising from any failure by it to do so or any erroneous calculation.

## 5.8 *Notification of Adjustments*

Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly notify the Trustee, the Principal Agent, the other Agents, the Registrar, the Custodian, the Custodian's Agent and the Calculation Agent in writing setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the effective date thereof, and shall promptly give notice to the Bondholders in accordance with Condition 19 stating that the Conversion Price has been adjusted and setting forth the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

## 5.9 *Procedure for Conversion*

5.9.1 *Conversion Notice:* To exercise a Stock Acquisition Right, the exercising Bondholder shall complete, sign and deposit at the specified office of an Agent at its own expense during normal business hours of the Agent with which the deposit is being made a Conversion Notice, in the form obtainable from any Agent, together with the Certificate evidencing the relevant Bond. No Stock Acquisition Right may be exercised in part only.

5.9.2 *Custodian and Custodian's Agent:* The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time with 30 days' prior written notice to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in the specified office of the Custodian will be given to the Bondholders in accordance with Condition 19. The Custodian has, pursuant to the Agency Agreement, initially appointed Mizuho Bank, Ltd. as the Custodian's Agent at its initial specified office set out at the end of these Conditions and may, with the prior written approval of the Trustee, alter such appointment at any time. The Company shall give notice to the Bondholders in accordance with Condition 19 of any change in the Custodian's Agent and/or its specified office. The Custodian shall have no liability to Bondholders for any loss suffered by them as a result of any failure on the part of the Custodian's Agent to perform its functions pursuant to these Conditions and the Agency Agreement, nor shall the Custodian have any obligation to perform those functions should the Custodian's Agent fail to do so. The Custodian shall not be liable for monitoring or supervising the performance by the Custodian's Agent of such functions. The Contracts (Rights of Third Parties) Act 1999 applies to this Condition 5.9.2 for the benefit of the Custodian.

5.9.3 *Conditions Precedent:* As conditions precedent to the exercise of the Stock Acquisition Right, the Bondholder must pay to the relevant Agent pursuant to this Condition 5.9.3 (or make arrangements satisfactory to such Agent or its delegate for the payment of) all stamp, issue, registration or other similar taxes and duties (if any), together with any incidental expenses in connection therewith, arising on such exercise in the country in which the Stock Acquisition Right is to be exercised or payable in any jurisdiction consequent upon the issue or delivery of Shares to or to the order of a person other than the exercising Bondholder (if any) together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The relevant Agent will not be bound to make any payments until such Agent has received the full amount of such taxes and duties due and payable in respect of the Bonds, the Stock Acquisition Rights in respect of which are being exercised, or other arrangements satisfactory to the relevant Agent have been made.

The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued or transferred) must provide the relevant Agent with details of the relevant tax

authorities to which such Agent must pay moneys received from the Bondholder for payment of taxes and duties. The payment of such moneys received from the Bondholders to the relevant tax authority will be made at the risk and expense of the Bondholder exercising the relevant Stock Acquisition Rights and such Bondholder will be required to submit any necessary duly completed and signed documents that may be required by the Agent in order to effect the payment of such moneys. The relevant Agent shall be entitled to assume without duty to enquire and without liability that any information provided by the Bondholder exercising the relevant Stock Acquisition Rights in connection with any such amounts payable and as to the details of the relevant tax authorities to which the Agent must pay moneys received in settlement of the taxes and duties payable pursuant to this Condition 5.9.3 is true, accurate and complete. The Bondholders (and, if applicable, the person other than the Bondholders to whom the Shares are to be delivered) shall, upon exercising the relevant Stock Acquisition Rights, be deemed to have consented to the relevant Agent disclosing otherwise confidential information for the purposes of such Agent's carrying out the duties herein. Such Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) arising upon exercise of any Stock Acquisition Rights.

For the avoidance of doubt, the exercising Bondholder shall bear any costs and expenses which relate to the account at the Account Management Institution into which it receives the Shares acquired upon the exercise of the Stock Acquisition Right pursuant to Condition 5.9.5(i). Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights and all charges of the Agents in connection therewith (including all costs, charges and expenses incurred by any delegate).

5.9.4 *Deposit Date and Stock Acquisition Date:*

- (i) The time at which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Time" applicable to such Bond, and the date in London on which the Deposit Time falls is hereinafter referred to as the "Deposit Date" applicable to such Bond. For the avoidance of doubt, a Deposit Date may not occur during any period when the Stock Acquisition Rights may not be exercised;
- (ii) The request for exercise of the Stock Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the relevant Certificate will become effective, at 23:59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan on which such time in London falls, is herein referred to as the "Stock Acquisition Date" applicable to such Bond);
- (iii) A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company; and
- (iv) If deposit of the Conversion Notice is made on a day which is not a Business Day or after 16:00 hours in the place of the specified office of the Agent, such deposit shall be deemed for all purposes of these Conditions to have been made on the next following such Business Day.

*At any time when the relevant Bonds are evidenced by the Global Certificate, the exercising Bondholder shall, in lieu of depositing the Conversion Notice in the manner aforesaid, transmit the Conversion Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder's account pro tanto. The time at which such duly completed Conversion Notice is received by the Agent through the relevant clearing systems shall be deemed for the purposes of these Conditions to be its Deposit Time. With effect from the relevant Stock Acquisition Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit the Bondholder's account with the number of the Bonds the Stock Acquisition Rights incorporated in which have been exercised and the Register shall be amended accordingly.*

- 5.9.5 *Delivery of Shares:* The Company shall procure that the relevant Agent shall, with effect as of the Stock Acquisition Date, endorse the Conversion Notice on behalf of the Custodian. With effect

from the Stock Acquisition Date (or as soon as practicable thereafter under Japanese law, regulation and practice relating to the delivery of shares and the register of shareholders), the Company shall deem the Custodian or its nominee to have become the holder of record of the number of Shares to be acquired upon such exercise of the Stock Acquisition Right (disregarding any fraction of a Share resulting from such exercise and also disregarding any Retroactive Adjustment of the Conversion Price prior to the time when such Retroactive Adjustment is first reflected in the Conversion Price).

Thereafter, subject to any applicable limitations then imposed by Japanese law, regulation or practice (including any administrative orders or guidelines issued by any relevant authority), the Articles of Incorporation or the share handling regulations of the Company:

- (i) in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, as soon as practicable and in any event within 14 days after the Stock Acquisition Date, the Company shall issue and deliver the relevant Shares to the Custodian or its nominee at the account maintained with the Custodian's Agent (as an Account Management Institution), and the Custodian's Agent shall transfer the relevant Shares to or to the order of the exercising Bondholder at such account maintained with an Account Management Institution in Japan as specified in the relevant Conversion Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian's Agent as aforesaid or such instruction given by the exercising Bondholder in the relevant Conversion Notice is inaccurate, incomplete or insufficient for the purpose of such transfer); and
- (ii) as soon as practicable, the Company shall deliver to the Custodian's Agent for the account of the Custodian or its nominee, securities (other than the Shares) required to be delivered upon such exercise of the Stock Acquisition Rights, if any, and the Custodian's Agent shall, according to the request made in the relevant Conversion Notice, either:
  - (a) as soon as practicable, and in any event within 14 days after the Stock Acquisition Date (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid), deliver or cause to be delivered to the order of the person named for that purpose in the relevant Conversion Notice at the specified office in Japan for the time being of the Custodian's Agent, any such securities (other than the Shares) required to be delivered on exercise and such assignments and other documents (if any) as may be required by law to effect the transfer thereof; or
  - (b) as soon as practicable, and in any event within 21 days after the Stock Acquisition Date (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid), despatch or cause to be despatched to, or to the order of the person named for that purpose in the relevant Conversion Notice and at the place in Japan (not being the specified office in Japan for the time being of the Custodian's Agent) and in the manner specified in the relevant Conversion Notice (the expense and risk of despatch at any such place being that of the exercising Bondholder), any such securities (other than the Shares) required to be delivered upon exercise and such assignments and other documents (if any) as may be required by law to effect the transfer thereof;

provided, however, that if such securities (other than Shares) are subject to the book-entry transfer system established pursuant to the Book-Entry Act, such delivery or despatch will be implemented in accordance therewith.

*Any Conversion Notice transmitted electronically is not required to be endorsed and shall be processed in accordance with the operating procedures of the relevant clearing systems.*

- 5.9.6 *Amount of Stated Capital and Additional Paid-in Capital:* With effect as of the Stock Acquisition Date, one-half of the "maximum capital and other increase amount", as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital.

## 6. **Certain Corporate Events**

### 6.1 ***Corporate Events***

In the case of a proposal for:

- (i) any Merger Event; or
- (ii) any Asset Transfer Event; or
- (iii) any Corporate Split Event; or
- (iv) any Holding Company Event; or
- (v) the passing of a resolution at a general meeting of shareholders of the Company (or, where such a resolution is not required, at a meeting of the Board of Directors of the Company) for any other corporate reorganisation procedure then provided for under Japanese law (the passing of any such resolution and any Merger Event, any Asset Transfer Event, any Corporate Split Event and any Holding Company Event being together referred to in these Conditions as a “Corporate Event”) pursuant to which the obligations under the Bonds and/or the Stock Acquisition Rights are proposed to be transferred to or assumed by another entity (such other entity and any Merged Company, any Asset Transferee, any Corporate Split Counterparty and any Holding Company being together referred to as a “New Obligor”),

the following provisions of this Condition 6 shall apply.

### 6.2 ***Notice of Proposal***

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of a proposed Corporate Event at the same time as it gives notice to the holders of Shares (or, if no such notice is required, or if a public announcement of such proposed Corporate Event is made on a date earlier than the date of such notice, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

### 6.3 ***Notice of Passing of Resolution***

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company’s proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its “Corporate Event Effective Date”.

### 6.4 ***Transfer of Obligations Following a Corporate Event***

6.4.1 *Transfer:* If a Corporate Event occurs, and:

- (i) it is legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect substitution of the New Obligor for the Company and the grant of the New Stock Acquisition Rights in such a manner as set out in Conditions 6.5 and 12.2;
- (ii) a practical structure for such substitution and grant has been or can be established; and
- (iii) such substitution and grant can be consummated without the Company or the New Obligor incurring costs or expenses (including taxes) which are in the opinion of the Company unreasonable in the context of the entire transaction,

then the Company shall use its best endeavours to cause the New Obligor to be substituted as the principal obligor under the Bonds and the Trust Deed pursuant to Condition 12.2 and the Trust Deed and for the grant of the New Stock Acquisition Rights in relation to the Bonds in place of the Stock Acquisition Rights in the manner described in Condition 6.5. Such substitution and

grant shall take effect on the relevant Corporate Event Effective Date, or, in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, as soon as practicable on or after, but in any event no later than 14 days after, the relevant Corporate Event Effective Date.

6.4.2 *Listing*: In connection with the substitution and grant described in Condition 6.4.1, the Company shall also use its best endeavours to ensure that the shares of common stock of the New Obligor will be listed on any stock exchange in Japan or be quoted or dealt in on any securities market in Japan (such listing, quotation and dealing being hereinafter collectively referred to as “Listing”) on the relevant Corporate Event Effective Date.

6.4.3 *Condition*: The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.5(iv).

## 6.5 *New Stock Acquisition Rights*

At the time of the substitution of (or assumption by) the New Obligor as principal obligor under Condition 12.2 and the Trust Deed, New Stock Acquisition Rights will be granted, in place of the Stock Acquisition Rights, to the Bondholders by the New Obligor, in accordance with the following terms:

6.5.1 *Number of the New Stock Acquisition Rights to be Granted*: The number of New Stock Acquisition Rights to be granted will be equal to the number of the Stock Acquisition Rights incorporated in the Bonds outstanding immediately prior to the relevant Corporate Event Effective Date;

6.5.2 *Class of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: Upon exercise of the New Stock Acquisition Rights, shares of common stock of the New Obligor shall be issued or transferred;

6.5.3 *Number of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: The number of shares of the New Obligor to be issued or transferred upon exercise of the New Stock Acquisition Rights shall be determined by the New Obligor by reference to these Conditions taking into account the terms of the transaction contemplated under the relevant Corporate Event, and

- (i) in the case of a Merger Event or a Holding Company Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right would upon its exercise immediately after the Corporate Event Effective Date receive the number of shares of common stock of the New Obligor (the “Number of Deliverable Shares”) receivable upon the relevant Corporate Event by a holder of the number of Shares (such number being the “Number of Held Shares”) which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately prior to the relevant Corporate Event Effective Date. If securities (other than shares of common stock of the New Obligor) or other property shall be delivered to such holder of the Number of Held Shares upon the taking effect of the Merger Event or the Holding Company Event (as the case may be), such number of shares of common stock of the New Obligor shall form part of the Number of Deliverable Shares as shall be calculated by dividing the fair market value of such securities or properties delivered to such holder of the Number of Held Shares by the New Obligor Current Market Price per Share, such fair market value to be determined by the Company, provided that in determining such fair market value, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of the Independent Financial Adviser; or
- (ii) in the case of any other Corporate Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right shall upon its exercise immediately after the Corporate Event Effective Date receive an equivalent economic interest to be determined by the Company as that which would have been received by a holder of the number of Shares which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately before the relevant Corporate Event Effective Date, provided that, in determining such equivalent economic interest, the Company shall, at its own expense, consult with an

Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

For the purpose of this Condition 6, the “New Obligor Current Market Price per Share” means (i) the average of the daily Closing Prices of the shares of common stock of the New Obligor for the 30 consecutive Trading Days commencing 45 Trading Days immediately before the relevant Corporate Event Effective Date, or (ii) if such market price shall not be available, such price as is determined by the Company, provided that in determining such price, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

The conversion price for the New Stock Acquisition Rights shall be subject to adjustment which shall be as nearly equivalent as may be practicable to the adjustments provided in Condition 5.2;

6.5.4 *Description of the Asset to be Contributed upon Exercise of the New Stock Acquisition Rights and the Amount or the Calculation Method Thereof:* Upon exercise of each New Stock Acquisition Right, the relevant Bond shall be deemed to be acquired by the New Obligor as a capital contribution in kind by the relevant Bondholder at the price equal to the principal amount of the Bond;

6.5.5 *Exercise Period of the New Stock Acquisition Rights:* The New Stock Acquisition Rights may be exercised at any time during the period from, and including, the later of the relevant Corporate Event Effective Date or the date of implementation of the scheme described in Condition 6.4.1 up to, and including, the last day of the Exercise Period of the Stock Acquisition Rights;

6.5.6 *Other Conditions for the Exercise of the New Stock Acquisition Rights:* No New Stock Acquisition Right may be exercised in part, and the exercise of the New Stock Acquisition Rights shall be subject to conditions substantially the same as those described in Conditions 5.1.5 to 5.1.9;

6.5.7 *Acquisition at the Option of the New Obligor:* The New Stock Acquisition Rights together with the Bonds may be acquired by the New Obligor substantially in the same manner as described in Condition 7.2;

6.5.8 *Amount of Stated Capital and Additional Paid-in Capital:* As of the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the “maximum capital and other increase amount” as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and

6.5.9 *Others:* Fractions of a share of common stock of the New Obligor will not be issued upon exercise of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

#### 6.6 ***No Statutory Put Rights***

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or a Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

#### 6.7 ***Subsequent Corporate Events***

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

## 7. Redemption, Acquisition, Purchase and Cancellation

### 7.1 *Final Maturity*

Unless the Bonds have previously been redeemed, acquired or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent of their principal amount on 14 December 2028 (the “Maturity Date”). The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

### 7.2 *Acquisition at the Option of the Company*

7.2.1 *Acquisition Notice:* At any time during the Acquisition Notice Period, and subject to the Shares being listed on the Relevant Stock Exchange, the Company may, but shall not be bound to, give notice (the “Acquisition Notice”) to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), to acquire from those Bondholders which deliver a duly completed Acquisition Election Notice on or after the date of the Acquisition Notice and on or before the Acquisition Determination Date pursuant to Condition 7.2.2, the Bonds which are the subject of such Acquisition Election Notice outstanding on the Acquisition Option Date; provided that such option to acquire may not be exercised by the Company if an Event of Default has occurred. Such Acquisition Notice shall specify the date fixed for such acquisition (the “Acquisition Option Date”), which (a) shall be a date not less than 60 and not more than 75 calendar days after the date that the Acquisition Notice is first given; (b) shall be a date that is a Business Day in each of Tokyo, London and Luxembourg, and if the Acquisition Option Date specified in the Acquisition Notice is not such a Business Day, notwithstanding (a) above, the Acquisition Option Date shall be moved to the next day that is such a Business Day (but subject always to (c) below); and (c) which must be a date falling on or before the Exercise Period End Date; and upon giving such notice, all such Bonds which are the subject of a duly completed Acquisition Election Notice shall be deemed to be so acquired by the Company on the Acquisition Option Date. Each Bondholder which delivers a duly completed Acquisition Election Notice, by accepting or acquiring any Bond, agrees that the relevant Bond shall be so acquired by the Company on the Acquisition Option Date.

Subject to Conditions 7.2.2, 7.2.3 and 7.2.4, the Company shall, as consideration for each Bond (including the Stock Acquisition Rights) acquired by the Company:

- (i) pay in the same manner as provided in Condition 8, an amount equal to 100 per cent of the principal amount of the Bonds on the Acquisition Option Date in cash; and
- (ii) issue and deliver the Acquisition Shares in accordance with Condition 7.2.2, if any, registered in the name of the Custodian or its nominee, with effect as of the Acquisition Option Date,

in each case, to the Bondholders which have delivered a duly completed Acquisition Election Notice.

Immediately prior to giving the Acquisition Notice (but on the same day as the giving of such Acquisition Notice), the Company shall provide the Trustee with a certificate by a Representative Director or an Authorised Officer certifying to the effect that, as at the date thereof, no Event of Default or Potential Event of Default has occurred. The Trustee may rely absolutely without liability to Bondholders or any other person on such certificate as to the absence of any Event of Default or Potential Event of Default on such date.

Any expenses or taxes incurred in connection with the acquisition of the Bonds by the Company and the delivery of the Acquisition Shares pursuant to this Condition 7.2 shall be borne by the Company.

Bonds that have been so acquired by the Company shall be cancelled upon acquisition in accordance with these Conditions, and all Certificates in respect of Bonds so cancelled shall be promptly forwarded to the Principal Agent for cancellation.

In these Conditions:

“Acquisition Determination Date” means the date falling 14 calendar days prior to the Acquisition Option Date.

“Acquisition Notice Period” means the period from, and including, the Acquisition Notice Period Commencement Date to, and including, the Acquisition Notice Period End Date.

“Acquisition Notice Period Commencement Date” means 15 August 2028.

“Acquisition Notice Period End Date” means 15 September 2028.

“Acquisition Shares” means such number of Shares per Bond, if positive, calculated in accordance with the formula below:

$$\text{Acquisition Shares} = \frac{\text{The amount by which the Acquisition Share Value exceeds the principal amount of each Bond}}{\text{Average VWAP per Share}}$$

provided that:

- (i) fractions of a Share shall be disregarded and no adjustment or cash payment will be made in respect thereof; and
- (ii) if during the period from but excluding the last day of the Relevant VWAP Period to but excluding the Acquisition Option Date any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the Acquisition Option Date) to the Conversion Price under the provisions of Condition 5.2, the Acquisition Shares, as determined above, shall be adjusted in such manner and to such extent as the Company ((a) in its reasonable opinion, or (b) at its option, after consultation with an Independent Financial Adviser) shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser, if obtained).

“Acquisition Share Value” means the yen amount per Bond calculated in accordance with the formula below:

$$\frac{\text{Principal Amount of the Bond}}{\text{Last Day Conversion Price}} \times \text{Average VWAP per Share}$$

“Average VWAP per Share” means the average of the Volume Weighted Average Prices (“VWAP”) of the Shares reported by the Relevant Stock Exchange on each of the Trading Days during the Relevant VWAP Period, provided that:

- (a) if an Ex-Dividend Date falls, or will fall, within the period from but excluding the first day of the Relevant VWAP Period to and including the Acquisition Option Date, the Average VWAP per Share used as the denominator in the formula for calculating the Acquisition Shares (as set out in the definition of “Acquisition Shares”) shall be adjusted by subtracting the Dividend Adjustment Amount from the VWAP of the Shares on each Trading Day during the period from and including the first day of the Relevant VWAP Period to and including the earlier of (x) the Trading Day immediately prior to the Ex-Dividend Date and (y) the last day of the Relevant VWAP Period;
- (b) if an Ex-Dividend Date falls within the period from and including the third Tokyo Business Day after the date of the Acquisition Notice to and including the last day of the Relevant VWAP Period, the Average VWAP per Share for the purpose of calculating Acquisition Share Value (as contained in the definition of “Acquisition Share Value”) shall be adjusted by adding the Dividend Adjustment Amount to the VWAP of the Shares reported by the Relevant Stock Exchange in yen on each Trading Day during the period from and including the later of (x) the Ex-Dividend Date and (y) the first day of the Relevant VWAP Period, to and including the last day of the Relevant VWAP Period;
- (c) if on any Trading Day within the Relevant VWAP Period, VWAP of the Shares is not reported by, nor otherwise available from, the Relevant Stock Exchange, or VWAP reported by the Relevant Stock Exchange is manifestly incorrect, the average trading prices of the Shares using a volume weighted method on the Relevant Stock Exchange on such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company in its sole discretion (acting in a commercially reasonable manner) shall be deemed to be the VWAP on such Trading Day (but subject to adjustment pursuant to (a) and/or (b) above, if required); and

- (d) if during the Relevant VWAP Period any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the last day of the Relevant VWAP Period) to the Conversion Price under the provisions of Condition 5.2, the Average VWAP per Share as determined above shall be adjusted in such manner and to such extent as the Company ((a) in its reasonable opinion, or (b) at its option, after consultation with an Independent Financial Adviser) shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser, if obtained) in order to compensate for the effect of such event.

The Company shall give notice to the Bondholders in accordance with Condition 19 of the Average VWAP per Share as soon as reasonably practicable upon determination thereof.

*As a consequence of the adjustments identified in (a) and (b) above, the Average VWAP per Share for the purposes of calculating the Acquisition Shares may differ from the Average VWAP per Share used for the purposes of calculating the Acquisition Share Value.*

“Dividend Adjustment Amount” for the purposes of the calculation of an adjustment to the Average VWAP per Share means the amount determined by the Company as of the last day of the Relevant VWAP Period, which shall be:

- (i) the expected cash dividend per Share most recently publicly announced by the Company with respect to the Record Date relating to the relevant Ex-Dividend Date; or
- (ii) if no public announcement has been made as to an expected cash dividend per Share as set out in (i) above, the actual cash dividend per Share in respect of the corresponding Record Date one year prior to the relevant Record Date; or
- (iii) if, in the opinion of the Company, neither the expected nor the actual cash dividend as set out in (i) or (ii) above (as the case may be) provides a reasonable basis for adjustment of the Average VWAP per Share, the amount determined by the Company in its sole discretion as being appropriate and fair to give effect to the impact of the Ex-Dividend Date on the relevant VWAP.

For the purposes of this Condition 7.2.1, a “dividend” means a “distribution of surplus”, within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act.

“Ex-Dividend Date” means the Tokyo Business Day immediately prior to any Record Date for a dividend declared or to be declared by the Company (provided that if such Record Date falls on a date that is not a Tokyo Business Day, then the Ex-Dividend Date means the second Tokyo Business Day immediately prior to such Record Date); provided further that if, in the opinion of the Company, there has been a change to the mandatory provisions of Japanese law, regulation or practice which affects the timing or application of ex-dividend dates, the definition of Ex-Dividend Date may be amended by the Company, and/or the Company may make such other changes to this Condition 7.2.1 as it shall consider appropriate and fair, in each case, to the extent permitted by applicable law and to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders, and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Bondholders in accordance with Condition 19 and to the Trustee in writing.

“Last Day Conversion Price” means the Conversion Price in effect on the last day of the Relevant VWAP Period.

“Relevant VWAP Period” means the 20 consecutive Trading Days beginning on, and including, the fifth Trading Day from, but excluding, the date on which the Company gives the Acquisition Notice to the Bondholders in accordance with Condition 19.

All calculations with respect to the Acquisition Share Value and the Average VWAP per Share shall be made to the nearest one-tenth of a yen, with five one-hundredths or more of a yen to be considered a full tenth.

- 7.2.2 *Acquisition Election Notice:* In order to elect to have its Bonds acquired by the Company and to obtain delivery of the Acquisition Shares (if any) pursuant to this Condition 7.2, the electing Bondholder must deliver to the specified office of an Agent, on or after the date of the Acquisition Notice and no later than the Acquisition Determination Date, a duly completed

election notice substantially in the form set out in the Agency Agreement (an “Acquisition Election Notice”, a copy of which may be obtained from the specified office of any Agent) with respect to all, but not part, of the Bonds held by such Bondholder, together with the relevant Certificates for the relevant Bonds held by it and to which the Acquisition Election Notice relates. An Acquisition Election Notice shall be irrevocable once delivered.

*At any time when the relevant Bonds are evidenced by the Global Certificate, the Bondholder shall, in lieu of depositing the Acquisition Election Notice in the manner aforesaid, transmit the Acquisition Election Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder’s account pro tanto.*

Thereafter, subject to any applicable limitations then imposed by Japanese law, regulation or practice (including but not limited to any administrative orders or guidelines issued by any relevant authority), the Articles of Incorporation or the share handling regulations of the Company, delivery of the Acquisition Shares by or on behalf of the Company pursuant to this Condition 7.2 will be made on or as soon as practicable after the Acquisition Option Date in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, to the Custodian or its nominee at the account maintained with the Custodian’s Agent (as an Account Management Institution), and the Custodian’s Agent will transfer the relevant Acquisition Shares to or to the order of the relevant Bondholders at such account maintained with an Account Management Institution in Japan as specified in the relevant Acquisition Election Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian’s Agent as aforesaid or such instruction given by the relevant Bondholder in the relevant Acquisition Election Notice is inaccurate, incomplete or insufficient for the purposes of such transfer). The provisions of Condition 5.1.10 shall apply with any necessary changes to the Acquisition Shares with references to the Stock Acquisition Date therein being construed as references to the Acquisition Option Date.

Any determination as to whether an Acquisition Election Notice has been properly completed and delivered as provided in these Conditions shall be made by the Principal Agent in its sole discretion and shall be conclusive and binding on the relevant Bondholders, the Company and the Trustee.

An Acquisition Election Notice may be delivered by a holder with respect to one or more Bonds. To the extent that an Acquisition Election Notice is delivered with respect to more than one Bond, the number of Acquisition Shares to be delivered pursuant to this Condition 7.2 shall be calculated on the basis of the aggregate number of Bonds referred to in such Acquisition Election Notice.

- 7.2.3 *Bonds in Respect of Which an Acquisition Election Notice was Not Delivered:* If, on the day immediately following the Acquisition Determination Date, there are any Bonds in respect of which a duly completed Acquisition Election Notice has not been received by an Agent on or prior to the Acquisition Determination Date (“Bonds without Acquisition Election Notice”), such Bonds without Acquisition Election Notice shall be redeemed at 100 per cent of their outstanding principal amount on the date falling two Tokyo Business Days after the Acquisition Option Date (the “Elected Redemption Date”), and payment in respect thereof shall be made in accordance with Condition 8.
- 7.2.4 *Acquisition Notice Void:* Notwithstanding the provisions of Condition 7.2.1, if the Shares are not listed on the Relevant Stock Exchange on the Acquisition Option Date, the Acquisition Notice shall be treated as null and void and the relevant Bonds will be redeemed, subject as provided herein, for cash in accordance with the provisions of Condition 7 other than this Condition 7.2 and payment in respect thereof shall be made in accordance with Condition 8. If the Company becomes aware, after the Acquisition Notice having been given, that the Shares will not be listed on the Relevant Stock Exchange on the Acquisition Option Date (other than in the circumstances set out in Condition 7.6 in which case the provisions of Condition 7.6 shall apply), the Company shall give notice of the nullification of the Acquisition Notice to the Bondholders in accordance with Condition 19 forthwith upon becoming so aware, provided that failure to give such notice shall not invalidate such nullification.

In addition, if an Event of Default occurs at any time after the giving of the Acquisition Notice but before the Acquisition Option Date, then the Acquisition Notice shall, unless the Bonds have

already been acquired on the Acquisition Option Date, become null and void and the provisions of Condition 10 will apply. If the Company becomes aware, after the Acquisition Notice having been given but prior to the relevant Acquisition Option Date, that an Event of Default has occurred, the Company shall give notice of the annulment and cancellation of the Acquisition Notice to the Bondholders in accordance with Condition 19 forthwith upon such occurrence, provided that failure to give such notice shall not invalidate such annulment and cancellation.

7.2.5 *Exercise of Stock Acquisition Rights:* The Company's right to acquire the Bonds in the manner set forth in this Condition 7.2 does not affect a Bondholder's right to exercise its Stock Acquisition Rights hereunder during the Exercise Period. For the avoidance of doubt, the Stock Acquisition Rights may not be exercised for the period from and including the Acquisition Notice Period Commencement Date to, and including, the Acquisition Notice Period End Date or, if the Acquisition Notice is given pursuant to Condition 7.2, to and including the Elected Redemption Date, subject to Condition 7.2.4 and the applicable provisions of Condition 5.1.4.

### 7.3 ***Redemption at the Option of the Company upon Reduced Outstanding Amounts***

The Company may (subject to Condition 7.11), but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, if at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as of the date of issue thereof.

### 7.4 ***Redemption for Taxation Reasons***

The Company may (subject to Condition 7.11), but shall not be bound to, at any time, having given not less than 30 nor more than 60 days' prior notice (the "Tax Redemption Notice") to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the "Tax Redemption Date"), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice (i) that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 28 November 2023 and (ii) that such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or an Authorised Officer, stating that the Company has or will become obliged to pay Additional Amounts as a result of such change or amendment and that the obligation referred to in (i) above has arisen and cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be bound to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Trustee, and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate. Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent of their principal amount on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent or more of the aggregate principal amount of the Bonds as of the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes,

duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

#### 7.5 **Corporate Event Redemption**

Upon or following the occurrence of a Corporate Event, the Company shall (subject to Condition 7.11) give not less than 14 Tokyo Business Days' prior notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out below and in accordance with the provisions of this Condition 7.5 (the "Corporate Event Redemption Price"), together with all Additional Amounts due on the Bonds (if any), on the date (the "Corporate Event Redemption Date") specified for redemption in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event), if any of the following conditions is satisfied:

- (i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect a scheme provided for by Condition 6.4.1; or
- (ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company is not able to effect such a scheme in compliance with Condition 6.4.1; or
- (iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing has been obtained for the shares of common stock of the New Obligor, and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or
- (iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.5 and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate.

Any notice of redemption given under this Condition 7.5 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice even if (in the case of Condition 7.5(iii) or 7.5(iv) above) a Listing for the shares of common stock of the New Obligor is subsequently obtained.

If the Corporate Event Redemption Date falls on or prior to the Exercise Period End Date, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)																										
	60.00	70.00	80.00	90.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00	210.00	220.00	230.00	240.00	250.00	260.00	270.00					
14 December 2023	98.48	102.53	107.44	113.10	119.42	126.30	133.66	141.41	149.51	157.89	166.52	175.36	184.37	193.53	202.82	212.23	221.73	231.31	240.96	250.68	260.46	270.29					
14 December 2024	98.02	101.63	106.19	111.59	117.74	124.53	131.86	139.64	147.79	156.27	165.00	173.96	183.10	192.39	201.81	211.34	220.96	230.66	240.43	250.25	260.13	270.05					
14 December 2025	97.77	100.78	104.83	109.87	115.79	122.46	129.77	137.61	145.87	154.49	163.39	172.51	181.83	191.29	200.88	210.57	220.34	230.18	240.07	250.01	260.00	270.00					
14 December 2026	97.73	99.89	103.19	107.68	113.27	119.80	127.14	135.12	143.61	152.49	161.67	171.07	180.65	190.36	200.17	210.06	220.01	230.00	240.00	250.00	260.00	270.00					
14 December 2027	98.21	99.09	101.03	104.42	109.39	115.81	123.42	131.90	140.99	150.46	160.18	170.04	180.00	190.00	200.00	210.00	220.00	230.00	240.00	250.00	260.00	270.00					
30 November 2028	100.00	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00	210.00	220.00	230.00	240.00	250.00	260.00	270.00					

In the above table:

"Reference Parity" means:

- (i) if the consideration payable to holders of the Shares in connection with the relevant Corporate Event consists of cash only, the amount of such cash per Share divided by the Conversion Price

in effect on the date of occurrence of the relevant Corporate Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; and

- (ii) in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days commencing on the Trading Day immediately following:
  - (a) the date on which the terms and conditions of the relevant Corporate Event (including the consideration payable or deliverable to holders of the Shares in connection therewith) are approved at a meeting of the Board of Directors of the Company, as required under the Companies Act; or
  - (b) (if the terms and conditions of the relevant Corporate Event are announced to the public later than that date) the date of such public announcement,

divided by the Conversion Price in effect on the last day of such five consecutive Trading Day period (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

If the Reference Parity or Corporate Event Redemption Date does not appear in the above table, and:

- (x) if the Reference Parity falls between two numbers in the first row of the above table and/or the Corporate Event Redemption Date falls between two dates in the above table, then the Corporate Event Redemption Price shall be determined by straight-line interpolation between such two numbers and/or two dates, on the basis of a 365-day year, as the case may be, with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth;
- (y) if the Reference Parity is higher than the number in the far right column in the first row of the above table, the Reference Parity shall be deemed to be equal to that number; and
- (z) if the Reference Parity is less than the number set forth in the far left column in the first row of the above table, the Corporate Event Redemption Price shall be 100.00 per cent.

If the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is less than 100.00 per cent, the Corporate Event Redemption Price shall be 100.00 per cent. Conversely, if the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is more than 270.00 per cent, the Corporate Event Redemption Price shall be 270.00 per cent.

If the Corporate Event Redemption Date falls during the period from (but excluding) the Exercise Period End Date to (but excluding) the Maturity Date, the Corporate Event Redemption Price shall be 100.00 per cent.

## 7.6 ***Redemption on Delisting of the Shares***

### 7.6.1 *Offers and Redemption: If:*

- (i) any offer is made by a party or parties (the “Offeror”) other than the Company in accordance with the FIEA to all holders of Shares (or all such holders other than the Offeror and/or any company controlled by the Offeror and/or persons associated or acting in concert with the Offeror) to acquire all or a portion of the Shares;
- (ii) the Company expresses its opinion to support such offer in accordance with the FIEA;
- (iii) the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces or admits, that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or may be

disqualified from such listing, quotation or dealing, as a result of the acquisition of Shares pursuant to the offer (unless the Company or the Offeror publicly expresses its intention to use its best endeavours to continue such listing, quotation or dealing after such acquisition); and

- (iv) the Offeror acquires any Shares pursuant to the offer,

then the Company shall (subject to Condition 7.11) give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the “Delisting Redemption Date”) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). The Trustee shall be entitled to assume, without being required to take any action and without liability, until it has received written notice to the contrary that the Offeror has not so acquired any Shares.

- 7.6.2 *Redemption Price:* The redemption price applicable to the redemption under this Condition 7.6 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Delisting Redemption Date and the Reference Parity shall mean, if the offer price consists of cash only, the offer price in effect on the last day of the offer divided by the Conversion Price in effect on the same day (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the last day of the offer divided by the Conversion Price in effect on the last day of the offer (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

- 7.6.3 *Offer Followed by Corporate Event or Squeezeout Event:* Notwithstanding the above provisions of this Condition 7.6, if the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces, that it intends to effect a Corporate Event or Squeezeout Event after the date of acquisition of any Shares pursuant to the offer, then the Company’s obligation to redeem the Bonds under this Condition 7.6 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.5, or Condition 7.7, as the case may be, shall be applicable to such Corporate Event or Squeezeout Event, as the case may be) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the last day of such 60-day period, to redeem all, but not some only, of the Bonds then outstanding at the redemption price set out in Condition 7.6.2 (for the avoidance of doubt, the Reference Parity applicable to such redemption being equal to the Reference Parity that would have been applicable had the Bonds been redeemed under Condition 7.6.1 without being subject to the provisions of this Condition 7.6.3), together with all Additional Amounts due on the Bonds (if any), on the date (for the avoidance of doubt, the Delisting Redemption Date applicable to such redemption being such date) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice).
- 7.6.4 *Irrevocable Notice:* Any notice of redemption given under this Condition 7.6 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

7.6.5 *Notice to Bondholders:* Upon the occurrence of:

- (a) any of the events set out in (i) through (iv) of Condition 7.6.1; or
- (b) any of the events set out in Condition 7.6.3 which results in the cancellation or revival of the Company's obligation to redeem the Bonds,

the Company shall as soon as practicable give notice thereof to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19.

7.6.6 *Condition:* If the Company becomes obliged to redeem the Bonds pursuant to both this Condition 7.6 and either Condition 7.5 or 7.7, the procedure pursuant to Condition 7.5 or 7.7, as the case may be, shall apply.

## 7.7 ***Squeezeout Redemption***

7.7.1 *Redemption:* Upon the occurrence of a Squeezeout Event, the Company shall (subject to Condition 7.11) give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with Condition 7.7.2, together with all Additional Amounts due on the Bonds (if any), on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition, sale or consolidation of the Shares with respect to the Squeezeout Event, as the case may be, provided, however, that if the Squeezeout Effective Date falls earlier than 14 Tokyo Business Days from the date of such notice, the Squeezeout Redemption Date shall be accelerated to the extent necessary to ensure that it shall fall on a date earlier than the Squeezeout Effective Date).

"Squeezeout Event" means either (i) the passing of a resolution at a general meeting of shareholders of the Company approving its acquisition of all of the outstanding Shares in exchange for a consideration, following the outstanding Shares being transformed into callable shares (*zenbushutokujoko tsuki shuruikabushiki*) under the Companies Act by way of an amendment to the Articles of Incorporation, such as (but not limited to) for the purpose of making the Company a wholly-owned subsidiary of another corporation, (ii) the passing of a resolution by the Board of Directors of the Company approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushiki uriwatashi seikyu*) under the Companies Act, or (iii) the passing of a resolution at a general meeting of shareholders of the Company approving a consolidation of Shares (*kabushiki no heigo*) under the Companies Act after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing.

7.7.2 *Redemption Price:* The redemption price applicable to the redemption under this Condition 7.7 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Squeezeout Redemption Date and the Reference Parity shall mean, if the assets to be delivered to the holders of Shares consist of cash only (or if the holders of Shares which are being squeezed out are to effectively receive cash only in respect of such Shares), the cash amount which the holder of a Share would receive in exchange for Shares to be transferred as a result of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a

Retroactive Adjustment becoming effective during such period, where the event requiring such Retroactive Adjustment takes place after such period) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

**7.8 *Purchase of Bonds by the Company or any Subsidiary***

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders or otherwise to exercise any voting rights and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for voting on any Extraordinary Resolution or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

**7.9 *Cancellation***

All Bonds which are redeemed or acquired or with respect to which the Stock Acquisition Rights have been exercised shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 7.8 shall be forwarded to the Principal Agent for cancellation.

**7.10 *Notice of Redemption or Acquisition***

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as of the date of the relevant notice, the Closing Price of the Shares as of the latest practicable date prior to the publication of the relevant notice, the applicable date fixed for redemption, the redemption price of the Bonds, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds outstanding as of the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.3 or 7.4 shall be effective if it specifies a date for redemption which falls during a period (a "Closed Period") in which Stock Acquisition Rights may not be exercised pursuant to Condition 5.1.4(c) or within 15 days following the last day of a Closed Period.

**7.11 *Priorities among Redemption and Acquisition Provisions***

If any notice of redemption or acquisition is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, no other notice may be, or as the case may be, is required to be, given pursuant to any other of such Conditions, subject as provided in Condition 7.2.4 and 7.6.3 and except for such Bonds so elected by the relevant Bondholder not to be redeemed pursuant to Condition 7.4.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.5 or 7.7, or (b) the events set out in (i) to (iv) of Condition 7.6.1 occur, then a notice pursuant to Condition 7.2, 7.3 or 7.4 may not subsequently be given.

**7.12 *Calculations***

The Trustee, the Custodian, the Custodian's Agent, the Registrar, the Principal Agent and the other Agents are not liable to determine or calculate the Reference Parity, any redemption amount or price under these Conditions (howsoever expressed or defined) or to make any other calculations required to be made under these Conditions.

**8. *Payments***

**8.1 *Method of Payment***

Payments in respect of principal, default interest (if any) and premium (if any) will be made (subject to surrender of the Certificates in respect of the relevant Bonds at any specified office outside Japan of the

Registrar or any Agent, if no further payments are due in respect of the Bonds evidenced by the relevant Certificates) to the person shown on the Register at the close of business on the third Business Day in the place of the specified office of the Registrar and the Principal Agent before the due date for payment thereof, by transfer to its Registered Account. Such payments will be made by transfer to its Registered Account subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 9. Save as provided in Condition 9, such payments will be subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment and the Company will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

“Registered Account” means a yen account maintained by the payee with a bank in Japan, details of which appear on the Register at the close of business on the third Business Day in the place of the specified office of the Registrar and the Principal Agent before the due date of payment.

## 8.2 *Agents*

The initial Principal Agent and the initial Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to (in respect of the Principal Agent, the Registrar and any other Agent only) the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Agent, the Registrar, the Calculation Agent or any other Agent and to appoint other or further Agents, provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed; and (v) a Calculation Agent. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar, the Calculation Agent or any other Agent will be given to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19.

## 8.3 *Payments on Payment Business Days*

If the due date for payment of any amount in respect of any Bond is not a Payment Business Day, then the holder of such Bond shall not be entitled to payment of the amount due until the next following Payment Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. “Payment Business Day” means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried out both in Tokyo and in such place.

## 9. **Taxation**

All payments by the Company in respect of the Bonds, subject to Condition 7.4, will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts (“Additional Amounts”) as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

- (i) to a Bondholder (a) who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, or (b) who fails to comply with Japanese tax law requirements in respect of the exemption from such withholding or deduction, or (c) who is otherwise subject to such taxes, duties, assessments or governmental charges by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or enforcement of rights thereunder or the receipt of payment in respect of any Bond; or
- (ii) in respect of which the relevant Certificate is presented for payment, more than 30 days after the Due Date (as defined below) except to the extent that the holder thereof would have been entitled to such

Additional Amounts on presenting the Certificate in respect of such Bond for payment as of the expiry of such 30-day period.

If the Company becomes obliged to pay Additional Amounts in accordance with this Condition 9, then it will have the right to redeem the Bonds, subject to the right of the Bondholders to retain the Bonds without entitlement to such Additional Amounts in accordance with Condition 7.4.

In these Conditions, the “Due Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the Bondholders in accordance with Condition 19.

Any reference in these Conditions and the Trust Deed to principal, premium (if any) or default interest in respect of the Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed.

No Additional Amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of the US Internal Revenue Code of 1986, any regulation or agreement thereunder, any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the US Internal Revenue Service (“FATCA withholding”). Further, the Company will have no obligation to otherwise indemnify an investor for any such FATCA withholding deducted or withheld by the Company, the Agents or any other party that is not an agent of the Company.

#### 10. **Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction, give notice in writing to the Company that the Bonds are due and repayable on the occurrence of any of the following events:

- 10.1 *Non-Payment*: the Company defaults in the payment of the principal of any of the Bonds under Condition 7.4 as and when the same shall become due and payable, and such default is not remedied within seven days; or
- 10.2 *Breach of Obligations*: the Company defaults in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to pay the principal in respect of any of the Bonds), which default is, in the opinion of the Trustee, incapable of remedy, or if, in the opinion of the Trustee, capable of remedy, is not remedied within 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring such default to be remedied; or
- 10.3 *Cross Default on Indebtedness*: the obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid when due (whether on demand (if applicable) or otherwise) (or at the expiration of any grace period as originally provided (if applicable)); or
- 10.4 *Cross Default on Guarantee/Indemnity*: the Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10); or
- 10.5 *Initiation of Insolvency Proceedings*: proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or

- 10.6 *Decree of Insolvency/Dissolution*: a final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or (in the opinion of the Trustee) any material part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or
- 10.7 *Resolution for Dissolution*: a resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:
- 10.7.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which:
- (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied); or
- (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such winding-up, dissolution or liquidation; or
- 10.7.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or the Holding Company (as the case may be) in the relevant Principal Subsidiary; or
- 10.7.3 in any case, where the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or
- 10.8 *Institution of Insolvency Proceedings*: the Company or any Principal Subsidiary institutes proceedings seeking with respect to itself adjudication of bankruptcy or seeking with respect to itself a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or (in the opinion of the Trustee) any material part of its property, or makes a general assignment for the benefit of its creditors; or
- 10.9 *Stoppage of Payment*: the Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or
- 10.10 *Cessation of Business*: the Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on all of its business, except:
- 10.10.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which:
- (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied); or
- (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such cessation of business; or
- 10.10.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in

proportion to the ownership interest held by the Company, such other Subsidiary or the Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.10.3 in any case, where the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.11 *Encumbrancer*: any encumbrancer takes possession of the whole or (in the opinion of the Trustee) any material part of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or (in the opinion of the Trustee) any material part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days;

and, in the case of any of the events described in Conditions 10.2, 10.3, 10.4, 10.5 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders. The Trustee in forming such an opinion, or making any determination under or required or contemplated by this Condition 10, may exercise all or any of its rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining and relying on such directions from the Bondholders or expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for so doing.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than Japanese yen may be translated into Japanese yen at the spot rate for the sale of relevant currency against the purchase of Japanese yen quoted by any leading bank selected by the Trustee at its absolute discretion on any day when the Trustee requests such a quotation for such purpose.

Upon any such notice being given to the Company, the Bonds shall immediately become due and repayable at 100 per cent of their principal amount (together with Additional Amounts, if any, premium, if any, and default interest, if any) as provided in the Trust Deed.

## 11. Undertakings

### 11.1 *Undertakings with Respect to the Stock Acquisition Rights*

While any Stock Acquisition Rights are, or are capable of being, exercisable, the Company will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give such approval:

11.1.1 *Shares*: issue, register and deliver Shares upon exercise of Stock Acquisition Rights in accordance with these Conditions, and keep available free from pre-emptive or other rights for the purpose of effecting the exercise of the Stock Acquisition Rights such number of its Shares (whether authorised and unissued or in issue and held in treasury) as would be required to be delivered upon exercise of all of the Stock Acquisition Rights outstanding from time to time and will ensure that all Shares delivered upon exercise of the Stock Acquisition Rights pursuant to these Conditions will be duly and validly issued and fully- paid and non-assessable;

11.1.2 *Transfers*: not take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise of the Stock Acquisition Rights, if any, may (subject to any limitation imposed by law) be transferred (as between transferor and transferee although not as against the Company) at all times while such action is effective, nor take any action which prevents exercise of the Stock Acquisition Rights or the issue or transfer of Shares in respect thereof, except as permitted under Condition 5.1.4;

11.1.3 *Fiscal Year and Record Date*: give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its fiscal year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;

11.1.4 *Listing*: use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours or the maintenance of such listing is agreed by the Trustee to be unduly onerous and the Trustee is satisfied that the interests of the Bondholders would not be thereby materially

prejudiced, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company may from time to time reasonably determine and give notice of the identity of such stock exchange or securities market to the Bondholders in accordance with Condition 19; provided that:

- (i) so long as the Company is not in breach of its obligations under Condition 6 in the case of any Corporate Event where the obligations under the Bonds and/or Stock Acquisition Rights are proposed to be transferred to or assumed by a New Obligor, then the Shares may be delisted with effect from the date falling no earlier than 30 days prior to the relevant Corporate Event Effective Date or such earlier date as may be determined by the Relevant Stock Exchange and (unless shares of common stock of the New Obligor are then listed or quoted or dealt in on any stock exchange or securities market) the Company shall use its best endeavours to cause the obtaining of a listing, quotation or dealing in of the shares of common stock of the New Obligor on any stock exchange or securities market in Japan;
- (ii) the Company's obligations under this Condition shall not apply if the Bonds are to be redeemed under Condition 7.5 or 7.6 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from (x) delivering a certificate to the Trustee, as provided in Condition 7.5(iv), or (y) taking any action provided in items (ii) and (iii) of Condition 7.6.1; and
- (iii) the Company's obligations under this Condition shall not apply if the Bonds are to be redeemed under Condition 7.7 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from, among other things, proposing an amendment to the Articles of Incorporation for transforming the Shares into callable shares (*zenbushutokujoko tsuki shuruikabushiki*), approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushiki uriwatashi seikyu*), proposing a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing, or announcing or admitting that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or be disqualified from such listing, quotation or dealing as a result of the acquisition or consolidation of Shares pursuant to a Squeezeout Event, as the case may be);

11.1.5 *Other Securities*: procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), converted into or exchanged for Shares and that no rights or warrants to subscribe for, purchase or otherwise acquire Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), exercised otherwise than, in each case, in accordance with the terms of issue thereof (for the avoidance of doubt, such terms may be amended as a result of any change in or bringing into force of Japanese law, including but not limited to certain tax qualification requirements relating to incentive stock options);

11.1.6 *Capital*: not create or issue any class of share capital other than Shares, without giving notice to the Trustee in writing and to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;

11.1.7 *Limitation on Reduction of the Conversion Price*: not take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would (but for the provisions of Condition 5.4) be decreased to such an extent that the Shares to be acquired on exercise of the Stock Acquisition Right could not, under any applicable law then in effect, be legally issued as fully-paid and non-assessable;

11.1.8 *Corporate Event*: if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds are to be redeemed pursuant to Condition 7.5 or 7.6); and

11.1.9 *Consents:* obtain and maintain all consents, clearances, approvals, authorisations, orders, registrations or qualifications (if any) required to be obtained or maintained by the Company on exercise of the Stock Acquisition Rights.

*The Trust Deed contains certain other undertakings in relation to the Bonds and the Stock Acquisition Rights.*

## 11.2 **Charges**

Except as otherwise provided in Condition 5.9, the Company will pay all charges of the Trustee, the Registrar, the Principal Agent, the other Agents, the Custodian, the Custodian's Agent and the Calculation Agent (including the cost of providing notices) and all issue, transfer and other similar taxes payable with respect to the deposit of Bonds pursuant to Condition 5.9.3, and the issue and delivery of Shares and the delivery of any other securities pursuant to Condition 5.9.5 following such deposit.

## 12. **Substitution**

### 12.1 ***Substitution other than under a Corporate Event***

The Trustee may, without the consent of the Bondholders, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the Trustee shall consider appropriate, (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (iii) the satisfaction of such other conditions as are set out in the Trust Deed. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/ or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19.

When determining, pursuant to this Condition 12.1, whether an event or circumstance is materially prejudicial to the interests of the Bondholders, the Trustee may exercise all or any of its rights, powers and directions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining such expert advice as it considers appropriate and relying thereon without any responsibility or liability to the Bondholders or any other person for delay occasioned for so doing.

*Further conditions to such substitution are set out in the Trust Deed.*

### 12.2 ***Substitution under a Corporate Event***

Prior to a Corporate Event Effective Date, the Trustee may, if so requested by the Company, agree with the Company, without the consent of Bondholders, to the substitution in place of the Company of the New Obligor subject to a trust deed supplemental to the Trust Deed (which shall include the provisions described below), providing that the Company's obligations under the Bonds and the Trust Deed shall be assumed by the New Obligor by way of substitution (which, for the purposes of Japanese law, may be deemed to be a transfer or assumption of such obligations to or by the New Obligor), and that the New Obligor shall grant stock acquisition rights (the "New Stock Acquisition Rights") to all holders of the Bonds then outstanding, in place of the Stock Acquisition Rights incorporated in the Bonds held by them, being executed on or prior to the relevant Corporate Event Effective Date or (in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date) within 14 days after the relevant Corporate Event Effective Date. The Trustee may enter into such supplemental trust deed without consent of Bondholders only if:

- (i) under such supplemental trust deed, the New Obligor agrees, in form, manner and substance satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and providing that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;
- (ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New

Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director or an Authorised Officer of the Company that, as of the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's long-term, unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt (and which certificate the Trustee shall be entitled to rely upon without further investigation and without incurring any liability to any person for doing so). In making this determination, the Company shall consult an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;

- (iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.4 in relation to payment of Additional Amounts by the New Obligor (and/or the guarantor, if any);
- (iv) a Representative Director or an Authorised Officer of the New Obligor certifies that the New Obligor will be solvent immediately after such substitution (if the Trustee receives such certification, the Trustee need not have regard to the New Obligor's financial condition, profits or prospects or compare them with those of the Company);
- (v) the Company shall have certified (by a certificate of a Representative Director or an Authorised Officer) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;
- (vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and
- (vii) such substitution and grant of the New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

### 12.3 ***Release of Obligations***

An agreement by the Trustee pursuant to Condition 12.2 will (except in respect of any guarantee under Condition 12.2(ii)), if so expressed, release the Company (or a previous substitute) from any or all of its obligations under the Trust Deed and the Bonds.

### 12.4 ***Deemed Amendment***

On completion of the formalities set out in Condition 12.2, the New Obligor will be deemed to be named in the Trust Deed and the Bonds as the principal obligor in place of the Company (or of any previous substitute) and the Trust Deed and the Bonds will be deemed to be amended as necessary to give effect to the substitution. In particular and without limitation:

- (i) the terms "Stock Acquisition Rights" and "Shares" shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and
- (ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

## 13. **Prescription**

Claims in respect of the Bonds will become void unless made within the period of 10 years from the Due Date for the payment thereof.

14. **Replacement of Certificates**

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Principal Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company or an Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. **Meetings of Bondholders; Modification and Waiver**

15.1 ***Meetings of Bondholders***

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any provision of these Conditions or of the Trust Deed. The quorum for any such meeting convened to consider any matter requiring an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent in principal amount of the Bonds for the time being outstanding, or for any adjourned meeting two or more persons being or representing Bondholders (whatever the principal amount of Bonds held or represented) except that at any meeting the business of which includes the modification of certain provisions of the Bonds or of the Trust Deed (including, *inter alia*, modifying the date of maturity of the Bonds, reducing or cancelling the principal amount of, or any premium payable in respect of, the Bonds, modifying the method or basis of calculating the rate or amount of default interest in respect of the Bonds, altering the currency of payment of the Bonds or (to the extent permitted by applicable law) abrogating or modifying any Stock Acquisition Right or of the acquisition option of the Company), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned such meeting not less than 50 per cent, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

Notwithstanding the above provisions, any resolution in writing signed by or on behalf of the holders of not less than 90 per cent in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of such Bondholders duly convened and held in accordance with the provisions contained in these Conditions and in the Trust Deed. Any resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders. A meeting of Bondholders may be held electronically in accordance with the procedures set out in the Trust Deed.

15.2 ***Modification and Waiver***

The Trustee may, without the consent of the Bondholders, agree to any modification (except as aforesaid and as set out in the Trust Deed) of the Trust Deed or the Bonds (including these Conditions) or to any waiver or authorisation of any breach, continuing breach or potential breach by the Company of the provisions of the Trust Deed or the Bonds or determine that any Event of Default or Potential Event of Default shall not be treated as such which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of the Trust Deed or the Bonds (including these Conditions) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or is necessary in order to comply with mandatory provisions of Japanese law or pursuant to Condition 6 or 12. Any such modification, waiver, determination or authorisation shall be binding on the Bondholders and shall (unless the Trustee agrees otherwise) be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Conditions 1.1, 1.5, 5, 6, 7.2, 7.5 and/or 7.7 or (ii) the FIEA which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.6, the relevant Conditions shall be amended and/or supplemented to reflect that change by means of a trust deed supplemental to the Trust Deed. The Trustee (unless in its sole opinion such supplemental trust deed (i) imposes obligations, responsibilities

or liabilities on it which are greater than those it has as Trustee under the Trust Deed or (ii) decreases the protections it has as Trustee under the Trust Deed) shall be obliged (subject to being indemnified and/or secured and/or prefunded by the Company to its satisfaction) to enter into such supplemental trust deed (in a form and substance satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing and may rely on any opinion or any certificate of a Representative Director or an Authorised Officer provided pursuant to this Condition 15.2 without liability to any person and without further investigation. The Trustee in forming any such opinion or making any determination may exercise all or any of its rights, powers and directions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining such expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for so doing. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

#### 15.3 *Entitlement of the Trustee*

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in these Conditions), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

#### 15.4 *Authority to the Trustee*

To the fullest extent permitted by applicable law, by acquiring a Bond, the Bondholder irrevocably authorises and instructs the Trustee (without its direction whether by Extraordinary Resolution or otherwise) to take any action, step or proceeding before a Japanese court on behalf of and in the name of the Bondholder which the Trustee considers to be necessary or desirable in the interests of the Bondholders. The Trustee shall not be bound to take any such action, step or proceeding unless (a) so directed by an Extraordinary Resolution or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action, step or proceeding. The Trustee shall not take any action, step or proceeding on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

### 16. **Enforcement**

At any time after the Bonds shall have become due and repayable or, in relation to Condition 7.2, were due to be acquired on the Acquisition Option Date or repaid on the Elected Redemption Date, the Trustee may, at its absolute discretion and without further notice, take such proceedings, actions or steps against the Company as it may think fit to enforce repayment of the Bonds, together with accrued default interest, if any, pursuant to Condition 4 and to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to proceed, fails or is unable to do so within 30 days of such direction or request and provision of indemnity and/or security and/or prefunding (whichever is the latest) and such failure or inability shall be continuing.

### 17. **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Trust Deed or the terms of the Bonds and to be paid its costs and expenses in priority to the claims of Bondholders. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders or any other person on any certificate or report prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Auditors, the Independent Financial Adviser or such other expert (as the case may be) in respect thereof is limited by a

monetary (or any other) cap or otherwise, and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under these Conditions and/or the Trust Deed and, in the absence of manifest error, any such certificate or report shall be conclusive and binding on the Company, the Trustee, and the Bondholders.

18. **Independent Financial Adviser**

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or in relation to any other matter which is reserved in these Conditions for a decision of an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price or other matter shall be conclusive and binding on the Company, the Trustee and the Bondholders in the absence of manifest error.

If the Company shall fail to appoint an Independent Financial Adviser when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser or otherwise in connection with such appointment, the Trustee shall have the power, but shall not be obliged, to make such appointment in its absolute discretion and without liability for so doing or not doing, following notification to the Company, in which case such Independent Financial Adviser shall be deemed to have been appointed by the Company.

19. **Notices**

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). If publication in any of such newspapers is not practicable, notices will be given in such other newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

So long as the Bonds are evidenced by a Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

20. **Contracts (Rights of Third Parties) Act 1999**

Except as provided herein, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21. **Governing Law and Submission to Jurisdiction**

21.1 ***Governing Law***

The Trust Deed and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 ***Jurisdiction***

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Bonds (including any non-contractual obligation arising out of or in connection with the Trust Deed and the Bonds) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds (including any non-contractual obligation arising out of or in connection with the Trust Deed and the Bonds) (“Proceedings”) may be brought in such courts. The Company has in the Trust Deed submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

21.3 ***Agent for Service of Process***

The Company has irrevocably appointed Cogency Global (UK) Limited, whose office is at present at 6 Lloyds Avenue, Unit 4CL, London EC3N 3AX, United Kingdom, as its agent in England to receive

service of process in any Proceedings in England. If for any reason Cogency Global (UK) Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

## TERMS AND CONDITIONS OF THE 2030 BONDS

*The following terms and conditions (the “Conditions”) of the Bonds will, subject to completion and amendment and save for the paragraphs in italics, be endorsed on the Certificates (as defined herein) evidencing the 2030 Bonds.*

The ¥25,000,000,000 Zero Coupon Convertible Bonds due 2030 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the “Bonds”, which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated in the Bonds) issued by Kobe Steel, Ltd. (the “Company”) are constituted by a trust deed (the “Trust Deed”) dated 14 December 2023 made between the Company and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include all persons for the time being as trustee and/or any other trustee appointed under the Trust Deed, as trustee for the holders of the Bonds). Each Bond is issued in the denomination of ¥10,000,000 each and a stock acquisition right (*shinkabu yoyakuken*) (the “Stock Acquisition Right”), entitling the Bondholder (as defined in Condition 1.2) to acquire fully paid and non-assessable shares of common stock of the Company (the “Shares”) as described below, is incorporated in each Bond as an integral part thereof. Copies of the Trust Deed and of the agency agreement (the “Agency Agreement”) dated 14 December 2023 relating to the Bonds among, *inter alios*, the Company, the Trustee, Mizuho Trust & Banking (Luxembourg) S.A. as principal agent (the “Principal Agent”), as calculation agent (the “Calculation Agent”) and as registrar (the “Registrar”), and the other agents referred to therein, are available for inspection by prior appointment during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom, or electronically upon request to and subject to providing satisfactory proof of holding to the Trustee, and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the “Agents” shall, unless the context otherwise requires, include any Agent appointed by the Company in the Agency Agreement (including, where the context permits, the Principal Agent) at their respective specified offices named as paying, transfer and conversion agents in connection with the Bonds for the purposes of, *inter alia*, making payments and transfers, the acceptance of Conversion Notices and the Certificates for the purposes of the exercise of the Stock Acquisition Rights, and the acceptance of Tax Redemption Election Notices (as defined in the Agency Agreement), or such other or further agents for the Bonds as may from time to time be appointed, or at such other or further specified offices as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 (but excluding the Registrar and Custodian).

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of and are bound by all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Any terms defined in the Trust Deed and not in these Conditions shall have the same meanings when used herein except where otherwise indicated.

### 1. **Form, Denomination, Issue Price, Title, Status, Transfers of Bonds and Relationship between Bonds and Stock Acquisition Rights**

#### 1.1 ***Form, Denomination and Issue Price***

The Bonds are issued in registered form in the denomination of ¥10,000,000 each and are not exchangeable for bonds with stock acquisition rights in bearer form. The issue price of the Bonds (excluding the Stock Acquisition Rights) is 100 per cent of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

A bond certificate (each, a “Certificate”) will be issued in respect of each Bond. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the “Register”) of holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

#### 1.2 ***Title***

Title to the Bonds will pass only by transfer and registration of title in the Register. The holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

In these Conditions, a “Bondholder” and (in relation to a Bond) a “holder” mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first named thereof).

*Upon issue, the Bonds will be evidenced by a global certificate (the "Global Certificate") deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.*

*The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.*

### 1.3 **Status**

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

### 1.4 **Transfers of Bonds**

1.4.1 *The Register:* The Company will cause to be kept at the specified office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers, acquisitions and redemptions of the Bonds and exercises of the Stock Acquisition Rights.

Each Bondholder shall be entitled to receive one Certificate in respect of each Bond held by such holder.

1.4.2 *Transfers:* A Bond may be transferred upon the surrender (at the specified office(s) of the Principal Agent, the Registrar or any other Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and executed and any other evidence as the relevant Agent or the Registrar (as the case may be) may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon written request.

*Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form".*

1.4.3 *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within three Transfer Business Days (as defined below) of receipt of the duly completed and executed form of transfer, and surrender of the original Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address so specified (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Agent (as the case may be).

1.4.4 *Formalities Free of Charge:* Registration of a transfer of Bonds and issuance of Certificates in relation thereto shall be effected without charge by or on behalf of the Company, the Registrar or the relevant Agent, but upon (i) payment of any tax or other governmental charges that may be

imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Agent may require); and (ii) the Company and the Registrar or the relevant Agent being reasonably satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer*: No Bondholder may require the transfer of a Bond to be registered:

- (i) during the period of seven days ending on (and including) the due date for redemption pursuant to Condition 7.1, 7.2.3, 7.5, 7.6 or 7.7;
- (ii) with respect to any Bond for which Condition 7.2.2 applies, during the period from and including the Acquisition Determination Date (as defined in Condition 3.1) or, if earlier, the time at which an Acquisition Election Notice (as defined in Condition 3.1) in respect of such Bond has been given pursuant to Condition 7.2, up to but excluding the Acquisition Option Date (as defined in Condition 3.1);
- (iii) after a Conversion Notice (as defined in Condition 3.1) has been given with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4, in which event registration of transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn); or
- (iv) after a notice of redemption has been given pursuant to Condition 7.3 or 7.4 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.4).

### 1.5 ***Relationship between Bonds and Stock Acquisition Rights***

The obligations of the Company in respect of the Bonds and the Stock Acquisition Rights incorporated therein shall arise and shall be extinguished or cease to be exercisable simultaneously subject as provided herein.

The Bonds and the Stock Acquisition Rights incorporated therein may not be transferred or dealt with separately from each other.

## 2. **Negative Pledge**

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time or prior thereto, according or procuring to be accorded to the Bonds, (x) to the satisfaction of the Trustee or as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation or (y) such other security or guarantee as the Trustee may in its absolute discretion deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2, "Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

- (a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and
- (b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan.

## 3. **Definitions and Construction of References**

### 3.1 ***Definitions***

In these Conditions (unless the context otherwise requires):

"3-Month Deposit Rate" means, as of any specified time on any date, the rate per annum as of such specified time on such date as shown on Bloomberg page JYDRC Curncy (setting "Bid", and using the

pricing source “CMPL”) (or any successor page, setting or pricing source), or, if no such rate is available as of the specified time on such day (for the purposes of this definition, the “Original Date”), the 3-Month Deposit Rate on the Original Date shall be the 3-Month Deposit Rate, determined as aforesaid, as of the specified time on the immediately preceding day on which the same can be so determined, provided however that if such immediately preceding day falls prior to the fifth day before the Original Date, or if the 3-Month Deposit Rate cannot be determined as aforesaid (including without limitation because such Bloomberg page (or any successor) has ceased to exist), the 3-Month Deposit Rate as of the specified time on the Original Date shall be determined in such other manner as determined in good faith to be appropriate by an Independent Financial Adviser. If the 3-Month Deposit Rate determined as aforesaid shall be less than zero, then the 3-Month Deposit Rate shall be deemed to be zero;

“Account Management Institution” means an account management institution (*koza-kanri-kikan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

“Acquisition Determination Date” has the meaning provided in Condition 7.2.1;

“Acquisition Election Notice” has the meaning provided in Condition 7.2.2;

“Acquisition Notice” has the meaning provided in Condition 7.2.1;

“Acquisition Notice Period” has the meaning provided in Condition 7.2.1;

“Acquisition Notice Period Commencement Date” has the meaning provided in Condition 7.2.1;

“Acquisition Notice Period End Date” has the meaning provided in Condition 7.2.1;

“Acquisition Option Date” has the meaning provided in Condition 7.2.1;

“Acquisition Share Value” has the meaning provided in Condition 7.2.1;

“Acquisition Shares” has the meaning provided in Condition 7.2.1;

“Additional Amounts” has the meaning provided in Condition 9;

“Additional Shares” has the meaning provided in Condition 5.3;

“Annual Fiscal Period” means a period commencing on 1 April and ending on 31 March of the immediately following year; provided that, if the Company shall change its fiscal year so as to end on a date other than 31 March, “Annual Fiscal Period” shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Articles of Incorporation” means the articles of incorporation of the Company from time to time in effect;

“Asset Transfer Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the sale or transfer of all or substantially all of the assets of the Company to another entity (the “Asset Transferee”), pursuant to the terms of which the Company’s obligations under the Bonds are to be transferred to or assumed by the Asset Transferee;

“Asset Transferee” has the meaning provided in the definition of Asset Transfer Event;

“Auditors” means the independent auditors for the time being of the Company or, if there shall be joint independent auditors, any one or more of such independent auditors or, if they are unable or unwilling to carry out any action requested of them under these Conditions or the Trust Deed, such other auditors or firm of auditors as may be appointed by the Company to act as such and promptly notified in writing to the Trustee by the Company;

“Authorised Officer” means any one of the directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have notified to the Trustee in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

“Average VWAP per Share” has the meaning provided in Condition 7.2.1;

“Bankruptcy Act” means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

“Base Dividend” has the meaning provided in Condition 5.2.4;

“Bid Price” has the meaning provided in Condition 5.1.9;

“Board of Directors”, in respect of any company, means the board of directors of that company or, where applicable, the board of statutory executive officers of such company, within the meaning of the Companies Act; provided that, if any individual director is authorised by such board of directors to make the relevant decision in accordance with the Companies Act and such company’s articles of incorporation and other internal regulations, any reference to the Board of Directors of such company shall be deemed to mean such director, and any reference to the relevant resolution or approval at a meeting of such Board of Directors shall be deemed to mean the relevant decision of such director;

“Bondholder” and “holder” have the meaning provided in Condition 1.2;

“Bonds without Acquisition Election Notice” has the meaning provided in Condition 7.2.3;

“Book-Entry Act” means the Act on Book-Entry Transfer of Corporate Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended);

“Business Day” in respect of any place means a day, other than a Saturday or Sunday, on which banks are open for business in such place;

“BVAL Price” has the meaning provided in Condition 5.1.9;

“Certificate” has the meaning provided in Condition 1.1;

“Civil Rehabilitation Act” means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

“Clean-up Redemption Notice” has the meaning provided in Condition 7.3;

“Closed Period” has the meaning provided in Condition 7.10;

“Closing Date” means 14 December 2023;

“Closing Parity Value” has the meaning provided in Condition 5.1.9;

“Closing Price” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), for any Trading Day, the last reported selling price (regular way) of the Shares or the shares of common stock of the New Obligor (as the case may be) on the Relevant Stock Exchange on such Trading Day or, if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, the average of the closing bid and offered prices of the Shares or the shares of common stock of the New Obligor (as the case may be) for such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company or the New Obligor (as the case may be);

“Companies Act” means the Companies Act of Japan (Act No. 86 of 2005, as amended);

“Company Notification Date” has the meaning provided in Condition 5.1.9;

“Company’s Territory” has the meaning provided in Condition 12.2;

“Consolidated Financial Statements” means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company prepared as aforesaid;

“Consolidated Subsidiary” means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

“Controlling Shareholder” means a shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as provided in the Articles of Incorporation) or more of the Company’s voting rights as calculated in accordance with the Companies Act;

“Conversion Notice” means the written notice required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in the Agency Agreement;

“Conversion Price” has the meaning provided in Condition 5.1.3;

“Corporate Event” has the meaning provided in Condition 6.1;

“Corporate Event Effective Date” has the meaning provided in Condition 6.3;

“Corporate Event Redemption Date” has the meaning provided in Condition 7.5;

“Corporate Event Redemption Price” has the meaning provided in Condition 7.5;

“Corporate Reorganisation Act” means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

“Corporate Split Counterparty” has the meaning provided in the definition of Corporate Split Event;

“Corporate Split Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any corporate split (*shinsetsu bunkatsu* or *kyushu bunkatsu*) in which the Company’s obligations under the Bonds are to be transferred to or assumed by the corporation which is the counterparty to such corporate split (the “Corporate Split Counterparty”);

“Current Market Price per Share” has the meaning provided in Condition 5.2.9;

“Custodian” means The Law Debenture Trust Corporation p.l.c. at its specified office at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom or such other custodian as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 and shall, unless the context otherwise requires, include the nominee of the Custodian;

“Custodian’s Agent” means Mizuho Bank, Ltd. at its specified office at 5-5, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8176, Japan or such other agent of the Custodian in Japan as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Custodian, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19;

“Delisting Redemption Date” has the meaning provided in Condition 7.6.1;

“Deposit Date” has the meaning provided in Condition 5.9.4;

“Deposit Time” has the meaning provided in Condition 5.9.4;

“Dividend Adjustment Amount” has the meaning provided in Condition 7.2.1;

“Due Date” has the meaning provided in Condition 9;

“Elected Redemption Date” has the meaning provided in Condition 7.2.3;

“Event of Default” means any of the events listed in Condition 10 which, if so required by that Condition, has been certified in writing by the Trustee to the Company in accordance with that Condition that, in the opinion of the Trustee, it is materially prejudicial to the interests of the Bondholders, upon the occurrence of which the Bonds may become due and repayable;

“Ex-Dividend Date” has the meaning provided in Condition 7.2.1;

“Exercise Period” has the meaning provided in Condition 5.1.4;

“Exercise Period End Date” has the meaning provided in Condition 5.1.4;

“Extraordinary Dividend” has the meaning provided in Condition 5.2.4;

“Extraordinary Resolution” means a resolution passed (i) at a meeting of the Bondholders duly convened (including satisfaction of the quorum requirements set out in the Trust Deed) and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than three-quarters of the votes cast thereon, or (ii) by a written resolution or electronic consent in accordance with the provisions contained in the Trust Deed;

“FATCA withholding” has the meaning provided in Condition 9;

“FIEA” means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

“Fiscal Period” means, as the context may require, (i) a period commencing on 1 April and ending on 31 March of the immediately following year; or (ii) three month periods each commencing on 1 April, 1 July, 1 October and 1 January; provided that, if the Company shall change its fiscal year so as to end on a date other than 31 March, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Holding Company” has the meaning provided in the definition of Holding Company Event;

“Holding Company Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the Company to become a wholly-owned subsidiary of another corporation (the “Holding Company”) by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*);

“Independent Financial Adviser” means an independent investment bank, securities company, accounting firm or consultancy firm of established repute appointed by the Company at its own expense and notified to the Trustee in writing or, if the Company fails to make such appointment when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser or otherwise in connection with such appointment, as may be appointed by the Trustee in its absolute discretion (without liability for so doing or not doing) following notification to the Company, which appointment shall be deemed to be an appointment of the Company;

“JCR” has the meanings provided in Condition 5.1.6;

“Last Day Conversion Price” has the meaning provided in Condition 7.2.1;

“Leading Institution” has the meaning provided in Condition 5.1.9;

“Listing” has the meaning provided in Condition 6.4.2;

“Maturity Date” has the meaning provided in Condition 7.1;

“Merged Company” means the corporation formed by the relevant Merger Event or the corporation into which the Company shall have merged following a Merger Event;

“Merger Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any consolidation or amalgamation (*shinsetsu gappei*) of the Company with, or merger (*kyushu gappei*) of the Company into any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation);

“New Obligor” has the meaning provided in Condition 6.1;

“New Obligor Current Market Price per Share” has the meaning provided in Condition 6.5.3;

“New Stock Acquisition Rights” has the meaning provided in Condition 12.2;

“New Territory” has the meaning provided in Condition 12.2;

“Non-unit Shares” has the meaning provided in Condition 5.1.2;

“Notification Date” has the meaning provided in Condition 5.1.9;

“Number of Deliverable Shares” has the meaning provided in Condition 6.5.3;

“Number of Held Shares” has the meaning provided in Condition 6.5.3;

“Offeror” has the meaning provided in Condition 7.6.1;

“Parity Event” has the meaning provided in Condition 5.1.9;

“Parity Notification Event” has the meaning provided in Condition 5.1.9;

“Payment Business Day” has the meaning provided in Condition 8.3;

“Potential Event of Default” means any condition, omission, act, event or circumstance which, upon the giving of notice and/or the lapse of time and/or the issue of a certificate, could constitute an Event of Default;

“Principal Subsidiary” means any Consolidated Subsidiary of the Company (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the net sales of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an Authorised Officer of the Company that in the Company’s opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“Proceedings” has the meaning provided in Condition 21.2;

“Quote for the Bonds” has the meaning provided in Condition 5.1.9;

“Record Date” means the date fixed by the Articles of Incorporation or otherwise specified by the Company for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares; provided, however, that if the Company has fixed no such record date and the context so requires, the “Record Date” shall be construed as a reference to the date of any event in question coming into effect;

“Reference Parity” has the meanings provided in Conditions 7.5, 7.6 and 7.7;

“Reference Period” has the meaning provided in Condition 5.1.9;

“Register” has the meaning provided in Condition 1.1;

“Registered Account” has the meaning provided in Condition 8.1;

“Relevant Debt” has the meaning provided in Condition 2;

“Relevant GAAP” means the accounting principles which are adopted by the Company or the New Obligor (as the case may be) for the preparation of the Consolidated Financial Statements under the FIEA, being one of those generally accepted in Japan or the United States or International Financial Reporting Standards (as issued by the International Accounting Standards Board (or any successor thereto) or, if applicable, as adopted or endorsed by the Accounting Standards Board of Japan (or any successor thereto));

“Relevant Number of Shares” has the meaning provided in Condition 5.2.4;

“Relevant Period” has the meaning provided in Condition 5.2.15;

“Relevant Securities” has the meaning provided in Condition 5.2.8;

“Relevant Stock Exchange” means the Tokyo Stock Exchange or, if at the relevant time the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed on the Tokyo Stock Exchange, the principal stock exchange or securities market in Japan on which the Shares or the shares of common stock of the New Obligor (as the case may be) are then listed or quoted or dealt in;

“Relevant VWAP Period” has the meaning provided in Condition 7.2.1;

“Representative Director” means a director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

“Retroactive Adjustment” has the meaning provided in Condition 5.3;

“Securities” includes, without limitation, the Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

“Shareholder Determination Date” has the meaning provided in Condition 5.1.4;

“Shareholder Determination Date Restriction Period” has the meaning provided in Condition 5.1.4;

“Squeezeout Effective Date” has the meaning provided in Condition 7.7.1;

“Squeezeout Event” has the meaning provided in Condition 7.7.1;

“Squeezeout Redemption Date” has the meaning provided in Condition 7.7.1;

“Stock Acquisition Date” has the meaning provided in Condition 5.9.4;

“Stock Split” means any kind of stock split in relation to the Shares, including a free share distribution to the holders of Shares, a stock dividend or a sub-division of Shares;

“Subsidiary” means a company, more than 50 per cent of the outstanding shareholders’ voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, “voting rights” means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

“Tax Redemption Date” has the meaning provided in Condition 7.4;

“Tax Redemption Notice” has the meaning provided in Condition 7.4;

“Tokyo Business Day” means any day (other than a Saturday, Sunday or a day which shall be a legal holiday in Tokyo or a day on which banking institutions in Tokyo are obliged or authorised by law or executive order to close) on which banks are open for business in Tokyo;

“Tokyo Stock Exchange” means Tokyo Stock Exchange, Inc. (or its successor);

“Trading Day” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), a day on which the Relevant Stock Exchange is open for business, but does not include a day on which (a) no last selling price (regular way) for the Shares or the shares of common stock of the New Obligor (as the case may be) is reported by the Relevant Stock Exchange and (b) if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, no closing bid or offered price of the Shares or the shares of common stock of the New Obligor (as the case may be) is furnished as provided in the definition of Closing Price;

“Transfer Business Day” has the meaning provided in Condition 1.4.3;

“VWAP” has the meaning provided in Condition 7.2.1; and

“yen” and “¥” mean Japanese yen, the lawful currency of Japan.

### 3.2 ***Construction of Certain References***

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the “issue” of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words “issue”, “issued” and “issuable” shall be construed accordingly), references in these Conditions to the word “acquire” used in conjunction with the Shares shall be read as including both the words “issue” and “transfer”, and the words “acquired” and “acquisition” shall be construed accordingly (other than where such references to “acquired” and “acquisition” are to the acquisition of the Bonds pursuant to Condition 7.2), and references to “delivery” used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system

operated by the Japan Securities Depository Center, Incorporated. The words “substitution” and “grant” used in relation to the exchange of the Company’s obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

#### 4. **Default Interest**

The Bonds do not bear interest unless payment of any amount in respect of any Bond is improperly withheld or refused, in which case such unpaid amount will bear interest (both before and after judgment) from the date of default to the earlier of (i) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions) at the rate of interest per annum as being equal to the 3-Month Deposit Rate as at 11:00 a.m. (London time) on the date of such default. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

#### 5. **Exercise of Stock Acquisition Rights**

##### 5.1 ***Conversion Price, Exercise Period, Shares Issuable and Procedure***

5.1.1 *Stock Acquisition Rights and the Contribution of the Bond:* Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which has been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond as of the Stock Acquisition Date.

5.1.2 *Number of Shares:* The number of Shares to be acquired by a Bondholder exercising its Stock Acquisition Rights will be determined by dividing the aggregate principal amount of the Bonds deposited by such Bondholder at the same time upon exercise of the Stock Acquisition Rights by the Conversion Price applicable on the Stock Acquisition Date. Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if two or more Stock Acquisition Rights are exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds in which the Stock Acquisition Rights so exercised are incorporated.

For the avoidance of doubt, if a Bondholder would receive a number of Shares not constituting a unit (*tangen*) of Shares (“Non-unit Shares”) or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares.

*As at the date of this Offering Circular, the Articles of Incorporation specify that one unit of Shares is comprised of 100 Shares. Under the book-entry transfer system established pursuant to the Book-Entry Act, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges. Further, a holder of Shares constituting less than one unit cannot exercise any voting rights pertaining to those Shares. A holder of Shares constituting less than one unit may generally require the Company to purchase such Shares through the relevant Account Management Institution. The Articles of Incorporation currently provide that a holder of Shares constituting less than one unit may also request the Company to sell to such holder Shares representing less than one unit which, when added to the Shares held by such holder, shall constitute one full unit.*

5.1.3 *Conversion Price:* The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the “Conversion Price”) shall initially be ¥2,349.5 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise Period*: Subject to Condition 5.1.5, each Stock Acquisition Right may be exercised at any time during the period from, and including, 28 December 2023 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 29 November 2030 (the “Exercise Period End Date”), or:

- (i) if the relevant Bond shall have been acquired by the Company pursuant to Condition 7.2 and cancelled pursuant to Condition 7.2.1, then up to the time when such Bond is so cancelled;
- (ii) if the relevant Bond shall have been called for redemption pursuant to Condition 7.3 or 7.4, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof (unless, in the case of such Bond being called for redemption pursuant to Condition 7.4, the relevant Bondholder has elected that such Bond shall not be redeemed);
- (iii) if the relevant Bond shall become due to be redeemed pursuant to Condition 7.2.3, 7.5, 7.6 or 7.7, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof;
- (iv) if the relevant Bond shall have been purchased by the Company or a Subsidiary pursuant to Condition 7.8 and cancelled by the Company pursuant to Condition 7.9, then up to the time when such Bond is so cancelled; or
- (v) if the relevant Bond shall become due and repayable pursuant to Condition 10, then up to the time when such Bond becomes so due and repayable,

provided that:

- (a) in no event shall the Stock Acquisition Rights be exercised after the Exercise Period End Date;
- (b) the Stock Acquisition Rights may not be exercised during the period from and including the Acquisition Notice Period Commencement Date to and including the Acquisition Notice Period End Date, or, if the Acquisition Notice is given pursuant to Condition 7.2, to and including the Elected Redemption Date;
- (c) the Stock Acquisition Rights may not be exercised for such period as may be designated by the Company, which period may not exceed 30 days, and which period shall end on a date not later than 14 days after the Corporate Event Effective Date if the Company reasonably determines that such suspension is necessary in order to consummate the relevant transaction in compliance with these Conditions (including Conditions 6.4.1, 7.5 and 7.6); and
- (d) the Stock Acquisition Rights may not be exercised during such period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period; provided that if there is a change to the mandatory provisions of Japanese law, regulation or practice relating to the delivery of shares upon exercise of stock acquisition rights through book-entry transfer system established pursuant to the Book-Entry Act, then this Condition 5.1.4(d) and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law, regulation and practice by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Bondholders in accordance with Condition 19 and to the Trustee in writing.

In these Conditions:

“Shareholder Determination Date” means (i) any Record Date, and (ii) any other date set for the purpose of determination of the holders of Shares in connection with Paragraph 1 of Article 151 of the Book-Entry Act; and

“Shareholder Determination Date Restriction Period” means the period from and including the second Tokyo Business Day falling immediately prior to any Shareholder Determination Date to

and including such Shareholder Determination Date (provided that if such Shareholder Determination Date falls on a date that is not a Tokyo Business Day, then the Shareholder Determination Date Restriction Period means the period from and including the third Tokyo Business Day falling immediately prior to such Shareholder Determination Date to and including the Tokyo Business Day immediately following such Shareholder Determination Date).

The Company shall give the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and the Bondholders in accordance with Condition 19, a notice of the determination and period referred to in Condition 5.1.4(c) above (together with a description of the days included in such period) at least 30 days prior to the commencement of such period.

The Company shall give the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and the Bondholders in accordance with Condition 19, a notice of the determination of any Shareholder Determination Date Restriction Period (together with a description of the days included in such Shareholder Determination Date Restriction Period) at least three Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

*As at the date of this Offering Circular, the Record Dates fixed by the Articles of Incorporation are 31 March and 30 September. By way of example, in respect of the Record Date falling on 31 March 2024, it is currently anticipated that the Stock Acquisition Rights will not be exercisable where the Stock Acquisition Date would fall on any day from (and including) 27 March 2024 to (and including) 1 April 2024.*

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is referred to in these Conditions as the “Exercise Period” (for the avoidance of doubt, the Exercise Period in respect of any Stock Acquisition Right may stop and restart from time to time). Upon final expiration of the Exercise Period, the Stock Acquisition Rights incorporated in the relevant Bonds will lapse and cease to be exercisable or valid for any purposes.

#### 5.1.5 *Condition to Conversion:*

Prior to (and including) 13 August 2030, and subject to the Conditions, a Bondholder may exercise its Stock Acquisition Rights only if, as at the last Trading Day of any calendar quarter, the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter, as determined by the Principal Agent and notified to the Bondholders in accordance with Condition 19, subject to adjustment in the manner provided in Condition 5.2.

If the condition as set out above is satisfied, then a Bondholder may (subject to these Conditions) exercise the Stock Acquisition Rights on and after the first day of the immediately following calendar quarter (or, in the case of the calendar quarter commenced on 1 October 2023, on and after 28 December 2023) until the end of such calendar quarter (or, in the case the calendar quarter commencing on 1 July 2030, until 13 August 2030), provided that the relevant Deposit Date falls during the Exercise Period.

The conditions to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 shall not be applicable (A) during any period that Condition 5.1.6, 5.1.7 and/or 5.1.8 apply, and/or (B) where a Parity Event has occurred pursuant to Condition 5.1.9, during the period of 15 consecutive Tokyo Business Days commencing on (and including) the first Tokyo Business Day immediately following the Company Notification Date in respect of such Parity Event.

For the avoidance of doubt, during the period from and including 14 August 2030 to and including the close of business (at the place where the Stock Acquisition Right is to be exercised) on the Exercise Period End Date, the conditions to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 shall not be applicable.

Further, for the avoidance of doubt, even where a condition to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 is not applicable by virtue of Condition 5.1.6, 5.1.7, 5.1.8 or 5.1.9, the Stock Acquisition Rights shall not be exercisable after the expiration of the Exercise Period.

- 5.1.6 *Conditions to Conversion – Rating Requirements:* The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during any period in which (i) the long-term issuer rating assigned to the Company by Japan Credit Rating Agency, Ltd. or its successors (together, “JCR”) is BBB– (or equivalent if the rating category is changed) or lower, (ii) a long-term issuer rating is no longer assigned to the Company by JCR, and/or (iii) the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn. Upon the occurrence of any of the events set out in (i), (ii) or (iii) above, the Company shall forthwith give notice thereof to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19.
- 5.1.7 *Conditions to Conversion – Redemption Events:* If a notice of redemption is given pursuant to Condition 7.3, 7.4, 7.5, 7.6 or 7.7, the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable on and after the date of notice of such redemption except in the case of the Stock Acquisition Rights attaching to the Bonds elected by the relevant Bondholders not to be redeemed pursuant to Condition 7.4.
- 5.1.8 *Conditions to Conversion – Corporate Events:* Subject to the suspension by the Company as referred to in Condition 5.1.4(c), the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period from (and including) the date upon which the Company is first required to give notice to the Bondholders in accordance with Condition 6.2 to (and including) the relevant Corporate Event Effective Date.
- 5.1.9 *Conditions to Conversion – Parity Event:* The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period of 15 consecutive Tokyo Business Days from and including the first Tokyo Business Day immediately following the Company Notification Date in respect of the occurrence of a Parity Event. Whether or not a Parity Event has occurred for the purposes of these Conditions shall be determined by the Calculation Agent in accordance with the provisions of this Condition 5.1.9.

Any Bondholder shall be entitled to give notice (each, a “Parity Notification Event Notice”) to the Company in writing, with a copy to the Calculation Agent, in each case in accordance with this Condition 5.1.9, if and to the extent that a Parity Notification Event has occurred, provided that such notice shall be accompanied by reasonable supporting evidence (such evidence to be accepted in the opinion of the Company in its absolute discretion) regarding the occurrence of such Parity Notification Event. If any Parity Notification Event Notice is received after 4:00 p.m. in the place of the specified office of the Calculation Agent, such Parity Notification Event Notice shall be deemed for all purposes of these Conditions to have been provided on the date which is the immediately following Business Day in the place of the specified office of the Calculation Agent.

A Parity Notification Event Notice shall include a certification by or on behalf of the relevant Bondholder that it holds at least one Bond and evidence of such holding to the satisfaction of the Company, on which certification the Company and the Calculation Agent shall be able to rely, in the absence of manifest error, without further investigation. If a Parity Notification Event Notice is delivered in accordance with the foregoing, neither the Company nor the Calculation Agent shall be entitled or required to demand any further information from such person.

Each Parity Notification Event Notice to be given by a Bondholder to the Company shall be delivered to the Company by electronic mail only to KSL-Cassiopeia-zimu@kobelco.com, and shall simultaneously be copied to the Calculation Agent by electronic mail only to agencyparity@mizuho.lu, or in each case to such other electronic mail address as may be notified to Bondholders in accordance with Condition 19. Any Parity Notification Event Notice shall be deemed to be received by the Company or the Calculation Agent, as the case may be, only if received by the relevant party in legible form.

At any time when the relevant Bonds are evidenced by the Global Certificate, a Parity Notification Event Notice may be given by (or on behalf of) a person with an entitlement to such Bond, and which may be an accountholder in Euroclear or Clearstream, Luxembourg. Such Parity Notification Event Notice shall include a certification that such person holds (or is delivering such Parity Notification Event Notice on behalf of a person that holds) an entitlement to at least one Bond. Parity Notification Event Notices shall be submitted by electronic mail in accordance with this Condition 5.1.9 rather than through the Euroclear or Clearstream, Luxembourg systems.

The date on which any Parity Notification Event Notice is provided (or deemed to be so provided) to the Company and the Calculation Agent in accordance with the foregoing shall be the “Notification Date” in respect of such Parity Notification Event Notice. Once a Parity Notification Event Notice has been provided (or deemed to be so provided) on a Notification Date (such Parity Notification Event Notice being, for the purposes of this paragraph, the “earlier Parity Notification Event Notice”), any subsequent Parity Notification Event Notice that is provided (or deemed to be so provided) on or prior to the Company Notification Date in respect of the earlier Parity Notification Event Notice shall be disregarded, and no Notification Date shall occur in respect of that subsequent Parity Notification Event Notice.

The following shall apply in respect of each Notification Date which is deemed to occur under this Condition 5.1.9:

- (a) the Company shall give notice of the receipt of the relevant Parity Notification Event Notice, the relevant Notification Date and the expected Reference Period to the Bondholders in accordance with Condition 19 and to the Trustee no later than the second Business Day in Luxembourg and Tokyo immediately following the Notification Date;
- (b) the Calculation Agent shall determine whether or not a Parity Event has occurred in respect of the relevant Reference Period and shall notify the Company of such determination by no later than the second Business Day in Luxembourg and Tokyo immediately following (1) the last Business Day in Tokyo of the Reference Period if the Parity Event shall be deemed to have occurred in such Reference Period, or (2) the first day in the relevant Reference Period on which none of the events set out in the definition of Parity Event has occurred (and therefore it is determined that no Parity Event has occurred in respect of the relevant Reference Period); and
- (c) the Company will give notice of such Calculation Agent’s determination to the Bondholders in accordance with Condition 19 and the Trustee no later than the second Business Day in Luxembourg and Tokyo immediately following the date on which the Calculation Agent notifies the Company of the determination set out in paragraph (b) above (the date on which notice is given by the Company in accordance with this paragraph (c) being referred herein to as the “Company Notification Date”).

None of the Company, the Calculation Agent, the Trustee, the Agents, the Registrar, the Custodian or the Custodian’s Agent will be required to monitor any BVAL Price or Quotes for the Bonds or to take any steps or to perform any related calculations to verify whether a Parity Notification Event or Parity Event has occurred, and they shall not be liable to the Bondholders or any other person for not doing so, save (in the case of the Company and the Calculation Agent only and only as expressly provided in this Condition 5.1.9) where a Notification Date has occurred pursuant to this Condition 5.1.9.

In these Conditions:

“Bid Price” means, in respect of any day, the bid price per ¥10,000,000 in principal amount of the Bonds quoted by a Leading Institution for the purchase by that Leading Institution of a minimum principal amount of the Bonds equal to ¥10,000,000 on such day;

“BVAL Price” means, in respect of any day, the price of the Bonds as derived from the Bloomberg page: XS2727920626 Corp HP (setting “BVAL” or any successor setting) provided by Bloomberg (or any successor service) as the bid price of the Bonds as at 4:00 p.m. (New York time) on such date, multiplied by 100,000, as determined by (i) the Calculation Agent, in the case of the determination of a Parity Event, or (ii) the relevant Bondholder, in the case of the determination of a Parity Notification Event;

“Closing Parity Value” means, in respect of any day, the amount determined in good faith by the Calculation Agent and calculated as follows:

$$CPV = N \times CP$$

where:

CPV = the Closing Parity Value.

- N = ¥10,000,000 divided by the Conversion Price in effect on such day (for the avoidance of doubt, without taking into account Retroactive Adjustments, if any); and
- CP = the Closing Price of the Shares on such day (or if such day is not a Trading Day, the most recent Trading Day prior thereto);

“Leading Institution” means any bank or financial institution which is a leading, internationally recognised market maker in trading exchangeable and/or convertible bonds;

A “Parity Event” shall be deemed to have occurred on the last day of any Reference Period, where the Calculation Agent determines that, in respect of each of the five Tokyo Business Days comprised in such Reference Period, either:

- (i) the BVAL Price in respect of such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (ii) if no BVAL Price is available on such Tokyo Business Day (for any reason, including but not limited to by reason of the temporary unavailability of the relevant page or setting, or the permanent cessation of the provision of such price by the relevant provider), the Quote for the Bonds in respect of such Tokyo Business Day is less than 97 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (iii) neither the BVAL Price nor Quote for the Bonds is available in respect of such Tokyo Business Day;

A “Parity Notification Event” shall occur if, on each Tokyo Business Day during any period of five consecutive Tokyo Business Days ending no earlier than the fifth Business Day in Luxembourg and Tokyo immediately before the relevant Notification Date, either:

- (i) the BVAL Price in respect of such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (ii) if no BVAL Price is available on such Tokyo Business Day (provided that it is not necessary for the relevant Bondholder to provide any evidence that such BVAL Price was so unavailable), such other reasonable evidence to show that the price of the Bonds (indicated as a percentage and multiplied by 100,000) as at 4:00 p.m. New York time on such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day is available;

“Quote for the Bonds” means, in respect of any Tokyo Business Day and in respect of Bid Prices as at or around 4:00 p.m. (Tokyo time) on such Tokyo Business Day, the Bid Price so provided by a Leading Institution selected by the Company (in its absolute discretion) as informed by the Company to the Calculation Agent, provided that where no Bid Price is provided to the Company in respect of such Tokyo Business Day, it shall be deemed that no Quote for the Bonds is available in respect of such Tokyo Business Day; and

“Reference Period” means, in respect of any Notification Date, the period of five consecutive Tokyo Business Days commencing on the third Business Day in Luxembourg and Tokyo immediately following such Notification Date.

References in these Conditions to any Bloomberg page means the relevant page on the Bloomberg terminal (or, if not available from Bloomberg, any successor information service provider thereto determined by the Company in its absolute discretion).

- 5.1.10 *Rights Attached to Shares Acquired upon Exercise of Stock Acquisition Rights:* Shares acquired upon exercise of the Stock Acquisition Rights shall have the same rights in all respects (including in relation to any distribution of dividends) as the Shares outstanding on the relevant Stock Acquisition Date (except for any right relating to the Shares the Record Date for which precedes such Stock Acquisition Date and any other right excluded by mandatory provisions of applicable law).

## 5.2 *Adjustments of the Conversion Price*

Upon the occurrence of any of the events described below, the Conversion Price shall be adjusted as follows:

- 5.2.1 *Stock Split and Consolidation of Shares:* if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or (c) re-classify any of its

Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Stock Acquisition Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5.2.1, shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the coming into effect of any of the events described above had the Stock Acquisition Right in respect of such Bond been exercised immediately prior to the coming into effect of such event (or, if the Company has fixed a prior Record Date for the determination of shareholders entitled to receive any such Shares or other securities issued upon any such Stock Split, consolidations or re-classification, immediately prior to such Record Date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the coming into effect of such event (or such Record Date) or any time thereafter. An adjustment made pursuant to this Condition 5.2.1 shall become effective immediately on the relevant event becoming effective or, if a prior Record Date is fixed therefor, immediately after the Record Date; provided that, in the case of a relevant transaction which must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally effective, and which is so approved after the Record Date fixed for the determination of shareholders entitled to receive such Shares or other securities, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

If the Company shall make a Stock Split and the Record Date therefor is also:

- (i) the Record Date for the allotment, grant or issue of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3; or
- (ii) the last date (in the place of issue) of the period during which payment may be made for the issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.5 or 5.2.8; or
- (iii) the last date (in the place of issue) of the period during which payment may be made for the issue or transfer of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.8; or
- (iv) the date of grant, issue or transfer of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.7 or 5.2.8,

then (except where such Stock Split gives rise to a Retroactive Adjustment of the Conversion Price under this Condition 5.2.1) no adjustment of the Conversion Price in respect of such Stock Split shall be made under this Condition 5.2.1, but in lieu thereof an adjustment shall be made under Condition 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 or 5.2.8, as the case may be, by including in item “n” of the formula described therein the aggregate number of additional Shares to be delivered pursuant to such Stock Split;

5.2.2 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Shares:* if the Company shall allot, grant or issue to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares:

- (i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or
- (ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration, but excluding the number of Shares, if any, contained in the definition of “n” immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares to be allotted, issued or acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with an allotment, grant or issue to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares, any such rights and/or warrants which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such subscription, purchase or acquisition;

5.2.3 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Convertible/Exchangeable Securities:* if the Company shall grant or issue to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire any securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights):

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration.

- n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or ratio following the exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.
- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with a grant or issue to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights), any such securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights) which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are subscribed for, purchased or otherwise acquired by others (whether as places or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such subscription, purchase or acquisition;

- 5.2.4 *Distribution to All, or a Class of, Shareholders of Assets (including Extraordinary Dividends):* if the Company shall distribute to the holders of Shares (i) evidences of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than Shares), (iii) cash or assets of the Company, or (iv) rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire shares (other than Shares) or securities of the Company (other than those rights and warrants referred to in Conditions 5.2.2 and 5.2.3), in each of the cases set out in (i) through (iv) above, excluding dividends (being “distribution of surplus” within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act) other than Extraordinary Dividends, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{CMP - fmv}{CMP}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- CMP = the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution, including a distribution of an Extraordinary Dividend.
- fmv = (i) in cases other than an Extraordinary Dividend, the fair market value ((a) as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account), or (b) if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court, and in each of the cases set out in (a) and (b) above, described in a certificate of the Company signed by a Representative Director or an Authorised Officer and delivered by the Company to the Trustee) of the portion of the evidences of indebtedness, shares, cash, assets, rights or warrants so distributed applicable to one Share or, (ii) in the case of an Extraordinary Dividend, the amount of such Extraordinary Dividend divided by the Relevant Number of Shares used in the calculation of such Extraordinary Dividend.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution (including a distribution of an Extraordinary

Dividend); provided, however, that (a) if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date and (b) if the fair market value of the evidence of indebtedness, shares, cash or assets, rights or warrants so distributed cannot be determined until after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such Record Date.

“Extraordinary Dividend” means, in relation to an Annual Fiscal Period ending on or after the last day of the Annual Fiscal Period in which the Closing Date falls, the part of any dividend (such dividend being the historical dividend without making any retroactive adjustment resulting from Stock Splits or otherwise) in respect of any number of Shares amounting to the Relevant Number of Shares, the Record Date for which falls within such Annual Fiscal Period which, when aggregated with the amount of all other dividends the Record Date for which falls within such Annual Fiscal Period in respect of such number of Shares amounting to the Relevant Number of Shares, is in excess of the sum of (i) the Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period.

“Base Dividend” means: ¥0.

“Relevant Number of Shares” means, such number of Shares (disregarding fractions of a Share) as Bondholders would be entitled to receive in respect of each Bond deposited (were such Bond, and only such Bond, to be so deposited) for exercise of the Stock Acquisition Right incorporated therein at the Conversion Price in effect at the Record Date in respect of the relevant dividend.

5.2.5 *Issue to Non-shareholders of Convertible/Exchangeable Securities*: if the Company shall issue any securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights (other than the Bonds and bonds with stock acquisition rights due 2028 issued by the Company on the Closing Date, or in any of the circumstances described in Conditions 5.2.2 and 5.2.3), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities;

5.2.6 *Issue of Shares*: if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted or issued by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted or issued by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which (a) merges into the Company upon such merger, (b) becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*), or (c) becomes a subsidiary of the Company by partial share exchange (*kabushiki-kofu*), in proportion to their shareholding in such corporation immediately prior to such merger or such share exchange (in the case of such merger or such share exchange) or in accordance with the plan of such partial share exchange (in the case of such partial share exchange) or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation's business (*kyushu bunkatsu*)), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares being issued or transferred as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue or transfer) of the period during which payment may be made in respect of the issue or transfer of such Shares;

5.2.7 *Issue to Non-shareholders of Rights or Warrants to Acquire Shares or Convertible/Exchangeable Securities*: if the Company shall grant or issue any rights or warrants (including stock acquisition rights) entitling holders thereof to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.5) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant or issue of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the date of the grant or issue of such rights or warrants shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the date of the grant or issue of such rights or warrants.

n = the number of Shares to be acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price, or upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of all such rights or warrants.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the place of the grant or issue of such rights or warrants;

5.2.8 *Combined Adjustment*: if the Company shall grant, issue or transfer (as the case may be) securities of a type falling within Condition 5.2.5, 5.2.6 or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto and the date of grant, issue or transfer of such securities or, if applicable, the last day of the period during which payment may be made in respect thereof (in each case, referred to as the “relevant date”) is also the relevant date in respect of securities of another type or types (including a different tranche or issue of a same type) falling within Conditions 5.2.5, 5.2.6 and/or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto (all such securities being hereafter referred to as “Relevant Securities”), then any adjustment of the Conversion Price shall not be made separately under each such Condition but in one calculation in accordance with the following formula:

$$NCP = OCP \times \frac{N + v1 + v2 + v3}{N + n1 + n2 + n3}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the relevant date but excluding the number of Shares contained in the definition of “n2” below to the extent that such Shares are then issued and outstanding.

n1 = the number of Shares to be acquired upon conversion or exchange of any convertible or exchangeable securities (included within the Relevant Securities) at the initial conversion or exchange price or rate.

n2 = the number of any Shares (included within the Relevant Securities) being issued or transferred.

n3 = the number of Shares to be acquired on exercise of any rights or warrants (included within the Relevant Securities) at the initial subscription, purchase or acquisition price, or upon conversion or exchange of any convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of such rights or warrants.

v1 = the number of Shares which the aggregate consideration receivable by the Company for such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

- v2 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of such Shares (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).
- v3 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of the total number of Shares to be acquired on exercise of such rights or warrants and (if applicable) upon conversion or exchange of such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue or transfer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

Any such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the relevant place of grant, issue or transfer which is the relevant date.

- 5.2.9 *Current Market Price per Share*: for the purpose of these Conditions, “Current Market Price per Share” on any date shall be deemed to be the average of the daily Closing Prices of the Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such date.

If, during the said 45 Trading Day period or any period thereafter up to but excluding the date as of which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question, and any event which requires an adjustment with reference to the same Current Market Price per Share) shall occur which gives rise to a separate adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of this Condition 5.2, the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall deem to be appropriate and fair in order to compensate for the effect of such event;

- 5.2.10 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the following provisions shall be applicable:

- (i) in the case of the issue or transfer of Shares for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions or any expenses paid or incurred by or on behalf of the Company for any underwriting of the issue or transfer or otherwise in connection therewith;
- (ii) in the case of the issue or transfer of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined by the Company in consultation with an Independent Financial Adviser or, if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof. Such determination shall be final and binding on the Company, the Trustee and the Bondholders;
- (iii) (a) in the case of the issue by the Company of securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights, the aggregate consideration receivable by the Company shall be deemed to be the consideration for any such securities plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate, and (b) in the case of the allotment, grant, issue or transfer of rights or warrants, including stock acquisition rights, to subscribe for, purchase or

otherwise acquire securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise thereof at the initial subscription, purchase or acquisition price and (if applicable) upon the following conversion or exchange of such securities at the initial conversion or exchange price or rate. The consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate (if applicable) following the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above);

- (iv) in the case of the allotment, grant, issue or transfer of rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above), and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such exercise at the initial subscription, purchase or acquisition price; and
- (v) if any consideration referred to in the foregoing provisions of this Condition 5.2.10 is receivable in a currency other than yen, such consideration shall, in any case where there is a fixed rate of exchange between yen and the relevant currency provided for the purposes of the issue of such Shares or the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into yen for the purposes of this Condition 5.2.10 at such fixed rate of exchange and shall, in all other cases, be so translated at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in Japan for buying and selling spot units of the relevant currency by telegraphic transfer against yen on the date as at which such consideration is required to be calculated;

5.2.11 *Later Adjustments*: if, at the time of computing an adjustment (the “later adjustment”) of the Conversion Price pursuant to any of Conditions 5.2.2 to 5.2.8 (both inclusive), the Conversion Price already incorporates an adjustment made (or taken into account pursuant to the proviso to Condition 5.6) to reflect the issue or transfer of such Shares, or the allotment, grant, issue or transfer of rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire such Shares or other securities convertible into or exchangeable for such Shares, but such Shares are not outstanding at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such Shares shall be deemed to be outstanding for the purposes of making such computation to the extent that the number of the Shares so deemed to be outstanding exceeds the actual number of Shares in issue as a result thereof at the time of making such computation. For the purposes of determining the number of Shares outstanding in Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;

5.2.12 *Meaning of “Fixed”*: any reference in this Condition 5.2 to the date on which the consideration is “fixed” shall be construed as a reference to the first day on which such consideration in a cash amount can be ascertained, where the consideration is originally expressed by reference to a formula and not then ascertainable in a cash amount;

5.2.13 *Other Events*: if the Company determines at its sole discretion that a downward adjustment should be made to the Conversion Price as a result of one or more events or circumstances not otherwise referred to in this Condition 5.2, the Company shall, at its own expense, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and, if the adjustment would

result in a reduction in the Conversion Price, the date on which such adjustment should take effect and, upon such determination, such downward adjustment (if any) shall be made and shall take effect in accordance with such determination;

5.2.14 *Modification to Operation of Adjustment Provisions:* notwithstanding the foregoing, where the circumstances giving rise to any adjustment pursuant to this Condition 5.2 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of other circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5.2 as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and

5.2.15 *Adjustment during the Relevant Period or the Reference Period:* for the purposes of Conditions 5.1.5 and 5.1.9, if the Conversion Price in effect on the last Trading Day of the period of 20 consecutive Trading Days referred to in Condition 5.1.5 (the “Relevant Period”) or the Reference Period reflects any adjustment which has become effective pursuant to this Condition 5.2 during the Relevant Period or the Reference Period, then the Closing Price of the Shares for each Trading Day which occurs during the Relevant Period or the Reference Period but before the effective date of such adjustment shall be adjusted to reflect the same adjustment. For the avoidance of doubt, if the Closing Price of the Shares for any Trading Day within the Relevant Period or the Reference Period reflects (by reason of having become ex-rights or otherwise) an event which gives rise to an adjustment to the Conversion Price pursuant to this Condition 5.2 becoming effective immediately after the end of the Relevant Period or the Reference Period, then such Closing Price shall be appropriately adjusted to be such price prior to such event having been so reflected, for the purposes of Conditions 5.1.5 and 5.1.9.

### 5.3 ***Retroactive Adjustments***

If the Stock Acquisition Date in relation to a Stock Acquisition Right shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions of Condition 5.2 and the relevant Stock Acquisition Date falls on a date before the relevant adjustment becomes effective under Condition 5.2 (such adjustment, a “Retroactive Adjustment”), the Company shall procure that the provisions of Condition 5.9.5 shall be applied, *mutatis mutandis*, to such number of Shares (“Additional Shares”) as is equal to the excess of the number of Shares which would have been acquired upon exercise of such Stock Acquisition Right if the relevant Retroactive Adjustment had been given effect as of the said Stock Acquisition Date over the number of Shares previously acquired pursuant to such exercise, and in such event and in respect of such Additional Shares, references in Condition 5.9.5 to the “Stock Acquisition Date” shall be deemed to refer to the date upon which such Retroactive Adjustment is first reflected in the Conversion Price.

### 5.4 ***Limitation on Reduction of Conversion Price***

Notwithstanding the provisions of this Condition 5, the Conversion Price will not be reduced as a result of any adjustment made hereunder to such an extent that, under applicable law then in effect, the Stock Acquisition Rights may not be permitted to be exercised at such lower Conversion Price into legally issued, fully paid and non-assessable Shares.

### 5.5 ***Employee Share Schemes***

Notwithstanding the provisions of this Condition 5, no adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees, former employees, directors or officers (including directors or officers holding or formerly holding executive office or the personal service company of any such person) of the Company or any of its Subsidiaries or affiliates, their spouses or relatives, or any associated companies of any such person, or to any trustee or trustees for the benefit of any such person, in any such case, pursuant to any employees’ or executives’ share or option scheme.

### 5.6 ***Minimum Adjustments***

No adjustment of the Conversion Price shall be required unless such adjustment would result in an increase or decrease in such Conversion Price of at least ¥1 provided that any adjustment which by reason of this Condition 5.6 is not required to be made shall be carried forward and taken into account (as if such adjustment were made at the time when it would be made but for the provisions of this Condition 5.6) in any subsequent adjustment.

## 5.7 *Calculations*

All calculations (including, without limitation, calculations of the Conversion Price and the Current Market Price per Share) under this Condition 5 shall, unless otherwise expressly specified herein, be made to the nearest one-tenth of a yen with five one-hundredths or more of a yen to be considered a full tenth of a yen. None of the Trustee, the Principal Agent, the Registrar, the Custodian, the Custodian's Agent, the Calculation Agent or any other Agents shall be under any duty or responsibility to any Bondholder or any other person to determine, calculate or verify the adjusted Conversion Price or to monitor or make enquiries as to whether any adjustment is required to be made, and none of them will be responsible or liable in any respect to Bondholders or any other person for any loss arising from any failure by it to do so or any erroneous calculation.

## 5.8 *Notification of Adjustments*

Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly notify the Trustee, the Principal Agent, the other Agents, the Registrar, the Custodian, the Custodian's Agent and the Calculation Agent in writing setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the effective date thereof, and shall promptly give notice to the Bondholders in accordance with Condition 19 stating that the Conversion Price has been adjusted and setting forth the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

## 5.9 *Procedure for Conversion*

5.9.1 *Conversion Notice:* To exercise a Stock Acquisition Right, the exercising Bondholder shall complete, sign and deposit at the specified office of an Agent at its own expense during normal business hours of the Agent with which the deposit is being made a Conversion Notice, in the form obtainable from any Agent, together with the Certificate evidencing the relevant Bond. No Stock Acquisition Right may be exercised in part only.

5.9.2 *Custodian and Custodian's Agent:* The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time with 30 days' prior written notice to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in the specified office of the Custodian will be given to the Bondholders in accordance with Condition 19. The Custodian has, pursuant to the Agency Agreement, initially appointed Mizuho Bank, Ltd. as the Custodian's Agent at its initial specified office set out at the end of these Conditions and may, with the prior written approval of the Trustee, alter such appointment at any time. The Company shall give notice to the Bondholders in accordance with Condition 19 of any change in the Custodian's Agent and/or its specified office. The Custodian shall have no liability to Bondholders for any loss suffered by them as a result of any failure on the part of the Custodian's Agent to perform its functions pursuant to these Conditions and the Agency Agreement, nor shall the Custodian have any obligation to perform those functions should the Custodian's Agent fail to do so. The Custodian shall not be liable for monitoring or supervising the performance by the Custodian's Agent of such functions. The Contracts (Rights of Third Parties) Act 1999 applies to this Condition 5.9.2 for the benefit of the Custodian.

5.9.3 *Conditions Precedent:* As conditions precedent to the exercise of the Stock Acquisition Right, the Bondholder must pay to the relevant Agent pursuant to this Condition 5.9.3 (or make arrangements satisfactory to such Agent or its delegate for the payment of) all stamp, issue, registration or other similar taxes and duties (if any), together with any incidental expenses in connection therewith, arising on such exercise in the country in which the Stock Acquisition Right is to be exercised or payable in any jurisdiction consequent upon the issue or delivery of Shares to or to the order of a person other than the exercising Bondholder (if any) together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The relevant Agent will not be bound to make any payments until such Agent has received the full amount of such taxes and duties due and payable in respect of the Bonds, the Stock Acquisition Rights in respect of which are being exercised, or other arrangements satisfactory to the relevant Agent have been made.

The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued or transferred) must provide the relevant Agent with details of the relevant tax

authorities to which such Agent must pay moneys received from the Bondholder for payment of taxes and duties. The payment of such moneys received from the Bondholders to the relevant tax authority will be made at the risk and expense of the Bondholder exercising the relevant Stock Acquisition Rights and such Bondholder will be required to submit any necessary duly completed and signed documents that may be required by the Agent in order to effect the payment of such moneys. The relevant Agent shall be entitled to assume without duty to enquire and without liability that any information provided by the Bondholder exercising the relevant Stock Acquisition Rights in connection with any such amounts payable and as to the details of the relevant tax authorities to which the Agent must pay moneys received in settlement of the taxes and duties payable pursuant to this Condition 5.9.3 is true, accurate and complete. The Bondholders (and, if applicable, the person other than the Bondholders to whom the Shares are to be delivered) shall, upon exercising the relevant Stock Acquisition Rights, be deemed to have consented to the relevant Agent disclosing otherwise confidential information for the purposes of such Agent's carrying out the duties herein. Such Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) arising upon exercise of any Stock Acquisition Rights.

For the avoidance of doubt, the exercising Bondholder shall bear any costs and expenses which relate to the account at the Account Management Institution into which it receives the Shares acquired upon the exercise of the Stock Acquisition Right pursuant to Condition 5.9.5(i). Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights and all charges of the Agents in connection therewith (including all costs, charges and expenses incurred by any delegate).

5.9.4 *Deposit Date and Stock Acquisition Date:*

- (i) The time at which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Time" applicable to such Bond, and the date in London on which the Deposit Time falls is hereinafter referred to as the "Deposit Date" applicable to such Bond. For the avoidance of doubt, a Deposit Date may not occur during any period when the Stock Acquisition Rights may not be exercised;
- (ii) The request for exercise of the Stock Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the relevant Certificate will become effective, at 23:59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan on which such time in London falls, is herein referred to as the "Stock Acquisition Date" applicable to such Bond);
- (iii) A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company; and
- (iv) If deposit of the Conversion Notice is made on a day which is not a Business Day or after 16:00 hours in the place of the specified office of the Agent, such deposit shall be deemed for all purposes of these Conditions to have been made on the next following such Business Day.

*At any time when the relevant Bonds are evidenced by the Global Certificate, the exercising Bondholder shall, in lieu of depositing the Conversion Notice in the manner aforesaid, transmit the Conversion Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder's account pro tanto. The time at which such duly completed Conversion Notice is received by the Agent through the relevant clearing systems shall be deemed for the purposes of these Conditions to be its Deposit Time. With effect from the relevant Stock Acquisition Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit the Bondholder's account with the number of the Bonds the Stock Acquisition Rights incorporated in which have been exercised and the Register shall be amended accordingly.*

- 5.9.5 *Delivery of Shares:* The Company shall procure that the relevant Agent shall, with effect as of the Stock Acquisition Date, endorse the Conversion Notice on behalf of the Custodian. With effect

from the Stock Acquisition Date (or as soon as practicable thereafter under Japanese law, regulation and practice relating to the delivery of shares and the register of shareholders), the Company shall deem the Custodian or its nominee to have become the holder of record of the number of Shares to be acquired upon such exercise of the Stock Acquisition Right (disregarding any fraction of a Share resulting from such exercise and also disregarding any Retroactive Adjustment of the Conversion Price prior to the time when such Retroactive Adjustment is first reflected in the Conversion Price).

Thereafter, subject to any applicable limitations then imposed by Japanese law, regulation or practice (including any administrative orders or guidelines issued by any relevant authority), the Articles of Incorporation or the share handling regulations of the Company:

- (i) in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, as soon as practicable and in any event within 14 days after the Stock Acquisition Date, the Company shall issue and deliver the relevant Shares to the Custodian or its nominee at the account maintained with the Custodian's Agent (as an Account Management Institution), and the Custodian's Agent shall transfer the relevant Shares to or to the order of the exercising Bondholder at such account maintained with an Account Management Institution in Japan as specified in the relevant Conversion Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian's Agent as aforesaid or such instruction given by the exercising Bondholder in the relevant Conversion Notice is inaccurate, incomplete or insufficient for the purpose of such transfer); and
- (ii) as soon as practicable, the Company shall deliver to the Custodian's Agent for the account of the Custodian or its nominee, securities (other than the Shares) required to be delivered upon such exercise of the Stock Acquisition Rights, if any, and the Custodian's Agent shall, according to the request made in the relevant Conversion Notice, either:
  - (a) as soon as practicable, and in any event within 14 days after the Stock Acquisition Date (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid), deliver or cause to be delivered to the order of the person named for that purpose in the relevant Conversion Notice at the specified office in Japan for the time being of the Custodian's Agent, any such securities (other than the Shares) required to be delivered on exercise and such assignments and other documents (if any) as may be required by law to effect the transfer thereof; or
  - (b) as soon as practicable, and in any event within 21 days after the Stock Acquisition Date (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid), despatch or cause to be despatched to, or to the order of the person named for that purpose in the relevant Conversion Notice and at the place in Japan (not being the specified office in Japan for the time being of the Custodian's Agent) and in the manner specified in the relevant Conversion Notice (the expense and risk of despatch at any such place being that of the exercising Bondholder), any such securities (other than the Shares) required to be delivered upon exercise and such assignments and other documents (if any) as may be required by law to effect the transfer thereof;

provided, however, that if such securities (other than Shares) are subject to the book-entry transfer system established pursuant to the Book-Entry Act, such delivery or despatch will be implemented in accordance therewith.

*Any Conversion Notice transmitted electronically is not required to be endorsed and shall be processed in accordance with the operating procedures of the relevant clearing systems.*

- 5.9.6 *Amount of Stated Capital and Additional Paid-in Capital:* With effect as of the Stock Acquisition Date, one-half of the "maximum capital and other increase amount", as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital.

## 6. **Certain Corporate Events**

### 6.1 ***Corporate Events***

In the case of a proposal for:

- (i) any Merger Event; or
- (ii) any Asset Transfer Event; or
- (iii) any Corporate Split Event; or
- (iv) any Holding Company Event; or
- (v) the passing of a resolution at a general meeting of shareholders of the Company (or, where such a resolution is not required, at a meeting of the Board of Directors of the Company) for any other corporate reorganisation procedure then provided for under Japanese law (the passing of any such resolution and any Merger Event, any Asset Transfer Event, any Corporate Split Event and any Holding Company Event being together referred to in these Conditions as a “Corporate Event”) pursuant to which the obligations under the Bonds and/or the Stock Acquisition Rights are proposed to be transferred to or assumed by another entity (such other entity and any Merged Company, any Asset Transferee, any Corporate Split Counterparty and any Holding Company being together referred to as a “New Obligor”),

the following provisions of this Condition 6 shall apply.

### 6.2 ***Notice of Proposal***

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of a proposed Corporate Event at the same time as it gives notice to the holders of Shares (or, if no such notice is required, or if a public announcement of such proposed Corporate Event is made on a date earlier than the date of such notice, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

### 6.3 ***Notice of Passing of Resolution***

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company’s proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its “Corporate Event Effective Date”.

### 6.4 ***Transfer of Obligations Following a Corporate Event***

6.4.1 *Transfer:* If a Corporate Event occurs, and:

- (i) it is legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect substitution of the New Obligor for the Company and the grant of the New Stock Acquisition Rights in such a manner as set out in Conditions 6.5 and 12.2;
- (ii) a practical structure for such substitution and grant has been or can be established; and
- (iii) such substitution and grant can be consummated without the Company or the New Obligor incurring costs or expenses (including taxes) which are in the opinion of the Company unreasonable in the context of the entire transaction,

then the Company shall use its best endeavours to cause the New Obligor to be substituted as the principal obligor under the Bonds and the Trust Deed pursuant to Condition 12.2 and the Trust Deed and for the grant of the New Stock Acquisition Rights in relation to the Bonds in place of the Stock Acquisition Rights in the manner described in Condition 6.5. Such substitution and

grant shall take effect on the relevant Corporate Event Effective Date, or, in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, as soon as practicable on or after, but in any event no later than 14 days after, the relevant Corporate Event Effective Date.

6.4.2 *Listing*: In connection with the substitution and grant described in Condition 6.4.1, the Company shall also use its best endeavours to ensure that the shares of common stock of the New Obligor will be listed on any stock exchange in Japan or be quoted or dealt in on any securities market in Japan (such listing, quotation and dealing being hereinafter collectively referred to as “Listing”) on the relevant Corporate Event Effective Date.

6.4.3 *Condition*: The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.5(iv).

## 6.5 *New Stock Acquisition Rights*

At the time of the substitution of (or assumption by) the New Obligor as principal obligor under Condition 12.2 and the Trust Deed, New Stock Acquisition Rights will be granted, in place of the Stock Acquisition Rights, to the Bondholders by the New Obligor, in accordance with the following terms:

6.5.1 *Number of the New Stock Acquisition Rights to be Granted*: The number of New Stock Acquisition Rights to be granted will be equal to the number of the Stock Acquisition Rights incorporated in the Bonds outstanding immediately prior to the relevant Corporate Event Effective Date;

6.5.2 *Class of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: Upon exercise of the New Stock Acquisition Rights, shares of common stock of the New Obligor shall be issued or transferred;

6.5.3 *Number of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: The number of shares of the New Obligor to be issued or transferred upon exercise of the New Stock Acquisition Rights shall be determined by the New Obligor by reference to these Conditions taking into account the terms of the transaction contemplated under the relevant Corporate Event, and

- (i) in the case of a Merger Event or a Holding Company Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right would upon its exercise immediately after the Corporate Event Effective Date receive the number of shares of common stock of the New Obligor (the “Number of Deliverable Shares”) receivable upon the relevant Corporate Event by a holder of the number of Shares (such number being the “Number of Held Shares”) which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately prior to the relevant Corporate Event Effective Date. If securities (other than shares of common stock of the New Obligor) or other property shall be delivered to such holder of the Number of Held Shares upon the taking effect of the Merger Event or the Holding Company Event (as the case may be), such number of shares of common stock of the New Obligor shall form part of the Number of Deliverable Shares as shall be calculated by dividing the fair market value of such securities or properties delivered to such holder of the Number of Held Shares by the New Obligor Current Market Price per Share, such fair market value to be determined by the Company, provided that in determining such fair market value, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of the Independent Financial Adviser; or
- (ii) in the case of any other Corporate Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right shall upon its exercise immediately after the Corporate Event Effective Date receive an equivalent economic interest to be determined by the Company as that which would have been received by a holder of the number of Shares which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately before the relevant Corporate Event Effective Date, provided that, in determining such equivalent economic interest, the Company shall, at its own expense, consult with an

Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

For the purpose of this Condition 6, the “New Obligor Current Market Price per Share” means (i) the average of the daily Closing Prices of the shares of common stock of the New Obligor for the 30 consecutive Trading Days commencing 45 Trading Days immediately before the relevant Corporate Event Effective Date, or (ii) if such market price shall not be available, such price as is determined by the Company, provided that in determining such price, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

The conversion price for the New Stock Acquisition Rights shall be subject to adjustment which shall be as nearly equivalent as may be practicable to the adjustments provided in Condition 5.2;

6.5.4 *Description of the Asset to be Contributed upon Exercise of the New Stock Acquisition Rights and the Amount or the Calculation Method Thereof:* Upon exercise of each New Stock Acquisition Right, the relevant Bond shall be deemed to be acquired by the New Obligor as a capital contribution in kind by the relevant Bondholder at the price equal to the principal amount of the Bond;

6.5.5 *Exercise Period of the New Stock Acquisition Rights:* The New Stock Acquisition Rights may be exercised at any time during the period from, and including, the later of the relevant Corporate Event Effective Date or the date of implementation of the scheme described in Condition 6.4.1 up to, and including, the last day of the Exercise Period of the Stock Acquisition Rights;

6.5.6 *Other Conditions for the Exercise of the New Stock Acquisition Rights:* No New Stock Acquisition Right may be exercised in part, and the exercise of the New Stock Acquisition Rights shall be subject to conditions substantially the same as those described in Conditions 5.1.5 to 5.1.9;

6.5.7 *Acquisition at the Option of the New Obligor:* The New Stock Acquisition Rights together with the Bonds may be acquired by the New Obligor substantially in the same manner as described in Condition 7.2;

6.5.8 *Amount of Stated Capital and Additional Paid-in Capital:* As of the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the “maximum capital and other increase amount” as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and

6.5.9 *Others:* Fractions of a share of common stock of the New Obligor will not be issued upon exercise of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

#### 6.6 ***No Statutory Put Rights***

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or a Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

#### 6.7 ***Subsequent Corporate Events***

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

## 7. Redemption, Acquisition, Purchase and Cancellation

### 7.1 *Final Maturity*

Unless the Bonds have previously been redeemed, acquired or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent of their principal amount on 13 December 2030 (the “Maturity Date”). The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

### 7.2 *Acquisition at the Option of the Company*

7.2.1 *Acquisition Notice:* At any time during the Acquisition Notice Period, and subject to the Shares being listed on the Relevant Stock Exchange, the Company may, but shall not be bound to, give notice (the “Acquisition Notice”) to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), to acquire from those Bondholders which deliver a duly completed Acquisition Election Notice on or after the date of the Acquisition Notice and on or before the Acquisition Determination Date pursuant to Condition 7.2.2, the Bonds which are the subject of such Acquisition Election Notice outstanding on the Acquisition Option Date; provided that such option to acquire may not be exercised by the Company if an Event of Default has occurred. Such Acquisition Notice shall specify the date fixed for such acquisition (the “Acquisition Option Date”), which (a) shall be a date not less than 60 and not more than 75 calendar days after the date that the Acquisition Notice is first given; (b) shall be a date that is a Business Day in each of Tokyo, London and Luxembourg, and if the Acquisition Option Date specified in the Acquisition Notice is not such a Business Day, notwithstanding (a) above, the Acquisition Option Date shall be moved to the next day that is such a Business Day (but subject always to (c) below); and (c) which must be a date falling on or before the Exercise Period End Date; and upon giving such notice, all such Bonds which are the subject of a duly completed Acquisition Election Notice shall be deemed to be so acquired by the Company on the Acquisition Option Date. Each Bondholder which delivers a duly completed Acquisition Election Notice, by accepting or acquiring any Bond, agrees that the relevant Bond shall be so acquired by the Company on the Acquisition Option Date.

Subject to Conditions 7.2.2, 7.2.3 and 7.2.4, the Company shall, as consideration for each Bond (including the Stock Acquisition Rights) acquired by the Company:

- (i) pay in the same manner as provided in Condition 8, an amount equal to 100 per cent of the principal amount of the Bonds on the Acquisition Option Date in cash; and
- (ii) issue and deliver the Acquisition Shares in accordance with Condition 7.2.2, if any, registered in the name of the Custodian or its nominee, with effect as of the Acquisition Option Date,

in each case, to the Bondholders which have delivered a duly completed Acquisition Election Notice.

Immediately prior to giving the Acquisition Notice (but on the same day as the giving of such Acquisition Notice), the Company shall provide the Trustee with a certificate by a Representative Director or an Authorised Officer certifying to the effect that, as at the date thereof, no Event of Default or Potential Event of Default has occurred. The Trustee may rely absolutely without liability to Bondholders or any other person on such certificate as to the absence of any Event of Default or Potential Event of Default on such date.

Any expenses or taxes incurred in connection with the acquisition of the Bonds by the Company and the delivery of the Acquisition Shares pursuant to this Condition 7.2 shall be borne by the Company.

Bonds that have been so acquired by the Company shall be cancelled upon acquisition in accordance with these Conditions, and all Certificates in respect of Bonds so cancelled shall be promptly forwarded to the Principal Agent for cancellation.

In these Conditions:

“Acquisition Determination Date” means the date falling 14 calendar days prior to the Acquisition Option Date.

“Acquisition Notice Period” means the period from, and including, the Acquisition Notice Period Commencement Date to, and including, the Acquisition Notice Period End Date.

“Acquisition Notice Period Commencement Date” means 14 August 2030.

“Acquisition Notice Period End Date” means 13 September 2030.

“Acquisition Shares” means such number of Shares per Bond, if positive, calculated in accordance with the formula below:

$$\text{Acquisition Shares} = \frac{\text{The amount by which the Acquisition Share Value exceeds the principal amount of each Bond}}{\text{Average VWAP per Share}}$$

provided that:

- (i) fractions of a Share shall be disregarded and no adjustment or cash payment will be made in respect thereof; and
- (ii) if during the period from but excluding the last day of the Relevant VWAP Period to but excluding the Acquisition Option Date any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the Acquisition Option Date) to the Conversion Price under the provisions of Condition 5.2, the Acquisition Shares, as determined above, shall be adjusted in such manner and to such extent as the Company ((a) in its reasonable opinion, or (b) at its option, after consultation with an Independent Financial Adviser) shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser, if obtained).

“Acquisition Share Value” means the yen amount per Bond calculated in accordance with the formula below:

$$\frac{\text{Principal Amount of the Bond}}{\text{Last Day Conversion Price}} \times \text{Average VWAP per Share}$$

“Average VWAP per Share” means the average of the Volume Weighted Average Prices (“VWAP”) of the Shares reported by the Relevant Stock Exchange on each of the Trading Days during the Relevant VWAP Period, provided that:

- (a) if an Ex-Dividend Date falls, or will fall, within the period from but excluding the first day of the Relevant VWAP Period to and including the Acquisition Option Date, the Average VWAP per Share used as the denominator in the formula for calculating the Acquisition Shares (as set out in the definition of “Acquisition Shares”) shall be adjusted by subtracting the Dividend Adjustment Amount from the VWAP of the Shares on each Trading Day during the period from and including the first day of the Relevant VWAP Period to and including the earlier of (x) the Trading Day immediately prior to the Ex-Dividend Date and (y) the last day of the Relevant VWAP Period;
- (b) if an Ex-Dividend Date falls within the period from and including the third Tokyo Business Day after the date of the Acquisition Notice to and including the last day of the Relevant VWAP Period, the Average VWAP per Share for the purpose of calculating Acquisition Share Value (as contained in the definition of “Acquisition Share Value”) shall be adjusted by adding the Dividend Adjustment Amount to the VWAP of the Shares reported by the Relevant Stock Exchange in yen on each Trading Day during the period from and including the later of (x) the Ex-Dividend Date and (y) the first day of the Relevant VWAP Period, to and including the last day of the Relevant VWAP Period;
- (c) if on any Trading Day within the Relevant VWAP Period, VWAP of the Shares is not reported by, nor otherwise available from, the Relevant Stock Exchange, or VWAP reported by the Relevant Stock Exchange is manifestly incorrect, the average trading prices of the Shares using a volume weighted method on the Relevant Stock Exchange on such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company in its sole discretion (acting in a commercially reasonable manner) shall be deemed to be the VWAP on such Trading Day (but subject to adjustment pursuant to (a) and/or (b) above, if required); and

- (d) if during the Relevant VWAP Period any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the last day of the Relevant VWAP Period) to the Conversion Price under the provisions of Condition 5.2, the Average VWAP per Share as determined above shall be adjusted in such manner and to such extent as the Company ((a) in its reasonable opinion, or (b) at its option, after consultation with an Independent Financial Adviser) shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser, if obtained) in order to compensate for the effect of such event.

The Company shall give notice to the Bondholders in accordance with Condition 19 of the Average VWAP per Share as soon as reasonably practicable upon determination thereof.

*As a consequence of the adjustments identified in (a) and (b) above, the Average VWAP per Share for the purposes of calculating the Acquisition Shares may differ from the Average VWAP per Share used for the purposes of calculating the Acquisition Share Value.*

“Dividend Adjustment Amount” for the purposes of the calculation of an adjustment to the Average VWAP per Share means the amount determined by the Company as of the last day of the Relevant VWAP Period, which shall be:

- (i) the expected cash dividend per Share most recently publicly announced by the Company with respect to the Record Date relating to the relevant Ex-Dividend Date; or
- (ii) if no public announcement has been made as to an expected cash dividend per Share as set out in (i) above, the actual cash dividend per Share in respect of the corresponding Record Date one year prior to the relevant Record Date; or
- (iii) if, in the opinion of the Company, neither the expected nor the actual cash dividend as set out in (i) or (ii) above (as the case may be) provides a reasonable basis for adjustment of the Average VWAP per Share, the amount determined by the Company in its sole discretion as being appropriate and fair to give effect to the impact of the Ex-Dividend Date on the relevant VWAP.

For the purposes of this Condition 7.2.1, a “dividend” means a “distribution of surplus”, within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act.

“Ex-Dividend Date” means the Tokyo Business Day immediately prior to any Record Date for a dividend declared or to be declared by the Company (provided that if such Record Date falls on a date that is not a Tokyo Business Day, then the Ex-Dividend Date means the second Tokyo Business Day immediately prior to such Record Date); provided further that if, in the opinion of the Company, there has been a change to the mandatory provisions of Japanese law, regulation or practice which affects the timing or application of ex-dividend dates, the definition of Ex-Dividend Date may be amended by the Company, and/or the Company may make such other changes to this Condition 7.2.1 as it shall consider appropriate and fair, in each case, to the extent permitted by applicable law and to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders, and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Bondholders in accordance with Condition 19 and to the Trustee in writing.

“Last Day Conversion Price” means the Conversion Price in effect on the last day of the Relevant VWAP Period.

“Relevant VWAP Period” means the 20 consecutive Trading Days beginning on, and including, the fifth Trading Day from, but excluding, the date on which the Company gives the Acquisition Notice to the Bondholders in accordance with Condition 19.

All calculations with respect to the Acquisition Share Value and the Average VWAP per Share shall be made to the nearest one-tenth of a yen, with five one-hundredths or more of a yen to be considered a full tenth.

- 7.2.2 *Acquisition Election Notice:* In order to elect to have its Bonds acquired by the Company and to obtain delivery of the Acquisition Shares (if any) pursuant to this Condition 7.2, the electing Bondholder must deliver to the specified office of an Agent, on or after the date of the Acquisition Notice and no later than the Acquisition Determination Date, a duly completed

election notice substantially in the form set out in the Agency Agreement (an “Acquisition Election Notice”, a copy of which may be obtained from the specified office of an Agent) with respect to all, but not part, of the Bonds held by such Bondholder, together with the relevant Certificates for the relevant Bonds held by it and to which the Acquisition Election Notice relates. An Acquisition Election Notice shall be irrevocable once delivered.

*At any time when the relevant Bonds are evidenced by the Global Certificate, the Bondholder shall, in lieu of depositing the Acquisition Election Notice in the manner aforesaid, transmit the Acquisition Election Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder’s account pro tanto.*

Thereafter, subject to any applicable limitations then imposed by Japanese law, regulation or practice (including but not limited to any administrative orders or guidelines issued by any relevant authority), the Articles of Incorporation or the share handling regulations of the Company, delivery of the Acquisition Shares by or on behalf of the Company pursuant to this Condition 7.2 will be made on or as soon as practicable after the Acquisition Option Date in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, to the Custodian or its nominee at the account maintained with the Custodian’s Agent (as an Account Management Institution), and the Custodian’s Agent will transfer the relevant Acquisition Shares to or to the order of the relevant Bondholders at such account maintained with an Account Management Institution in Japan as specified in the relevant Acquisition Election Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian’s Agent as aforesaid or such instruction given by the relevant Bondholder in the relevant Acquisition Election Notice is inaccurate, incomplete or insufficient for the purposes of such transfer). The provisions of Condition 5.1.10 shall apply with any necessary changes to the Acquisition Shares with references to the Stock Acquisition Date therein being construed as references to the Acquisition Option Date.

Any determination as to whether an Acquisition Election Notice has been properly completed and delivered as provided in these Conditions shall be made by the Principal Agent in its sole discretion and shall be conclusive and binding on the relevant Bondholders, the Company and the Trustee.

An Acquisition Election Notice may be delivered by a holder with respect to one or more Bonds. To the extent that an Acquisition Election Notice is delivered with respect to more than one Bond, the number of Acquisition Shares to be delivered pursuant to this Condition 7.2 shall be calculated on the basis of the aggregate number of Bonds referred to in such Acquisition Election Notice.

- 7.2.3 *Bonds in Respect of Which an Acquisition Election Notice was Not Delivered:* If, on the day immediately following the Acquisition Determination Date, there are any Bonds in respect of which a duly completed Acquisition Election Notice has not been received by an Agent on or prior to the Acquisition Determination Date (“Bonds without Acquisition Election Notice”), such Bonds without Acquisition Election Notice shall be redeemed at 100 per cent of their outstanding principal amount on the date falling two Tokyo Business Days after the Acquisition Option Date (the “Elected Redemption Date”), and payment in respect thereof shall be made in accordance with Condition 8.
- 7.2.4 *Acquisition Notice Void:* Notwithstanding the provisions of Condition 7.2.1, if the Shares are not listed on the Relevant Stock Exchange on the Acquisition Option Date, the Acquisition Notice shall be treated as null and void and the relevant Bonds will be redeemed, subject as provided herein, for cash in accordance with the provisions of Condition 7 other than this Condition 7.2 and payment in respect thereof shall be made in accordance with Condition 8. If the Company becomes aware, after the Acquisition Notice having been given, that the Shares will not be listed on the Relevant Stock Exchange on the Acquisition Option Date (other than in the circumstances set out in Condition 7.6 in which case the provisions of Condition 7.6 shall apply), the Company shall give notice of the nullification of the Acquisition Notice to the Bondholders in accordance with Condition 19 forthwith upon becoming so aware, provided that failure to give such notice shall not invalidate such nullification.

In addition, if an Event of Default occurs at any time after the giving of the Acquisition Notice but before the Acquisition Option Date, then the Acquisition Notice shall, unless the Bonds have already been acquired on the Acquisition Option Date, become null and void and the provisions

of Condition 10 will apply. If the Company becomes aware, after the Acquisition Notice having been given but prior to the relevant Acquisition Option Date, that an Event of Default has occurred, the Company shall give notice of the annulment and cancellation of the Acquisition Notice to the Bondholders in accordance with Condition 19 forthwith upon such occurrence, provided that failure to give such notice shall not invalidate such annulment and cancellation.

7.2.5 *Exercise of Stock Acquisition Rights:* The Company's right to acquire the Bonds in the manner set forth in this Condition 7.2 does not affect a Bondholder's right to exercise its Stock Acquisition Rights hereunder during the Exercise Period. For the avoidance of doubt, the Stock Acquisition Rights may not be exercised for the period from and including the Acquisition Notice Period Commencement Date to, and including, the Acquisition Notice Period End Date or, if the Acquisition Notice is given pursuant to Condition 7.2, to and including the Elected Redemption Date, subject to Condition 7.2.4 and the applicable provisions of Condition 5.1.4.

### 7.3 ***Redemption at the Option of the Company upon Reduced Outstanding Amounts***

The Company may (subject to Condition 7.11), but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, if at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as of the date of issue thereof.

### 7.4 ***Redemption for Taxation Reasons***

The Company may (subject to Condition 7.11), but shall not be bound to, at any time, having given not less than 30 nor more than 60 days' prior notice (the "Tax Redemption Notice") to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the "Tax Redemption Date"), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice (i) that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 28 November 2023 and (ii) that such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or an Authorised Officer, stating that the Company has or will become obliged to pay Additional Amounts as a result of such change or amendment and that the obligation referred to in (i) above has arisen and cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be bound to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Trustee, and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate. Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent of their principal amount on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent or more of the aggregate principal amount of the Bonds as of the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

## 7.5 Corporate Event Redemption

Upon or following the occurrence of a Corporate Event, the Company shall (subject to Condition 7.11) give not less than 14 Tokyo Business Days' prior notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out below and in accordance with the provisions of this Condition 7.5 (the "Corporate Event Redemption Price"), together with all Additional Amounts due on the Bonds (if any), on the date (the "Corporate Event Redemption Date") specified for redemption in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event), if any of the following conditions is satisfied:

- (i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect a scheme provided for by Condition 6.4.1; or
- (ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company is not able to effect such a scheme in compliance with Condition 6.4.1; or
- (iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing has been obtained for the shares of common stock of the New Obligor, and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or
- (iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.5 and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate.

Any notice of redemption given under this Condition 7.5 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice even if (in the case of Condition 7.5(iii) or 7.5(iv) above) a Listing for the shares of common stock of the New Obligor is subsequently obtained.

If the Corporate Event Redemption Date falls on or prior to the Exercise Period End Date, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)																						
	60.00	70.00	80.00	90.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00	210.00	220.00	230.00	240.00	250.00	260.00	270.00	
14 December 2023	96.17	100.92	106.43	112.58	119.29	126.46	134.03	141.93	150.13	158.57	167.22	176.05	185.04	194.17	203.41	212.76	222.21	231.73	241.33	250.99	260.72	270.49	
14 December 2024	95.99	100.44	105.71	111.69	118.28	125.38	132.92	140.82	149.03	157.51	166.21	175.10	184.16	193.35	202.67	212.10	221.61	231.21	240.88	250.61	260.40	270.23	
14 December 2025	95.96	100.04	105.02	110.78	117.22	124.23	131.72	139.62	147.86	156.38	165.15	174.12	183.25	192.53	201.94	211.45	221.05	230.73	240.48	250.29	260.15	270.06	
14 December 2026	96.05	99.66	104.25	109.72	115.97	122.87	130.32	138.23	146.52	155.12	163.98	173.05	182.30	191.70	201.22	210.84	220.54	230.33	240.17	250.07	260.01	270.00	
14 December 2027	96.24	99.22	103.29	108.38	114.38	121.16	128.58	136.54	144.93	153.66	162.67	171.91	181.32	190.87	200.54	210.31	220.15	230.05	240.00	250.00	260.00	270.00	
14 December 2028	96.66	98.76	102.05	106.55	112.20	118.84	126.29	134.39	143.00	151.99	161.27	170.76	180.42	190.20	200.07	210.01	220.00	230.00	240.00	250.00	260.00	270.00	
14 December 2029	97.69	98.50	100.39	103.75	108.76	115.27	122.99	131.58	140.77	150.33	160.10	170.01	180.00	190.00	200.00	210.00	220.00	230.00	240.00	250.00	260.00	270.00	
29 November 2030	100.00	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00	210.00	220.00	230.00	240.00	250.00	260.00	270.00	

In the above table:

"Reference Parity" means:

- (i) if the consideration payable to holders of the Shares in connection with the relevant Corporate Event consists of cash only, the amount of such cash per Share divided by the Conversion Price

in effect on the date of occurrence of the relevant Corporate Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; and

- (ii) in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days commencing on the Trading Day immediately following:
  - (a) the date on which the terms and conditions of the relevant Corporate Event (including the consideration payable or deliverable to holders of the Shares in connection therewith) are approved at a meeting of the Board of Directors of the Company, as required under the Companies Act; or
  - (b) (if the terms and conditions of the relevant Corporate Event are announced to the public later than that date) the date of such public announcement,

divided by the Conversion Price in effect on the last day of such five consecutive Trading Day period (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

If the Reference Parity or Corporate Event Redemption Date does not appear in the above table, and:

- (x) if the Reference Parity falls between two numbers in the first row of the above table and/or the Corporate Event Redemption Date falls between two dates in the above table, then the Corporate Event Redemption Price shall be determined by straight-line interpolation between such two numbers and/or two dates, on the basis of a 365-day year, as the case may be, with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth;
- (y) if the Reference Parity is higher than the number in the far right column in the first row of the above table, the Reference Parity shall be deemed to be equal to that number; and
- (z) if the Reference Parity is less than the number set forth in the far left column in the first row of the above table, the Corporate Event Redemption Price shall be 100.00 per cent.

If the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is less than 100.00 per cent, the Corporate Event Redemption Price shall be 100.00 per cent. Conversely, if the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is more than 270.00 per cent, the Corporate Event Redemption Price shall be 270.00 per cent.

If the Corporate Event Redemption Date falls during the period from (but excluding) the Exercise Period End Date to (but excluding) the Maturity Date, the Corporate Event Redemption Price shall be 100.00 per cent.

## 7.6 ***Redemption on Delisting of the Shares***

### 7.6.1 *Offers and Redemption: If:*

- (i) any offer is made by a party or parties (the “Offeror”) other than the Company in accordance with the FIEA to all holders of Shares (or all such holders other than the Offeror and/or any company controlled by the Offeror and/or persons associated or acting in concert with the Offeror) to acquire all or a portion of the Shares;
- (ii) the Company expresses its opinion to support such offer in accordance with the FIEA;
- (iii) the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces or admits, that the Shares may

cease to be listed, quoted or dealt in on the Relevant Stock Exchange or may be disqualified from such listing, quotation or dealing, as a result of the acquisition of Shares pursuant to the offer (unless the Company or the Offeror publicly expresses its intention to use its best endeavours to continue such listing, quotation or dealing after such acquisition); and

(iv) the Offeror acquires any Shares pursuant to the offer,

then the Company shall (subject to Condition 7.11) give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the “Delisting Redemption Date”) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). The Trustee shall be entitled to assume, without being required to take any action and without liability, until it has received written notice to the contrary that the Offeror has not so acquired any Shares.

7.6.2 *Redemption Price:* The redemption price applicable to the redemption under this Condition 7.6 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Delisting Redemption Date and the Reference Parity shall mean, if the offer price consists of cash only, the offer price in effect on the last day of the offer divided by the Conversion Price in effect on the same day (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the last day of the offer divided by the Conversion Price in effect on the last day of the offer (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

7.6.3 *Offer Followed by Corporate Event or Squeezeout Event:* Notwithstanding the above provisions of this Condition 7.6, if the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces, that it intends to effect a Corporate Event or Squeezeout Event after the date of acquisition of any Shares pursuant to the offer, then the Company’s obligation to redeem the Bonds under this Condition 7.6 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.5, or Condition 7.7, as the case may be, shall be applicable to such Corporate Event or Squeezeout Event, as the case may be) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the last day of such 60-day period, to redeem all, but not some only, of the Bonds then outstanding at the redemption price set out in Condition 7.6.2 (for the avoidance of doubt, the Reference Parity applicable to such redemption being equal to the Reference Parity that would have been applicable had the Bonds been redeemed under Condition 7.6.1 without being subject to the provisions of this Condition 7.6.3), together with all Additional Amounts due on the Bonds (if any), on the date (for the avoidance of doubt, the Delisting Redemption Date applicable to such redemption being such date) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice).

7.6.4 *Irrevocable Notice:* Any notice of redemption given under this Condition 7.6 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

7.6.5 *Notice to Bondholders:* Upon the occurrence of:

- (a) any of the events set out in (i) through (iv) of Condition 7.6.1; or
- (b) any of the events set out in Condition 7.6.3 which results in the cancellation or revival of the Company's obligation to redeem the Bonds,

the Company shall as soon as practicable give notice thereof to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19.

7.6.6 *Condition:* If the Company becomes obliged to redeem the Bonds pursuant to both this Condition 7.6 and either Condition 7.5 or 7.7, the procedure pursuant to Condition 7.5 or 7.7, as the case may be, shall apply.

## 7.7 ***Squeezeout Redemption***

7.7.1 *Redemption:* Upon the occurrence of a Squeezeout Event, the Company shall (subject to Condition 7.11) give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with Condition 7.7.2, together with all Additional Amounts due on the Bonds (if any), on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition, sale or consolidation of the Shares with respect to the Squeezeout Event, as the case may be, provided, however, that if the Squeezeout Effective Date falls earlier than 14 Tokyo Business Days from the date of such notice, the Squeezeout Redemption Date shall be accelerated to the extent necessary to ensure that it shall fall on a date earlier than the Squeezeout Effective Date).

"Squeezeout Event" means either (i) the passing of a resolution at a general meeting of shareholders of the Company approving its acquisition of all of the outstanding Shares in exchange for a consideration, following the outstanding Shares being transformed into callable shares (*zenbushutokujoko tsuki shuruikabushiki*) under the Companies Act by way of an amendment to the Articles of Incorporation, such as (but not limited to) for the purpose of making the Company a wholly-owned subsidiary of another corporation, (ii) the passing of a resolution by the Board of Directors of the Company approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushiki uriwatashi seikyu*) under the Companies Act, or (iii) the passing of a resolution at a general meeting of shareholders of the Company approving a consolidation of Shares (*kabushiki no heigo*) under the Companies Act after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing.

7.7.2 *Redemption Price:* The redemption price applicable to the redemption under this Condition 7.7 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Squeezeout Redemption Date and the Reference Parity shall mean, if the assets to be delivered to the holders of Shares consist of cash only (or if the holders of Shares which are being squeezed out are to effectively receive cash only in respect of such Shares), the cash amount which the holder of a Share would receive in exchange for Shares to be transferred as a result of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a

Retroactive Adjustment becoming effective during such period, where the event requiring such Retroactive Adjustment takes place after such period) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

**7.8 *Purchase of Bonds by the Company or any Subsidiary***

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders or otherwise to exercise any voting rights and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for voting on any Extraordinary Resolution or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

**7.9 *Cancellation***

All Bonds which are redeemed or acquired or with respect to which the Stock Acquisition Rights have been exercised shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 7.8 shall be forwarded to the Principal Agent for cancellation.

**7.10 *Notice of Redemption or Acquisition***

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as of the date of the relevant notice, the Closing Price of the Shares as of the latest practicable date prior to the publication of the relevant notice, the applicable date fixed for redemption, the redemption price of the Bonds, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds outstanding as of the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.3 or 7.4 shall be effective if it specifies a date for redemption which falls during a period (a "Closed Period") in which Stock Acquisition Rights may not be exercised pursuant to Condition 5.1.4(c) or within 15 days following the last day of a Closed Period.

**7.11 *Priorities among Redemption and Acquisition Provisions***

If any notice of redemption or acquisition is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, no other notice may be, or as the case may be, is required to be, given pursuant to any other of such Conditions, subject as provided in Condition 7.2.4 and 7.6.3 and except for such Bonds so elected by the relevant Bondholder not to be redeemed pursuant to Condition 7.4.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.5 or 7.7, or (b) the events set out in (i) to (iv) of Condition 7.6.1 occur, then a notice pursuant to Condition 7.2, 7.3 or 7.4 may not subsequently be given.

**7.12 *Calculations***

The Trustee, the Custodian, the Custodian's Agent, the Registrar, the Principal Agent and the other Agents are not liable to determine or calculate the Reference Parity, any redemption amount or price under these Conditions (howsoever expressed or defined) or to make any other calculations required to be made under these Conditions.

**8. *Payments***

**8.1 *Method of Payment***

Payments in respect of principal, default interest (if any) and premium (if any) will be made (subject to surrender of the Certificates in respect of the relevant Bonds at any specified office outside Japan of the

Registrar or any Agent, if no further payments are due in respect of the Bonds evidenced by the relevant Certificates) to the person shown on the Register at the close of business on the third Business Day in the place of the specified office of the Registrar and the Principal Agent before the due date for payment thereof, by transfer to its Registered Account. Such payments will be made by transfer to its Registered Account subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 9. Save as provided in Condition 9, such payments will be subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment and the Company will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

“Registered Account” means a yen account maintained by the payee with a bank in Japan, details of which appear on the Register at the close of business on the third Business Day in the place of the specified office of the Registrar and the Principal Agent before the due date of payment.

## 8.2 *Agents*

The initial Principal Agent and the initial Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to (in respect of the Principal Agent, the Registrar and any other Agent only) the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Agent, the Registrar, the Calculation Agent or any other Agent and to appoint other or further Agents, provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed; and (v) a Calculation Agent. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar, the Calculation Agent or any other Agent will be given to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19.

## 8.3 *Payments on Payment Business Days*

If the due date for payment of any amount in respect of any Bond is not a Payment Business Day, then the holder of such Bond shall not be entitled to payment of the amount due until the next following Payment Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. “Payment Business Day” means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried out both in Tokyo and in such place.

## 9. **Taxation**

All payments by the Company in respect of the Bonds, subject to Condition 7.4, will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts (“Additional Amounts”) as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

- (i) to a Bondholder (a) who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, or (b) who fails to comply with Japanese tax law requirements in respect of the exemption from such withholding or deduction, or (c) who is otherwise subject to such taxes, duties, assessments or governmental charges by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or enforcement of rights thereunder or the receipt of payment in respect of any Bond; or
- (ii) in respect of which the relevant Certificate is presented for payment, more than 30 days after the Due Date (as defined below) except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the Certificate in respect of such Bond for payment as of the expiry of such 30-day period.

If the Company becomes obliged to pay Additional Amounts in accordance with this Condition 9, then it will have the right to redeem the Bonds, subject to the right of the Bondholders to retain the Bonds without entitlement to such Additional Amounts in accordance with Condition 7.4.

In these Conditions, the “Due Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the Bondholders in accordance with Condition 19.

Any reference in these Conditions and the Trust Deed to principal, premium (if any) or default interest in respect of the Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed.

No Additional Amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of the US Internal Revenue Code of 1986, any regulation or agreement thereunder, any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the US Internal Revenue Service (“FATCA withholding”). Further, the Company will have no obligation to otherwise indemnify an investor for any such FATCA withholding deducted or withheld by the Company, the Agents or any other party that is not an agent of the Company.

## 10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction, give notice in writing to the Company that the Bonds are due and repayable on the occurrence of any of the following events:

- 10.1 *Non-Payment*: the Company defaults in the payment of the principal of any of the Bonds under Condition 7.4 as and when the same shall become due and payable, and such default is not remedied within seven days; or
- 10.2 *Breach of Obligations*: the Company defaults in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to pay the principal in respect of any of the Bonds), which default is, in the opinion of the Trustee, incapable of remedy, or if, in the opinion of the Trustee, capable of remedy, is not remedied within 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring such default to be remedied; or
- 10.3 *Cross Default on Indebtedness*: the obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid when due (whether on demand (if applicable) or otherwise) (or at the expiration of any grace period as originally provided (if applicable)); or
- 10.4 *Cross Default on Guarantee/Indemnity*: the Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10); or
- 10.5 *Initiation of Insolvency Proceedings*: proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or
- 10.6 *Decree of Insolvency/Dissolution*: a final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a

- petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or (in the opinion of the Trustee) any material part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or
- 10.7 *Resolution for Dissolution*: a resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:
- 10.7.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which:
- (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied); or
- (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such winding-up, dissolution or liquidation; or
- 10.7.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or the Holding Company (as the case may be) in the relevant Principal Subsidiary; or
- 10.7.3 in any case, where the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or
- 10.8 *Institution of Insolvency Proceedings*: the Company or any Principal Subsidiary institutes proceedings seeking with respect to itself adjudication of bankruptcy or seeking with respect to itself a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or (in the opinion of the Trustee) any material part of its property, or makes a general assignment for the benefit of its creditors; or
- 10.9 *Stoppage of Payment*: the Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or
- 10.10 *Cessation of Business*: the Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on all of its business, except:
- 10.10.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which:
- (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied); or
- (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such cessation of business; or
- 10.10.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or the Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.10.3 in any case, where the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.11 *Encumbrancer*: any encumbrancer takes possession of the whole or (in the opinion of the Trustee) any material part of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or (in the opinion of the Trustee) any material part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days;

and, in the case of any of the events described in Conditions 10.2, 10.3, 10.4, 10.5 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders. The Trustee in forming such an opinion, or making any determination under or required or contemplated by this Condition 10, may exercise all or any of its rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining and relying on such directions from the Bondholders or expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for so doing.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than Japanese yen may be translated into Japanese yen at the spot rate for the sale of relevant currency against the purchase of Japanese yen quoted by any leading bank selected by the Trustee at its absolute discretion on any day when the Trustee requests such a quotation for such purpose.

Upon any such notice being given to the Company, the Bonds shall immediately become due and repayable at 100 per cent of their principal amount (together with Additional Amounts, if any, premium, if any, and default interest, if any) as provided in the Trust Deed.

## 11. Undertakings

### 11.1 *Undertakings with Respect to the Stock Acquisition Rights*

While any Stock Acquisition Rights are, or are capable of being, exercisable, the Company will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give such approval:

11.1.1 *Shares*: issue, register and deliver Shares upon exercise of Stock Acquisition Rights in accordance with these Conditions, and keep available free from pre-emptive or other rights for the purpose of effecting the exercise of the Stock Acquisition Rights such number of its Shares (whether authorised and unissued or in issue and held in treasury) as would be required to be delivered upon exercise of all of the Stock Acquisition Rights outstanding from time to time and will ensure that all Shares delivered upon exercise of the Stock Acquisition Rights pursuant to these Conditions will be duly and validly issued and fully- paid and non-assessable;

11.1.2 *Transfers*: not take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise of the Stock Acquisition Rights, if any, may (subject to any limitation imposed by law) be transferred (as between transferor and transferee although not as against the Company) at all times while such action is effective, nor take any action which prevents exercise of the Stock Acquisition Rights or the issue or transfer of Shares in respect thereof, except as permitted under Condition 5.1.4;

11.1.3 *Fiscal Year and Record Date*: give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its fiscal year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;

11.1.4 *Listing*: use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours or the maintenance of such listing is agreed by the Trustee to be unduly onerous and the Trustee is satisfied that the interests of the Bondholders would not be thereby materially prejudiced, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company may from

time to time reasonably determine and give notice of the identity of such stock exchange or securities market to the Bondholders in accordance with Condition 19; provided that:

- (i) so long as the Company is not in breach of its obligations under Condition 6 in the case of any Corporate Event where the obligations under the Bonds and/or Stock Acquisition Rights are proposed to be transferred to or assumed by a New Obligor, then the Shares may be delisted with effect from the date falling no earlier than 30 days prior to the relevant Corporate Event Effective Date or such earlier date as may be determined by the Relevant Stock Exchange and (unless shares of common stock of the New Obligor are then listed or quoted or dealt in on any stock exchange or securities market) the Company shall use its best endeavours to cause the obtaining of a listing, quotation or dealing in of the shares of common stock of the New Obligor on any stock exchange or securities market in Japan;
- (ii) the Company's obligations under this Condition shall not apply if the Bonds are to be redeemed under Condition 7.5 or 7.6 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from (x) delivering a certificate to the Trustee, as provided in Condition 7.5(iv), or (y) taking any action provided in items (ii) and (iii) of Condition 7.6.1; and
- (iii) the Company's obligations under this Condition shall not apply if the Bonds are to be redeemed under Condition 7.7 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from, among other things, proposing an amendment to the Articles of Incorporation for transforming the Shares into callable shares (*zenbushutokujoko tsuki shuruikabushiki*), approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushiki uriwatashi seikyu*), proposing a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing, or announcing or admitting that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or be disqualified from such listing, quotation or dealing as a result of the acquisition or consolidation of Shares pursuant to a Squeezeout Event, as the case may be);

11.1.5 *Other Securities*: procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), converted into or exchanged for Shares and that no rights or warrants to subscribe for, purchase or otherwise acquire Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), exercised otherwise than, in each case, in accordance with the terms of issue thereof (for the avoidance of doubt, such terms may be amended as a result of any change in or bringing into force of Japanese law, including but not limited to certain tax qualification requirements relating to incentive stock options);

11.1.6 *Capital*: not create or issue any class of share capital other than Shares, without giving notice to the Trustee in writing and to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;

11.1.7 *Limitation on Reduction of the Conversion Price*: not take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would (but for the provisions of Condition 5.4) be decreased to such an extent that the Shares to be acquired on exercise of the Stock Acquisition Right could not, under any applicable law then in effect, be legally issued as fully-paid and non-assessable;

11.1.8 *Corporate Event*: if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds are to be redeemed pursuant to Condition 7.5 or 7.6); and

11.1.9 *Consents:* obtain and maintain all consents, clearances, approvals, authorisations, orders, registrations or qualifications (if any) required to be obtained or maintained by the Company on exercise of the Stock Acquisition Rights.

*The Trust Deed contains certain other undertakings in relation to the Bonds and the Stock Acquisition Rights.*

## 11.2 **Charges**

Except as otherwise provided in Condition 5.9, the Company will pay all charges of the Trustee, the Registrar, the Principal Agent, the other Agents, the Custodian, the Custodian's Agent and the Calculation Agent (including the cost of providing notices) and all issue, transfer and other similar taxes payable with respect to the deposit of Bonds pursuant to Condition 5.9.3, and the issue and delivery of Shares and the delivery of any other securities pursuant to Condition 5.9.5 following such deposit.

## 12. **Substitution**

### 12.1 ***Substitution other than under a Corporate Event***

The Trustee may, without the consent of the Bondholders, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the Trustee shall consider appropriate, (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (iii) the satisfaction of such other conditions as are set out in the Trust Deed. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/ or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19.

When determining, pursuant to this Condition 12.1, whether an event or circumstance is materially prejudicial to the interests of the Bondholders, the Trustee may exercise all or any of its rights, powers and directions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining such expert advice as it considers appropriate and relying thereon without any responsibility or liability to the Bondholders or any other person for delay occasioned for so doing.

*Further conditions to such substitution are set out in the Trust Deed.*

### 12.2 ***Substitution under a Corporate Event***

Prior to a Corporate Event Effective Date, the Trustee may, if so requested by the Company, agree with the Company, without the consent of Bondholders, to the substitution in place of the Company of the New Obligor subject to a trust deed supplemental to the Trust Deed (which shall include the provisions described below), providing that the Company's obligations under the Bonds and the Trust Deed shall be assumed by the New Obligor by way of substitution (which, for the purposes of Japanese law, may be deemed to be a transfer or assumption of such obligations to or by the New Obligor), and that the New Obligor shall grant stock acquisition rights (the "New Stock Acquisition Rights") to all holders of the Bonds then outstanding, in place of the Stock Acquisition Rights incorporated in the Bonds held by them, being executed on or prior to the relevant Corporate Event Effective Date or (in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date) within 14 days after the relevant Corporate Event Effective Date. The Trustee may enter into such supplemental trust deed without consent of Bondholders only if:

- (i) under such supplemental trust deed, the New Obligor agrees, in form, manner and substance satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and providing that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;
- (ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New

Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director or an Authorised Officer of the Company that, as of the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's long-term, unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt (and which certificate the Trustee shall be entitled to rely upon without further investigation and without incurring any liability to any person for doing so). In making this determination, the Company shall consult an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;

- (iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.4 in relation to payment of Additional Amounts by the New Obligor (and/or the guarantor, if any);
- (iv) a Representative Director or an Authorised Officer of the New Obligor certifies that the New Obligor will be solvent immediately after such substitution (if the Trustee receives such certification, the Trustee need not have regard to the New Obligor's financial condition, profits or prospects or compare them with those of the Company);
- (v) the Company shall have certified (by a certificate of a Representative Director or an Authorised Officer) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;
- (vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and
- (vii) such substitution and grant of the New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

### 12.3 *Release of Obligations*

An agreement by the Trustee pursuant to Condition 12.2 will (except in respect of any guarantee under Condition 12.2(ii)), if so expressed, release the Company (or a previous substitute) from any or all of its obligations under the Trust Deed and the Bonds.

### 12.4 *Deemed Amendment*

On completion of the formalities set out in Condition 12.2, the New Obligor will be deemed to be named in the Trust Deed and the Bonds as the principal obligor in place of the Company (or of any previous substitute) and the Trust Deed and the Bonds will be deemed to be amended as necessary to give effect to the substitution. In particular and without limitation:

- (i) the terms "Stock Acquisition Rights" and "Shares" shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and
- (ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

## 13. **Prescription**

Claims in respect of the Bonds will become void unless made within the period of 10 years from the Due Date for the payment thereof.

14. **Replacement of Certificates**

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Principal Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company or an Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. **Meetings of Bondholders; Modification and Waiver**

15.1 ***Meetings of Bondholders***

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any provision of these Conditions or of the Trust Deed. The quorum for any such meeting convened to consider any matter requiring an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent in principal amount of the Bonds for the time being outstanding, or for any adjourned meeting two or more persons being or representing Bondholders (whatever the principal amount of Bonds held or represented) except that at any meeting the business of which includes the modification of certain provisions of the Bonds or of the Trust Deed (including, *inter alia*, modifying the date of maturity of the Bonds, reducing or cancelling the principal amount of, or any premium payable in respect of, the Bonds, modifying the method or basis of calculating the rate or amount of default interest in respect of the Bonds, altering the currency of payment of the Bonds or (to the extent permitted by applicable law) abrogating or modifying any Stock Acquisition Right or of the acquisition option of the Company), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned such meeting not less than 50 per cent, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

Notwithstanding the above provisions, any resolution in writing signed by or on behalf of the holders of not less than 90 per cent in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of such Bondholders duly convened and held in accordance with the provisions contained in these Conditions and in the Trust Deed. Any resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders. A meeting of Bondholders may be held electronically in accordance with the procedures set out in the Trust Deed.

15.2 ***Modification and Waiver***

The Trustee may, without the consent of the Bondholders, agree to any modification (except as aforesaid and as set out in the Trust Deed) of the Trust Deed or the Bonds (including these Conditions) or to any waiver or authorisation of any breach, continuing breach or potential breach by the Company of the provisions of the Trust Deed or the Bonds or determine that any Event of Default or Potential Event of Default shall not be treated as such which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of the Trust Deed or the Bonds (including these Conditions) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or is necessary in order to comply with mandatory provisions of Japanese law or pursuant to Condition 6 or 12. Any such modification, waiver, determination or authorisation shall be binding on the Bondholders and shall (unless the Trustee agrees otherwise) be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Conditions 1.1, 1.5, 5, 6, 7.2, 7.5 and/or 7.7 or (ii) the FIEA which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.6, the relevant Conditions shall be amended and/or supplemented to reflect that change by means of a trust deed supplemental to the Trust Deed. The Trustee (unless in its sole opinion such supplemental trust deed (i) imposes obligations, responsibilities

or liabilities on it which are greater than those it has as Trustee under the Trust Deed or (ii) decreases the protections it has as Trustee under the Trust Deed) shall be obliged (subject to being indemnified and/or secured and/or prefunded by the Company to its satisfaction) to enter into such supplemental trust deed (in a form and substance satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing and may rely on any opinion or any certificate of a Representative Director or an Authorised Officer provided pursuant to this Condition 15.2 without liability to any person and without further investigation. The Trustee in forming any such opinion or making any determination may exercise all or any of its rights, powers and directions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining such expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for so doing. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

### 15.3 *Entitlement of the Trustee*

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in these Conditions), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

### 15.4 *Authority to the Trustee*

To the fullest extent permitted by applicable law, by acquiring a Bond, the Bondholder irrevocably authorises and instructs the Trustee (without its direction whether by Extraordinary Resolution or otherwise) to take any action, step or proceeding before a Japanese court on behalf of and in the name of the Bondholder which the Trustee considers to be necessary or desirable in the interests of the Bondholders. The Trustee shall not be bound to take any such action, step or proceeding unless (a) so directed by an Extraordinary Resolution or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action, step or proceeding. The Trustee shall not take any action, step or proceeding on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

## 16. **Enforcement**

At any time after the Bonds shall have become due and repayable or, in relation to Condition 7.2, were due to be acquired on the Acquisition Option Date or repaid on the Elected Redemption Date, the Trustee may, at its absolute discretion and without further notice, take such proceedings, actions or steps against the Company as it may think fit to enforce repayment of the Bonds, together with accrued default interest, if any, pursuant to Condition 4 and to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to proceed, fails or is unable to do so within 30 days of such direction or request and provision of indemnity and/or security and/or prefunding (whichever is the latest) and such failure or inability shall be continuing.

## 17. **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Trust Deed or the terms of the Bonds and to be paid its costs and expenses in priority to the claims of Bondholders. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders or any other person on any certificate or report prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Auditors, the

Independent Financial Adviser or such other expert (as the case may be) in respect thereof is limited by a monetary (or any other) cap or otherwise, and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under these Conditions and/or the Trust Deed and, in the absence of manifest error, any such certificate or report shall be conclusive and binding on the Company, the Trustee, and the Bondholders.

18. **Independent Financial Adviser**

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or in relation to any other matter which is reserved in these Conditions for a decision of an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price or other matter shall be conclusive and binding on the Company, the Trustee and the Bondholders in the absence of manifest error.

If the Company shall fail to appoint an Independent Financial Adviser when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser or otherwise in connection with such appointment, the Trustee shall have the power, but shall not be obliged, to make such appointment in its absolute discretion and without liability for so doing or not doing, following notification to the Company, in which case such Independent Financial Adviser shall be deemed to have been appointed by the Company.

19. **Notices**

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). If publication in any of such newspapers is not practicable, notices will be given in such other newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

So long as the Bonds are evidenced by a Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

20. **Contracts (Rights of Third Parties) Act 1999**

Except as provided herein, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21. **Governing Law and Submission to Jurisdiction**

21.1 ***Governing Law***

The Trust Deed and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 ***Jurisdiction***

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Bonds (including any non-contractual obligation arising out of or in connection with the Trust Deed and the Bonds) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds (including any non-contractual obligation arising out of or in connection with the Trust Deed and the Bonds) (“Proceedings”) may be brought in such courts. The Company has in the Trust Deed submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

21.3 ***Agent for Service of Process***

The Company has irrevocably appointed Cogency Global (UK) Limited, whose office is at present at 6 Lloyds Avenue, Unit 4CL, London EC3N 3AX, United Kingdom, as its agent in England to receive

service of process in any Proceedings in England. If for any reason Cogency Global (UK) Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

## SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

*Each Global Certificate contains provisions which apply to the Bonds in respect of which such Global Certificate is issued, some of which modify the effect of the Conditions of the 2028 Bonds and the Conditions of the 2030 Bonds set out in this Offering Circular. Terms defined in the Conditions of the 2028 Bonds and the Conditions of the 2030 Bonds have the same meaning in the paragraphs below. The following is a summary of those provisions:*

### Meetings

The registered holder (as defined in the Conditions) of the relevant Series of Bonds in respect of which the relevant Global Certificate is issued shall (unless such Global Certificate evidences only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of holders of the relevant Series of Bonds and, at any such meeting, as having one vote in respect of each Bond in respect of which such Global Certificate is issued. The Trustee may allow any accountholder (or the representative of such person) of a clearing system entitled to the relevant Series of Bonds in respect of which such Global Certificate is issued to attend and speak (but not vote) at a meeting of the holders of the relevant Series of Bonds on appropriate proof of its identity.

### Exercise of Stock Acquisition Rights

Subject to the requirements of Euroclear or Clearstream, Luxembourg or such other clearing system as shall have been approved in writing by the Trustee (an “Alternative Clearing System”), the Stock Acquisition Right incorporated in a Bond of the relevant Series in respect of which the relevant Global Certificate is issued may be exercised by the transmission in electronic form to any Agent of one or more Conversion Notices duly completed by, or on behalf of, an accountholder in such system with an entitlement to such Bond and otherwise in accordance with the procedures of the relevant clearing systems. Deposit of the Global Certificate with an Agent together with the relevant Conversion Notice shall not be required. The exercise of the Stock Acquisition Right shall be notified by the Agent to the Registrar and the holder of the Global Certificate.

### Payments

Payments in respect of the relevant Series of Bonds evidenced by the relevant Global Certificate shall be made against presentation of or, if no further payment falls to be made in respect of such Bonds, against presentation and surrender of, such Global Certificate to or to the order of the Principal Agent or such other Agent as shall have been notified to the holders of the relevant Series of Bonds for this purpose.

All payments in respect of the relevant Series of Bonds evidenced by the relevant Global Certificate will be made to, or to the order of the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment. For the purposes of this paragraph, “Clearing System Business Day” means Monday to Friday inclusive, excluding 25 December and 1 January in each year.

So long as the relevant Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, a “Payment Business Day” for the purposes of Condition 8.3 of the Conditions for the Relevant Series of Bonds shall be any day on which dealings in foreign currency may be carried out in Tokyo.

### Notices

So long as the relevant Series of Bonds are evidenced by a Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg or any Alternative Clearing System, notices required to be given to the Bondholders shall be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, for communication by it to entitled accountholders in substitution for publication and mailing as required by the Conditions. Such notices shall be deemed to have been given in accordance with the Conditions on the date of delivery to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System.

So long as the relevant Series of Bonds are evidenced by a Global Certificate, the Company will be required to give notice of the determination of any Shareholder Determination Date Restriction Period (together with a description of the days included in such Shareholder Determination Date Restriction Period) in accordance with Condition 5.1.4 of the Conditions of the relevant Series of Bonds at least two business days prior to the commencement of such Shareholder Determination Date Restriction Period (provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect); “business day” in this paragraph means any day on which banks are open for business in Tokyo, Brussels and Luxembourg.

### Transfers

Transfers of interests in the relevant Series of Bonds in respect of which a Global Certificate is issued shall be effected through the records of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System and their

respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, as the case may be, and their respective direct and indirect participants.

### **Prescription**

Claims in respect of the relevant Series of Bonds evidenced by a Global Certificate shall become void unless made within a period of 10 years from the appropriate Due Date (as defined in the Conditions for the relevant Series of Bonds).

### **Trustee's Powers**

In considering the interests of holders of the relevant Series of Bonds while a Global Certificate is registered in the name of a nominee for any one or more of Euroclear, Clearstream, Luxembourg and an Alternative Clearing System, the Trustee may, to the extent it considers appropriate to do so in the circumstances, have regard to and rely upon any information made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements to the relevant Bonds evidenced by such Global Certificate, and may consider such interests, and treat such accountholders, as if such accountholders were the holder of the relevant Bonds in respect of which such Global Certificate is issued.

### **Cancellation**

Cancellation of any Bond evidenced by a Global Certificate which is required by the Conditions for the relevant Series of Bonds to be cancelled will be effected by reduction in the principal amount of the relevant Series of Bonds in the Register relating to such Series of Bonds, and the endorsement (for information only) of the relevant Global Certificate by the Registrar.

### **Parity Event**

A Parity Notification Event Notice may be given to the Company by (or on behalf of) a person with an entitlement to the relevant Bond, and which may be an accountholder in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. Such Parity Notification Event Notice shall include a certification that such person holds (or is delivering such Parity Notification Event Notice on behalf of a person that holds) an entitlement to at least one Bond of the relevant Series and evidence of such holding to the satisfaction of the Company. Parity Notification Event Notices should be submitted in accordance with Condition 5.1.9 of the Conditions for the relevant Series of Bonds rather than through the systems of Euroclear, Clearstream, Luxembourg or Alternative Clearing System.

### **Early Redemption or Acquisition by the Company**

The options and obligations of the Company to redeem or acquire any Series of Bonds prior to maturity provided for in Conditions 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7 of the Conditions for the relevant Series of Bonds shall be exercised or performed by the Company giving notice (as applicable) to the Trustee, the Principal Agent and the Bondholders within the time limits relating thereto set out in and containing the information required of the Company in accordance with the relevant Condition in accordance with the paragraph entitled "Notices" above.

If the Company exercises its option to acquire any Series of Bonds under Condition 7.2 of the Conditions for the relevant Series of Bonds, subject to the requirements of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System, an Acquisition Election Notice may be duly completed by, or on behalf of, an accountholder in such system with an entitlement to the relevant Bonds as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems. Deposit of the relevant Global Certificate with an Agent shall not be required.

### **Election of Bondholders**

The election option of the holders of Bonds of the relevant Series provided for in Condition 7.4 of the Conditions for the relevant Series of Bonds may be exercised by the holder of the relevant Bonds evidenced by the relevant Global Certificate by giving notice to the Principal Agent in the manner and within the time limits relating thereto set out in that Condition and otherwise in accordance with the procedures of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System (as the case may be) in the form acceptable thereto from time to time.

### **Enforcement**

For purposes other than with respect to the payment of principal and premium (if any) on the Bonds in respect of which a Global Certificate is issued, each person who is for the time being shown in the records of Euroclear and Clearstream, Luxembourg or Alternative Clearing System as the holder of a particular principal amount of such Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or Alternative Clearing System as to the principal amount of Bonds in respect of which such Global Certificate is issued standing to the account of any person shall be conclusive and binding for all purposes) shall be recognised as the holder of such principal amount of the relevant Series of Bonds.

## **Electronic Consent**

While the Bonds evidenced by a Global Certificate is registered in the name of any nominee for, or for any common depositary (or its nominee) for, a clearing system, then (a) approval of a resolution proposed by the Company or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of any Bonds of the relevant Series of not less than 75 per cent in nominal amount of such Bonds then outstanding (an “Electronic Consent” as defined in the Trust Deed for the relevant Series of Bonds) shall, for all purposes, take effect as an extraordinary resolution passed at a meeting of the holders of the Bonds of the relevant Series duly convened and held, and shall be binding on all holders of Bonds of the relevant Series, whether or not they participated in such Electronic Consent, and (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed for the relevant Series of Bonds) has been validly passed, subject to certain requirements set out in the Trust Deed for the relevant Series of Bonds, the Company and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Company and/or the Trustee, as the case may be, by accountholders in the relevant clearing system with entitlements to such Bonds of the relevant Series evidenced by the relevant Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries.

## USE OF PROCEEDS

The net proceeds from the issue of the Bonds are estimated to amount to approximately ¥50 billion, and are expected to be used by the Company as follows:

- approximately ¥20 billion by the end of March 2027, as part of investments related to taking on the challenge of realising carbon neutrality, primarily in the Steel business and the Electric Power business; and
- approximately ¥30 billion by the end of March 2025, as part of the repayment of borrowings.

## INFORMATION CONCERNING THE SHARES

### Changes in Issued Share Capital

The Company has an authorised share capital of 600,000,000 Shares, of which 396,345,963 Shares were in issue as at 30 September 2023. The following table shows the changes in the issued share capital of the Company as at the dates indicated below:

Date	Type of Transaction	Number of Shares in Issue Increased/ (Decreased)	Total Number of Shares in Issue
1 October 2016 .....	Stock consolidation (10-for-1)	(3,279,277,890)	364,364,210
1 November 2021 .....	Share exchange <sup>(1)</sup>	31,981,753	396,345,963

Note:

(1) Share exchange is due to the acquisition of Kobelco Eco-Solutions Co., Ltd. to be a wholly-owned subsidiary of the Company.

As at 30 September 2023, there has been no change in the issued share capital of the Company since 1 November 2021.

### Dividends

Under the Company's Articles of Incorporation, a year-end dividends and interim dividends may be distributed to shareholders of record as at 31 March and 30 September in each year pursuant to a resolution of the Board of Directors. The Company may also make dividends other than those described above pursuant to a resolution of the Board of Directors. The payment of dividends will also be subject to other factors including legal restrictions with respect to the payment of dividends. See "Description of the Shares—Distributions of Surplus".

The following table sets out the dividends paid by the Company to its shareholders of record as at the record dates indicated:

Record Date	Dividends per Share
	(Yen)
31 March 2018 .....	¥30.00
30 September 2018 .....	10.00
31 March 2019 .....	10.00
30 September 2019 .....	—
31 March 2020 .....	—
30 September 2020 .....	—
31 March 2021 .....	10.00
30 September 2021 .....	10.00
31 March 2022 .....	30.00
30 September 2022 .....	15.00
31 March 2023 .....	25.00
30 September 2023 <sup>(1)</sup> .....	45.00

Note:

(1) The commencement date for the payment of this interim dividend is expected to be 1 December 2023.

The Company's basic policy is to determine dividends taking its financial condition, business performance, future capital needs, and other factors into overall consideration with the aim of paying dividends on a continuous and steady basis in principle.

## Japanese Stock Market and Price Range of the Shares

The Shares are listed on the Prime Market of the Tokyo Stock Exchange and Premier Market of the Nagoya Stock Exchange.

The following table sets forth, for the periods indicated, (i) the highs and lows of the reported trading sales prices of the Shares on the Tokyo Stock Exchange, (ii) the highs and lows of the daily closing Nikkei Stock Average, an index of 225 selected stocks listed on the Prime Market of the Tokyo Stock Exchange, (iii) the highs and lows of the daily closing TSE Prime Market Index, an index of the market value of all Japanese stocks listed on the Prime Market of the Tokyo Stock Exchange, and (iv) the highs and lows of the daily closing Tokyo Stock Price Index (TOPIX), an index of the market value of all Japanese stocks listed on the Prime Market of the Tokyo Stock Exchange:

Calendar Year	Price per Share		Nikkei Stock Average		TSE Prime Market Index		TOPIX	
	High	Low	High	Low	High	Low	High	Low
	<i>(Yen)</i>		<i>(Yen)</i>		<i>(Points)</i>		<i>(Points)</i>	
2018 .....	¥1,254	¥ 722	¥24,270.62	¥19,155.74	—	—	1,911.07	1,415.55
2019 .....	903	517	24,066.12	19,561.96	—	—	1,747.20	1,471.16
2020 .....	597	283	27,568.15	16,552.83	—	—	1,819.18	1,236.34
2021 .....	928	484	30,670.10	27,013.25	—	—	2,118.87	1,791.22
2022:								
First quarter .....	638	531	29,332.16	24,717.53	—	—	2,039.27	1,758.89
Second quarter .....	739	532	28,246.53	25,748.72	1,013.53	935.78	1,969.98	1,818.94
Third quarter .....	659	568	29,222.77	25,935.62	1,032.75	944.64	2,006.99	1,835.94
Fourth quarter .....	657	564	28,383.09	26,093.67	1,038.78	950.61	2,018.80	1,847.58
2023:								
First quarter .....	1,122	629	28,623.15	25,716.86	1,065.73	961.23	2,071.09	1,868.15
Second quarter .....	1,359	966	33,706.08	27,472.63	1,183.76	1,009.17	2,300.36	1,961.28
Third quarter .....	2,179	1,314	33,753.33	31,450.76	1,250.79	1,143.20	2,430.30	2,221.48
Fourth quarter (up to 28 November 2023) .....	1,991	1,650	33,625.53	30,526.88	1,230.61	1,141.87	2,391.05	2,218.89

On 28 November 2023, the reported closing price of the Shares on the Tokyo Stock Exchange was ¥1,780 per Share. The closing Nikkei Stock Average, TSE Prime Market Index and TOPIX on the same date were ¥33,408.39, 1,223.04 and 2,376.71, respectively.

## Principal Shareholders and Distribution of Shares

As at 30 September 2023, the 10 largest shareholders of record and the number and percentage of Shares held by them were as follows:

Shareholder	Number of Shares held	Percentage of total Shares in issue <sup>(1)</sup>
	<i>(Thousands)</i>	<i>(Per cent)</i>
The Master Trust Bank of Japan, Ltd. (Trust Account) <sup>(2)</sup> .....	61,140	15.44%
Custody Bank of Japan, Ltd. (Trust Account) <sup>(2)</sup> .....	16,742	4.23
Nippon Steel Corporation .....	10,735	2.71
JPMorgan Securities Japan Co., Ltd. ....	5,557	1.40
Nippon Life Insurance Company .....	5,059	1.28
STATE STREET BANK WEST CLIENT–TREATY 505234 (standing proxy: Mizuho Bank, Ltd.) .....	4,723	1.19
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT (standing proxy: Citibank N.A., Tokyo Branch) .....	4,704	1.19
Kobelco Employee Stock Ownership Plan .....	4,530	1.14
JP MORGAN CHASE BANK 385781 (standing proxy: Mizuho Bank, Ltd.) .....	4,422	1.12
SHIMABUN Corporation .....	4,420	1.12
Total .....	122,031	30.81%

Notes:

- (1) Percentage of total Shares in issue is calculated based on the total Shares in issue excluding treasury stock held by the Company (including Shares held by the Company's Board Benefit Trust).
- (2) The Shares held by these holders are held by them in their trust accounts.
- (3) The FIEA requires any person who has become, beneficially and solely or jointly, a holder of more than five per cent of the total issued voting Shares to file a report concerning such shareholdings with the director of the relevant Local Finance Bureau of the Ministry of Finance, and also requires such person to file a similar report concerning one per cent or more changes in such substantial shareholdings or any changes in material matters set out in the reports previously filed (see "Japanese Foreign Exchange and Certain Other Regulations—Reporting of Substantial Shareholdings"). As at 28 November 2023, the Company has received the following reports which may not be reflected in the above table:
  - A report relating to substantial shareholding filed on 21 August 2023 by Mitsubishi UFJ Financial Group, Inc. in respect of the holding by MUFG Bank, Ltd. and three other holders, informing of the ownership of 20,183 thousand Shares as of 14 August 2023. The Company was however unable to confirm the beneficial ownership thereof, and therefore such holding is not set out in the above table.
  - A report relating to change in substantial shareholding filed on 5 October 2023 by Sumitomo Mitsui Trust Bank, Limited in respect of the change in holding by Sumitomo Mitsui Trust Asset Management Co., Ltd. and one other holder, informing of the ownership of 17,001 thousand Shares as of 29 September 2023. The Company was however unable to confirm the beneficial ownership thereof, and therefore such holding is not set out in the above table.

As at 28 November 2023, the Company has not received any report concerning substantial shareholdings (or changes thereto), other than the report dated 5 October 2023 referred to above, since 30 September 2023.
- (4) Except as stated above, the Company is not aware of any change in the information provided above.

The ownership distribution of the Shares by category of shareholders of record of the Company as at 30 September 2023 was as follows:

Category	Number of Shareholders	Number of Shares held	Proportion of Shares Held
		<i>(Units<sup>(1)</sup>)</i>	<i>(Per cent)</i>
Government and municipal bodies .....	1	2	0.00%
Japanese financial institutions .....	51	1,109,713	28.06
Japanese financial instruments and exchange operators .....	68	223,462	5.65
Other Japanese corporations <sup>(2)</sup> .....	1,483	510,031	12.90
Foreign corporations and others (including foreign individuals) .....	627	739,773	18.71
Japanese individuals and others <sup>(3)</sup> .....	162,388	1,371,330	34.68
Total .....	164,618	3,954,311	100.00%

Notes:

- (1) One unit comprises 100 Shares.
- (2) Includes 100 units of Shares registered in the name of JASDEC.
- (3) 269,953 Shares held as treasury shares by the Company are included (as 2,699 units of Shares) in “Japanese individuals and others”. However, of these Shares, 100 Shares (being 1 unit of Shares) is not held beneficially by the Company.
- (4) Other than as set out in the table above, 914,863 Shares are outstanding as amounts held by shareholders of less than one whole unit (53 treasury shares and 67 Shares registered in the name of JASDEC are included in such number).

As at 30 September 2023, the Directors of the Company together held 233,500 Shares, or 0.06 per cent of the total issued and outstanding Shares.

As at the date of this Offering Circular, the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

## CAPITALISATION AND INDEBTEDNESS

The following table sets out the consolidated capitalisation and indebtedness of the Group as at 30 September 2023, which has been extracted from the Company's unaudited quarterly consolidated financial statements as at and for the six-month period ended 30 September 2023, and as adjusted to give effect to the issue of the Bonds.

	<b>As at 30 September 2023</b>	
	<b>Actual</b>	<b>As adjusted</b>
	<i>(Millions of yen)</i>	
<b>Short-term debt<sup>(2)</sup>:</b>		
Short-term borrowings	¥148,390	¥148,390
Total short-term debt	148,390	148,390
<b>Long-term debt<sup>(2)</sup>:</b>		
Long-term borrowings <sup>(3)</sup>	669,225	669,225
The Bonds now being issued	—	50,000
Total long-term debt	669,225	719,225
<b>Net assets:</b>		
<b>Stockholders' equity:</b>		
Common stock:		
Authorised: 600,000,000 Shares		
Issued: 396,345,963 Shares <sup>(5)</sup>	250,930	250,930
Capital surplus	116,307	116,307
Retained earnings	537,571	537,571
Treasury shares, at cost (3,397,500 Shares <sup>(6)</sup> )	(1,839)	(1,839)
Total stockholders' equity	902,969	902,969
<b>Accumulated other comprehensive income:</b>		
Valuation difference on available-for-sale securities	51,850	51,850
Deferred gains or losses on hedges	(5,844)	(5,844)
Revaluation reserve for land	4,707	4,707
Foreign currency translation adjustment	50,767	50,767
Remeasurements of defined benefit plans	18,701	18,701
Total accumulated other comprehensive income	120,181	120,181
Non-controlling interests	70,713	70,713
Total net assets	1,093,863	1,093,863
Total capitalisation and indebtedness <sup>(7)</sup>	¥1,911,478	¥1,961,478

Notes:

- (1) The above table should be read in conjunction with the unaudited quarterly consolidated financial statements of the Company as at and for the six-month period ended 30 September 2023, as well as the section "Recent Business" contained elsewhere in this Offering Circular. In particular, the figures in the above table include the Group's liabilities with respect to its project financing relating to its power generation projects. See "Recent Business—Liquidity and Capital Resources—Funding—Project Financing".
- (2) As at 30 September 2023, none of the Company's consolidated short-term debt or long-term debt were guaranteed. As at 31 March 2023, ¥272,375 million of the Company's total consolidated short-term debt and long-term debt were secured.
- (3) Long-term borrowings includes bonds payable.
- (4) As at 30 September 2023, the Company had the following contingent liabilities: ¥4,498 million of contingent liabilities regarding trade notes endorsed, ¥3,435 million of contingent liabilities regarding guarantees of loans, and ¥3,542 million of contingent liabilities regarding repurchase obligations accompanying securitisation of receivables. See Note 3 to the Company's unaudited quarterly consolidated financial statements as at and for the six-month period ended 30 September 2023 included elsewhere in this Offering Circular.

- (5) All of the issued Shares are fully-paid and non-assessable.
- (6) 100 Shares which are registered in the name of the Company but not beneficially held by the Company are included in the number of treasury shares. In addition, 335,900 Shares held by the Company's Board Benefit Trust are not included in the number of treasury shares.
- (7) Total capitalisation and indebtedness is the sum of total short-term debt, total long-term debt and total net assets.
- (8) There has been no material change in the capitalisation and indebtedness since 30 September 2023.

## KOBE STEEL, LTD.

*The following summary of the Company's activities and results of operations is qualified in its entirety by, and subject to, the more detailed information and financial statements included in this Offering Circular. The description of the Company's operations in this Offering Circular is on a consolidated basis unless otherwise indicated.*

### Overview

The Group is a leading Japanese manufacturer of steel and aluminium products, welding materials, industrial machinery and construction machinery. The Group engages in a wide range of businesses, with principal operations concentrated on materials, machinery and electric power. Historically, the majority of the Group's net sales have been to customers in Japan. Sales to overseas customers accounted for 31.7 per cent and 32.2 per cent of the Group's net sales for the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, respectively.

The Group divides its business into seven reportable business segments and one "other" business segment:

- *Steel & Aluminium.* This segment is engaged in the manufacture and sale of wire rod and bar products, steel sheets and plates, aluminium flat rolled products and other products such as steel billets, pig iron, slag products, building materials and special steel products.
- *Advanced Materials.* This segment is engaged in the manufacture and sale of steel castings and forgings, aluminium castings and forgings, titanium, suspensions, aluminium extrusions, copper rolled products and steel powder.
- *Welding.* This segment is engaged in the manufacture, sale and/or provision of welding materials, welding robots and robot systems, welding power sources, and welding-related testing, analysis and consulting services.
- *Machinery.* This segment is engaged in the manufacture and sale of industrial machinery such as equipment for energy and chemical fields, equipment for nuclear power plants, tyre and rubber machinery, plastic processing machinery, ultra-high-pressure presses, physical vapour deposition systems, metalworking machinery, compressors, refrigeration compressors, heat pumps, plants (steel rolling and nonferrous) and internal combustion engines.
- *Engineering.* This segment is engaged in the provision of various plants and equipment (direct reduced iron, pelletising, petrochemical, nuclear power-related, water treatment, waste treatment and others), civil engineering, advanced urban transit systems, and chemical and food processing equipment.
- *Construction Machinery.* This segment is engaged in the manufacture and sale of construction machinery such as excavators, mini excavators, wheel loaders, crawler cranes, rough terrain cranes, work vessels.
- *Electric Power.* This segment is engaged in the supply of electric power.
- *Other.* This business includes the manufacture, sale and/or provision of special alloys and other new materials (e.g. target materials), material analysis and testing services, high-pressured gas cylinders, superconducting products, and general trading company operations.

As at 30 September 2023, the Company had 202 subsidiaries (of which 174 were consolidated) and 47 affiliates (of which 34 were accounted for by the equity method).

The Company is incorporated under Japanese law with limited liability as a joint stock corporation (*kabushiki kaisha*). The registered office of the Company is at 2-4, Wakino-hama-Kaigandori 2-chome, Chuo-ku, Kobe, Hyogo 651-8585, Japan.

## Selected Financial and Other Data

The following selected consolidated financial information should be read in conjunction with the Company's audited annual consolidated financial statements and related notes, the Company's unaudited quarterly consolidated financial statements and related notes, and "Recent Business" included elsewhere in this Offering Circular.

The consolidated statements of income data and cash flow data for the fiscal years ended 31 March 2021, 2022 and 2023 and the consolidated balance sheet data as at 31 March 2021, 2022 and 2023 have been extracted without material adjustment from the Company's audited annual consolidated financial statements as at and for the fiscal years ended 31 March 2021, 2022 and 2023 included elsewhere in this Offering Circular. The consolidated statements of income data and cash flow data for the six-month periods ended 30 September 2022 and 2023 and the consolidated balance sheet data as at 30 September 2023 have been extracted without material adjustment from the Group's unaudited quarterly consolidated financial statements as of and for the six-month period ended 30 September 2023 (together with corresponding figures for the six-month period ended 30 September 2022) included elsewhere in this Offering Circular.

	Year ended/As at 31 March			Six-month Period ended/ As at 30 September	
	2021	2022	2023	2022	2023
<i>(Millions of yen, except where otherwise indicated)</i>					
<b>Statements of Income Data:</b>					
Net sales	¥1,705,566	¥2,082,583	¥2,472,509	¥1,169,657	¥1,253,834
Operating profit	30,399	87,623	86,365	19,771	92,142
Ordinary profit	16,188	93,234	106,837	41,826	91,602
Profit attributable to owners of parent	23,234	60,084	72,566	28,009	80,349
<b>Balance Sheet Data:</b>					
Total assets	2,582,874	2,728,745	2,874,752	—	2,935,107
Total liabilities	1,813,499	1,856,399	1,897,099	—	1,841,244
Total net assets	769,375	872,346	977,653	—	1,093,863
Interest-bearing debt <sup>(1)</sup>	785,761	655,155	590,526	—	563,306
Interest-bearing debt including IPP project financing <sup>(2)</sup>	987,809	908,442	861,814	—	817,616
<b>Cash Flow Data:</b>					
Cash flows from operating activities	194,799	168,809	119,692	60,220	160,316
Cash flows from investing activities	(141,853)	(161,510)	(97,268)	(41,313)	(13,795)
Cash flows from financing activities	118,444	(69,144)	(85,564)	(71,657)	(63,839)
<b>Per Share Data (yen)<sup>(3)</sup>:</b>					
Profit attributable to owners of parent	64.05	160.23	183.80	70.96	203.44
Net assets	1,958.57	2,066.48	2,314.31	—	2,590.51
<b>Other Data:</b>					
Depreciation	100,857	105,147	112,505	54,687	58,588
Operating profit ratio <sup>(4)</sup> (per cent)	1.8%	4.2%	3.5%	1.7%	7.3%
Ordinary profit ratio <sup>(5)</sup> (per cent)	0.9%	4.5%	4.3%	3.6%	7.3%
Return on assets <sup>(6)</sup> (per cent)	0.6%	3.5%	3.8%	—	—
Return on equity <sup>(7)</sup> (per cent)	3.4%	7.9%	8.4%	—	—
Equity ratio <sup>(8)</sup> (per cent)	27.5%	29.9%	31.8%	—	34.9%
Debt/Equity ratio (excluding project financing) <sup>(9)</sup> (times)	1.11×	0.80×	0.65×	—	—

Notes:

- (1) Interest-bearing debt = short-term and long-term loans and bonds payable.
- (2) See "Recent Business—Liquidity and Capital Resources—Funding—Project Financing" for a description of the project financing.
- (3) When calculating profit attributable to owners of parent per Share, Shares held in the Company's Board Benefit Trust system are included in the treasury stock that is excluded from the calculation of the average number of Shares during the period. Further, such Shares held in the Company's Board Benefit Trust system are included in the treasury stock that is excluded from the calculation of the number of Shares outstanding at the end of the relevant period when calculating the net assets per Share.

- (4) Operating profit ratio = operating profit ÷ net sales × 100.
- (5) Ordinary profit ratio = ordinary profit ÷ net sales × 100.
- (6) Return on assets = ordinary profit ÷ total assets (average of the beginning and the end of the period) × 100.
- (7) Return on equity = profit attributable to owners of parent ÷ own capital (average of the beginning and the end of the period) × 100. Own capital = total net assets – non-controlling interests.
- (8) Equity ratio = own capital ÷ total assets × 100.
- (9) Debt/Equity ratio = Interest-bearing debt ÷ own capital. See “Recent Business—Liquidity and Capital Resources—Funding—Project Financing” for a description of the project financing. Debt/Equity ratio as at 31 March 2021 and 2022 include advance procurement of borrowings for the fiscal years ended 31 March 2022 and 2023, respectively. Without such advance procurement, the Debt/Equity ratio as at 31 March 2021 and 2022 were 0.84 times and 0.68 times, respectively.

## RECENT BUSINESS

*The following discussion and analysis of the Group's financial condition and results of operations should be read with "Presentation of Financial and Other Information", "Kobe Steel, Ltd.—Selected Consolidated Financial Information", the audited consolidated financial statements as at and for the fiscal years ended 31 March 2021, 2022 and 2023 and the notes thereto included in the F-pages and the unaudited quarterly consolidated financial statements as of and for the six-month period ended 30 September 2023 (together with corresponding figures for the six-month period ended 30 September 2022) and the notes thereto included in the Q-pages, appearing elsewhere in this Offering Circular. The audited consolidated financial statements and the unaudited quarterly consolidated financial statements referred to above have been prepared and presented in accordance with Japanese GAAP.*

### **Consolidated Results for the Fiscal Year Ended 31 March 2023 Compared to the Fiscal Year Ended 31 March 2022**

#### **Overview**

During the fiscal year ended 31 March 2023, the Japanese economy saw progress in normalisation of economic activity and continued a recovery trend, mainly in consumer spending and corporate activities, despite price increases due to the sharp rise in raw material and energy prices and the weaker yen. In overseas economies, the pace of recovery slowed as economic activity was restrained due to inflation and monetary tightening in the United States and Europe. In China, a full-fledged recovery has yet to come due to the restrictions on activities under the zero-COVID policy. In addition, semiconductor shortages and supply chain disruptions delayed the recovery of automobile production, which made the business environment surrounding the Company continue to be challenging.

Under these circumstances, the Company has steadily implemented key measures aimed at "establishing a stable earnings base", as set out in the KOBELCO Group Medium-Term Management Plan (Fiscal 2021–2023), while continuing to strengthen its manufacturing capabilities and improve selling prices.

#### **Results**

##### *Net Sales*

In the fiscal year ended 31 March 2023, net sales amounted to ¥2,472.5 billion, an increase of ¥389.9 billion, or 18.7 per cent, compared to the previous fiscal year. The increase principally reflected increases in net sales to outside customers in the Steel & Aluminium and Electric Power segments, while net sales to outside customers in the Advanced Materials and Other Businesses segments declined.

##### *Cost of Sales*

Cost of sales for the fiscal year ended 31 March 2023 amounted to ¥2,151.2 billion, an increase of ¥376.4 billion, or 21.2 per cent, compared to the previous fiscal year. The increase primarily reflected increases in raw material costs and losses in inventory valuation.

##### *Gross Profit*

As a result, gross profit for the fiscal year ended 31 March 2023 amounted to ¥321.2 billion, an increase of ¥13.4 billion, or 4.4 per cent, compared to the previous fiscal year.

##### *Selling, General and Administrative Expenses*

Selling, General and Administrative Expenses for the fiscal year ended 31 March 2023 amounted to ¥234.9 billion, an increase of ¥14.7 billion, or 6.7 per cent, compared to the previous fiscal year. The increase primarily reflected increases in transportation costs and salaries and allowances.

##### *Operating Profit*

Operating profit for the fiscal year ended 31 March 2023 amounted ¥86.3 billion, a decrease of ¥1.2 billion, or 1.4 per cent, compared to the previous fiscal year. This primarily reflected a decline in sales volume in the raw materials businesses and construction machinery business, cost increases centred on fixed costs, and a decrease in inventory valuation gains despite a significant improvement in steel and metal spreads.

##### *Non-operating Income/Expenses*

Non-operating income (net of non-operating expenses) for the fiscal year ended 31 March 2023 amounted to ¥20.4 billion, an increase of ¥14.8 billion, or 264.8 per cent, compared to the previous fiscal year. The increase primarily reflected increases in foreign exchange gains and compensation income related to an engine certification problem (a problem in obtaining certifications from certification authorities relating to an engine used in the Group's construction machinery supplied by a third party supplier).

### *Ordinary Profit*

Ordinary profit for the fiscal year ended 31 March 2023 amounted to ¥106.8 billion, an increase of ¥13.6 billion, or 14.6 per cent, compared to the previous fiscal year, principally reflecting the increase in compensation income related to the engine certification problem mentioned above.

### *Extraordinary Income/Losses*

Extraordinary losses for the fiscal year ended 31 March 2023 amounted to a loss of ¥8.7 billion, a decrease in loss of ¥0.4 billion, or 4.9 per cent, compared to the previous fiscal year. Extraordinary losses for the fiscal year ended 31 March 2023 reflected the recording of a loss on liquidation of a construction machinery business in China and an impairment loss on fixed assets, while no loss on sale of investment securities were recorded (compared to a loss of ¥9.2 billion having been recorded in the previous fiscal year).

### *Profit before Income Taxes*

As a result of the above, profit before income taxes for the fiscal year ended 31 March 2023 amounted to ¥98.0 billion, an increase of ¥14.0 billion, or 16.7 per cent, compared to the previous fiscal year.

### *Income Taxes*

For the fiscal year ended 31 March 2023, current income taxes amounted to ¥25.0 billion, an increase of ¥8.9 billion, or 55.6 per cent, compared to the previous fiscal year, principally reflecting the increase in taxable income. Deferred income taxes for the fiscal year ended 31 March 2023 was negative ¥2.2 billion, compared to positive ¥4.2 billion in the previous fiscal year. As a result, total income taxes for the fiscal year ended 31 March 2023 amounted to ¥22.7 billion, an increase of ¥2.4 billion, or 11.9 per cent, compared to the previous fiscal year.

### *Profit Attributable to Non-controlling Interests*

Profit attributable to non-controlling interests for the fiscal year ended 31 March 2023 amounted to ¥2.7 billion, a decrease of ¥0.8 billion, or 23.6 per cent, compared to the previous fiscal year.

### *Profit Attributable to Owners of Parent*

As a result of the above, profit attributable to owners of parent for the fiscal year ended 31 March 2023 amounted to ¥72.5 billion, an increase of ¥12.4 billion, or 20.8 per cent, compared to the previous fiscal year.

## ***Results by Business Segment***

In the below analysis of results by business segment, where figures for net sales and ordinary profit are presented on a per segment basis, such figures represent the total net sales and total ordinary profit for such segment, without taking into account any inter-segment eliminations.

### *Steel & Aluminium*

Net sales of the Steel & Aluminium segment for the fiscal year ended 31 March 2023 amounted to ¥1,105.1 billion, an increase of ¥190.2 billion, or 20.8 per cent, compared to the previous fiscal year. Ordinary profit for the fiscal year ended 31 March 2023 amounted to ¥41.9 billion, an increase of ¥4.4 billion, or 11.8 per cent, compared to the previous fiscal year.

#### *Steel*

In the fiscal year ended 31 March 2023, sales volume of steel products declined compared to the previous fiscal year due in part to lower demand for automobiles. Selling prices were higher than the previous fiscal year due to factors such as an increase in steel market prices which offset increases in steel raw material prices.

As a result, net sales for the fiscal year ended 31 March 2023 increased by 21.1 per cent compared to the previous fiscal year, to ¥909.7 billion for the fiscal year ended 31 March 2023. Ordinary profit for the fiscal year ended 31 March 2023 increased by ¥14.4 billion compared to the previous fiscal year, to ¥49.0 billion, principally reflecting significant improvement in selling prices, despite negative factors such as a decrease in sales volume, cost increases centred on fixed costs, and a decrease in inventory valuation gains.

#### *Aluminium*

In the fiscal year ended 31 March 2023, sales volume of aluminium flat rolled products declined compared to the previous fiscal year, due to sluggish demand for beverage can materials. Selling prices were higher than the previous fiscal year due in part to higher ingot prices being passed on to selling prices.

As a result, net sales for the fiscal year ended 31 March 2023 increased by 19.3 per cent compared to the previous fiscal year, to ¥195.4 billion. Ordinary profit for the fiscal year ended 31 March 2023 decreased by ¥9.9 billion compared to the previous fiscal year to a loss of ¥7.0 billion, mainly due to a decline in sales volume and a delay in passing on higher procurement costs to selling prices.

### *Advanced Materials*

Sales volume of advanced materials in the fiscal year ended 31 March 2023 increased compared to the previous fiscal year in steel casting and forgings, which captured demand for shipbuilding, and in titanium, which saw a recovery in demand in the general industrial sector. On the other hand, sales volume of aluminium extrusions, copper flat rolled products and steel powder declined compared to the previous fiscal year, due to lower demand for automobiles.

As a result, net sales for the fiscal year ended 31 March 2023 decreased by 16.7 per cent compared to the previous fiscal year, to ¥277.7 billion, due in part to the transfer of the copper tube business in the previous fiscal year. Ordinary profit for the fiscal year ended 31 March 2023 decreased by ¥4.2 billion compared to the previous fiscal year to ¥0.9 billion, due in part to cost increases centred on fixed costs, and a decrease in inventory valuation gains in the copper tube business.

### *Welding*

In the fiscal year ended 31 March 2023, sales volume of welding materials declined compared to the previous fiscal year, due to lower demand in Southeast Asia. Selling prices were higher than the previous fiscal year, mainly due to higher procurement costs being passed on to selling prices.

As a result, net sales for the fiscal year ended 31 March 2023 increased by 15.0 per cent compared to the previous fiscal year, to ¥88.4 billion. Ordinary profit for the fiscal year ended 31 March 2023 remained almost flat compared to the previous fiscal year, at ¥2.8 billion.

### *Machinery*

In the fiscal year ended 31 March 2023, orders increased by 20.7 per cent compared to the previous fiscal year to ¥249.3 billion, with a backlog of ¥214.7 billion as at 31 March 2023, mainly due to strong performance in the petrochemical and energy sectors.

Net sales for the fiscal year ended 31 March 2023 increased by 12.0 per cent compared to the previous fiscal year to ¥186.9 billion, while ordinary profit for the fiscal year ended 31 March 2023 increased by ¥1.7 billion compared to the previous fiscal year to ¥14.3 billion, mainly due to an increase in net sales and improvements in profitability of orders, driven by strong demand.

### *Engineering*

In the fiscal year ended 31 March 2023, orders decreased by 24.4 per cent to ¥157.5 billion, compared to the previous fiscal year which saw an increase in orders with several large projects in the DRI-related business and waste treatment-related business, resulting in an order backlog of ¥371.1 billion as at 31 March 2023.

Net sales for the fiscal year ended 31 March 2023 increased by 7.0 per cent compared to the previous fiscal year to ¥145.2 billion, while ordinary profit for the fiscal year ended 31 March 2023 decreased by ¥3.5 billion compared to the previous fiscal year to ¥4.1 billion, mainly due to changes in the project composition, particularly in the DRI-related business.

### *Construction Machinery*

Unit sales of hydraulic excavators declined in the fiscal year ended 31 March 2023 compared to the previous fiscal year, due to a decline in demand in China, faced with flagging infrastructure investment, as well as in Japan, Europe and North America, affected by shortages of procured parts. Unit sales of crawler cranes declined in the fiscal year ended 31 March 2023 compared to the previous fiscal year, due to a decline in North America, affected by the engine certification problem (a problem in obtaining certifications from certification authorities relating to an engine used in the Group's construction machinery supplied by a third party supplier). Selling prices were higher in the fiscal year ended 31 March 2023 than the previous fiscal year due to the increase in procurement costs being passed on to selling prices and the weaker yen against the US dollar and the euro.

As a result, net sales for the fiscal year ended 31 March 2023 increased by 2.7 per cent compared to the previous fiscal year to ¥381.7 billion, while ordinary profit for the fiscal year ended 31 March 2023 increased by ¥0.2 billion compared to the previous fiscal year to ¥12.3 billion due to an improvement in export profitability along with the weaker yen and an increase in compensation income for the engine certification problem, despite negative factors such as a decline in unit sales and a delay in passing on higher procurement costs to selling prices.

### *Electric Power*

Electricity sales for the fiscal year ended 31 March 2023 increased compared to the previous fiscal year due to the operation of the Kobe Power Plant No. 3 unit (which began operation in February 2022) and No. 4 unit (which began operation in February 2023). The unit price of electric power increased in the fiscal year ended 31 March 2023 compared to the previous fiscal year, due to the increase in thermal coal market prices.

As a result, net sales for the fiscal year ended 31 March 2023 increased by 195.2 per cent compared to the previous fiscal year to ¥324.3 billion, while ordinary profit for the fiscal year ended 31 March 2023 increased by ¥11.3 billion compared to the previous fiscal year to ¥24.5 billion, mainly due to the operation of the Kobe Power Plant No. 3 and No. 4 units.

#### *Other Businesses*

In the fiscal year ended 31 March 2023, net sales in the other businesses decreased by 4.5 per cent compared to the previous fiscal year to ¥27.5 billion, and ordinary profit decreased by ¥0.7 billion compared to the previous fiscal year to ¥6.3 billion.

### **Consolidated Results for the Six-Month Period Ended 30 September 2023 Compared to the Six-Month Period Ended 30 September 2022**

#### *Overview*

During the six-month period ended 30 September 2023, the Japanese economy continued to improve, mainly in the form of consumer spending and corporate production activities, due to the further normalisation of economic activity. In overseas economies, the US economy remained at a standstill due to continued downward pressure on the economy in line with rising interest rates, while consumer spending remained firm on the back of favourable employment conditions. In China, although the economy has been pushed up by monetary easing and other measures, domestic demand has been sluggish due to the sluggish real estate market and other factors, and the pace of economic recovery has slowed further, coupled with sluggish exports.

Under these circumstances, the Company has steadily implemented key measures aimed at “establishing a stable earnings base”, as set out in the KOBELCO Group Medium-Term Management Plan (Fiscal 2021–2023), while continuing to strengthen its manufacturing capabilities and improve selling prices.

#### *Results*

##### *Net Sales*

In the six-month period ended 30 September 2023, net sales amounted to ¥1,253.8 billion, an increase of ¥84.1 billion, or 7.2 per cent, compared to the same period in the previous fiscal year. The increase reflected increases in net sales to outside customers in all reportable segments.

##### *Cost of Sales*

Cost of sales for the six-month period ended 30 September 2023 amounted to ¥1,039.4 billion, an increase of ¥4.1 billion, or 0.4 per cent, compared to the same period in the previous fiscal year. The cost of sales increased to a lesser extent than net sales, due to factors such as decline in coking coal prices.

##### *Gross Profit*

As a result, gross profit for the six-month period ended 30 September 2023 amounted to ¥214.3 billion, an increase of ¥80.0 billion, or 59.5 per cent, compared to the previous fiscal year.

##### *Selling, General and Administrative Expenses*

Selling, General and Administrative Expenses for the six-month period ended 30 September 2023 amounted to ¥122.2 billion, an increase of ¥7.6 billion, or 6.7 per cent, compared to the same period in the previous fiscal year. The increase primarily reflected increases in transportation costs and salaries and allowances.

##### *Operating Profit*

Operating profit for the six-month period ended 30 September 2023 amounted ¥92.1 billion, an increase of ¥72.3 billion, or 366.0 per cent, compared to the same period in the previous fiscal year. This primarily reflected factors such as a significant improvement in iron and steel metal spreads accompanying a decline in coking coal prices and progress in improving selling prices, an increase in sales in the Machinery and Engineering segments, the commencement of operation of Kobe Power Station Unit 4 and improvements in the effect of fuel cost adjustments in the electric power operation, and the impact of a one-time increase in profits related to electricity sales prices (due to the difference between the Group’s purchase price of coal and the statistical price of imported coal (which is an indicator of electricity sales prices)), despite factors such as a decrease in sales volumes of steel and aluminium and a worsening of the impact of inventory valuations.

##### *Non-operating Income/Expenses*

Non-operating expenses (net of non-operating income) for the six-month period ended 30 September 2023 amounted to ¥0.5 billion, compared to non-operating income (net of non-operating expenses) of ¥22.0 billion recorded in the same period in the previous fiscal year. This primarily reflected decreases in foreign exchange gains and share of profit of entities accounted for using the equity method, as well as an increase in interest expenses.

### *Ordinary Profit*

Ordinary profit for the six-month period ended 30 September 2023 amounted to ¥91.6 billion, an increase of ¥49.7 billion, or 119.0 per cent, compared to the same period in the previous fiscal year, principally reflecting the increase in operating profit.

### *Extraordinary Income/Losses*

Extraordinary income for the six-month period ended 30 September 2023 amounted to ¥27.7 billion, while no extraordinary income was recorded in the six-month period ended 30 September 2022. This principally related to sales of land by certain subsidiaries of the Company.

The Group recorded no extraordinary losses for the six-month period ended 30 September 2023, while ¥2.6 billion of extraordinary loss (relating to the recording of a loss on liquidation of a construction machinery business in China) had been recorded in the six-month period ended 30 September 2022.

### *Profit before Income Taxes*

As a result of the above, profit before income taxes for the six-month period ended 30 September 2023 amounted to ¥119.3 billion, an increase of ¥80.1 billion, or 204.5 per cent, compared to the same period in the previous fiscal year.

### *Income Taxes*

For the six-month period ended 30 September 2023, current income taxes amounted to ¥29.9 billion, an increase of ¥21.0 billion, or 238.1 per cent, compared to the same period in the previous fiscal year, principally reflecting the increase in taxable income. Deferred income taxes for the six-month period ended 30 September 2023 was ¥3.4 billion, compared to ¥0.9 billion in the same period in the previous fiscal year. As a result, total income taxes for six-month period ended 30 September 2023 amounted to ¥33.3 billion, an increase of ¥23.5 billion, or 240.4 per cent, compared to the same period in the previous fiscal year.

### *Profit Attributable to Non-controlling Interests*

Profit attributable to non-controlling interests for the six-month period ended 30 September 2023 amounted to ¥5.6 billion, an increase of ¥4.2 billion, or 305.1 per cent, compared to the same period in the previous fiscal year.

### *Profit Attributable to Owners of Parent*

As a result of the above, profit attributable to owners of parent for the six-month period ended 30 September 2023 amounted to ¥80.3 billion, an increase of ¥52.3 billion, or 186.9 per cent, compared to the same period in the previous fiscal year.

### **Results by Business Segment**

In the below analysis of results by business segment, where figures for net sales and ordinary profit are presented on a per segment basis, such figures represent the total net sales and total ordinary profit for such segment, without taking into account any inter-segment eliminations.

Commencing on 1 April 2023, the results of Kobelco Research Institute, Inc. (engaged in the material analysis and testing business), which had previously been included in “Other”, have been included in the “Machinery” segment. Segment information for the six-month period ended 30 September 2022 has been adjusted to conform to the new presentation.

#### *Steel & Aluminium*

Net sales of the Steel & Aluminium segment for the six-month period ended 30 September 2023 amounted to ¥548.9 billion, an increase of ¥12.3 billion, or 2.3 per cent, compared to the same period in the previous fiscal year. Ordinary profit for the six-month period ended 30 September 2023 amounted to ¥20.7 billion, a decrease of ¥1.5 billion, or 6.9 per cent, compared to the same period in the previous fiscal year.

##### *Steel*

In the six-month period ended 30 September 2023, sales volume of steel products remained flat compared to the same period in the previous fiscal year due to an increase in demand for automotive applications, while demand for products other than automotive applications decreased. Sales prices increased compared to the same period in the previous fiscal year due to progress in price improvements and other factors.

As a result, net sales for the six-month period ended 30 September 2023 increased by 3.2 per cent compared to the same period in the previous fiscal year, to ¥452.4 billion for the six-month period ended 30 September 2023. Ordinary profit for the six-month period ended 30 September 2023 increased by ¥4.8 billion compared to the same period in the previous fiscal year, to ¥25.9 billion, principally reflecting a decline in coking coal prices and a significant

improvement in steel metal spreads accompanying progress in improving sales prices, despite the worsening of the impact of inventory valuations.

#### *Aluminium*

In the six-month period ended 30 September 2023, sales volume of aluminium flat rolled products decreased compared to the same period in the previous fiscal year, principally reflecting a substantial decline in sales of aluminium sheets for IT and semiconductors, which are in the process of demand adjustment, while sales of aluminium sheets for automotive applications remained constant from the same period in the previous year. Sales prices increased compared to the same period in the previous fiscal year mainly due to progress in price improvement.

As a result, net sales for the six-month period ended 30 September 2023 amounted to ¥96.5 billion, remaining flat compared to the same period in the previous fiscal year. Ordinary loss for the six-month period ended 30 September 2023 amounted to ¥5.1 billion, compared to an ordinary profit of ¥1.2 billion recorded in the same period in the previous fiscal year, mainly due to a decrease in sales volume and a reduction in valuation gain on inventories.

#### *Advanced Materials*

In the six-month period ended 30 September 2023, sales volume of steel castings and forgings to meet shipbuilding demand, titanium to meet general industrial demand, and suspensions to meet automotive demand increased. However, due to the decline in demand from the IT and semiconductor industries, sales volume of copper plates and aluminium castings and forgings declined.

As a result, net sales for the six-month period ended 30 September 2023 increased by 6.6 per cent compared to the same period in the previous fiscal year, to ¥141.8 billion. An ordinary loss of ¥46 million was recorded in the six-month period ended 30 September 2023, compared to an ordinary profit of ¥1.4 billion recorded in the same period in the previous fiscal year, mainly reflecting an increase in costs (principally fixed costs), and a reduction in inventory valuation gains, despite an increase in sales volume and progress in sales price improvements.

#### *Welding*

In the six-month period ended 30 September 2023, sales volume of welding materials decreased compared to the same period in the previous fiscal year, primarily reflecting a slow recovery in demand in Southeast Asia, while domestic sales remained flat. Sales prices increased compared to the same period in the previous fiscal year due to progress in price improvement and other factors.

As a result, net sales for the six-month period ended 30 September 2023 increased by 10.2 per cent compared to the previous fiscal year, to ¥46.4 billion. Ordinary profit for the six-month period ended 30 September 2023 increased by ¥0.7 billion compared to the previous fiscal year, to ¥1.5 billion, primarily reflecting the progress in sales price improvement.

#### *Machinery*

In the six-month period ended 30 September 2023, orders remained relatively firm, particularly in the petrochemical and energy sectors. However, due to a large-scale plastic processing machinery order having been received in the same period in the previous fiscal year, the six-month period ended 30 September 2023 saw a decline in orders received of 3.1 per cent compared to the same period in the previous fiscal year to ¥115.8 billion, with a backlog of ¥226.2 billion as at 30 September 2023.

Net sales for the six-month period ended 30 September 2023 increased by 11.3 per cent compared to the same period in the previous fiscal year to ¥103.2 billion, as orders already received were progressed. Ordinary profit for the six-month period ended 30 September 2023 increased by ¥5.3 billion compared to the same period in the previous fiscal year to ¥10.3 billion.

#### *Engineering*

In the six-month period ended 30 September 2023, orders increased by 58.4 per cent compared to the same period in the previous fiscal year to ¥122.4 billion, due to factors such as the receipt of orders for large-scale overseas projects in the DRI-related business and solid orders in the waste disposal-related business. The order backlog as at 30 September 2023 amounted to ¥439.3 billion.

As a result, net sales for the six-month period ended 30 September 2023 increased by 22.9 per cent compared to the same period in the previous fiscal year to ¥75.1 billion, while ordinary profit for the six-month period ended 30 September 2023 increased by ¥5.2 billion compared to the same period in the previous fiscal year to ¥6.2 billion.

#### *Construction Machinery*

Unit sales of hydraulic excavators remained flat in the six-month period ended 30 September 2023 compared to the same period in the previous fiscal year, due to an increase in sales in North America and other regions, despite

decreases in sales in China, where demand was sluggish, and in Europe due to the engine certification problem (a problem in obtaining certifications from certification authorities relating to an engine used in the Group's construction machinery supplied by a third party supplier). Unit sales of crawler cranes declined in the six-month period ended 30 September 2023 compared to the same period in the previous fiscal year, due to the engine certification problem in Europe and delays in production and shipments, even though sales increased mainly in North America due to progress in dealing with the engine certification problem referred to above.

As a result, net sales for the six-month period ended 30 September 2023 increased by 4.8 per cent compared to the previous fiscal year to ¥192.6 billion, reflecting foreign currency translation differences caused by the depreciation of the yen, despite a decrease in unit sales. Ordinary profit for the six-month period ended 30 September 2023 decreased by ¥4.9 billion compared to the same period in the previous fiscal year to ¥5.0 billion, due primarily to the absence of compensation income related to the engine certification problem referred to above, despite an improvement in export profitability resulting from the depreciation of the yen.

#### *Electric Power*

Electricity sales for the six-month period ended 30 September 2023 increased compared to the same period in the previous fiscal year due to the operation of the Kobe Power Plant No. 4 unit (which began operation in February 2023). The unit price of electric power remained flat in the six-month period ended 30 September 2023 compared to the same period in the previous fiscal year, due to the impact of timing differences in the fuel cost adjustments, despite a decline in thermal coal prices for power generation.

As a result, net sales for the six-month period ended 30 September 2023 increased by 17.1 per cent compared to the same period in the previous fiscal year to ¥172.7 billion, while ordinary profit for six-month period ended 30 September 2023 amounted to ¥47.4 billion compared to an ordinary loss of ¥1.3 billion recorded in the same period in the previous fiscal year, reflecting factors such as the commencement of operation of the Kobe Power Plant No. 4 unit, the impact of the timing difference in the fuel cost adjustments at Kobe Power Plant No. 3 and No. 4 units, and the impact of a temporary increase in profits related to the selling price of electricity at Kobe Power Plant No. 1, No. 2, No. 3 and No. 4 units (due to the difference between the Group's purchase price of coal and the statistical price of imported coal (which is an indicator of electricity sales prices)).

#### *Other Businesses*

In the six-month period ended 30 September 2023, net sales in the other businesses increased by 7.2 per cent compared to the same period in the previous fiscal year to ¥4.5 billion, and ordinary profit decreased by ¥0.6 billion compared to the same period in the previous fiscal year to ¥1.7 billion.

### **Financial Condition**

#### ***Consolidated Balance Sheet as at 31 March 2023 Compared to Consolidated Balance Sheet as at 31 March 2022***

Total assets as at 31 March 2023 amounted to ¥2,874.7 billion, an increase of ¥146.0 billion from 31 March 2022, principally reflecting an increase in inventories associated with a rise in raw material prices, among other factors.

Total liabilities as at 31 March 2023 increased by ¥40.6 billion from 31 March 2022 to ¥1,897.0 billion, mainly due to an increase in notes and accounts payable due to higher purchasing costs as a result of a rise in raw material prices.

Net assets as at 31 March 2023 increased by ¥105.3 billion from 31 March 2022 to ¥977.6 billion, principally reflecting the recording of profit attributable to owners of parent.

As a result, the equity ratio as at 31 March 2023 was 31.8 per cent, an increase of 1.9 percentage points from 31 March 2022.

#### ***Consolidated Balance Sheet as at 30 September 2023 Compared to Consolidated Balance Sheet as at 31 March 2023***

Total assets as at 30 September 2023 amounted to ¥2,935.1 billion, an increase of ¥60.3 billion from 31 March 2023, principally reflecting an increase in cash and cash equivalents.

Total liabilities as at 30 September 2023 decreased by ¥55.8 billion from 31 March 2023 to ¥1,841.2 billion, mainly due to decreases in long-term and short-term borrowings as well as a decrease in bills and accounts payable, set off to a certain extent by an increase in bonds payable.

Net assets as at 30 September 2023 increased by ¥116.2 billion from 31 March 2023 to ¥1,093.8 billion, principally reflecting the recording of profit attributable to owners of parent.

As a result, the equity ratio as at 30 September 2023 was 34.9 per cent, an increase of 3.1 percentage points from 31 March 2023.

## **Liquidity and Capital Resources**

### ***Cash Flows for the Fiscal Year Ended 31 March 2023 Compared to the Fiscal Year Ended 31 March 2022***

#### ***Cash Flows Including Project Finance Cash Flows***

The below discussion of cash flows are cash flows including project finance cash flows, as set forth in the Company's audited consolidated financial statements for the fiscal years ended 31 March 2023 and 2022.

In the fiscal year ended 31 March 2023, net cash provided by operating activities amounted to ¥119.6 billion, compared to ¥168.8 billion in the previous fiscal year. This reflected factors such as increased levels of profit before income taxes and adjustment for depreciation, lower levels of increase in inventories and increase in trade payables, and an increase in deposits received, compared to the previous fiscal year.

Net cash used in investing activities for the fiscal year ended 31 March 2023 amounted to ¥97.2 billion, compared to ¥161.5 billion in the previous fiscal year, partly due to expenditures for acquisition of property, plant and equipment.

As a result, free cash flow (cash flows from operating activities less cash flows from investing activities) resulted in an inflow of ¥22.4 billion for the fiscal year ended 31 March 2023, compared to an inflow of ¥7.2 billion for the fiscal year ended 31 March 2022.

Net cash used in financing activities for the fiscal year ended 31 March 2023 amounted ¥85.5 billion, compared to ¥69.1 billion in the previous fiscal year, principally reflecting the repayment of long-term borrowings and redemption of bonds.

Cash and cash equivalents as at 31 March 2023 amounted to ¥203.3 billion, compared to ¥260.5 billion as at 31 March 2022.

#### ***Cash Flows Excluding Project Finance Cash Flows***

The below discussion of cash flows are cash flows excluding project finance cash flows (see “—Funding—Project Financing” below).

In the fiscal year ended 31 March 2023, net cash provided by operating activities amounted to ¥69.8 billion, a decrease of ¥111.8 billion compared to the previous fiscal year. While profit before income taxes increased due to factors such as positive developments in sales prices of steel, inventories increased due to a rise in raw material prices.

Net cash used in investing activities for the fiscal year ended 31 March 2023 amounted to ¥70.0 billion, a decrease in use of ¥54.9 billion compared to the previous fiscal year. This reflected factors such as a decrease in capital expenditures (compared to the previous fiscal year, where there were payments in respect of large-scale strategic investments), as well as an increase in proceeds from the sale of fixed assets.

As a result, free cash flow (cash flows from operating activities less cash flows from investing activities) resulted in an outflow of ¥0.2 billion for the fiscal year ended 31 March 2023, compared to an inflow of ¥56.6 billion for the fiscal year ended 31 March 2022.

Net cash used in financing activities for the fiscal year ended 31 March 2023 amounted ¥103.5 billion, a decrease in use of ¥16.8 billion compared to the previous fiscal year, principally reflecting the decrease in repayments of borrowings.

### ***Cash Flows for the Six-Month Period Ended 30 September 2023 Compared to the Six-Month Period Ended 30 September 2022***

#### ***Cash Flows Including Project Finance Cash Flows***

The below discussion of cash flows are cash flows including project finance cash flows, as set forth in the Company's unaudited quarterly consolidated financial statements as of and for the six-month period ended 30 September 2023 (together with corresponding figures for the six-month period ended 30 September 2022).

In the six-month period ended 30 September 2023, net cash provided by operating activities amounted to ¥160.3 billion, compared to ¥60.2 billion in the same period in the previous fiscal year. This reflected factors such as an increase in profit before taxes and decreases in trade payables and inventories.

Net cash used in investing activities for the six-month period ended 30 September 2023 amounted to ¥13.7 billion, compared to ¥41.3 billion in the same period in the previous fiscal year, principally reflecting an increase in proceeds from sale of property, plant and equipment and intangible assets.

As a result, free cash flow (cash flows from operating activities less cash flows from investing activities) resulted in an inflow of ¥146.5 billion for the six-month period ended 30 September 2023, compared to an inflow of ¥18.9 billion for the six-month period ended 30 September 2022.

Net cash used in financing activities for the six-month period ended 30 September 2023 amounted ¥63.8 billion, compared to ¥71.6 billion in the same period in the previous fiscal year, principally reflecting increases in proceeds from long-term borrowings and proceeds from issuance of bonds as well as a decrease in redemption of bonds, set off to a certain extent by an increase in short-term borrowings.

Cash and cash equivalents as at 30 September 2023 amounted to ¥291.8 billion, compared to ¥203.3 billion as at 31 March 2023.

#### *Cash Flows Excluding Project Finance Cash Flows*

The below discussion of cash flows are cash flows excluding project finance cash flows (see “—Funding—Project Financing” below).

In the six-month period ended 30 September 2023, net cash provided by operating activities amounted to ¥107.4 billion, an increase of ¥85.5 billion compared to the previous fiscal year. This principally reflected an improvement in the level of profit before income taxes, as well as an improvement in working capital compared to the same period of the previous fiscal year, in which trade receivables and inventories increased due to increasing raw material prices.

Net cash used in investing activities for the six-month period ended 30 September 2023 amounted to ¥0.0 billion, a decrease in use of ¥33.4 billion compared to the same period in the previous fiscal year, principally reflecting an increase in proceeds from sale of property, plant and equipment and intangible assets.

As a result, free cash flow (cash flows from operating activities less cash flows from investing activities) resulted in an inflow of ¥107.3 billion for the six-month period ended 30 September 2023, compared to an outflow of ¥11.5 billion for the six-month period ended 30 September 2022.

Net cash used in financing activities for the six-month period ended 30 September 2023 amounted ¥46.8 billion, a decrease in use of ¥20.7 billion compared to the same period in the previous fiscal year, principally reflecting increase in inflow from factors such as issuance of bonds.

#### ***Funding***

The Group’s capital requirements for operating activities include working capital required for production activities (such as materials, outsourcing costs and personnel costs), sales expenses to obtain orders, and research and development expenses required for the purpose of strengthening product competitiveness and manufacturing capabilities. The Group’s capital requirements for investing activities include investment for renewal of ageing equipment, capital investment for the purpose of business expansion and productivity improvement, and investments and loans related to business operation. Because the Group has many construction projects with relatively long construction periods and owns many large-scale production facilities, it is necessary to secure a certain level of stable working capital and capital funds.

The Group expects to continue to reduce assets and select investment projects, taking into consideration capital needs in expected future growth fields, the latest market environment, and order trends, while continuing to make necessary capital investments and research and development investments.

The Group’s ongoing sources of liquidity include a combination of available cash and cash equivalents, cash generated from operations, borrowings and issuances of additional debt. The Group raises long-term funds mainly through bank loans and the issuance of bonds based on its capital budget. The Group’s general policy is to not take long-term interest rate risk exposure, so its long-term borrowings are either fixed rate obligations or floating rate obligations which has been hedged using interest rate swap agreements entered into at the time of borrowing. For short-term capital needs, the Group raises funds mainly through bank loans in related to its projected income and working capital. The Group invests temporary excess cash in highly liquid assets.

Certain of the Group’s syndicated loans and commitment lines currently include covenants requiring the Company to maintain a certain level of consolidated net assets, capital ratio and debt/equity ratio (excluding project financing (as to which see “—Project Financing” below)), and not to experience a consolidated ordinary loss for two consecutive fiscal years.

The following table sets out the Group's interest-bearing debt (excluding project financing) as at 31 March 2023 and 30 September 2023:

	As at 31 March 2023			As at 30 September 2023		
	Total	Due within 1 year	Due over 1 year	Total	Due within 1 year	Due over 1 year
	<i>(Billions of yen)</i>					
Short-term loans	¥ 32.7	¥ 32.7	¥ —	¥ 36.7	¥ 36.7	¥ —
Long-term loans	511.8	108.0	403.7	461.5	83.2	378.3
Bonds payable	45.9	0.9	45.0	65.0	—	65.0
Total	<u>¥590.5</u>	<u>¥141.7</u>	<u>¥448.7</u>	<u>¥563.3</u>	<u>¥119.9</u>	<u>¥443.3</u>

The following table sets out the Group's interest-bearing debt (including project financing) as at 31 March 2023 and 30 September 2023:

	As at 31 March 2023			As at 30 September 2023		
	Total	Due within 1 year	Due over 1 year	Total	Due within 1 year	Due over 1 year
	<i>(Billions of yen)</i>					
Short-term loans	¥ 32.7	¥ 32.7	¥ —	¥ 36.7	¥ 36.7	¥ —
Long-term loans	783.1	136.4	646.6	715.8	111.6	604.2
Bonds payable	45.9	0.9	45.0	65.0	—	65.0
Total	<u>¥861.8</u>	<u>¥170.1</u>	<u>¥691.6</u>	<u>¥817.6</u>	<u>¥148.3</u>	<u>¥669.2</u>

#### *Project Financing*

With respect to two of the Company's subsidiaries engaged in the electricity generation business, Kobelco Power Kobe No. 2, Inc. ("KPK2") and Kobelco Power Moka Inc. ("KPM"), the Group has in place certain project financing structures to fund their operations.

Each of KPK2 and KPM has entered into a term loan with a number of domestic banks, with final repayment dates of 31 March 2036 and 31 March 2031, respectively. As at 30 September 2023, ¥209.5 billion and ¥44.7 billion, respectively, of loans were outstanding under those loans. The loans are secured on the assets and rights (including but not limited to rights against their respective offtakers) of their respective power generation operations. The loans include covenants requiring the borrower to maintain certain levels of debt/equity ratio and debt service coverage ratio.

#### **Contingent Liabilities**

See Note 11 to the audited consolidated financial statements of the Company as of and for the fiscal year ended 31 March 2023, and Note 1 to the unaudited quarterly consolidated financial statements of the Company as of and for the six-month period ended 30 September 2023, for a description of the Group's contingent liabilities.

#### **Related Party Transactions**

See Note 25 to the audited consolidated financial statements of the Company as of and for the fiscal year ended 31 March 2023 for a description of the Group's related party transactions.

## Capital Expenditure

The Group's capital expenditures are principally related to strategic investments for strengthening business competitiveness, and investments essential for stable manufacturing activities and for taking environmental measures.

The following table sets out information with respect to the Group's capital expenditures (the amount of increase in tangible and intangible fixed assets) for the periods indicated by business segment:

	Fiscal year ended 31 March		
	2021	2022	2023
	<i>(Millions of yen)</i>		
Steel & Aluminium .....	¥ 69,267	¥ 27,185	¥33,428
Advanced Materials .....	14,258	8,282	8,065
Welding .....	2,157	1,375	1,647
Machinery .....	4,177	4,032	6,201
Engineering .....	1,672	1,456	2,851
Construction Machinery .....	10,448	9,800	13,815
Electric Power .....	81,173	52,955	27,896
Other Businesses .....	847	550	1,036
Total segment capital expenditures .....	183,999	105,635	94,939
Adjustments <sup>(1)</sup> .....	1,093	2,505	2,364
Total capital expenditure .....	<u>¥185,092</u>	<u>¥108,140</u>	<u>¥97,303</u>

Note:

- (1) Adjustments comprise capital expenditures not included in the above segments and Other Businesses, and include capital expenditures common to the whole Group.

## BUSINESS

### Overview

The Group is a leading Japanese manufacturer of steel and aluminium products, welding materials, industrial machinery and construction machinery. The Group engages in a wide range of businesses, with principal operations concentrated on materials, machinery and electric power. Historically, the majority of the Group's net sales have been to customers in Japan. Sales to overseas customers accounted for 31.7 per cent and 32.2 per cent of the Group's net sales for the fiscal year ended 31 March 2023 and the six-month period ended 30 September 2023, respectively.

### Segments

The Group divides its business into seven reportable business segments and one "other" business segment. These businesses and their major products are set out below:

<u>Segment</u>	<u>Major Products and Businesses</u>
Steel & Aluminium . . . . .	<p><u>Wire rod &amp; bar products</u></p> <p>Ordinary wire rods, special wire rods, special steel wire rods, ordinary steel bars, special steel bars.</p> <p><u>Steel sheets, Steel plates</u></p> <p>Heavy plates, medium plates, steel sheets (hot-rolled, cold-rolled, surface treated).</p> <p><u>Aluminium flat rolled products</u></p> <p>Aluminium can stock, aluminium sheets for automotive panels, aluminium sheets for heat exchangers, aluminium disk material for hard disk drives.</p> <p><u>Other</u></p> <p>Steel billets, foundry pig iron, pig iron for steelmaking, slag products, building materials, special steel products, various steel wires.</p>
Advanced Materials . . . . .	<p><u>Steel castings and forgings</u></p> <p>Ship parts, electrical parts, industrial machinery parts and others.</p> <p><u>Aluminium castings and forgings</u></p> <p>Aluminium-alloy and magnesium-alloy castings and forgings (parts for aircrafts and automobiles, among others).</p> <p><u>Titanium</u></p> <p>Titanium and titanium alloys.</p> <p><u>Suspensions</u></p> <p>Aluminium-alloy castings and forgings and fabricated products (parts for automobiles).</p> <p><u>Aluminium extrusions</u></p> <p>Aluminium extrusions and fabricated products (extrusions and parts for automobiles, extrusions for railroad rolling stock, and others).</p> <p><u>Copper rolled products</u></p> <p>Copper strips for semiconductors, copper strips for terminals, lead frames.</p> <p><u>Steel powder</u></p> <p>Steel powder.</p>

Segment	Major Products and Businesses
Welding .....	Welding materials (covered welding electrodes, welding wires for automatic and semi-automatic welding, fluxes), welding robots, welding power sources, welding robot systems, welding-related testing, analysis, and consulting.
Machinery .....	Equipment for energy and chemical fields, equipment for nuclear power plants, tyre and rubber machinery, plastic processing machinery, ultra-high-pressure presses, physical vapour deposition systems, metalworking machinery, compressors, refrigeration compressors, heat pumps, plants (such as steel rolling and nonferrous), internal combustion engines.
Engineering .....	Various plants and equipment (DRI, pelletising, petrochemical, nuclear power-related, water treatment, waste treatment and others), civil engineering, advanced urban transit systems, chemical and food processing equipment.
Construction Machinery .....	Hydraulic excavators, mini excavators, wheel loaders, crawler cranes, rough terrain cranes, work vessels.
Electric Power .....	Electric power supply.
Other .....	Special alloys and other new materials (e.g. target materials), material analysis and testing, high-pressured gas cylinder manufacturing, superconducting products, general trading company operations.

The sales to outside customers of each segment for the fiscal years ended 31 March 2021, 2022 and 2023 and the six-month periods ended 30 September 2022 and 2023 are set out below:

	Fiscal year ended 31 March			Six-month Period ended 30 September	
	2021	2022	2023	2022	2023
	<i>(Millions of yen)</i>				
Steel & Aluminium .....	¥ 667,145	¥ 881,053	¥1,065,757	¥ 516,888	¥ 531,193
Advanced Materials .....	229,844	324,349	266,180	127,233	134,992
Welding .....	69,239	76,223	87,319	41,610	46,037
Machinery .....	170,403	161,829	181,592	87,767	97,952
Engineering .....	132,534	134,320	143,740	60,545	74,357
Construction Machinery .....	333,127	371,549	381,720	183,768	192,603
Electric Power .....	80,440	109,866	324,369	147,530	172,767
Other Businesses .....	21,508	21,933	20,185	3,571	3,595
Total sales to outside customers <sup>(1)</sup> .....	<u>¥1,704,240</u>	<u>¥2,081,122</u>	<u>¥2,470,862</u>	<u>¥1,168,912</u>	<u>¥1,253,496</u>

Note:

(1) Amounts for total sales to outside customers differ from amounts for total consolidated net sales, as they exclude certain adjustments.

The ordinary income (loss) of each segment for the fiscal years ended 31 March 2021, 2022 and 2023, and the six-month periods ended 30 September 2022 and 2023 are set out below:

	Fiscal year ended 31 March			Six-month Period ended 30 September	
	2021	2022	2023	2022	2023
	<i>(Millions of yen)</i>				
Steel & Aluminium .....	¥(22,657)	¥37,537	¥ 41,970	¥22,313	¥20,763
Advanced Materials .....	(12,186)	5,150	943	1,467	(46)
Welding .....	1,771	2,781	2,837	852	1,566
Machinery .....	11,465	12,564	14,336	5,055	10,358
Engineering .....	4,444	7,755	4,198	983	6,222
Construction Machinery .....	12,773	12,086	12,365	10,039	5,080
Electric Power .....	20,662	13,259	24,560	(1,387)	47,449
Other Businesses .....	4,231	7,047	6,333	2,402	1,780
Total segment profit .....	20,503	98,179	107,542	41,724	93,172
Adjustment <sup>(1)</sup> .....	(4,315)	(4,945)	(705)	102	(1,570)
Consolidated ordinary income .....	<u>¥ 16,188</u>	<u>¥93,234</u>	<u>¥106,837</u>	<u>¥41,826</u>	<u>¥91,602</u>

Note:

(1) Adjustment principally includes finance-related profits and losses not attributable to any particular segment.

## History

The Group's history began in September 1905 when Suzuki Shoten, a trading company, acquired a steel business called Kobayashi Seikosho in Wakinohama, Kobe, which produced iron forging products such as ship anchors and crankshafts. That business became Kobe Seikosho, now known as Kobe Steel, Ltd. In 1914 the Group manufactured Japan's first air compressor, while in 1926, the Group completed Japan's first comprehensive cement plant and in 1930 produced Japan's first electric mining shovel. In 1955 the Group became the first in Japan to produce titanium and pioneered the industrial application of this metal.

From the 1960s, the Group began to expand overseas. In 1960, the Group opened its first overseas location, an office in New York City and in 1962, completed a fertiliser plant in what was then East Pakistan, now Bangladesh. This was the first major full turnkey overseas plant construction mandate of its type for a Japanese company. The 1970s saw an acceleration in the Group's global activities, including the establishment of companies and offices in Southeast Asia, the Middle East, the United States and China.

In January 1995, the Great Hanshin-Awaji Earthquake struck western Japan causing tremendous damage to the Group's infrastructure and operations, though the Group recovered and celebrated its 100th anniversary in 2005. In 2002 the Group began its electric power business. The Group established its Chinese headquarters in 2011, its manufacturing and sales base for automotive cold-rolled, high-tensile strength steel in China in 2014, and became the first Japanese company to produce automotive aluminium panel material in China in 2016.

## The Group's Medium-Term Management Plan

The Group is in the final year of its current Medium-Term Management Plan, which began, amid the COVID-19 pandemic, in 2021 and will run until 31 March 2024. The period covered by the plan has seen many challenges for the Group's business, including the COVID-19 pandemic, slow recovery in the automotive industry due to semiconductor shortages and rising prices of energy and raw materials due to heightened geopolitical risks. The Medium-Term Management Plan focusses the Group on two priority issues: (i) establishing a stable earnings base and (ii) taking on the challenge of realising carbon neutrality.

### *Establishing a stable earnings base*

To establish a stable earnings base, the Group envisions five specific measures under its Medium-Term Management Plan:

#### *Strengthening the earnings base of the steel business*

As the Group believes that demand for steel products will decrease over the long term in Japan, the Group aims to establish a structure which will allow it to increase the profit margin in its steel business, such that it will remain

profitable even in the face of such reduced demand. In addition, the Group will continue to endeavour to further reduce fixed and variable costs, shift to high-value-added products such as special steel wire rods and high-tensile strength steel, and increase the contribution of overseas businesses to earnings. The Group is also studying how to utilise future upstream-process facilities for steel production to reduce carbon emissions.

#### *Smooth start-up and stable operation of new electric power projects*

The Kobe Power Plant No. 3 and No. 4 units started commercial operations in February 2022 and in February 2023 respectively as scheduled. Through continued efforts to ensure stable operations of these units, the Group expects to be able to realise an increase in earnings in its electric power business.

#### *Strategic investment in the materials businesses*

The Group has been focusing on providing products that can contribute to a reduction in automobile weight for its customers as demand for lightweight cars is increasing and expected to continue to increase. However, the Group's earnings in its materials business have declined considerably, in particular due to delays in passing on rising costs through selling prices. This has occurred particularly in the aluminium businesses, as variable costs (such as prices of raw and other materials and energy) are increasing and recovery in demand is proving slower than expected. The Group intends to steadily implement initiatives to continue to pass on increased costs to selling prices and achieve an increase in earnings.

#### *Restructuring unprofitable businesses*

The Group has withdrawn from its business in respect of unprofitable products and is undertaking streamlining measures as scheduled in the steel casting and forging, and titanium businesses, for which the demand environment and industrial structure are changing, as well as the crane business, which continues to face intensifying competition in Japan and overseas. As a result of these measures, the Company has returned these businesses to profitability and has achieved profitability for titanium in the fiscal year ended 31 March 2022 and for cast and forged steel and for cranes in the fiscal year ended 31 March 2023.

#### *Stabilising earnings and responding to growing markets in the machinery business*

The machinery business is receiving increasing demand in respect of its environmentally focused products related to social infrastructure, hydrogen/renewable energy, and CO<sub>2</sub> reduction. The Company made Kobelco Eco-Solutions Co., Ltd. a wholly owned subsidiary in November 2021 and entered into a capital and business alliance concerning the standard compressor business in January 2022 with the acquisition of shares of Kobelco Compressors Corporation by Miura Co., Ltd. The Company strives to realise the benefits of these measures as soon as possible and actively work to win orders while promoting intra-Group cooperation. In addition, the Group intends to promote the development of its distinctive technologies related to hydrogen/renewable energy, waste treatment, and other environmentally focusses products.

Regarding its construction machinery business, the Group will steadily restructure its global production/supply system with the aim of developing an optimal supply system in light of changes in the market environment in China, to achieve stable earnings and reduced production costs. The Group will also strive to generate profits from new businesses by providing solutions for innovations such as workstyle reforms in the construction industry and the commercialisation of peripheral businesses for construction machinery by providing know-how on the installation of new systems and other solutions.

In addition, during the course of the Medium-Term Management Plan, the Group is aiming to keep investment cash flow within the level of operating cash flow.

#### ***Taking on the challenge of realising carbon neutrality***

As societies worldwide are focussing on the transition to carbon neutrality and social transformation, the Group faces both risks and opportunities in its internal and external environment. Under these circumstances, the Group's vision for the future is to take on the challenge of realising carbon neutrality by 2050 and to aim to increase its corporate value along with this transition. As part of its efforts to minimise risks, the Group will seek to reduce CO<sub>2</sub> emissions by promoting development of its own unique technologies and utilising external innovative technology. To maximise opportunities, the Group will leverage its strengths in the integration of diverse technologies and diverse product offerings that contribute to reduction of CO<sub>2</sub> emissions, such as MIDREX<sup>®</sup> and the supply of materials for vehicle electrification and weight reduction.

Regarding the Group's ironmaking process, the Group strives to lead the industry in the field of CO<sub>2</sub> emission reduction and to differentiate itself from other companies by utilising its distinctive MIDREX<sup>®</sup> technologies for blast furnaces, while promoting the development of existing technologies (such as energy-saving technologies, increased use of scrap, AI-based blast furnace operation technology). The Group has also begun sales of Japan's first low-CO<sub>2</sub> blast furnace steel "Kobenable Steel", a low CO<sub>2</sub> blast furnace steel, which is based on the Group's "CO<sub>2</sub> Reduction Solution

for Blast Furnace Ironmaking” announced in February 2021. Further, in October 2023, the Company announced that it has successfully demonstrated, at the large blast furnace at its Kakogawa Works, a technology that can further reduce CO<sub>2</sub> emissions from a large blast furnace, such technology achieving among the world’s highest levels of CO<sub>2</sub> reduction effect among the CO<sub>2</sub> reduction methods demonstrated in existing blast furnaces that have been made public to date. The Group intends to promote efforts to further increase the recognition of green steel and expand its market. The Group has entered into contracts to supply the world’s first MIDREX H2™ direct reduction plant that uses 100 per cent hydrogen as a reducing gas and the world’s first MIDREX Flex™ direct reduction plant that will be initially operated on reformed natural gas and transitioned to up to 100 per cent hydrogen operation.

In its electric power business, the Group intends to supply heat and hydrogen to surrounding areas using steam from the Kobe Power Plant and increase the efficiency of region-wide energy use and promote collaboration between its electric power business and its engineering business to apply CO<sub>2</sub> reduction initiatives, such as co-firing of biomass fuel (sewage sludge and food residue), and is studying the practical application of initiatives for co-firing of ammonia. In addition, while the Kobe Power Plant will increase the ratio of co-firing of ammonia, and ultimately is intended to ultimately move to single-fuel firing, the Moka Power Plant will work on maximising the use of carbon neutral city gas with the aim of achieving carbon neutrality by 2050.

Various countries around the world have set targets for vehicle electrification, and automakers are accelerating their efforts towards electrification. The Group has been contributing to reductions of CO<sub>2</sub> emissions through the supply of weight-reducing materials and parts that help improve fuel efficiency. In addition, the Group has many products that contribute to improving the characteristics of electric vehicles and full cell electric vehicles (FCEVs), which will continue to increase in the future.

As efforts toward carbon neutrality progress, the energy industry is anticipating the practical application of carbon capture, utilisation and storage, and the expanded use of renewable energy. The Group also intends to contribute to carbon neutrality in the energy industry not only through the machinery businesses but also through its materials businesses, including the welding business.

### ***Strengthening the business foundation area***

To achieve its goals of establishing a stable earnings base, and taking on the challenge of realising carbon neutrality, the Group is reviewing its management system, advancing digital transformation (“DX”) strategies, and promoting active participation of diverse human resources. Since April 2021, the Group has been reviewing its management system through measures such as strengthening the monitoring function of the Board of Directors by reviewing the composition of the Board of Directors and its advisory bodies and strengthening the organisational structure of its executive committee by reviewing the committee structure and executive officer system and reorganising departments at the head office.

The Group also established its Digital Innovation Technology Centre in April 2021 to strengthen and accelerate technological development and business application in the information communications technology and artificial intelligence fields. Also, the Group has set up a DX Strategy Committee to comprehensively formulate and execute the Group’s strategy. Furthermore, in December 2021, the Group announced its Digital Transformation (DX) Strategy, and in January 2022, acquired certification as a “DX-certified operator” under the DX Certification program, established by the Ministry of Economy, Trade and Industry.

The Group is also promoting reform of its personnel system, reinforcement of human resource development, diversity and inclusion initiatives, and work style reforms so that its diverse human resources can fully demonstrate their abilities and play an active role in a wide range of business areas of materials, machinery, and electric power, which are the strengths of the Group.

## **Business Operations**

### ***Materials Business***

Within the Group’s reportable business segments, the three segments of Steel & Aluminium, Advanced Materials and Welding, are together referred to herein as the “materials business”.

#### ***Steel & Aluminium***

The Group’s Steel & Aluminium segment consists of the production and sale of steel and aluminium products, including steel sheets, aluminium sheet, wire rods and bars and steel plates. The Group’s particular strengths include its ability to offer products with low weight for use in automobiles (which the Group believes places it in a good competitive position in the continuing trends towards lightweight automobiles), its ability to offer combinations of steel and aluminium flat-rolled products, competitive prices resulting from consolidated upstream processes, strong

relationships with customers in the beverage can industry, heat treatment products for the automobile industry and a variety of distinctive products including:

- *Wire rods used for automotive engine valve springs:* Engine valve springs must withstand thousands of expansions and compressions per minute and require an extremely high level of quality. The Group supplies the automotive industry with wire rods for use in such engine valve springs;
- *High-Strength Steel Sheet:* The Group's high-strength steel sheet is primarily used in auto frame parts and contributes to lighter vehicles;
- *Aluminium Sheet and Coils for Automotive Closure Panels:* Due to increased demand for lighter cars, the use of aluminium for engine hoods and other applications is increasing. The Group has capitalised on expertise and engineering capabilities gained over many years to offer such products to the automotive industry;
- *Aluminium Beverage Can and Bottle Can Stock:* The Group holds significant market shares in the supply of aluminium beverage can stock and aluminium bottle can stock in Japan; and
- *Aluminium Disks:* Aluminium disks are used as substrate materials for hard disk drives for desk top computers and data centres, which require a high level of quality. The Group is a leading manufacturer of aluminium disks.

In the fiscal year ended 31 March 2023, the Group launched sales of "Kobenale Steel", a low CO<sub>2</sub> blast furnace steel, which is based on the Group's "CO<sub>2</sub> Reduction Solution for Blast Furnace Ironmaking" announced in February 2021. This utilises a technology that can significantly reduce CO<sub>2</sub> emissions from the blast furnace, which was demonstrated by charging into the blast furnace at the Company's production site at its Kakogawa Works, a large amount of HBI produced by the MIDREX® Process in the Group's engineering business. Kobenale Steel, manufactured in the same process as the conventional blast furnace method, is available for all types of the Group's steel products (including steel sheet, steel plate, wire rod and bar products) while maintaining the same level of high quality (such as special steel wire rods and ultra-high-tensile strength steel) as conventional products, and has started to see some use in the construction, shipbuilding and automotive industries, among others. In October 2023, the Company further announced that it has successfully demonstrated a technology that can further reduce CO<sub>2</sub> emissions from a large blast furnace, such technology achieving among the world's highest levels of CO<sub>2</sub> reduction effect among the CO<sub>2</sub> reduction methods demonstrated in existing blast furnaces that have been made public to date.

The Group manufactures its Steel & Aluminium products in Japan at its Kakogawa Works and Takasago Works in Hyogo prefecture, its Moka Works in Tochigi prefecture, and its Kobe Wire Rod & Bar Plant, and overseas in China, the United States, Thailand and Malaysia.

The Group has in place the following joint ventures in the Steel & Aluminium business:

- The Company entered into a joint venture agreement with USX Corp. (the current US Steel) in March 1990 for the manufacture and sale of hot-dipped galvanised steel sheet in the United States, and established PRO-TEC Coating Company (the current PRO-TEC Coating Company, LLC). The joint venture agreement was updated in December 2010 to add within the scope of the joint venture the manufacture and sale of high tensile strength cold rolled steel plate; the agreement was further updated in September 2017 to add a new production line for hot-dipped galvanised ultra high-strength steel for automotive use.
- The Company entered into a joint venture agreement with Angang Steel Company Limited in October 2013 for the manufacture and sale of cold-rolled high tensile strength steel for automotive use in China, and in August 2014 established the joint venture company Kobelco Angang Auto Steel Co., Ltd.
- The Company entered into a joint venture agreement with Millcon Steel Public Company Ltd. in February 2016 for the rolling and sales of wire rod and in Thailand, and established the joint venture company Kobelco Millcon Steel Co., Ltd.

The Company also has an alliance relationship with Nippon Steel Corporation with a view to increasing competitiveness, and has the following agreements with Nippon Steel Corporation in relation thereto:

- Agreement relating to slab transactions, with the term commencing on 17 June 2005 and ending on 14 May 2033; and
- Memorandum of understanding relating to the continued consideration of alliance measures and response in the event of a takeover proposal, with the term commencing on 14 November 2022 and ending on 14 November 2027, with the possibility of automatic five-year extensions.

## *Advanced Materials*

The Group's Advanced Materials business comprises the production and sale of various specialised and sophisticated products manufactured from aluminium, steel, titanium and copper. The Group uses its advanced development and manufacturing technology to produce niche products that provide specific solutions for customers and achieve significant market shares, such as aluminium forgings for automotive suspensions and copper alloys and plating for automotive terminals and connectors. This capability attracts a diverse customer base in a wide range of industries such as automobiles, aircraft, ships and semiconductors. These products regularly respond to the trends of weight reduction and Connected, Autonomous, Shared and Electric ("CASE", an acronym that is regularly used to describe the four main strategic areas of focus for the automotive industry). The Group's distinctive products and technologies include:

- *Titanium for Aircraft Engine Components:* Titanium is an important material for components that cover the rotating parts of aircraft engines, form an airflow path, and prevent shattering during engine failure. The Group has been delivering fan case components for aircraft engines for over 30 years, meeting the demands of engine makers around the world;
- *Crankshafts:* Crankshafts are a core ship part, transmitting power from a ship's engine to its propellers. The Group's built-up and solid crankshafts are recognised in the industry for their dimensional precision at the micro level;
- *Aluminium Forgings for Automotive Suspensions:* Weight reduction needs have led to higher use of aluminium in suspension systems. The Group has a leading market share in Japan for aluminium forgings, which are significantly lighter than conventional steel forgings;
- *Aluminium Shapes for Rolling Stock:* Aluminium shapes are used in the bodies of rolling stock. The Group offers various shapes to meet customers' needs for weight savings and is a leading supplier in Japan of shapes for rolling stock. Recently, the Group's aluminium shapes have also been adopted in the United Kingdom; and
- *Copper Alloys and Plating for Automotive Terminals and Connectors:* Copper alloys for automotive terminals and connectors are utilised in the wire harnesses of automobiles. The Group's CAC®5 and CAC®60 alloys contribute to increased miniaturisation and improved performance through new reflow plating offering unprecedentedly low insertion force and high contact reliability.

The Group manufactures its Advanced Materials products in Japan at its Takasago Works in Hyogo prefecture, its Chofu Works in Yamaguchi prefecture and its Daian Works in Mie prefecture, and overseas in China, the United States and Singapore. The Group is currently constructing a slitting plant in Vietnam for copper strips for use in electronic materials.

The Group entered into a joint venture agreement with Novelis Korea Ltd. (a wholly owned subsidiary of Novelis Inc.) in May 2017 for the manufacture of aluminium plate rolled products, and established the joint venture company Ulsan Aluminum, Ltd. in September 2017.

## *Welding*

The Group's welding business comprises the manufacture and sale of welding materials, welding robots and electric power sources for welding. The Group is one of the few integrated welding operations in the world, offering comprehensive solutions in welding consumables, robot systems, power supplies, and processes. It also offers the ability to propose solutions based on thorough on-site focus and quick responses. The Group's distinctive products and technologies include:

- *Flux-Cored Wires:* The Group produces welding materials with high work efficiency for a wide variety of industries, including shipbuilding, structural steel and bridge construction. These materials greatly decrease welding man hours, greatly increase welding efficiency and help create more beautiful bead appearance;
- *Non-Copper Coated Solid Wires:* Produced using a unique wire surface treatment technology, non-copper coated solid wires offer ground-breaking feed capability and outstanding arc stability. These wires also reduce environmental impact, removing the need for copper plating treatment during manufacturing of the welding wire;
- *Welding Materials for Low-Alloy Steel:* Increasingly sophisticated high-strength and low-alloy, heat-resistant steel is being utilised in recent years in high-temperature, high-pressure applications such as oil refining reactors and thermal power boilers. The Group has developed welding materials specially designed to meet these needs;

- *ARCMAN™-GS*: The ARCMAN™ welding robot series is used in a wide range of plate welding fields, such as for structural steel and construction machinery. The GS model features internalised components such as torches and cables, making welding robots more viable in narrow spaces and it also allows for tandem welding;
- *REGARC™-equipped Structural Steel Welding Systems*: The REGARC™ is a ground-breaking welding process technology that can significantly reduce spatter and fumes, even with a high current, using CO<sub>2</sub> arc welding. REGARC™-equipped structural steel welding systems achieve high-efficiency and high-quality welding with low spatter; and
- *SENSARC Series Welding Power Sources: AB500 (designed for robots)*: A high-performance digital-controlled welding power source, suitable for medium-to-thick plates welding with various welding modes and equipped with the extra-low spatter CO<sub>2</sub> welding process REGARC.

The Group manufactures its welding products in Japan at its Ibaraki Plant in Osaka prefecture, its Saijo Plant in Hiroshima prefecture and its Fukuchiyama Plant in Kyoto prefecture, and overseas in the Netherlands, Malaysia, Thailand, China and South Korea.

### ***Machinery Business***

Within the Group's reportable business segments, the three segments of Machinery, Engineering and Construction Machinery, are together referred to as the "machinery business". The Group's machinery business serves global customers in a diverse range of fields, including the automotive, aircraft, shipbuilding, construction and civil engineering, social and industrial infrastructure, and environmental and energy sectors.

#### *Machinery*

The Machinery segment covers a broad range of technologies and products, including standard compressors (such as air compressors, refrigeration compressors, heat pumps and energy-related products), rotating machinery, tyre and rubber machinery, plastic processing machinery, advanced technology equipment, rolling mill press machine, ultra-high-pressure equipment and heavy-wall pressure vessels, heat exchangers and LNG vaporisers for the energy, oil refining and petrochemical industries. The Group has developed various technologies related to non-standard machinery. In particular, the Group possesses technologies that compete with global competitors in fields where entry barriers are high, such as high-pressure technologies and drive, vibration, and noise control technologies for high-speed rotating machinery. Whilst many of the Group's competitors are located in Europe, the Group has its main manufacturing facilities in Japan, China, and India, enabling it to supply products and parts quickly to customers in Asia. The Group is developing technologies in the growing energy transition market (such as hydrogen, ammonia and LNG), utilising its experience accumulated in the energy field.

The Group's distinctive products and technologies include:

- *Nonstandard Screw Compressors*: Compared with other types of compressors, screw compressors offer high compression ratios and efficiency, as well as high energy savings through excellent response to load fluctuations. The Group manufactured the first screw compressor in Japan in 1956 and has been supplying compressors to large plants since that time;
- *Emeraude-ALE Oil-free Air Compressors*: The Group's Emeraude-ALE series of oil-free standard air compressors have achieved high energy efficiency, as well as low noise levels, and utilises IoT technology to "visualise" energy use during operation;
- *Microchannel heat exchangers*: Through processing, lamination and diffusion bonding of stainless steel and other plates, the Group creates high-strength heat exchangers with heat transfers surface areas of 1,000 m<sup>2</sup>/m<sup>3</sup> or more by volume. Compact and with exceptional thermal conductivity, these heat exchangers are used in applications such as hydrogen fuelling stations and marine facilities; and
- *Rubber Mixers*: The Group is a leading manufacturer of rubber mixers, which are indispensable for the production of tyres and rubber products, with its technologies offering exceptional mixing as well as high productivity and energy efficiency.

The Group manufactures its Machinery products in Japan at its Takasago Works in Hyogo prefecture, and overseas at locations in China, the United States, India and Sweden.

#### *Engineering*

The Group's Engineering segment comprises the iron unit field, which provides processes which make DRI, high-purity granular iron and pellets, advanced urban transit systems, nuclear plant equipment, energy and chemical

plant equipment, water treatment products, waste treatment and recycling products, chemical and food related machinery and cooling towers. The Group has an extensive line-up of environmentally friendly products focused on low-CO<sub>2</sub> (CO<sub>2</sub> reduction), water treatment, waste treatment, and renewable energy. The Group's MIDREX® Process has a large global DRI market share and the Group is looking to generate new revenue through collaborations with other businesses, as exemplified by CO<sub>2</sub> reduction solutions for the ironmaking process and co-firing of biomass fuel (carbonisation of sewage sludge) at the Group's Kobe Power Plant. The Group's distinctive products and technologies include:

- *MIDREX® Process:* The MIDREX® process is a natural gas-based reduced iron manufacturing process and is used in a significant majority of the world's natural gas-based DRI production. This system uses hydrogen-rich gas reformed from natural gas as a reducing material, and iron sources are reduced by shaft furnaces using pellets processed from powder ore or lump ore to produce reduced iron. In comparison to the blast furnace process, the MIDREX® process can significantly reduce CO<sub>2</sub> emissions in the ironmaking process. The Group offers three MIDREX® options: (i) MIDREX NG™, which uses natural gas as reducing gas; (ii) MIDREX H2™, which uses 100 per cent hydrogen; and (iii) MIDREX Flex™, which offers the flexibility to use any mixture of natural gas and hydrogen (up to 100 per cent hydrogen) in the reduction process;
- *Water Treatment Facilities:* As a leading manufacturer in the field of water treatment, the Group offers a comprehensive line-up of water treatment products, including water and sewage treatment facilities, industrial water and wastewater treatment facilities, sludge treatment facilities and pure/ultra-pure water production facilities;
- *Sewage Biogas City Gas Pipe Injection Facility:* Together with local authorities and gas suppliers, the Group has developed a city gas facility capable of refining gas from sewage sludge to the same quality as city gas, and the Group began injecting biogas into city gas pipes in 2010. Biogas is a combustible gas produced from methane fermentation of biomass solids such as sewage and food scraps, and is a carbon-neutral energy source;
- *Fluidised-Bed Gasification and Melting Furnaces:* These furnaces utilise the energy found in waste to carry out processes from incineration to ash melting (reduction/slugging). Considered an environmentally friendly treatment furnace, they help to reduce both landfill and CO<sub>2</sub> emission;
- *PCB Detoxification Facilities:* Metallic sodium dispersion (SP process), solvent extraction decomposition (SED process) and plasma melting decomposition methods (which can simultaneously treat a wide variety of PCB wastes) are utilised at PCB (polychlorinated biphenyl) waste treatment facilities in locations throughout Japan; and
- *Advanced Urban Transit System:* The Group's advanced urban transit system includes signalling, communication, power supply, automatic fare collection and platform screen door systems. The Group provides these solutions as part of a full delivery from planning and feasibility studies to operation and maintenance.

The Group manufactures relevant products in Japan at its Takasago Works in Hyogo prefecture, and overseas at locations in Vietnam and the United States. The Group is also taking part in a feasibility study relating to the Low-CO<sub>2</sub>, Iron Metallics Project in Oman with a view to commercialising the manufacture and sale of DRI produced through the MIDREX® process, having signed (together with its project partner Mitsui & Co., Ltd.) a memorandum of understanding on comprehensive cooperation on the project with the Public Authority for Special Economic Zones and Free Zones of Oman and also having concluded a Land Reservation Agreement with Port of Duqm Company S.A.O.C. of Oman.

### **Construction Machinery**

The flagship products of the construction machinery segment are excavators and cranes. The Group seeks to meet customer needs by providing a wide range of products, exclusive services, and innovative solutions, and by successfully incorporating new technologies into existing environmental technologies for low fuel consumption and noise. The Group has a global system to meet the needs of different regions and applications, by establishing a network of local subsidiaries and distributors in locations worldwide. The Group's next-generation technology development capabilities, include Japan's first electric mining shovel, Japan's first compact rough terrain crane, the world's first hybrid excavator, and K-DIVE®, which enables remote operation of hydraulic excavators. The Group's distinctive products and technologies include:

- *Hydraulic Excavators Mini Excavators:* The Group's excavators are developed after thorough investigation and analysis of on-site conditions and applications. The Group's iNDR (Integrated Noise

and Dust Reduction Cooling System), equipped in short rear tail swing and ultra-short swing excavators, are among the quietest in the industry, reducing noise during operation;

- *Environmental Recycling Machines:* As a pioneer in the field of building demolition and vehicle dismantling machines, the Group offers a wide range of original environmental products focusing on construction recycling, metal recycling and waste recycling and forestry. Its line-up includes building demolition machines for construction recycling, vehicle dismantling machines, magnet-equipped machines and scrap loaders for metal recycling, resource handling machines for industrial waste recycling, and processors, harvesters and grapplers for forestry;
- *Crawler Cranes:* The Group offers a wide line-up of crawler cranes, ranging from the large-sized cranes used for the construction of large structures such as long-span bridges and wind and thermal power generation plants, to the small or medium-sized multi-purpose lattice boom crawler cranes offering toughness and advanced controls. The Group also offers crawler cranes for civil engineering and foundation work, as well as telescopic boom crawler cranes; and
- *Wheel Cranes:* The Group's lattice boom wheel crane for harbour use offers increased performance, functionality and mobility for harbour loading and unloading; further, the Group's rough-terrain cranes and mini rough-terrain cranes can be found in a wide range of worksites.

The Group manufactures its construction machinery products in Japan at its Hiroshima Plant in Hiroshima prefecture, Okubo Plant in Hyogo prefecture, and Ogaki Plant in Gifu prefecture, and overseas at locations in China, India and Thailand.

### ***Electric Power***

Following the amendment to the Electricity Business Act in 1995, which allowed companies other than electric power companies to sell electricity to electric power companies, the Group constructed a power plant in Kobe to embark on a new business that would make the best use of the existing infrastructure at the Group's former Kobe Works and the know-how gained from in-house power generation in the Group's ironmaking operations. The Group began its wholesale electricity supply business in 2002 and is now one of the largest wholesale power suppliers in Japan.

The following table sets out details of the Group's power plants in operation:

<b>Name</b>	<b>Location</b>	<b>Power Generation Method</b>	<b>Power Generation Capacity</b>	<b>Start of Commercial Operation</b>	<b>Wholesale Customer</b>	<b>Term of Supply Contract</b>
Kobe Power Plant No. 1 and No. 2 Units	Kobe, Hyogo Prefecture	Coal fired	No. 1 unit: 700 MW No. 2 unit: 700 MW	No. 1 unit: April 2002 No. 2 unit: April 2004	Kansai Electric Power Co., Inc.	To 31 March 2029
Kobe Power Plant No. 3 and No. 4 Units	Kobe, Hyogo Prefecture	Coal fired	No. 3 unit: 650 MW No. 4 unit: 650 MW	No. 3 unit: February 2022 No. 4 unit: February 2023	Kansai Electric Power Co., Inc.	To 31 January 2052
Moka Power Plant No. 1 and No. 2 Units	Moka, Tochigi Prefecture	Gas fired	No. 1 unit: 624 MW No. 2 unit: 624 MW	No. 1 unit: October 2019 No. 2 unit: March 2020	Nijio Co., Ltd. (a subsidiary of Tokyo Gas Co., Ltd.)	To 31 December 2034

### ***Other Businesses***

The Group's other business segment comprises business in respect of special alloys and other new materials, material analysis and testing, high-pressured gas cylinder manufacturing, superconducting products and general trading company business.

### **Competition**

The Group's principal businesses operate in markets that are highly competitive. In addition, the global iron and steel industry is cyclical and historically has been subject to overcapacity. Worldwide, there are many steelmakers who produce more crude steel than that the Group and in Japan, the Group's largest market, the Group is the third-largest steel producer, behind Nippon Steel Corporation and JFE Steel Corporation. The Japanese steel market is expected to shrink gradually going forward and competition is likely to intensify in the future with cost competitiveness playing a major role in determining the success of market participants.

With respect to all of the Group's principal businesses, the Group competes on the basis of price, product performance, product quality and customer service. In addition, in many of the Group's businesses, some of the Group's competitors may have greater financial resources and production capacity than the Group, and a wider distribution or customer network in a particular region or other advantages in local markets. Furthermore, with respect to many of the Group's businesses, the Group may face competition from international competitors who have lower labour costs than the Group, giving them the ability to sell products at relatively low prices and potential competitive advantages in their home markets.

Demand for the Group's products and services is influenced by many factors, including global macroeconomic drivers, currency exchange rate fluctuations, the amount of supply available globally, and inventories. The largest individual drivers of demand for the Group's products have historically been the automotive, construction and shipbuilding markets. Other significant industries that drive demand are the energy, aircraft and IT industries.

In recent years, the Group has seen increased competition from Chinese manufacturers entering the machinery business, and Chinese and Korean ship builders targeting that market in particular. There has also been increased competition in the direct reduced iron market as a result of reduced barriers to entry. In addition, in the renewable energy industry, cost competition has increased due to intensifying competition and increased cost burden for the development and verification of technologies.

## Research and Development

The Group engages in basic and advanced research and relevant teams work closely with each of its business segments. The Group's laboratories pursue the development of distinctive products and increasing levels of manufacturing excellence. The Group's subsidiary Kobelco Research Institute, Inc. is a comprehensive, solution-based testing and research firm with a variety of sophisticated, expert technologies in fields such as materials, chemistry, machinery and electronics. The Group carries out material and structural analysis, testing, physical analysis and other services. The Group also manufactures and sells target materials and test equipment for fields such as semiconductors, flat panel displays and solar power, develops special materials, to support manufacturing. In addition, in October 2022, the Group established the Kobelco Future Pioneering Co-Creation Research Centre in cooperation with Osaka University. The Group is actively working with external organisations to create and co-create new innovations through studying solutions for innovation that enable people and digital technology to coexist in manufacturing.

The following table shows the Group's research and development expenses for the periods indicated and as a percentage of net sales:

	Fiscal year ended 31 March			Six-month period ended 30 September	
	2021	2022	2023	2022	2023
	<i>(Millions of yen / Per cent)</i>				
Total R&D expenses . . . . .	¥31,008	¥33,245	¥36,702	¥16,473	¥18,812
Percentage of net sales . . . . .	1.8%	1.6%	1.5%	1.4%	1.5%

## Intellectual Property

The Group has registered patents in Japan and overseas, primarily to protect the Group's products and technologies. Through the application and use of intellectual property, the Group aims to ensure that its research and development and business activities can operate without restrictions. The Group also engages in intellectual property rights-related activities to raise its corporate value, and studies intellectual property rights owned by other companies to avoid infringing those rights.

## Sustainability

The Group believes that the common goal of society and companies is to enhance sustainability and that companies should strive for sustainable growth by resolving social issues through business activities. With this in mind, the Group has organised its approach into a framework for sustainability management. Under this framework, the Group is working to further enhance corporate value by fulfilling what it believes are its corporate social responsibilities and contributing to resolving social issues through the provision of enhanced technologies, products, and services.

The Group's sustainability management activities are promoted by the Sustainability Management Committee, an auxiliary body of the Executive Council, which undertakes the implementation of the management cycle for important issues. The Sustainability Management Committee promotes effective operation of activities by setting up subcommittees dedicated to specific issues of importance.

In 2021, based on the Group Corporate Philosophy, the Group identified five items of “materiality” (key issues) that the Group should address to achieve sustainable growth and become a corporate group that is indispensable to society through providing solutions to the needs of society and promoting value creation over the medium to long term.

The Group has set indicators and targets for materiality items in order to take more concrete steps toward the realisation of its sustainability goals. The progress of such activities is managed by the Sustainability Management Committee.

The following are the key sustainability issues identified by the Group and certain examples of initiatives undertaken by the Group in furtherance of their resolution:

- *Contributing to a green society:* Promoting reduction of CO<sub>2</sub> emissions in production processes, through measures such as combining MIDREX<sup>®</sup> technologies with blast furnace operation technologies; contributing to reduction of CO<sub>2</sub> emissions through technologies, products and services, such as offering a variety of products or electric vehicles; implement initiatives in the electric power business, including ammonia co-firing/single-fuel firing and the use of biomass; and increasing water and by-product recycling rates;
- *Ensuring safety and security in community development and manufacturing:* Licensing the Group’s KENIFINE<sup>™</sup> technology (a nickel-based special alloy plating technology effective for antibacterial and antiviral properties) for food machinery and kitchen appliances as well as the medical and welfare-related industries, conducting verification of effectiveness against the COVID-19 virus; offering industrial welding robots to reduce workload amidst labour shortages in Japan while also ensuring worker health and safety; and working to improve product mix to offer materials and machinery that meet customer needs;
- *Providing solutions for the future connecting people and technology:* Working towards reforms in manufacturing and operations through digital transformation, including promoting solutions towards ameliorating the shortage of skilled construction workers and increasing productivity through unmanned construction technology such as K-DIVE<sup>®</sup>, which allows remote operation of construction machinery via a telecommunication network; and continuing to explore new businesses centred on the hydrogen and semiconductor working group and explored areas of focus adjacent to the hydrogen and semiconductor fields;
- *Promoting active participation of diverse human resources:* Taking measures to enhance the mid-career recruitment of women and participating in seminars for female students; commencing recruitment activities in Taiwan and South Korea as well as at universities in China; and promoting work style reform through encouraging the taking of leave and reducing overtime work; and
- *Pursuing governance that supports sustainable growth:* Implementing priority items, which include: (i) improving safety awareness, (ii) monitoring management status through safety and health diagnosis and conducting activities for improvement, and (iii) conducting test operation and evaluation of machinery safety and human safety support tools.

## Regulation

The Group’s business activities are subject to various governmental regulations in countries in which it operates, which include investment approvals, export regulations, tariffs, antitrust, anti-bribery, intellectual property, data protection, product safety, consumer and business taxation, exchange controls, and environmental and recycling requirements.

The Group is regulated by the Construction Business Act of Japan (Act No. 100 of 1949, as amended) (the “Construction Business Act”), as a company that operates a construction business. Under the Construction Business Act, any person who intends to engage in the construction business must first obtain permission from the Minister of Land, Infrastructure, Transport and Tourism, or the relevant governor, and comply with certain prescribed standards. For example, under the Construction Business Act, on projects that require construction work above a certain scale to be undertaken, the Group is generally required by the Construction Business Act to have an employee of the Group be on site as a full-time construction manager. Violations of the Construction Business Act could result in the Group’s permission being suspended in part or in whole for a period of up to one year or revoked.

The Group is also regulated under the Electricity Business Act of Japan (Act No. 170 of 1964, as amended) (the “Electricity Business Act”), as an electricity generation utility. Under the Electricity Business Act, any person who intends to engage in the electricity generation business must notify the Minister of Economy, Trade and Industry prior to engaging in the business. The principal governmental authority responsible for the supervision of such electricity generation utility is the Ministry of Economy, Trade and Industry.

In addition to the above, significant environment-related regulations to which the Group's business activities are subject include:

- *Air Pollution Control Act of Japan (Act No. 97 of 1968, as amended)*: Under this law, the Group must limit its emission of harmful gases in accordance with standards set by the Ministry of Environment of Japan. The Group is required to indemnify aggrieved parties against damages and losses caused by its emission of harmful gases irrespective of fault.
- *Water Pollution Prevention Act of Japan (Act No. 138 of 1970, as amended)*: Under this law, the Group must limit its discharge of wastewater in accordance with standards set forth by the Ministry of Environment of Japan. The Group is required to indemnify aggrieved parties against damages and losses caused by its discharge of wastewater irrespective of fault.
- *Waste Management and Public Cleansing Act of Japan (Act No. 137 of 1970, as amended)*: Under this law, any person or company doing business is required to dispose of industrial wastes by itself or delegate an authorised waste disposer to dispose of the waste in accordance with the relevant government standards.
- *Soil Contamination Countermeasures Act of Japan (Act No. 53 of 2002, as amended)*: Under this law, owners of land with sources of potential pollution must survey their soil to determine the presence of hazardous substances such as lead, arsenic and trichloroethylene, and take steps to remove any such contamination, as required.

## Properties

The following table sets out certain information relating to the Group's principal property and equipment as at 31 March 2023:

### The Company

Name of Property	Segment	Location	Description of the Property	Book Value				Total
				Buildings and Structures	Machinery and Equipment	Land <sup>(1)</sup>	Others <sup>(2)</sup>	
<i>(Millions of yen, except land areas owned/leased)</i>								
Head office . . . . .	Corporate	Hyogo, Japan	Office	¥ 7,968	¥ 1,443	¥ 23,540 (680,300) [8,758]	¥ 4,149	¥ 37,102
Kakogawa Works . . . . .	Steel & Aluminium	Hyogo, Japan	Manufacturing facilities, principally for steel bars and steel plates	69,690	211,287	18,495 (5,036,522) [72,602]	12,497	311,971
Kobe Wire Rod & Bar Plant . . . . .	Steel & Aluminium, Electric Power	Hyogo, Japan	Manufacturing facilities, principally for steel bars	15,712	24,476	11,302 (1,203,021) [1,064]	2,090	53,581
Moka Works . . . . .	Steel & Aluminium, Electric Power	Tochigi, Japan	Manufacturing facilities, principally for aluminium rolled products	14,602	17,302	3,930 (477,423) [26,979]	6,300	42,136
Chofu Works . . . . .	Advanced Materials	Yamaguchi, Japan	Manufacturing facilities, principally for aluminium extrusion and copper rolled products	5,974	6,508	834 (430,810)	3,175	16,492
Daian Works . . . . .	Advanced Materials	Mie, Japan	Manufacturing facilities, principally for aluminium casting forging	2,081	2,614	3,227 (260,614) [11,026]	753	8,677

Name of Property	Segment	Location	Description of the Property	Book Value				
				Buildings and Structures	Machinery and Equipment	Land <sup>(1)</sup>	Others <sup>(2)</sup>	Total
				<i>(Millions of yen, except land areas owned/leased)</i>				
Takasago Works . . . . .	Advanced Materials, Machinery	Hyogo, Japan	Manufacturing facilities, principally for steel processing and industrial machinery	18,884	10,638	1,884 (1,445,815) [1,789]	5,823	37,230
Ibaraki Plant . . . . .	Welding	Osaka, Japan	Manufacturing facilities, principally for welding products	3,237	4,275	2,013 (390,237)	614	10,141

Notes:

- (1) Figures in round parentheses are land areas owned in square metres, while figures in square parentheses are land areas leased from parties other than the Company and its consolidated subsidiaries.
- (2) "Others" comprise the aggregate book value of tools, instruments, equipment and construction in progress.

### Subsidiaries

Name of Subsidiary	Segment	Location	Description of the Property	Book Value				
				Buildings and Structures	Machinery and Equipment	Land <sup>(1)</sup>	Others <sup>(2)</sup>	Total
				<i>(Millions of yen, except land areas owned)</i>				
Kobelco Construction Machinery Co., Ltd. . . . .	Construction Machinery	Hiroshima, Japan	Manufacturing facilities for construction machinery	¥ 6,237	¥ 4,049	¥ 10,055 (325,048)	¥984	¥ 21,326
Kobelco Construction Machinery Japan Co., Ltd. . . . .	Construction Machinery	Chiba, Japan	Principally construction machinery for leasing	2,520	13,953	940 (41,144)	202	17,617
Kobelco Power Kobe Inc. . . . .	Electric Power	Hyogo, Japan	Facilities for electric power generation	26,188	13,469	— (—)	163	39,820
Kobelco Power Moka Inc. . . . .	Electric Power	Tochigi, Japan	Facilities for electric power generation	13,746	48,489	1,688 (70,015)	70	63,995
Kobelco Power Kobe No. 2, Inc. . . . .	Electric Power	Hyogo, Japan	Facilities for electric power generation	45,731	153,858	— (—)	295	199,885
Kobelco Millcon Steel Co., Ltd. . . . .	Steel & Aluminium	Rayong, Thailand	Wire rod rolling equipment	1,590	14,748	638 (146,750)	311	17,290
Kobe Aluminum Automotive Products, LLC . . . . .	Advanced Materials	Kentucky, United States	Manufacturing facilities, principally for aluminium forging	4,892	8,534	239 (250,403)	778	14,444

Notes:

- (1) Figures in round parentheses are land areas owned in square metres.
- (2) "Others" comprise the aggregate book value of tools, instruments, equipment and construction in progress.

**Insurance**

The Group maintains a range of insurance policies which the Company believes are comparable with other companies with similar operations in Japan and overseas. The insurance policies cover certain liability risks, including personal injury, death and property damage. The Group maintains earthquake coverage for certain of its electric power generation facilities, but not other facilities; not all of the Group's properties are covered by insurance in respect of floods, and the Group does not have significant insurance coverage with respect to, earthquakes, volcanic eruptions, tidal waves, terrorism, acts of war or certain other kinds of risks. The Group generally chooses its insurance policies by balancing premium costs with coverage amount, and as a result, its insurance policies may only provide it with limited coverage for certain types of events.

**Legal Proceedings**

In 2018, a lawsuit was filed in Japan against several Group entities, seeking an injunction to prevent the construction and operation of certain of the Group's Kobe Power Plant operations, on the basis that such operations would violate certain rights of residents, impact air quality and conflict with Japan's climate targets. The Kobe District Court dismissed the claim in March 2023, although the claimants have filed an appeal.

Although members of the Group are routinely involved in legal proceedings and disputes in the ordinary course of their businesses, other than as set out above, no member of the Group is currently involved in any governmental, legal or arbitral proceedings (including any proceedings that are pending or threatened) which could have a material effect on its business, results of operations or financial condition.

## MANAGEMENT AND EMPLOYEES

### Management

The Company's Board of Directors carries the ultimate responsibility for the management and administration of the affairs of the Company. Pursuant to the audit and supervisory committee system, the Board of Directors is comprised of Directors who are Audit and Supervisory Committee Members and Directors who are not. The Company's Articles of Incorporation provide for a Board of Directors consisting of no more than ten members who are not Audit and Supervisory Committee Members and no more than five Directors who are Audit and Supervisory Committee Members. All Directors are elected by the Company's shareholders at a general meeting of shareholders, with Directors who are Audit and Supervisory Committee Members elected separately from other Directors. The term of office for Directors who are not Audit and Supervisory Committee Members expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within one year after their election, and the term of office for Directors who are Audit and Supervisory Committee Members expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within two years after their election. The Board of Directors elects from among its members who are not Audit and Supervisory Committee Members, one President (who is also a Representative Director) and several Representative Directors. Each of the Representative Directors has the authority to represent the Company while the President is authorized to execute the resolution of the Board of Directors and supervise the operations of the Company. A Chairperson of the Board of Directors is chosen by the Directors.

The Directors who are Audit and Supervisory Committee Members are not required to be certified public accountants. They may not serve concurrently as executive directors, managers or any other type of employee for the Company or for any of the Company's subsidiaries, or as accounting advisors or corporate executive officers for any of the Company's subsidiaries. In addition, more than half of the Directors who are Audit and Supervisory Committee Members at any one time must be External Directors as defined under the Companies Act, who have not served as executive directors, corporate executive officers, managers or any other type of employee for the Company or any of the Company's subsidiaries for 10 years prior to their election and fulfil certain other requirements specified in the Companies Act.

The Audit and Supervisory Committee has a statutory duty to audit the administration of the Company's affairs by its Directors, to examine the financial statements and business reports to be submitted to the shareholders by a Representative Director, to prepare an audit report each year and to determine details of proposals concerning the appointment and dismissal of accounting auditors and the refusal to reappoint accounting auditors for submission to general meetings of shareholders and to determine the opinion on election, removal, resignation of or compensation for Directors who are not Audit and Supervisory Committee Members, which may be expressed at a general meeting of shareholder. An Audit and Supervisory Committee Member may note his or her opinion in the audit report issued by the Audit and Supervisory Committee if such opinion differs from that expressed in the audit report.

In addition, under the Securities Listing Regulations of the Tokyo Stock Exchange, listed companies in Japan, including the Company, are required to have at least one independent officer. Such independent officer is required to be an Outside Director or Outside Corporate Auditor (as defined under the Companies Act) who is unlikely to have conflicts of interest with shareholders of the relevant company.

In addition to Audit and Supervisory Committee Members, the Company must appoint by a resolution of a general meeting of shareholders a certified public accountant or an auditing corporation as an independent auditor, which has the statutory duties of auditing the financial statements to be submitted by a Representative Director to the general meetings of shareholders and reporting thereon to the relevant Audit and Supervisory Committee Members and the relevant Directors. Currently, the Company's independent auditor is KPMG AZSA LLC.

The Company's Directors as at the date of this Offering Circular are set out in the table below:

<b>Name</b>	<b>Title</b>
Mitsugu Yamaguchi	President, CEO and Representative Director
Yoshihiko Katsukawa	Executive Vice President and Representative Director
Hajime Nagara	Executive Vice President and Representative Director
Koichi Sakamoto	Director, Executive Officer
Shinji Miyaoka	Director, Executive Officer
Hiroyuki Bamba	Outside Director, Chairperson of the Board of Directors
Yumiko Ito	Outside Director
Shinsuke Kitagawa	Outside Director

Name	Title
Hiroshi Ishikawa	Director and Member of Audit and Supervisory Committee (Full time)
Gunyu Matsumoto	Director and Member of Audit and Supervisory Committee (Full time)
Masaaki Kono	Outside Director and Chair of Audit and Supervisory Committee
Kunio Miura	Outside Director and Member of Audit and Supervisory Committee
Nobuko Sekiguchi	Outside Director and Member of Audit and Supervisory Committee

The Company's principal business address of the Company's Directors is 2-4, Wakino-hama-Kaigandori 2-chome, Chuo-ku, Kobe, Hyogo 651-8585, Japan.

The Company's Articles of Incorporation provide that the Company may enter into liability limitation contracts with any of its Directors (excluding those who are representative managing or executive Directors of the Company) to limit the maximum amount of damages arising in connection with their failure to execute their duties in good faith and without gross negligence to the total amount stipulated in Article 425, Paragraph 1, Item 1 and Item 2 of the Companies Act.

As at 31 March 2023, no Director of the Company had an interest in any transaction which was unusual in its nature or conditions or significant to the Group's business which was effected by the Company. As at 31 March 2023, there were no outstanding loans granted by any company of the Group to the Company's Directors, and no guarantees provided by any company of the Group for the benefit of any of the Directors of the Company.

### Remuneration

The aggregate remuneration of the Directors who are not Audit and Supervisory Committee Members (excluding the Outside Directors) and Audit and Supervisory Committee Members (excluding the Outside Directors) for the fiscal year ended 31 March 2023 paid by the Company was ¥419 million and ¥62 million, respectively. The aggregate remuneration of the Outside Officers for the fiscal year ended 31 March 2023 paid by the Company was ¥85 million.

The Company has in place a Board Benefit Trust system which grants Shares to Directors, excluding Outside Officers who are also Audit and Supervisory Committee Members. Under the Board Benefit Trust system, these Directors are granted points on their position and their contributions towards achieving numerical performance targets for key management indicators and eligible recipients receive Shares from the trust account every three years within the trust period.

### Employees

The following table sets out the number of full-time and part-time employees of the Company on a consolidated basis as at 31 March 2021, 2022 and 2023, according to reporting segments:

	As at 31 March					
	2021		2022		2023	
	Full time	Part-time	Full time	Part-time	Full time	Part-time
Steel & Aluminium	12,424	1,405	11,828	1,308	12,268	1,413
Advanced Materials <sup>(1)</sup>	6,080	490	4,469	357	4,489	451
Welding	2,514	220	2,445	216	2,384	254
Machinery	4,661	778	4,716	873	4,881	970
Engineering	3,524	1,154	3,553	1,119	3,772	1,152
Construction Machinery	7,917	1,460	7,829	1,501	7,550	1,782
Electric Power	263	48	272	55	287	52
Other Businesses	1,637	178	1,542	198	1,432	212
Corporate <sup>(2)</sup>	1,497	178	1,452	155	1,425	164
<b>Total</b>	<b>40,517</b>	<b>5,911</b>	<b>38,106</b>	<b>5,782</b>	<b>38,488</b>	<b>6,450</b>

Notes:

- (1) The number of the employees who belong to the Advanced Materials segment as at 31 March 2022 has decreased by 1,611 compared to 31 March 2021. This reduction was principally due to the deconsolidation of Kobelco & Materials Copper Tube Corporation, Kobelco & Materials Copper Tube (Thailand) Co., Ltd. and Kobelco & Materials Copper Tube (M) Sdn. Bhd.
- (2) The number of employees shown in "Corporate" is the number of employees belonging to corporate administration departments.

The Kobe Steel Labour Union and the labour unions of consolidated subsidiaries of the Company are affiliated with Japan Federation of Basic Industry Workers' Unions, which is an industrial union. As at 31 March 2023, 9,173 of the Company's employees (including secondees to consolidated subsidiaries) belonged to the Kobe Steel Labour Union.

**Stock Option Plans**

The Company currently has no stock option plans.

## SUBSIDIARIES AND AFFILIATES

As at 30 September 2023, the Company had 202 subsidiaries (of which 174 were consolidated) and 47 affiliates (of which 34 were accounted for by the equity method).

The following table sets out certain information as at 30 September 2023 with respect to the Company's principal subsidiaries and affiliates:

Subsidiary	Location	Principal business	Percentage of voting rights held by the Company <sup>(1)</sup>	Paid-in capital
			<i>(Per cent)</i>	
<b>Consolidated Subsidiaries</b>				
Nippon Koshuha Steel Co., Ltd.	Tokyo, Japan	Manufacture and sale of special steel	51.83	¥12,721 million
Kobelco Wire Company, Ltd. <sup>(3)</sup>	Hyogo, Japan	Manufacture and sale of secondary wire rod products; contracting construction work of structures	43.62 (0.95)	¥8,062 million
Kobelco Logistics, Ltd.	Hyogo, Japan	Harbour transportation, coastal shipping, customs clearance, truck transportation, warehousing and contracting plant work	97.68	¥2,479 million
Kobelco Bolt, Ltd.	Chiba, Japan	Manufacture and sale of bolts for construction and bridges	100.00	¥465 million
Kobelco E&M Co., Ltd.	Hyogo, Japan	Design, manufacture, installation, piping and maintenance of plants and equipment	100.00	¥150 million
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.	China	Manufacture and sale of aluminium sheets for automotive panels	100.00 (100.00)	RMB884,000 thousand
Kobelco Precision Technology Sdn. Bhd.	Malaysia	Manufacture and sale of aluminium disk material for hard disk drives	100.00	MYR19,000 thousand
Kobelco Millcon Steel Co., Ltd.	Thailand	Manufacture and sale of special steel and ordinary steel wire	75.00	THB2,830 million
Kobe Aluminum Automotive Products (China) Co., Ltd.	China	Manufacture and sale of aluminium forgings for automotive suspensions	60.00	RMB239,681 thousand
Kobe Aluminum Automotive Products, LLC	USA	Manufacture and sale of aluminium forgings for automotive suspensions	97.66 (97.66)	US\$154,000 thousand

<b>Subsidiary</b>	<b>Location</b>	<b>Principal business</b>	<b>Percentage of voting rights held by the Company<sup>(1)</sup></b>	<b>Paid-in capital</b>
Kobelco Aluminum Products & Extrusions Inc.	USA	Manufacture and sale of bumper materials and frame materials for automotive bumpers	(Per cent) 100.00 (100.00)	US\$24,000 thousand
Kobelco Welding of Qingdao Co., Ltd.	China	Manufacture and sale of welding materials, sales of welding robot systems and its parts	90.00	RMB211,526 thousand
Kobelco Welding of Korea Co., Ltd.	South Korea	Manufacture and sale of welding materials	87.74	KRW6,554 million
Kobelco Compressors Corporation	Tokyo, Japan	Manufacture, sale, and service of air compressors	51.00	¥7,400 million
Kobelco Machinery Engineering Co., Ltd.	Gifu, Japan	Manufacture and sale of internal combustion engines, transmissions, and testing machines	100.00 (11.11)	¥388 million
Kobelco Research Institute, Inc.	Hyogo, Japan	Material analysis and testing, structural analyses; manufacture and sale of target material and inspection equipment for semiconductor and flat panel displays	100.00	¥300 million
Kobelco Wuxi Compressors Co., Ltd.	China	Manufacture and sale of compressors	70.00 (70.00)	RMB150,000 thousand
Kobelco Compressors Manufacturing (Shanghai) Corporation	China	Development and manufacture of compressors and related products Sale and service of products of the Company	100.00 (100.00)	RMB87,796 thousand
Kobelco Industrial Machinery India Pvt. Ltd.	India	Manufacture and sale of rubber mixers and twin-screw roller head extruder	100.00 (10.00)	INR863 million
Quintus Technologies AB	Sweden	Design, manufacture, sale, and service of isostatic pressing equipment and sheet metal forming equipment	100.00 (100.00)	SEK10 million
Kobelco Compressors America, Inc.	USA	Manufacture and sale of compressor systems for process gas, refrigeration compressor systems and parts	100.00 (100.00)	US\$5 thousand

<b>Subsidiary</b>	<b>Location</b>	<b>Principal business</b>	<b>Percentage of voting rights held by the Company<sup>(1)</sup></b>	<b>Paid-in capital</b>
Kobelco Eco-Solutions Co., Ltd.	Hyogo, Japan	Design, manufacture, construction, and maintenance of environmental plants	(Per cent) 100.00	¥6,020 million
Kobelco Eco-Maintenance Co., Ltd.	Hyogo, Japan	Design, manufacture and maintenance of industrial machinery and equipment	100.00 (100.00)	¥80 million
Midrex Technologies, Inc.	USA	Operation of water treatment facilities and waste treatment facilities	100.00 (100.00)	US\$1 thousand
Kobelco Construction Machinery Co., Ltd.	Tokyo, Japan	Design and sale of MIDREX® Process (direct-reduction ironmaking process) plants	100.00 (100.00)	¥16,000 million
Kobelco Construction Machinery Japan Co., Ltd.	Chiba, Japan	Manufacture and sale of construction machinery	100.00 (100.00)	¥490 million
Toyosugiue Co., Ltd.	Kagawa, Japan	Sale and service of construction machinery	100.00 (100.00)	¥350 million
Kobelco Construction Machinery (China) Co., Ltd.	Kagawa, Japan	Sale, rental, repair and installation service of construction machinery and industrial machinery	100.00 (100.00)	¥350 million
Kobelco Construction Machinery (China) Co., Ltd.	China	Sale and service of construction machinery	100.00 (100.00)	RMB2,522,314 thousand
Chengdu Kobelco Construction Machinery Financial Leasing Ltd.	China	Leasing business	88.95 (88.95)	RMB374,199 thousand
Hangzhou Kobelco Construction Machinery Co., Ltd.	China	Manufacture and sale of construction machinery	100.00 (100.00)	RMB261,374 thousand
Kobelco Construction Machinery Southeast Asia Co., Ltd.	Thailand	Manufacture and sale of construction machinery	100.00 (100.00)	THB2,279 million
Kobelco Construction Equipment India Pvt. Ltd.	India	Manufacture, sale, and service of construction machinery	100.00 (100.00)	INR4,512 million
Kobelco Construction Machinery Europe B.V.	Netherlands	Sale and service of construction machinery	100.00 (100.00)	EUR8,800 thousand
Kobelco International (S) Co., Pte. Ltd.	Singapore	Sale and service of construction machinery	100.00 (100.00)	¥1,058 million
Pt. Daya Kobelco Construction Machinery Indonesia	Indonesia	Sale and service of construction machinery	100.00 (100.00)	IDR1,312,592 million

<b>Subsidiary</b>	<b>Location</b>	<b>Principal business</b>	<b>Percentage of voting rights held by the Company<sup>(1)</sup></b>	<b>Paid-in capital</b>
			<i>(Per cent)</i>	
Kobelco Construction Machinery U.S.A. Inc.	USA	Sale and service of construction machinery	100.00 (100.00)	US\$2 thousand
Kobelco Power Kobe Inc.	Hyogo, Japan	Wholesale power supply	100.00	¥3,000 million
Kobelco Power Moka Inc.	Tochigi, Japan	Wholesale power supply	100.00	¥600 million
Kobelco Power Kobe No. 2, Inc.	Hyogo, Japan	Wholesale power supply	100.00	¥300 million
Kobelco (China) Holding Co., Ltd.	China	A holding company in China	100.00	RMB1,775,939 thousand
Kobe Steel USA Holdings Inc.	USA	Holding shares of companies in the United States	100.00	US\$205 thousand
<b>Affiliates Accounted for by the Equity Method</b>				
Kansai Coke and Chemicals Company, Limited	Hyogo, Japan	Manufacture and sale of coke and other chemical products	24.00	¥6,000 million
Nippon Steel Kobelco Metal Products Co., Ltd.	Tokyo, Japan	Manufacture and sale of products for civil engineering and construction	35.00	¥300 million
Kobelco Angang Auto Steel Co., Ltd.	China	Manufacture and sale of cold-rolled, high-tensile strength steel	49.00 (49.00)	RMB700,000 thousand
Ulsan Aluminum, Ltd.	South Korea	Manufacture of aluminium sheet base material	50.00	KRW618,361 million
PRO-TEC Coating Company, LLC	USA	Manufacture and sale of galvanised steel sheet and cold-rolled, high-tensile strength steel	50.00 (50.00)	US\$123,000 thousand
Japan Aeroforge, Ltd.	Okayama, Japan	Manufacture and sale of large forgings	40.54	¥1,850 million
Hokuto Co., Ltd.	Aomori, Japan	Manufacture, sale, repair and leasing of civil engineering, construction, work, mining, transportation, electrical machinery	34.00 (34.00)	¥30 million
Shinsho Corporation <sup>(4)</sup>	Osaka, Japan	Import/export and trading of iron & steel and nonferrous metal products and machinery	14.47 (1.05)	¥5,650 million
Shinsei Kobelco Leasing Co., Ltd.	Hyogo, Japan	Leasing and instalment sale of construction machinery, industrial equipment, office equipment, and other moveable property	20.00	¥3,243 million

<b>Subsidiary</b>	<b>Location</b>	<b>Principal business</b>	<b>Percentage of voting rights held by the Company<sup>(1)</sup></b>	<b>Paid-in capital</b>
			<i>(Per cent)</i>	
TC Kobelco Real Estate Co., Ltd.	Hyogo, Japan	Real estate sale and leasing, and insurance agency business	25.00	¥3,037 million

Notes:

- (1) Numbers in parentheses denote indirect holding.
- (2) In the above table, RMB stands for Chinese yuan, MYR stands for Malaysian ringgit, THB stands for the Thai baht, US\$ stands for US dollar, KRW stands for South Korean won, INR stands for the Indian rupee, SEK stands for the Swedish krona, EUR stands for euro, and IDR stands for the Indonesian rupiah.
- (3) Although the Company has less than 50 per cent of the voting right in this company, since the Company substantially controls this company, it is classified as a consolidated subsidiary.
- (4) Although the Company has less than 20 per cent of the voting rights in this company, since the Company has substantial influence on this company, it is recognised as an affiliate. The ownership percentage (excluding the amounts indicated in the above table) with respect to the issued shares of this company in respect of which holders have consented to the exercise of voting rights is 21.70 per cent.

## JAPANESE FOREIGN EXCHANGE AND CERTAIN OTHER REGULATIONS

*Potential investors should consult their own legal and other advisers on the consequences of the acquisition of Shares (including any Shares to be acquired upon exercise of the Stock Acquisition Rights), including specifically the applicable notification, reporting and other procedures and any available exemptions therefrom under the Foreign Exchange Regulations.*

The Foreign Exchange Regulations govern certain aspects relating to the acquisition and holding of shares by “exchange non-residents” and by “foreign investors” (as these terms are defined below). In general, the Foreign Exchange Regulations currently in effect do not affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange residents are defined in the Foreign Exchange Regulations as:

- (i) individuals who reside within Japan; or
- (ii) corporations whose principal offices are located within Japan.

Exchange non-residents are defined in the Foreign Exchange Regulations as:

- (iii) individuals who do not reside in Japan; or
- (iv) corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations located within Japan are regarded as exchange residents. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are defined in the Foreign Exchange Regulations as:

- (i) individuals who do not reside in Japan;
- (ii) corporations or other entities organised under the laws of foreign countries or whose principal offices are located outside Japan (excluding partnerships falling within (iv));
- (iii) corporations of which 50 per cent or more of the total voting rights are held, directly or indirectly, by individuals and/or corporations falling within (i) and/or (ii) above;
- (iv) general partnerships or limited partnerships under Japanese law or any similar partnerships under the laws of foreign countries, where either: (A) 50 per cent or more of the capital contributions to those entities are made by individuals who do not reside in Japan or certain other foreign investors or (B) a majority of the general partners of such entities are individuals who do not reside in Japan or certain other foreign investors; or
- (v) corporations or other entities of which a majority of either (A) directors or other persons equivalent thereto or (B) directors or other persons equivalent thereto having the power of representation are individuals who do not reside in Japan.

### **Acquisition of Shares**

Acquisition by an exchange non-resident of shares of a Japanese corporation from an exchange resident including any shares to be acquired upon exercise of stock acquisition rights requires post facto reporting by the exchange resident to the Minister of Finance of Japan through the Bank of Japan. No such reporting requirement is imposed, however, if:

- (i) the aggregate purchase price of the relevant shares is ¥100 million or less;
- (ii) the acquisition is effected through any bank, financial instruments business operator or other entity prescribed by the Foreign Exchange Regulations acting as an agent or intermediary; or
- (iii) the acquisition constitutes an “inward direct investment” described below.

### **Inward Direct Investment in Shares of Listed Corporations**

#### ***Inward Direct Investment***

If a foreign investor acquires shares or voting rights of a Japanese corporation that is listed on a Japanese stock exchange, such as the Shares, or that is traded on an over-the-counter market in Japan including any shares to be

acquired upon exercise of stock acquisition rights and, as a result of the acquisition, the foreign investor, in combination with any existing holdings and holdings of its closely-related persons (as defined in the Foreign Exchange Regulations), directly or indirectly holds 1 per cent or more of (i) the total issued shares or (ii) the total voting rights of the relevant corporation (shares and voting rights of the relevant corporation to be acquired are collectively referred to as the “Inward Direct Investment Shares”), such acquisition constitutes an “inward direct investment” under the FEFTA.

#### ***Prior Notification***

Where a foreign investor intends to acquire the Inward Direct Investment Shares, and any of the business conducted by the investee Japanese corporation falls within any business sectors designated under the Foreign Exchange Regulations, or the Designated Business Sectors, *Shitei-Gyoshu* (as is the case for the Company), in principle, a notification of the acquisition must be made in advance to the Ministers having jurisdiction over that Japanese corporation (including the Minister of Economy, Trade and Industry in the case of the Company).

If such notification is made, the proposed acquisition cannot be consummated until 30 days have passed from the date thereof (this period is referred to as the “Screening Period”); provided, however, that the Screening Period will be shortened unless any of the relevant Ministers finds it necessary to check whether the proposed acquisition should be restricted from the viewpoint of national security or certain other factors, and may be shortened to 5 business days, if the proposed acquisition is determined not to raise such concerns. If the relevant Ministers find it necessary to check whether the proposed acquisition should be restricted, the Ministers may extend the Screening Period for up to five months; and the Ministers may eventually recommend any modifications to, or abandonment of, the proposed acquisition if necessary from the viewpoint of national security or certain other factors. If the foreign investor does not accept any of the recommendations, the relevant Ministers may order that the proposed acquisition be modified or abandoned.

Foreign investors acquiring the Inward Direct Investment Shares by way of a stock split are not subject to these notification requirements.

In addition, in the event a foreign investor, in combination with any holdings of its closely-related persons, directly or indirectly holds 1 per cent or more of the total voting rights of a Japanese listed corporation engaging in the Designated Business Sectors, certain other activities of such foreign investor such as (i) voting for appointment of himself/herself or a person related thereto (as defined in the Foreign Exchange Regulations) as a board member of such corporation and (ii) proposal and voting for transfer or abolishment of business activities related to the Designated Business Sectors of such corporation also constitute “inward direct investments” and, as a result, are subject to the prior notification requirements under the FEFTA.

#### ***Exemption from Prior Notification***

Irrespective of the foregoing, where any of the business conducted by the investee Japanese corporation falls within certain Designated Business Sectors specified in the Foreign Exchange Regulations, or the Core Sectors, *Core-Gyoshu* (the Company is currently conducting the business belonging to the Core Sectors), the foreign investor (including (a) the foreign financial institutions specified in the Foreign Exchange Regulations and (b) sovereign wealth funds or public pension funds which have been accredited by the Japanese government and excluding the foreign financial institutions specified in the Foreign Exchange Regulations), who (i) acquires less than 10 per cent of the Inward Direct Investment Shares (comprised of the aggregate amount of any existing holdings and holdings of its closely-related persons) of such Japanese corporation, and (ii) complies with the following conditions is not required to make a prior notification upon his/her acquisition of the Inward Direct Investment Shares since an exemption therefrom is applicable, as long as:

- (a) the foreign investor or its related persons (as defined in the Foreign Exchange Regulations) will not become board members of such corporation or its certain related corporations;
- (b) the foreign investor will not propose transfer or abolishment of the business activities related to the Designated Business Sectors to or at a general meeting of shareholders;
- (c) the foreign investor will not access non-public information about the technology of such corporation or its certain related corporations in relation to business activities related to the Designated Business Sectors;
- (d) the foreign investor will not attend the meetings of the board of directors or executive committees of corporation or its certain related corporations that make important decisions in connection with business activities related to the Core Sectors; and
- (e) the foreign investor will not make any proposals, in a written form, to the board of directors or executive committees that make important decisions or their members of such corporation or its certain related

corporations requesting that they respond and/or take any action in connection with business activities related to the Core Sectors by a certain deadline.

Further, foreign financial institutions specified in the Foreign Exchange Regulations who comply with conditions (a), (b) and (c) above are exempted from prior notification requirements.

This exemption is not applicable to certain types of foreign investors (for example, a foreign investor with a certain record of sanctions due to violation of the Foreign Exchange Regulations, or state-owned enterprises except those who are accredited by the Minister of Finance), and such foreign investors must file the prior notification set forth above.

### ***Post Transaction Report***

A foreign investor who has made a prior notification, as mentioned above, must file a post transaction report, or the Post Transaction Report, with the Ministers having jurisdiction over that Japanese corporation within 45 days after his/her acquisition of the Inward Direct Investment Shares.

A foreign investor who has acquired the Inward Direct Investment Shares in reliance on an exemption from prior notification, must, in principle, file a Post Transaction Report within 45 days after such acquisition, if the ratio of the total number of shares or voting rights held directly or indirectly by the foreign investor in combination with any existing holdings and holdings of its closely-related persons after the acquisition to the number of (i) the total issued shares or (ii) the total voting rights of the relevant corporation reaches:

- (i) 1 per cent or more but less than 3 per cent for the first time;
- (ii) 3 per cent or more but less than 10 per cent for the first time; and
- (iii) 10 per cent or more for each acquisition.

Provided, however, that foreign financial institutions specified in the Foreign Exchange Regulations are only required to file a Post Transaction Report for (iii) above.

Foreign investors acquiring the Inward Direct Investment Shares by way of a stock split are not subject to the Post Transaction Report requirements.

### **Dividends and Proceeds of Sale**

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds from sales in Japan of, shares held by exchange non-residents may generally be converted into any foreign currency and repatriated abroad.

### **Reporting of Substantial Shareholdings**

The FIEA and its related regulations require any person, regardless of residence, who has become beneficially, solely or jointly, a holder of more than 5 per cent of the total issued shares of common stock of a corporation that is listed on a Japanese stock exchange, or that is traded on an over-the-counter market in Japan, to file with the Director of the relevant Local Finance Bureau of the Ministry of Finance, within five business days, a report concerning such shareholdings. With certain exceptions, a similar report must also be filed in respect of any subsequent change of 1 per cent or more in any such holdings or any change in material matters set out in reports previously filed. For this purpose, shares issuable to such person upon the exchange of exchangeable securities, conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by the holder and the total issued shares.

## DESCRIPTION OF THE SHARES

### General

The Company is a joint stock corporation incorporated in Japan under the Companies Act. The rights of shareholders of a joint stock corporation are represented by shares of common stock in the corporation and shareholders' liability is limited to the amount of subscription for shares of such common stock. The Company's authorised share capital consisted of 600,000,000 Shares, of which 396,345,963 Shares were issued as of 30 September 2023. All issued Shares are fully paid and non-assessable.

The Japanese book-entry transfer system for listed shares of Japanese companies under the Book-Entry Act applies to the Shares. Under this system, shares of all Japanese companies listed on any Japanese stock exchange are dematerialised. Under the book-entry transfer system, in order for any person to hold, sell or otherwise dispose of listed shares of Japanese companies, they must have an account at an account management institution unless such person has an account at JASDEC. "Account management institutions" are financial instruments business operators (*i.e.*, securities firms), banks, trust companies and certain other financial institutions that meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet further stringent requirements of the Book-Entry Act can open accounts directly at JASDEC.

For the purpose of the description under "—General", the Company assumes that the relevant person has no account at JASDEC. Under the Book-Entry Act, any transfer of shares is effected through book-entry, and the title to the shares passes to the transferee at the time when the transferred number of shares is recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act, in order to assert shareholders' rights against the Company, the transferee must have its name and address registered in the Company's register of shareholders, except in limited circumstances. Under the book-entry transfer system, such registration is generally made upon an "all-shareholders notice" (*soukabunushi tsuchi*) (as described in "—Register of Shareholders" below) from JASDEC. For this purpose, shareholders are required to file their names and addresses with the Company's transfer agent through the account management institution and JASDEC. See "—Register of Shareholders" below for more information.

Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each such shareholder must give notice of their standing proxy or a mailing address to the relevant account management institution. Such notice will be forwarded to the Company's transfer agent through JASDEC. Japanese securities firms and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from the Company to Non-resident shareholders are delivered to the standing proxies or such mailing addresses.

### Distribution of Surplus

#### General

Under the Companies Act, the distribution of dividends takes the form of distribution of surplus (as described in "—Restriction on Distribution of Surplus" below). The Company may make a distribution of surplus in cash and/or in kind, with no restrictions on the timing and frequency of such distributions. The Companies Act generally requires a joint stock corporation to make distributions of surplus authorised by a resolution of a general meeting of shareholders. However, the Company's board of directors may decide to make distributions of surplus, if all of the following requirements are met:

- (a) the Company's Articles of Incorporation provide that the board of directors has the authority to decide to make distributions of surplus;
- (b) the Company has (i) an independent auditor and (ii) an audit and supervisory board, or an audit and supervisory committee, or nominating committee, etc. under the Companies Act, as the case may be;
- (c) the normal term of office of the Company's Directors who are not Audit and Supervisory Committee Members terminates on or prior to the date of close of the general meeting of shareholders relating to the last fiscal year ending within one year of the election of the director; and
- (d) the Company's non-consolidated annual financial statements and certain documents for the latest fiscal year fairly present the Company's assets and profits and losses, as required by the ordinances of the Ministry of Justice.

As at the date of this Offering Circular, the requirements described above are met in respect of the Company.

Distributions of surplus may be made in cash or in kind in proportion to the number of Shares held by each shareholder. A resolution of a general meeting of shareholders or the board of directors, as the case may be, authorising a distribution of surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of the assets to shareholders and the effective date of the distribution. If a distribution of surplus is to be made in kind, the Company may grant a right to shareholders to require the Company to make the distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders. See “—Voting Rights” for more details regarding a special resolution. Under the Company’s Articles of Incorporation, 31 March and 30 September are the record date for annual dividends and interim dividends, respectively.

The Company’s Articles of Incorporation provide that the Company is relieved of its obligation to pay any distributions to be made in cash that go unclaimed for five years after the date they first become payable.

### ***Restriction on Distribution of Surplus***

In making a distribution of surplus, the Company must set aside in the Company’s additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of surplus so distributed until the sum of such additional paid-in capital and legal reserve reaches one-quarter of the Company’s stated capital.

Under the Companies Act, the Company may distribute surplus up to the excess of the aggregate of (a) and (b) below, less the aggregate of (c) through (f) below, as of the effective date of the distribution, if its net assets are not less than ¥3,000,000:

- (a) the amount of surplus, as described below;
- (b) in the event that extraordinary financial statements as of, or for a period from the beginning of the fiscal year to, the specified date are approved, the aggregate amount of (i) the aggregate amount as provided for by an ordinance of the Ministry of Justice as the net profit for such period described in the statement of income constituting the extraordinary financial statements, and (ii) the amount of consideration that the Company received for the treasury stock that it disposed of during such period;
- (c) the book value of the Company’s treasury stock;
- (d) in the event that the Company disposed of treasury stock after the end of the last fiscal year, the amount of consideration that the Company received for such treasury stock;
- (e) in the event described in (b) in this paragraph, the aggregate amount as provided for by an ordinance of the Ministry of Justice as the net loss for such period described in the statement of income constituting the extraordinary financial statements; and
- (f) certain other amounts set forth in the ordinances of the Ministry of Justice, including (if the sum of one-half of the Company’s goodwill and deferred assets exceeds the total of the Company’s stated capital additional paid-in capital and legal reserve, each such amount as it appears on the balance sheet as of the end of the last fiscal year) all or a certain part of such excess amount as calculated in accordance with the ordinances of the Ministry of Justice.

For the purposes of this section, the “amount of surplus” is the excess of the aggregate of (i) through (iv) below, less the aggregate of (v) through (vii) below:

- (i) the aggregate of other capital surplus and other retained earnings at the end of the last fiscal year;
- (ii) in the event that the Company disposed of treasury stock after the end of the last fiscal year, the difference between the book value of such treasury stock and the consideration that the Company received for such treasury stock;
- (iii) in the event that the Company reduced the Company’s stated capital after the end of the last fiscal year, the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital and/or legal reserve (if any);
- (iv) in the event that additional paid-in capital and/or legal reserve were reduced after the end of the last fiscal year, the amount of such reduction less the portion thereof that has been transferred to stated capital (if any);
- (v) in the event that the Company cancelled treasury stock after the end of the last fiscal year, the book value of such treasury stock;

- (vi) in the event that the Company distributed surplus after the end of the last fiscal year, the aggregate of the following amounts:
  - (A) the aggregate amount of the book value of the distributed assets, excluding the book value of such assets that would be distributed to shareholders but for their exercise of the right to receive distributions in cash instead of distributions in kind;
  - (B) the aggregate amount of cash distributed to shareholders who exercised the right to receive distributions in cash instead of distributions in kind; and
  - (C) the aggregate amount of cash paid to shareholders holding fewer shares than shares that were required in order to receive distributions in kind;
- (vii) the aggregate amounts of (A) through (D) below, less (E) through (H) below:
  - (A) in the event that the amount of surplus was reduced and transferred to additional paid-in capital, legal reserve and/or stated capital after the end of the last fiscal year, the amount so transferred;
  - (B) in the event that the Company distributed surplus after the end of the last fiscal year, the amount set aside in additional paid-in capital and/or legal reserve;
  - (C) in the event that the Company disposed of treasury stock in the process of (w) a merger in which the Company acquired all rights and obligations of a company, (x) a corporate split in which the Company acquired all or a part of the rights and obligations of a split company, (y) a share exchange in which the Company acquired all shares of a company after the end of the last fiscal year or (z) a share delivery in which the Company acquired shares, stock acquisition rights or bonds with stock acquisition rights of a company and delivered the Company's Shares to the transferor of them as a consideration for such acquisition, the difference between the book value of such treasury stock and the consideration that the Company received for such treasury stock;
  - (D) in the event that the amount of surplus was reduced in the process of a corporate split in which the Company transferred all or a part of its rights and obligations after the end of the last fiscal year, the amount so reduced;
  - (E) in the event of (w) a merger in which the Company acquired all rights and obligations of a company, (x) a corporate split in which the Company acquired all or a part of the rights and obligations of a split company, (y) a share exchange in which the Company acquired all shares of a company after the end of the last fiscal year or (z) a share delivery in which the Company acquired shares, stock acquisition rights or bonds with stock acquisition rights of a company and delivered the Company's Shares to the transferor of them as a consideration for such acquisition, the aggregate amount of (i) the amount of the Company's other capital surplus after such merger, corporate split, share exchange or share delivery, less the amount of the Company's other capital surplus before such merger, corporate split, share exchange or share delivery, and (ii) the amount of the Company's other retained earnings after such merger, corporate split, share exchange or share delivery, less the amount of the Company's other retained earnings before such merger, corporate split, share exchange or share delivery;
  - (F) in the event that an obligation to cover a deficiency, such as the obligation of a person who subscribed for newly issued Shares with an unfair amount to be paid in, was fulfilled after the end of the last fiscal year, the amount of other capital surplus increased by such payment;
  - (G) in the event that the Company allotted the Company's Shares to the directors in consideration of providing service after the end of the last fiscal year, the changes in other capital surplus by such allotment; and
  - (H) in the event that the Company allotted the Company's treasury stock to the directors in consideration of providing service and the directors transferred these stock to the Company for free after the end of the last fiscal year, the amount of increase in treasury stock by such transfer.

In Japan, the "ex-dividend" date and the record date for any distribution of surplus come before the date a company determines the amount of distribution of surplus to be paid. For information as to Japanese taxes on distributions of surplus, see "Japanese Taxation".

### **Capital and Reserves**

Under the Companies Act, the paid-in amount of any newly issued shares is required to be accounted for as stated capital, although, the Company may account for an amount not exceeding one-half of such paid-in amount as

additional paid-in capital. The Company may generally reduce additional paid-in capital and/or legal reserve by a resolution of a general meeting of shareholders, subject to completion of protection procedures for creditors in accordance with the Companies Act, and, if so decided by the same resolution, the Company may account for the whole or any part of the amount of such reduction as stated capital. The Company may also transfer all or any part of surplus as described in “— Distribution of Surplus” above to stated capital, additional paid-in capital or legal reserve by a resolution of a general meeting of shareholders, subject to certain restrictions. The Company may generally reduce its stated capital by a special resolution of a general meeting of shareholders, subject to completion of protection procedures for creditors in accordance with the Companies Act, and, if so decided by the same resolution, the Company may account for the whole or any part of the amount of such reduction as additional paid-in capital or legal reserve.

### **Stock Splits**

Under the Companies Act, the Company may at any time split shares on issue into a greater number of the same class of shares by a resolution of the board of directors. When a stock split is to be made, the Company must give public notice of the stock split, specifying the record date therefor, at least two weeks prior to the record date.

Under the book-entry transfer system, on the effective date of the stock split, the numbers of shares recorded in all accounts held by the Company’s shareholders at account management institutions will be increased in accordance with the applicable ratio.

### **Gratuitous Allocation**

Under the Companies Act, the Company may allot any class of shares to its existing shareholders without any additional contribution by resolution of the board of directors; provided that, although treasury stock may be allotted to shareholders, any such allotment of shares will not accrue to any shares held as treasury stock.

When a gratuitous allocation is to be made and the Company sets a record date therefor, the Company must give public notice of the gratuitous allocation, specifying the record date therefor, at least two weeks prior to the record date.

On the effective date of the gratuitous allocation, the number of shares recorded in accounts held by the Company’s shareholders at account management institutions will be increased in accordance with a notice from the Company to JASDEC.

### **Reverse Stock Split**

The Company may at any time consolidate the shares into a smaller number of Shares by a special resolution of the general meeting of shareholders. The Company must disclose the reason for the reverse stock split at the general meeting of shareholders. When a reverse stock split is to be made, the Company must give public notice of reverse stock split, at least two weeks (or, in certain cases where any fractions of Shares are left as a result of the reverse stock splits, 20 days) prior to the effective date of the reverse stock split.

Under the book-entry transfer system, on the effective date of a reverse stock split, the numbers of Shares recorded in all accounts held by the Company’s shareholders at account management institutions will be decreased in accordance with the applicable ratio.

### **Unit Share System**

#### ***General***

The Company’s Articles of Incorporation currently provide that 100 Shares constitute one “unit”. The Companies Act permits a company, by resolution of the board of directors, to reduce the number of shares which constitutes one unit or to abolish the unit share system, by amending its articles of incorporation to this effect without the approval of a general meeting of shareholders, with individual or public notice without delay after the effective date.

#### ***Transferability of shares constituting less than one unit***

Under the book-entry transfer system, shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges.

#### ***Voting rights of a holder of shares constituting less than one unit***

A holder of shares constituting less than one unit cannot exercise any voting rights pertaining to those shares. In calculating the quorum for various voting purposes, the aggregate number of shares constituting less than one unit will be excluded from the number of outstanding shares. A holder of shares representing one or more whole units will have one vote for each whole unit represented.

A holder of shares constituting less than one unit does not have any rights related to voting, such as the right to participate in a demand for the resignation of a director, the right to participate in a request for the convocation of a general meeting of shareholders and the right to join with other shareholders to propose a matter to be included in the agenda of a general meeting of shareholders.

In accordance with the Companies Act, the Company's Articles of Incorporation provide that a holder of shares constituting less than one unit does not have any other rights of a shareholder in respect of those shares, other than those provided by the Company's Articles of Incorporation including the following rights:

- to receive dividends;
- to receive cash or other assets in the case of a reverse stock split or stock split, share exchange, share transfer or merger;
- to be allotted shares and stock acquisition rights, without any additional consideration, when such rights are granted to shareholders; and
- to participate in any distribution of surplus assets upon liquidation.

***Rights of a holder of Shares constituting less than one unit to require the Company to purchase its Shares and to sell Shares***

Under the Companies Act, a holder of shares constituting less than one unit may at any time request that the Company purchases its Shares. In addition, a holder of Shares constituting less than one full unit has the right to request that the Company sells to such holder such number of shares constituting less than one full unit which, when added to the Shares constituting less than one full unit currently owned by such holder, will constitute one full unit. Upon such request, the Company is required to sell such number of Shares as long as the Company holds a sufficient number of Shares as treasury stock to satisfy the request. Under the book-entry transfer system, such request must be made to the Company through the relevant account management institution.

The price at which Shares constituting less than one unit will be purchased or sold by the Company pursuant to such a request will be equal to (a) the closing price of the Shares reported by the Tokyo Stock Exchange on the day when the request is received by the Company's transfer agent or (b) if no sale takes place on the Tokyo Stock Exchange on that day, the price at which the sale of Shares is executed on such stock exchange immediately thereafter.

**General Meetings of Shareholders**

The Company's ordinary general meeting of shareholders is usually held every June in Hyogo, Japan. The record date for an annual general meeting of shareholders is 31 March of each year. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' prior notice to shareholders.

The place, the time, the purpose and certain other matters relating to the general meeting of shareholders, including the information contained in the reference materials, must be uploaded onto a website at least three weeks prior to the date set for the meeting, and notice of the URL of the website to be used and certain other matters relating to the meeting must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to his or her standing proxy or mailing address in Japan) at least two weeks prior to the date set for such meeting. Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders.

Any shareholder or group of shareholders holding at least three per cent of the Company's total voting rights for a period of six months or more may request, by giving the Company an individual shareholder notice (as described in "— Register of Shareholders" below), the convocation of a general meeting of shareholders for a particular purpose. Unless such general meeting of shareholders is convened without delay or a convocation notice of a general meeting of shareholders which is to be held not later than eight weeks from the day of such request is dispatched, the requesting shareholder may, upon obtaining a court approval, convene such general meeting of shareholders.

Any shareholder or group of shareholders holding at least 300 voting rights or one per cent of the Company's total voting rights for a period of six months or more may propose a matter to be included in the agenda of a general meeting of shareholders, and may request to include a summary of such matter in a convocation notice to the Company's shareholders, by submitting a request to a director at least eight weeks prior to the date set for such meeting, (provided that the Company is able to limit the number of such matters proposed by each shareholder to 10) with an individual shareholder notice, see "—Register of Shareholders" below.

The Companies Act enables a company to amend its articles of incorporation in order to lower the requirements for the number of shares held and shareholding period, as well as the period required for dispatching a convocation

notice or submission of requests, all of which are required for any shareholder or group of shareholders to request the convocation of a general meeting of shareholders or to propose a matter to be included in the agenda of a general meeting of shareholders or to request to include a summary of such matter in a convocation notice. The Company's Articles of Incorporation do not include standards lower than those otherwise required by the Companies Act.

### **Voting Rights**

A shareholder of record is entitled to one vote per one unit of shares, except that neither the Company nor any corporation, partnership or other similar entity no less than one-quarter of the voting rights of which are directly or indirectly owned by the Company shall have voting rights in respect of shares held by the Company or such entity. Except as otherwise provided by law or by the Company's Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of the voting rights represented at the meeting. Shareholders may also exercise their voting rights through proxies, provided that the proxy is granted to one of the Company's shareholders having voting rights. The Companies Act and the Company's Articles of Incorporation provide that the quorum for the election of Directors is one-third of the total number of voting rights. The Company's Articles of Incorporation provide that the Shares may not be voted cumulatively for the election of Directors. The Company's shareholders may exercise voting rights in writing, or electronically in accordance with a resolution of the board of directors.

The Companies Act provides that a special resolution of the general meeting of shareholders is required for certain significant corporate transactions, including:

- any amendment to the Company's Articles of Incorporation (except for amendments that may be made without the approval of shareholders under the Companies Act);
- dismissal of any of directors who are Audit and Supervisory Committee Members;
- a reduction of stated capital, subject to certain exceptions, such as a reduction of stated capital for the purpose of replenishing capital deficiencies;
- a dissolution, merger or consolidation, subject to certain exceptions under which a shareholders' resolution is not required;
- the transfer of the whole or a substantial part of the Company's business, subject to certain exceptions under which a shareholders' resolution is not required;
- the transfer of the whole or a part of the Company's equity interests in any of the Company's subsidiaries requiring shareholders' resolution;
- the taking over of the whole of the business of any other corporation, subject to certain exceptions under which a shareholders' resolution is not required;
- a corporate split, subject to certain exceptions under which a shareholders' resolution is not required;
- a share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*) for the purpose of establishing 100 per cent parent-subsidiary relationships, subject to certain exceptions under which a shareholders' resolution is not required;
- a share delivery (*kabushiki-kofu*) for the purpose of making another corporation a subsidiary, subject to certain exceptions under which a shareholders' resolution is not required;
- any issuance of new Shares or transfer of existing Shares held by the Company as treasury stock at a "specially favourable" price and any issuance of stock acquisition rights or bonds with stock acquisition rights at a "specially favourable" price or on "specially favourable" conditions to any persons other than shareholders;
- any acquisition by the Company of its own Shares from specific persons other than the Company's subsidiaries; or
- a reverse stock split.

Except as otherwise provided by law or in the Company's Articles of Incorporation, a special resolution requires the approval of the holders of at least two-thirds of the voting rights of all shareholders present or represented at a general meeting of shareholders where a quorum is present. The Company's Articles of Incorporation provide that a quorum exists when one-third of the total number of voting rights is present or represented.

### **Liquidation Rights**

If the Company is liquidated, the assets remaining after payment of all taxes, liquidation expenses and debts will be distributed among the Company's shareholders in proportion to the number of Shares they hold.

## **Rights to Allotment of Shares**

Holders of shares have no pre-emptive rights. Authorised but unissued shares may be issued at such times and on such terms as the Company's board of directors may determine, so long as the limitations described in "—Voting Rights" above with respect to the issuance of new Shares at "specially favourable" prices are observed. The Company's board of directors may, however, determine that shareholders shall be given rights to allotment regarding a particular issue of new Shares, in which case the rights must be given on uniform terms to all holders of Shares as of a record date for which not less than two weeks' prior public notice must be given. Each of the shareholders to whom the rights are given must also be given notice of the expiration date thereof at least two weeks prior to the date on which the rights expire. The rights to allotment of new Shares may not be transferred. However, the Companies Act enables the Company to allot stock acquisition rights to shareholders without consideration therefor, and such stock acquisition rights are transferable. See "—Stock Acquisition Rights".

In cases where a particular issuance of new Shares violates laws and regulations or the Company's Articles of Incorporation or will be performed in a manner that is materially unfair, and shareholders may suffer disadvantage therefrom, shareholders may file an injunction with a court of law to enjoin the issuance.

## **Stock Acquisition Rights**

Subject to certain conditions and to the limitations on issuances at a "specially favourable" price or with "specially favourable" conditions described in "—Voting Rights" above, the Company may issue stock acquisition rights (*shinkabu yoyakukun*) and bonds with stock acquisition rights (*shinkabu yoyakukun-tsuki shasai*) by a resolution of the board of directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of Shares within the exercise period as set forth in the terms of their stock acquisition rights. Upon the exercise of stock acquisition rights, the Company will be obligated either to issue the relevant number of new Shares or, alternatively, to transfer the necessary number of Shares of treasury stock held by the Company.

## **Register of Shareholders**

Under the book-entry transfer system, the registration of names, addresses and other information of shareholders in the Company's register of shareholders will be made by the Company upon the receipt of an all-shareholders notice (*soukabunushi tsuchi*) (with the exception that in the event of the issuance of new Shares, the Company will register the names, addresses and other information of shareholders in the Company's register of shareholders without an all-shareholders notice from JASDEC) given to the Company by JASDEC, which will give the Company the all-shareholders notice based on information provided by the account management institutions. An all-shareholders notice will be made only in the cases prescribed under the Book-Entry Act such as in cases where the Company fixes the record date and in cases where the Company makes a request to JASDEC for any justifiable reason. Therefore, a shareholder may not assert shareholders' rights against the Company immediately after the shareholder acquires Shares, unless such shareholder's name, address and other information are registered in the Company's register of shareholders upon receipt of an all-shareholders notice; provided, however, that, in respect of the exercise of rights of minority shareholders defined under the Book-Entry Act, the shareholder may exercise such rights upon giving the Company an individual shareholder notice (*kobetsukabunushi tsuchi*) through JASDEC only during a certain period prescribed under the Book-Entry Act.

## **Record Date**

The record date for year-end dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders is 31 March. The record date for interim dividends is 30 September. In addition, by a resolution of the Company's board of directors, the Company may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' prior public notice. Under the rules of JASDEC, the Company is required to give notice of each record date to JASDEC promptly after the resolution of the board of directors determining such record date. JASDEC is required to promptly give the Company notice of the names and addresses of its shareholders, the number of Shares held by them and other relevant information as of each record date.

## **Acquisition by the Company of the Company's Own Shares**

Under the Companies Act, the Company may acquire the Company's own Shares:

- by purchase on any stock exchange on which its Shares are listed or by way of tender offer, pursuant to a resolution of the board of directors subject to certain requirements;
- by purchase from a specific party other than any of its subsidiaries, pursuant to a special resolution of a general meeting of shareholders subject to certain requirements; or
- by purchase from any of the Company's subsidiaries, pursuant to a resolution of the board of directors subject to certain requirements.

If the Company acquires Shares from a specific party other than any of the Company's subsidiaries as specified above at a price higher than the greater of:

- (a) the closing price of the Company's Shares on the market trading such Shares on the day immediately preceding the day on which such resolution is made or (b) if no sale takes place at such market on that day, the price at which the sale of the Company's Shares is executed on such market immediately thereafter, and
- in the event that such Shares are subject to a tender offer, the price set in the contract regarding such tender offer on such date,

any shareholder may request that the Company includes him or her as the seller of his or her Shares in the proposed acquisition. Any such acquisition of Shares must satisfy certain requirements, such as that the Company may only acquire its own Shares in an aggregate amount up to the amount that the Company may distribute as surplus. See "—Distribution of Surplus" above for more details regarding this amount.

Shares acquired by the Company may be held by it as treasury stock for any period or may be cancelled by a resolution of the board of directors. The Company may also transfer the Shares held by it to any person, subject to a resolution of the board of directors, and also subject to other requirements similar to those applicable to the issuance of new Shares, as described in "—Rights to Allotment of Shares" above. The Company may also utilise its treasury stock (x) for the purpose of a transfer to any person upon exercise of stock acquisition rights or (y) for the purpose of acquiring another company by way of merger, share exchange, share delivery or corporate split through exchange of treasury stock for shares or assets of the acquired company.

#### **Request by Controlling Shareholder to Sell All Shares**

A shareholder holding 90 per cent or more of the Company's voting rights, directly or through the wholly controlling subsidiary, shall have a right to request that all other shareholders other than the Company (and all other holders of stock acquisition rights other than the Company, as the case may be) should sell all Shares (and all stock acquisition rights, as the case may be) held by them with approval of the Company, which must be made by a resolution of the board of directors (*kabushiki tou uriwatashi seikyu*). In order to make this request, such shareholder will be required to issue a prior notice to the Company. If the Company approves such request, it will be required to make a public notice to all holders and registered pledgees of Shares (and stock acquisition rights, as the case may be) not later than 20 days before the effective date of such sales.

#### **Sales by the Company of Shares Held by Shareholders Whose Addresses are Unknown**

Under the Companies Act, the Company is not required to send a notice to a shareholder if notices to such shareholder fail to arrive for a continuous period of five or more years at the registered address of such shareholder in register of shareholders of the Company or at the address otherwise notified to the Company.

In addition, the Company may sell or otherwise dispose of the Shares held by a shareholder whose location is unknown. Generally, if:

- notices to a shareholder fail to arrive for a continuous period of five or more years at the shareholder's registered address in register of shareholders or at the address otherwise notified to the Company; and
- the shareholder fails to receive distribution of surplus on the Shares for a continuous period of five or more years at the address registered in register of shareholders of the Company or at the address otherwise notified to the Company,

the Company may sell or otherwise dispose of the shareholder's Shares at the market price, after giving at least three months' prior public and individual notices, and hold or deposit the proceeds of such sale or disposal or acquisition for the shareholder.

## JAPANESE TAXATION

*The following is a summary of the principal Japanese tax consequences to Bondholders and owners of Shares acquired upon the exercise of the Stock Acquisition Rights incorporated in the Bonds or upon acquisition of the Bonds by the Company, who are non-residents of Japan or non-Japanese corporations, in either case having no permanent establishment in Japan (“Non-resident Holders”). The statements regarding Japanese tax laws set out below are based on the laws in force and interpreted by the Japanese taxation authorities as of the date hereof and are subject to changes in the applicable Japanese laws or tax treaties, conventions or agreements or in the interpretation thereof after that date.*

*This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the Bonds and Shares acquired upon exercise of the Stock Acquisition Rights or acquisition of the Bonds by the Company, including, specifically, the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty, convention or agreement between Japan and their country of residence, by consulting their own tax advisers.*

### **Bonds**

Receipts of premium (if any) upon redemption of the Bonds are subject to Japanese income tax (including corporate income tax) but are not subject to any withholding tax. If the recipient is a resident or a corporation of a country with which Japan has an income tax treaty, Japanese tax treatment may be modified by any applicable provisions of such income tax treaty. Bondholders are advised to consult with their legal, accounting or other professional advisers as to the applicable tax treatment.

Gains derived from the sale of Bonds, whether within or outside Japan by a Non-resident Holder thereof are, in general, not subject to Japanese income tax. Exercise of the Stock Acquisition Rights is not a taxable event in general.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Bonds as legatee, heir or donee even if the individual is not a Japanese resident.

### **Shares**

Generally, a Non-resident Holder of Shares is subject to Japanese withholding tax on dividends paid by the Company. Stock splits are not subject to Japanese income tax.

The rate of Japanese withholding tax applicable to dividends paid by the Company to a Non-resident Holder of Shares is generally 20 per cent, subject to any applicable income tax treaty. However, with respect to dividends paid by the Company to any Non-resident Holders of Shares, except for any individual shareholder who holds 3 per cent or more of the total issued Shares, the said 20 per cent withholding tax rate is reduced to 15 per cent. A special reconstruction surtax (2.1 per cent of the original applicable tax rate) is added to the withholding tax rates until 31 December 2037, so that the original withholding tax rate of 20 per cent and 15 per cent, as applicable, is effectively increased, respectively, to 20.42 per cent and 15.315 per cent during that period. The withholding tax under Japanese tax law mentioned above may be exempted or reduced under an applicable tax treaty between Japan and the country of tax residence of a Non-resident Holder.

Gains derived from the sale of Shares, whether within or outside Japan, by a Non-resident Holder thereof are, in general, not subject to Japanese income tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Shares as legatee, heir or donee even if the individual is not a Japanese resident.

## SUBSCRIPTION AND SALE

### Subscription Agreements

Pursuant to a subscription agreement dated 28 November 2023 in respect of the 2028 Bonds (the “2028 Bonds Subscription Agreement”) between the Company on the one hand and Nomura International plc (“Nomura”), Mizuho International plc (“Mizuho”, and together with Nomura, the “2028 Bonds Representatives”), Morgan Stanley & Co. International plc, SMBC Nikko Capital Markets Limited (together with the 2028 Bonds Representatives, the “2028 Bonds Joint Lead Managers”) on the other, the 2028 Bonds Joint Lead Managers have agreed with the Company, subject to the satisfaction of certain conditions, severally but not jointly, to purchase the aggregate principal amount of the 2028 Bonds as indicated in the table below at the issue price (the “2028 Bonds Issue Price”) of 100.0 per cent of the principal amount of the 2028 Bonds and to offer the 2028 Bonds at the offer price in respect of the 2028 Bonds as stated on the cover page of this Offering Circular (the “2028 Bonds Offer Price”).

	<b>Aggregate Principal Amount of the 2028 Bonds</b>
<b>2028 Bonds Joint Lead Managers</b>	
Nomura International plc .....	¥11,250,000,000
Mizuho International plc .....	8,750,000,000
Morgan Stanley & Co. International plc .....	2,500,000,000
SMBC Nikko Capital Markets Limited .....	2,500,000,000
Total .....	¥25,000,000,000

Pursuant to a subscription agreement dated 28 November 2023 in respect of the 2030 Bonds (the “2030 Bonds Subscription Agreement”, and together with the 2028 Bonds Subscription Agreement, the “Subscription Agreements”) between the Company on the one hand and Mizuho, Nomura (together, the “2030 Bonds Representatives”, and together with the 2028 Bonds Representatives, the “Representatives”), Morgan Stanley & Co. International plc, SMBC Nikko Capital Markets Limited (together with the 2030 Bonds Representatives, the “2030 Bonds Joint Lead Managers”, and together with the 2028 Bonds Joint Lead Managers, the “Joint Lead Managers”) on the other, the 2030 Bonds Joint Lead Managers have agreed with the Company, subject to the satisfaction of certain conditions, severally but not jointly, to purchase the aggregate principal amount of the 2030 Bonds as indicated in the table below at the issue price (the “2030 Bonds Issue Price”) of 100.0 per cent of the principal amount of the 2030 Bonds and to offer the 2030 Bonds at the offer price in respect of the 2030 Bonds as stated on the cover page of this Offering Circular (the “2030 Bonds Offer Price”).

	<b>Aggregate Principal Amount of the 2030 Bonds</b>
<b>2030 Bonds Joint Lead Managers</b>	
Mizuho International plc .....	¥10,000,000,000
Nomura International plc .....	10,000,000,000
Morgan Stanley & Co. International plc .....	2,500,000,000
SMBC Nikko Capital Markets Limited .....	2,500,000,000
Total .....	¥25,000,000,000

No selling concession or combined management and underwriting commission will be payable by the Company with respect to the offering of the Bonds. The difference between the 2028 Bonds Offer Price and the 2028 Bonds Issue Price will be retained by the 2028 Bonds Joint Lead Managers and the difference between the 2030 Bonds Offer Price and the 2030 Bonds Issue Price will be retained by the 2030 Bonds Joint Lead Managers.

The closings of the 2028 Bonds and the 2030 Bonds are conditional upon each other.

The Company has agreed to pay certain costs in connection with the issue and offering of the Bonds. The Joint Lead Managers are entitled to be released and discharged from their obligations under the relevant Subscription Agreement or to terminate the relevant Subscription Agreement in certain circumstances prior to payment to the Company as set out therein. The Company has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue and offering of the Bonds.

## Lock-up Arrangements

In connection with the issue and offering of the Bonds, the Company has agreed that it will not, and will procure that none of its directors or officers or any person acting on the direction of the Company will, for a period beginning on the date of the Subscription Agreements and ending on the date 180 calendar days after the Closing Date:

- (i) issue, offer, pledge, lend, sell, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that constitutes the right to receive, Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares;
- (ii) enter into a transaction (including a derivative transaction) that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale;
- (iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depository receipt facility; or
- (iv) publicly announce any intention to do any of the above,

without the prior written consent of the Representatives on behalf of the Joint Lead Managers, other than:

- (a) the issue and sale by the Company of the Bonds or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights (or the acquisition of the Bonds at the option of the Company);
- (b) the issue, sale or disposition of the Shares to directors and corporate officers of the Company and directors and corporate officers of any of its subsidiaries pursuant to the performance-linked share compensation plan of the Group as described in this Offering Circular;
- (c) the sale of Shares by the Company to any holder of Shares constituting less than one unit for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute one full unit of Shares;
- (d) the issue of Shares by the Company as a result of any stock split or the pro rata allocation of Shares or the stock acquisition rights to holders of Shares without any consideration and the issue or transfer of Shares upon exercise of such stock acquisition rights; and
- (e) any other issue or sale of Shares required by the Japanese laws and regulations.

## Selling Restrictions

### *United States*

The Bonds are being offered and sold outside of the United States in reliance on Regulation S of the Securities Act ("Regulation S"). The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S.

### *Japan*

The Bonds have not been and will not be registered under the FIEA. Accordingly, each Joint Lead Manager has represented and agreed that, in connection with the initial offering of the Bonds, it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

### ***Prohibition of Sales to EEA Retail Investors***

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “EU MiFID II”); or
  - (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II; or
  - (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “Prospectus Regulation”); and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds.

### ***Prohibition of Sales to UK Retail Investors***

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “EUWA”); or
  - (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act (the “FSMA”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds.

### ***Other United Kingdom Regulatory Restrictions***

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- (b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights in, from or otherwise involving the United Kingdom.

### ***Singapore***

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the

“SFA”) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018.

### ***Hong Kong***

Each Joint Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds or Shares issuable upon exercise of the Stock Acquisition Rights other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO, or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds and Shares issuable upon exercise of the Stock Acquisition Rights which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

### ***Switzerland***

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds. The Bonds may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (the “FinSA”) and no application has or will be made to admit the Bonds to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus pursuant to the FinSA, and neither this Offering Circular nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

### ***General***

Neither the Company nor any of the Joint Lead Managers represents that the Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating such sales.

### ***Other Relationships***

Certain of the Joint Lead Managers or their affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution.

In connection with the offering, any Joint Lead Manager may purchase the Bonds for its or their own account and may for its or their own account enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps or other derivatives relating to the Bonds and/or the Shares and/or other securities of the Company or its subsidiaries or affiliates and/or components of such Bonds and/or Shares and/or other securities, at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). As a result of such transactions any of the Joint Lead Managers may hold long or short positions in the Bonds and/or the Shares and/or derivatives relating thereto. No disclosure will be made of any such positions.

Certain of the Joint Lead Managers or their affiliates have in the past provided, are currently providing and may in the future provide, investment and commercial banking, underwriting, advisory and other services to the Company and its subsidiaries and affiliates for which they have received, expect to receive or may receive (as the case may be) customary compensation. Interests may evolve out of these transactions that could potentially conflict with the interests of a purchaser of the Bonds. In particular, Mizuho Bank, Ltd. is one of the principal bank lenders to the Company and is an affiliate of Mizuho International plc, one of the Joint Lead Managers for the offering of the Bonds. The Company may use a portion of the proceeds from the offerings of the Bonds for the repayment of certain borrowings from Mizuho Bank, Ltd.

## GENERAL INFORMATION

1. The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The International Security Identification Numbers (ISINs) and the Common Codes are as follows:

	ISIN	Common Code
2028 Bonds .....	XS2727915899	272791589
2030 Bonds .....	XS2727920626	272792062

2. The Securities Identification Code for the Shares given by Securities Identification Code Committee of Japan is 5406. The Legal Entity Identifier (LEI) for the Company is 549300ZDCYYUPHEE5K87.
3. Approval in-principle has been received for the listing of each Series of Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed, or reports contained in this Offering Circular. Approval in-principle for the listing of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds. Each Series of Bonds will be traded on the SGX-ST in a minimum board lot size of ¥300,000 with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST and rules of the SGX-ST so require. For so long as the relevant Series of Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Company will appoint and maintain a paying agent in Singapore, where the relevant Series of Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate evidencing the relevant Series of Bonds is exchanged for definitive Certificates. In addition, in the event that the Global Certificate evidencing the relevant Series of Bonds is exchanged for definitive Certificates, an announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.
4. The Company has obtained all necessary consents, approvals and authorisations in Japan, if any, in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by a resolution dated 28 November 2023 of the board of directors of the Company.
5. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Group and no material adverse change in the prospects of the Group since 31 March 2023.
6. Save as disclosed in this Offering Circular, neither the Company nor any of its subsidiaries is, or has been involved in, any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position or the profitability of the Group nor is the Company aware that any such proceedings are pending or threatened.
7. Copies of the latest audited annual consolidated financial statements in English, and the Company's latest unaudited annual and quarterly consolidated financial statements in English (being English translations of the Company's published *Kessan tanshin* (results announcements)) may be obtained, and copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified offices of each of the Agents during normal business hours, or electronically upon request to the Trustee, so long as any of the Bonds is outstanding.
8. The consolidated financial statements of the Company for each of the fiscal years ended 31 March 2021, 2022 and 2023 included in this Offering Circular, have been audited by KPMG AZSA LLC, the Company's independent auditor, as stated in its audit reports appearing herein.
9. The unaudited quarterly consolidated financial statements of the Company as of and for the six-month period ended 30 September 2023 (together with corresponding figures for the six-month period ended 30 September 2022), included in this Offering Circular, have been reviewed by KPMG AZSA LLC, the Company's independent auditor, as stated in its review report appearing herein.
10. Except to the extent provided in Condition 6 of the Conditions for the relevant Series of Bonds, the Conditions do not provide for participating rights in the event of a take-over of the Company.
11. The Trustee is entitled under each Trust Deed to rely on reports and certificates addressed and/or delivered to it by the independent auditor to the Company whether or not the same are subject to any limitation on the liability of the independent auditor to the Company and whether by reference to a monetary cap or otherwise.

## INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

	<b>Page</b>
Independent Auditor's Report .....	F-3
Consolidated Balance Sheets as of March 31, 2023 and 2022 .....	F-8
Consolidated Statements of Income for the Years ended March 31, 2023 and 2022 .....	F-10
Consolidated Statements of Comprehensive Income for the Years ended March 31, 2023 and 2022 .....	F-11
Consolidated Statements of Changes in Net Assets for the Years ended March 31, 2023 and 2022 .....	F-12
Consolidated Statements of Cash Flows for the Years ended March 31, 2023 and 2022 .....	F-14
Notes to Consolidated Financial Statements .....	F-16
Independent Auditor's Report .....	F-53
Consolidated Balance Sheets as of March 31, 2022 and 2021 .....	F-58
Consolidated Statements of Income for the Years ended March 31, 2022 and 2021 .....	F-60
Consolidated Statements of Comprehensive Income for the Years ended March 31, 2022 and 2021 .....	F-61
Consolidated Statements of Changes in Net Assets for the Years ended March 31, 2022 and 2021 .....	F-62
Consolidated Statements of Cash Flows for the Years ended March 31, 2022 and 2021 .....	F-64
Notes to Consolidated Financial Statements .....	F-66

(This page is intentionally left blank)

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kobe Steel, Ltd.:

### Opinion

We have audited the accompanying consolidated financial statements of Kobe Steel, Ltd. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2023 and 2022, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the Group’s judgment on whether to recognize an impairment loss on long-lived assets used by Kobelco Construction Machinery Co., Ltd.	
The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet of the Group, Property, plant and equipment of ¥1,066,036 million and intangible assets of ¥37,579 million were recognized for the current fiscal year. As described in Notes to Consolidated Financial Statements 2, “Summary of Significant Accounting Policies, (19) Significant accounting estimates, (a) Impairment of long-lived assets,” included therein were property, plant and equipment of ¥54,358 million and intangible assets of ¥6,769 million used by Kobelco Construction Machinery Co., Ltd. (hereinafter referred to as “Kobelco Construction Machinery”) within the construction machinery segment, in total, accounting for approximately 2% of total assets in the consolidated financial statements.</p> <p>While these long-lived assets are depreciated/amortized in a systematic manner, they need to be tested for impairment whenever there is an impairment indicator. The impairment test is performed by comparing the undiscounted future cash flows that are expected to be generated from the asset groups with their carrying amounts. If the recognition of an impairment loss is deemed necessary, the</p>	<p>The primary procedures we performed to assess the appropriateness of the Group’s judgment with respect to whether an impairment loss should be recognized on long-lived assets used by Kobelco Construction Machinery included the following:</p> <p><b>(1) Internal control testing</b></p> <p>We tested the design and operating effectiveness of certain of the Group’s internal controls relevant to determining whether to recognize an impairment loss on long-lived assets. In this assessment, we focused our testing on internal controls designed to prevent and/or detect the use of inappropriate key assumptions in the business plan.</p> <p><b>(2) Assessment of the appropriateness of estimated undiscounted future cash flows</b></p> <p>We inquired of management and the personnel responsible for accounting at Kobelco Construction Machinery about the basis on which their assumptions were developed in order to assess the appropriateness of the key assumptions adopted by</p>

<p>carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.</p> <p>Kobelco Construction Machinery has recognized recurring operating losses for several consecutive years, primarily due to increasing competitive pressures in global markets, an increase in procurement costs, including for steel materials, and reduced production caused by shortage of parts supplies, which presented impairment indicators. Accordingly, the Group performed an impairment test during the current fiscal year. In the impairment testing, undiscounted future cash flows were estimated based on the business plan prepared by management, which reflected key assumptions such as improved unit sales prices and increased sales volume as a result of a growth in market share and expanded demand in the sales region due to increased construction investment. These assumptions involved a high degree of uncertainty, and management’s judgment thereon had a significant effect on the estimated undiscounted future cash flows.</p> <p>We, therefore, determined that our assessment of the appropriateness of the Group’s judgment as to whether an impairment loss should be recognized on long-lived assets used by Kobelco Construction Machinery was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year and, accordingly, a key audit matter.</p>	<p>management in preparing the business plan that formed the basis for estimating undiscounted future cash flows. In addition, we:</p> <ul style="list-style-type: none"> <li>assessed the feasibility of improved sales prices considering the results of past similar measures;</li> <li>assessed the feasibility of expanded demand in the sales region by referring to the forecast reports published by external organizations regarding the increase in construction investment, which is a prerequisite for this; and</li> <li>compared growth of market share forecasts with past market share growth results after understanding the details of the sales expansion measures.; and</li> <li>after considering the results of the procedures above including the analysis of the causes of any variances with actual results, developed undiscounted future cash flow projections by incorporating the effect of specific uncertainties into the business plan assessed by the management and then assessed whether there was any potential effect on the determination of impairment loss to be recognized.</li> </ul>
---	---

Appropriateness of the Group’s judgment on the recoverability of deferred tax assets of the tax sharing group under the Group Tax Sharing System

The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet of the Group, deferred tax assets of ¥46,681 million were recognized for the current fiscal year.</p> <p>As described in Notes to Consolidated Financial Statements 2, “Summary of Significant Accounting Policies, (19) Significant accounting estimates, (b) Deferred tax assets,” the amount of gross deferred tax assets before being offset by deferred tax liabilities amounted to ¥87,177 million. Of this amount, the gross deferred tax assets held by Kobe Steel, Ltd. and certain domestic subsidiaries of Kobe Steel, Ltd. that apply the Group Tax Sharing System having Kobe Steel, Ltd. as the parent company of the tax sharing group (hereinafter, collectively referred to as the “tax sharing group”) accounted for ¥56,804 million, representing approximately 2% of total assets in the consolidated financial statements.</p> <p>Deferred tax assets are recognized to the extent that deductible temporary differences and tax loss carryforwards are expected to reduce future taxable income. As the Group applies the Group Tax Sharing System, the Group determines the recoverability of</p>	<p>The primary procedures we performed to assess whether the Group’s judgment on the recoverability of deferred tax assets of the aggregation group was appropriate included the following:</p> <p><b>(1) Internal control testing</b></p> <p>We tested the design and operating effectiveness of certain of the Group’s internal controls relevant to the taxable income projections, including the development of the business plan. In this assessment, we focused our testing on internal controls designed to prevent and/or detect the use of inappropriate key assumptions in the business plan.</p> <p><b>(2) Assessment of the appropriateness of the estimated income before the aggregation to be generated in the taxable income projections of the aggregation group.</b></p> <p>We inquired of management and the personnel responsible for accounting regarding the basis for the key assumptions used to estimate the amount of income before the aggregation to be generated in the</p>

<p>deferred tax assets concerning corporation tax and local corporation tax with consideration for the total amount of taxable income of the entire tax sharing group, which is based on the taxable income projections of the tax sharing group.</p> <p>The estimated income before the aggregation to be generated in the taxable income projections of the tax sharing group, which was used to determine the recoverability of the deferred tax assets, was based on the business plan prepared by management.</p> <p>Accordingly, there was a high degree of uncertainty in the estimation because the estimate involved significant management judgment on key assumptions, such as forecasts of demand and sales prices in major businesses.</p> <p>Therefore, we determined that our assessment of the appropriateness of the Group's judgment on the recoverability of deferred tax assets of the aggregation group was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year and, accordingly, a key audit matter.</p>	<p>taxable income projections prepared by the aggregation group in order to assess the appropriateness of those assumptions which were important for management's judgment on the recoverability of deferred tax assets. In addition, we:</p> <ul style="list-style-type: none"> <li>• assessed whether the estimated taxable income to be generated under the taxable income projections of the aggregation group was consistent with the business plan, which formed the basis for the taxable income projections; and</li> <li>• analyzed the achievement of past taxable income projections of the aggregation group including the causes of any differences from actual taxable income, and compared the estimated income before the aggregation with our own estimate that incorporated specific uncertainties reflecting the achievement of past taxable income projections; and</li> <li>• analyzed the achievement of forecasts of demand in major businesses, including the causes of any variances with actual results, and compared management's sales forecast with the research reports on the market outlook published by external organizations; and</li> <li>• inspected supporting materials of the progress of the price pass-through to address the increased material prices, in relation to the forecasts of sales prices in major businesses.</li> </ul>
--	---

### Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

### Responsibilities of Management and the audit and supervisory committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes

our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

**Interest required to be disclosed by the Certified Public Accountants Act of Japan**

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Hisaki Nakajima  
Designated Engagement Partner  
Certified Public Accountant

Sakurako Ohtsuki  
Designated Engagement Partner  
Certified Public Accountant

Ken Tsukamoto  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Osaka Office, Japan  
June 21, 2023

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

**Consolidated Balance Sheets**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**At March 31, 2023 and 2022**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and deposits (Note 24)	¥ 203,521	¥ 243,502	\$ 1,524,157
Notes, accounts receivable and contract assets:			
Notes receivable – trade	23,659	29,587	177,181
Accounts receivable – trade	320,936	269,901	2,403,475
Unconsolidated subsidiaries and associates	65,378	50,201	489,615
Contract assets (Note 21)	25,700	29,874	192,469
Other	43,424	44,866	325,200
Allowance for doubtful accounts	(4,802)	(4,256)	(35,963)
	<u>474,295</u>	420,173	<u>3,551,977</u>
Securities (Note 24)	—	17,200	—
Merchandise and finished goods	242,752	209,417	1,817,960
Work in process (Note 8)	167,486	138,665	1,254,295
Raw materials and supplies	290,420	225,053	2,174,937
Other	37,514	33,304	280,938
	<u>1,415,988</u>	1,287,314	<u>10,604,264</u>
<b>Non-current assets:</b>			
<b>Property, plant and equipment (Note 7):</b>			
Land (Note 9)	135,518	131,896	1,014,889
Buildings and structures	836,151	814,969	6,261,894
Machinery, equipment and vehicles	2,718,665	2,590,466	20,359,961
Construction in progress	36,462	92,718	273,062
	<u>3,726,796</u>	3,630,049	<u>27,909,806</u>
Accumulated depreciation	(2,660,760)	(2,569,851)	(19,926,312)
	<u>1,066,036</u>	1,060,198	<u>7,983,494</u>
<b>Intangible assets</b>	<b>37,579</b>	36,325	<b>281,430</b>
<b>Investments and other assets:</b>			
Investment securities (Note 5)	111,204	102,114	832,805
Investments in and advances to unconsolidated subsidiaries and associates	147,499	135,746	1,104,617
Long-term loans receivable	2,689	3,109	20,140
Deferred tax assets (Note 20)	46,681	57,069	349,595
Retirement benefit asset (Note 26)	22,092	19,536	165,444
Other	45,271	46,742	339,024
Allowance for doubtful accounts	(20,287)	(19,408)	(151,931)
	<u>355,149</u>	344,908	<u>2,659,694</u>
Total investments and other assets	<u>355,149</u>	344,908	<u>2,659,694</u>
Total non-current assets	<u>1,458,764</u>	1,441,431	<u>10,924,618</u>
Total assets	<u>¥ 2,874,752</u>	¥ 2,728,745	<u>\$ 21,528,882</u>

**Consolidated Balance Sheets**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**At March 31, 2023 and 2022**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 7)	¥ 32,738	¥ 30,313	\$ 245,176
Current portion of long-term borrowings (Note 7)	137,378	82,103	1,028,818
Trade	530,235	465,205	3,970,905
Construction	21,390	19,031	160,186
Unconsolidated subsidiaries and associates	77,968	76,456	583,895
Other	20,719	13,353	155,166
	<u>650,312</u>	<u>574,045</u>	<u>4,870,152</u>
Contract liabilities (Note 21)	58,828	45,219	440,562
Income taxes payable	13,141	8,318	98,410
Provision for loss on construction contracts (Note 8)	8,775	14,730	65,717
Provision for customer compensation expenses	288	344	2,159
Other	148,344	129,867	1,110,933
Total current liabilities	<u>1,049,804</u>	<u>884,939</u>	<u>7,861,927</u>
<b>Non-current liabilities:</b>			
Long-term borrowings (Note 7)	691,698	796,026	5,180,093
Lease liabilities	45,241	51,427	338,806
Retirement benefit liability (Note 26)	71,376	79,979	534,534
Provision for dismantlement related expenses	1,459	1,417	10,930
Deferred tax liabilities (Note 20)	9,809	11,413	73,462
Other	27,712	31,198	207,531
Total non-current liabilities	<u>847,295</u>	<u>971,460</u>	<u>6,345,356</u>
<b>Contingent liabilities (Notes 11 and 12)</b>			
Total liabilities	<u>¥ 1,897,099</u>	<u>¥ 1,856,399</u>	<u>\$ 14,207,283</u>
<b>Net assets:</b>			
Stockholders' equity:			
Share capital (Notes 13 and 23)	250,930	250,930	1,879,203
Authorized – 600,000,000 shares			
Issued – 396,345,963 shares			
Capital surplus (Note 13)	116,430	116,435	871,940
Retained earnings (Note 13)	472,758	418,034	3,540,462
Treasury shares (Note 23)	(1,879)	(2,262)	(14,074)
1,432,196 shares in 2023 and 1,798,236 shares in 2022			
Total stockholders' equity	<u>838,239</u>	<u>783,137</u>	<u>6,277,531</u>
Accumulated other comprehensive income (Note 23):			
Valuation difference on available-for-sale securities	34,877	28,988	261,195
Deferred gains or losses on hedges	(7,082)	(13,141)	(53,041)
Revaluation reserve for land (Note 9)	(3,401)	(3,401)	(25,466)
Foreign currency translation adjustment	32,563	16,055	243,860
Remeasurements of defined benefit plans	18,761	3,689	140,500
Total accumulated other comprehensive income	<u>75,718</u>	<u>32,190</u>	<u>567,048</u>
Non-controlling interests	63,696	57,019	477,020
Total net assets	<u>977,653</u>	<u>872,346</u>	<u>7,321,599</u>
Total liabilities and net assets	<u>¥ 2,874,752</u>	<u>¥ 2,728,745</u>	<u>\$ 21,528,882</u>

See accompanying notes.

**Consolidated Statements of Income**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Years ended March 31, 2023 and 2022**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
	¥	¥	\$
<b>Net sales</b> (Notes 14 and 21)	2,472,509	2,082,583	18,516,504
<b>Cost of sales</b> (Note 15)	(2,151,218)	(1,774,779)	(16,110,372)
Gross profit	321,291	307,804	2,406,132
<b>Selling, general and administrative expenses</b> (Note 17)	(234,926)	(220,181)	(1,759,345)
Operating profit	86,365	87,623	646,787
<b>Non-operating income (expenses):</b>			
Interest and dividend income	6,337	5,529	47,458
Interest expenses	(13,344)	(13,237)	(99,932)
Seconded employees' salaries, net of reimbursement	(6,447)	(6,079)	(48,278)
Foreign exchange gains	6,368	1,466	47,692
Share of profit of entities accounted for using equity method	12,143	14,126	90,938
Compensation income	19,041	8,671	142,596
Other, net (Note 5)	(3,626)	(4,865)	(27,162)
	20,472	5,611	153,312
Ordinary profit	106,837	93,234	800,099
<b>Extraordinary income (losses):</b>			
Impairment losses (Note 19)	(4,438)	—	(33,238)
Loss on liquidation of business (Note 18)	(4,332)	—	(32,446)
Loss on sale of investment securities	—	(9,220)	—
	(8,770)	(9,220)	(65,684)
<b>Profit before income taxes</b>	98,067	84,014	734,415
<b>Income taxes</b> (Note 20):			
Income taxes – current	25,025	16,084	187,411
Income taxes – deferred	(2,281)	4,240	(17,086)
	22,744	20,324	170,325
<b>Profit</b>	75,323	63,690	564,090
<b>Profit attributable to non-controlling interests</b>	2,757	3,606	20,645
<b>Profit attributable to owners of parent</b>	¥ 72,566	¥ 60,084	\$ 543,445
		Yen	U.S. dollars (Note 1)
Per share	2023	2022	2023
Profit	¥ 183.80	¥ 160.23	\$ 1.38
Cash dividends applicable to the year	40.00	40.00	0.30

See accompanying notes.

**Consolidated Statements of Comprehensive Income**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Years ended March 31, 2023 and 2022**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
<b>Profit</b>	¥ 75,323	¥ 63,690	\$ 564,090
<b>Other comprehensive income:</b>			
Valuation difference on available-for-sale securities	6,054	13,212	45,341
Deferred gains or losses on hedges	6,016	(28)	45,053
Revaluation reserve for land	—	5	—
Foreign currency translation adjustment	16,830	19,335	126,039
Remeasurements of defined benefit plans, net of tax	15,041	7,171	112,640
Share of other comprehensive income of entities accounted for using equity method	1,087	2,494	8,140
<b>Total other comprehensive income (Note 22)</b>	<b>45,028</b>	<b>42,189</b>	<b>337,213</b>
<b>Comprehensive income</b>	<b>¥ 120,351</b>	<b>¥ 105,879</b>	<b>\$ 901,303</b>
Comprehensive income attributable to:			
Owners of parent	¥ 116,094	¥ 101,701	\$ 869,423
Non-controlling interests	4,257	4,178	31,880

See accompanying notes.

**Consolidated Statements of Changes in Net Assets**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Years ended March 31, 2023 and 2022**

	Thousands	Millions of yen										
		Share capital (Notes 13 and 23)	Capital surplus (Note 13)	Retained earnings (Note 13)	Treasury shares (Note 23)	Valuation difference on available-for-sale securities (Note 23)	Deferred gains or losses on hedges (Note 23)	Revaluation reserve for land reserve (Notes 9 and 23)	Foreign currency translation adjustment (Note 23)	Remeasurements of defined benefit plans (Note 23)	Non-controlling interests	Total
<b>Balance at April 1, 2021</b>	364,364	¥250,930	¥102,229	¥368,892	¥(2,261)	¥15,757	¥(13,765)	¥(3,406)	¥(4,569)	¥(3,445)	¥59,013	¥769,375
Cumulative effects of changes in accounting policies				(631)								(631)
<b>Balance at April 1, 2021 (Restated balance)</b>	<b>364,364</b>	<b>¥250,930</b>	<b>¥102,229</b>	<b>¥368,261</b>	<b>¥(2,261)</b>	<b>¥15,757</b>	<b>¥(13,765)</b>	<b>¥(3,406)</b>	<b>¥(4,569)</b>	<b>¥(3,445)</b>	<b>¥59,013</b>	<b>¥768,744</b>
Dividends of surplus				(7,283)								(7,283)
Profit attributable to owners of parent				60,084								60,084
Increase by share exchanges	31,982		21,908		(6)							21,908
Purchase of treasury shares					(1)							(6)
Disposal of treasury shares					12							11
Change in ownership interest of parent due to transactions with non-controlling interests												
Change of scope of consolidation and equity method			(7,702)									(7,702)
Change in treasury stock due to change in scope of equity method												(3,022)
Change in shares of parent owned by entities accounted for using equity method							34					34
Reversal of revaluation reserve for land					(41)							(41)
Net changes in items other than shareholders' equity					(5)							(5)
Total changes during period	31,982	—	14,206	49,773	(1)	13,231	624	5	20,624	7,134	(1,994)	39,624
<b>Balance at April 1, 2022</b>	<b>396,346</b>	<b>¥250,930</b>	<b>¥116,435</b>	<b>¥418,034</b>	<b>¥(2,262)</b>	<b>¥28,988</b>	<b>¥(13,141)</b>	<b>¥(3,401)</b>	<b>¥16,055</b>	<b>¥ 3,689</b>	<b>¥57,019</b>	<b>¥872,346</b>
Dividends of surplus				(17,824)								(17,824)
Profit attributable to owners of parent				72,566								72,566
Purchase of treasury shares					(6)							(6)
Disposal of treasury shares					324							322
Change in ownership interest of parent due to transactions with non-controlling interests			47									47
Change of scope of consolidation and equity method					(16)							(16)
Change in shares of parent owned by entities accounted for using equity method												
Net changes in items other than shareholders' equity			(52)		65	5,889	6,059	—	16,508	15,072	6,677	13
Total changes during period	—	—	(5)	54,724	383	5,889	6,059	—	16,508	15,072	6,677	50,205
<b>Balance at March 31, 2023</b>	<b>396,346</b>	<b>¥250,930</b>	<b>¥116,430</b>	<b>¥472,758</b>	<b>¥(1,879)</b>	<b>¥34,877</b>	<b>¥(7,082)</b>	<b>¥(3,401)</b>	<b>¥32,563</b>	<b>¥18,761</b>	<b>¥63,696</b>	<b>¥977,653</b>

**Consolidated Statements of Changes in Net Assets**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Years ended March 31, 2023 and 2022**

	Thousands of U.S. dollars (Note 1)											
Thousands	Number of common shares	Share capital (Notes 13 and 23)	Capital surplus (Note 13)	Retained earnings (Note 13)	Treasury shares (Note 23)	Valuation difference on available-for-sale securities (Note 23)	Deferred gains or losses on hedges (Note 23)	Revaluation reserve for land (Notes 9 and 23)	Foreign currency translation adjustment (Note 23)	Remeasurements of defined benefit plans (Note 23)	Non-controlling interests	Total
<b>Balance at April 1, 2022</b>	396,346	\$ 1,879,203	\$871,973	\$3,130,637	\$(16,940)	\$217,089	\$(98,412)	\$ (25,466)	\$120,231	\$ 27,628	\$427,016	\$6,532,959
Dividends of surplus												(133,482)
Profit attributable to owners of parent												543,445
Purchase of treasury shares					(42)							(42)
Disposal of treasury shares					2,420							2,405
Change in ownership interest of parent due to transactions with non-controlling interests												354
Change of scope of consolidation and equity method												(123)
Change in shares of parent owned by entities accounted for using equity method												101
Net changes in items other than shareholders' equity												375,982
Total changes during period		—	(33)	409,825	2,866	44,106	45,371	—	123,629	112,872	50,004	788,640
<b>Balance at March 31, 2023</b>	<b>396,346</b>	<b>\$1,879,203</b>	<b>\$871,940</b>	<b>\$3,540,462</b>	<b>\$(14,074)</b>	<b>\$261,195</b>	<b>\$(53,041)</b>	<b>\$ (25,466)</b>	<b>\$243,860</b>	<b>\$140,500</b>	<b>\$477,020</b>	<b>\$7,321,599</b>

See accompanying notes.

**Consolidated Statements of Cash Flows**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Years ended March 31, 2023 and 2022**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 98,067	¥ 84,014	\$ 734,415
Depreciation	112,505	105,147	842,545
Increase (decrease) in retirement benefit liability	7,517	7,904	56,291
Interest and dividend income	(6,337)	(5,529)	(47,458)
Interest expenses	13,344	13,237	99,932
Loss (gain) on sale of investment securities	(2,972)	9,220	(22,254)
Share of loss (profit) of entities accounted for using equity method	(12,143)	(14,126)	(90,938)
Loss (gain) on sale of property, plant and equipment	(1,278)	(545)	(9,569)
Loss on retirement of property, plant and equipment	1,366	1,453	10,226
Impairment losses	4,438	—	33,238
Decrease (increase) in trade receivables	(48,190)	(52,782)	(360,894)
Net decrease (increase) in lease receivables and investments in leases	2,650	6,961	19,844
Decrease (increase) in inventories	(111,437)	(136,976)	(834,545)
Increase (decrease) in trade payables	46,147	173,310	345,591
Increase (decrease) in accrued consumption taxes	8,004	(15,201)	59,940
Decrease (increase) in accounts receivable-other	6,788	(17,669)	50,836
Increase (decrease) in accrued expenses	6,572	7,414	49,215
Increase (decrease) in deposits received	10,361	(4,876)	77,592
Increase (decrease) in liabilities related to paid supply transactions	3,099	12,048	23,211
Other, net	5,484	15,351	41,075
Subtotal	143,985	188,355	1,078,293
Interest and dividends received	9,626	8,108	72,092
Interest paid	(13,315)	(13,462)	(99,712)
Income taxes paid	(20,604)	(14,192)	(154,300)
Net cash provided by (used in) operating activities	119,692	168,809	896,373
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment and intangible assets	(98,965)	(156,448)	(741,142)
Proceeds from sale of property, plant and equipment and intangible assets	5,184	1,581	38,824
Purchase of investment securities	(1,979)	(5,975)	(14,824)
Proceeds from sale of investment securities	4,396	2,386	32,921
Purchase of interests in subsidiaries resulting in change in scope of consolidation	(39)	—	(292)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	1,399	—	10,480
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation (Note 24)	—	(4,007)	—
Decrease (increase) in short-term loans receivable	(6,853)	4	(51,323)
Long-term loan advances	(898)	(85)	(6,727)
Proceeds from collection of long-term loans receivable	593	815	4,439
Other, net	(106)	219	(790)
Net cash provided by (used in) investing activities	¥ (97,268)	¥ (161,510)	\$ (728,434)

**Consolidated Statements of Cash Flows**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Years ended March 31, 2023 and 2022**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term borrowings	¥ 1,316	¥ (44,425)	\$ 9,855
Proceeds from long-term borrowings	30,754	78,180	230,314
Repayments of long-term borrowings	(60,412)	(91,174)	(452,424)
Proceeds from issuance of bonds	—	10,000	—
Redemption of bonds	(25,150)	(20,573)	(188,347)
Repayments of finance lease liabilities	(15,963)	(10,205)	(119,548)
Dividends paid	(17,747)	(7,249)	(132,905)
Dividends paid to non-controlling interests	(1,342)	(1,330)	(10,049)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	—	15	—
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(102)	(75)	(764)
Purchase of interests in subsidiaries not resulting in change in scope of consolidation	(134)	—	(1,004)
Proceeds from share issuance to non-controlling shareholders	—	13,700	—
Other, net	3,216	3,992	24,085
Net cash provided by (used in) financing activities	(85,564)	(69,144)	(640,787)
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>5,757</b>	<b>5,192</b>	<b>43,113</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(57,383)</b>	<b>(56,653)</b>	<b>(429,735)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>260,512</b>	<b>317,311</b>	<b>1,950,959</b>
<b>Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation</b>	<b>265</b>	<b>(146)</b>	<b>1,986</b>
<b>Cash and cash equivalents at end of period (Note 24)</b>	<b>¥ 203,394</b>	<b>¥ 260,512</b>	<b>\$ 1,523,210</b>

See accompanying notes.

**Notes to Consolidated Financial Statements**  
Kobe Steel, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2023 and 2022

**1. Basis of Presenting Consolidated Financial Statements**

The accompanying consolidated financial statements of Kobe Steel, Ltd. (“the Company”) and its consolidated subsidiaries (“the Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which differ in certain significant respects from accounting principles generally accepted in other countries, including accounting principles generally accepted in the United States, or U.S. GAAP, and International Financial Reporting Standards, or IFRS.

The accounts of the Company’s overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of domicile, with necessary adjustments to be in accordance with Japanese GAAP.

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosure from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2023, which was ¥133.53 to U.S.\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

**2. Summary of Significant Accounting Policies**

**(1) Consolidation**

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, the management of which is controlled by the Company. For the year ended March 31, 2023, the accounts of 171 (169 in 2022) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

76 (74 in 2022) consolidated subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material transactions or events occurring during the January 1 to March 31 period are adjusted for in these consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non- controlling shareholders, are evaluated using the fair value at the time the Company acquired the control of the respective subsidiary.

Investments in unconsolidated subsidiaries and affiliates over which the Company has significant influence, except for insignificant companies, are accounted for by the equity method. For the year ended March 31, 2023, 35 (37 in 2022) affiliates were accounted for by the equity method.

The difference between the cost of an investment in a subsidiary and the equity in the net assets of the subsidiary at the date of acquisition, if considered significant, is amortized over the estimated number of years when the amortization period can be determined or over five years when it cannot. When the difference is small, it is recognized as expense when incurred.

When the Company’s share of the net losses of an affiliate exceeds the adjusted cost of the investment, the Company discontinues applying the equity method and the investment is reduced to zero. Losses in excess of the amounts due from the investee are recorded in other payables when the losses are expected to be shared by the Company.

## **(2) Securities**

The Group has no trading securities. Equity securities issued by subsidiaries and associated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as accumulated other comprehensive income in net assets.

Realized gains and losses on the sale of such securities are computed using moving average cost based on the carrying value.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and associated companies or available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline.

If the fair market value of equity securities issued by unconsolidated subsidiaries and associated companies not accounted for by the equity method is not readily available, the securities are written down to net asset value with a corresponding charge in the statement of operations in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

## **(3) Allowance for Doubtful Accounts**

To provide for potential losses on doubtful accounts, allowance is made at an amount based on the actual bad debt ratio in the past for normal accounts, and estimated uncollectible amounts based on specific collectability assessments for certain individual receivables, such as those with a possibility of default.

## **(4) Provision for Loss on Construction Contracts**

To provide for future losses on construction contracts, mainly for steel castings and forgings in the Advanced Materials Business, Machinery Business and Engineering Business, provision is made based on an estimated loss on construction contracts outstanding at the end of the year ended March 31, 2023.

## **(5) Provision for Environmental Measures**

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste” and others, provision is made at an estimated amount at the end of the year ended March 31, 2023.

## **(6) Provision for Customer Compensation Expenses**

For expenses related to the response to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the year ended March 31, 2023.

## **(7) Provision for Dismantlement Related Expenses**

For expenses expected to arise from dismantlement of equipment in relation to construction of the power station at Kobe Wire Rod & Bar Plant, provision is made at an estimated amount at the end of the year ended March 31, 2023.

## **(8) Inventories**

Cost basis, determined by the average method for inventories in the Steel & Aluminum Business, Advanced Materials Business (except for cast forged steel products), Welding Business and Electric Power Business, and by the specific identification method for cast forged steel products in the Advanced Materials Business and inventories in the Machinery Business, Engineering Business and Construction Machinery Business (the book value on the balance sheets may be written down to market value due to decline in the profitability).

## **(9) Depreciation and amortization method of significant depreciable assets**

Depreciation of tangible and amortization of intangible assets are provided principally by the straight-line method.

The useful life of these assets is determined mainly by schedules in Japanese tax laws. Intangible assets include software for internal use, which is amortized over the estimated useful life of five years.

Depreciation of leased assets under finance leases that do not transfer ownership of the leased assets is provided by the straight-line method with the lease term as the useful life.

## **(10) Income Taxes**

The Group applies deferred tax accounting to recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

Deferred taxes related to temporary differences between financial accounting and tax reporting are also recognized by the asset-liability method.

## **(11) Employees' Severance and Retirement Benefits**

In determining retirement benefit obligations, the benefit formula basis is adopted as the attribution method of the projected retirement benefit obligations up to the current consolidated fiscal year.

Prior service costs are charged to income mainly using the straight-line method mainly 22 years based on the average remaining service period of the employees.

Actuarial differences are charged to income from the period following the period in which it arises mainly using the straight-line method based on the average remaining service period of the employees. The average remaining service period of the employees are mainly 21 years for those accrued in 2023, mainly 22 years for those accrued in 2022 and 2021, mainly 18 years for those accrued in 2020, mainly 20 years for those accrued in 2019, 2018 and 2017, mainly 19 years for those accrued in 2016, mainly 18 years for those accrued in 2015, mainly 17 years for those accrued in 2014 and 2013, mainly 16 years for those accrued in 2012 and 2011, mainly 15 years for those accrued in 2010.

Unrecognized prior service costs and unrecognized actuarial differences, net of applicable taxes, are stated in "Remeasurements of defined benefit plans" in accumulated other comprehensive income under net assets.

## **(12) Basis for translation of significant assets and liabilities denominated in foreign currencies into Japanese yen**

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates as of the consolidated balance sheet date, except for those hedged by foreign currency exchange contracts, with the resulting gains and losses recognized in income.

Assets and liabilities of consolidated foreign subsidiaries are translated into Japanese yen at the spot exchange rates as of the balance sheet date and revenues and expenses are translated into Japanese yen at average rates for the period, with the resulting gains and losses included in "Foreign currency translation adjustments" under net assets and "Non-controlling interests".

## **(13) Basis for recognition of revenue and expenses**

The Group applies the following five steps with respect to recognition of revenue.

- Step 1: Identify a contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when or as the performance obligations are satisfied

In relation to recognition of revenue from contracts with customers, the nature of the principal performance obligations for major businesses of the Group and the typical timing of the satisfaction of those performance obligations (i.e., the typical timing of revenue recognition) are as follows.

Revenues from the materials business (steel and aluminum, advanced materials, and welding) are primarily from product sales; revenues from the machinery business (machinery, engineering, and construction machinery) are primarily from product sales, construction contracts, and provision of services; and revenues from the electric power business are primarily from the supply of electric power.

(a) Performance obligations satisfied at a point in time

For sales of products, in principle, revenue is recognized at the time of delivery of the product since control of the product is transferred to the customer and the performance obligation is satisfied at that time. However, if the period from the time of shipment to the time when control of the product is transferred to the customer is a normal period of time, control of the product is deemed to be transferred to the customer at the time of shipment, and revenue is recognized at the time of shipment. For the provision of services, the performance obligation is satisfied when the services are provided, and revenue is recognized at that time. For supply of electric power, the performance obligation is satisfied when the electric power is supplied, and the Company recognizes revenue based on the amount of electric power supplied to the customer, as measured by meter readings taken on the contractually specified measurement dates.

(b) Performance obligations satisfied over a certain period of time

For construction contracts, the Company primarily estimates the progress toward the satisfaction of performance obligations to be provided to the customer and recognizes revenue based on such progress. Since the accrual of cost is an appropriate measure of the degree of progress of construction, the degree of progress is calculated as the ratio of the cumulative actual cost incurred to the estimated total cost. The consideration for a transaction is received primarily in stages during the contract period, separately from the satisfaction of performance obligations, and the remaining amount is received after a specified period of time has elapsed following the satisfaction of the performance obligations. For the provision of services, revenue is recognized based on a percentage of the total amount of services transferred.

Revenue is measured at the amount of consideration promised in the contract with the customer, less discounts, rebates, etc. If the consideration promised in the contract with the customer includes variable consideration such as a discount, the Company includes an estimate of the variable consideration in the transaction price only to the extent that it is highly unlikely that a significant reversal in the amount of cumulative revenue recognized will occur when the uncertainty associated with the variable consideration is subsequently resolved. The consideration for the transaction is generally received within approximately one year of the satisfaction of the performance obligation and does not include a significant financial component.

#### **(14) Derivatives**

The Company and its domestic consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instrument was used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gain or loss resulting from changes in the fair value of a derivative financial instrument until the related loss or gain on the corresponding hedged item is recognized (“deferred hedge” method).

Deferred gains and losses on these derivative instruments are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income in net assets.

If foreign currency exchange contracts are used as hedges and meet certain hedging criteria, the hedged items are stated at the forward exchange rates (“assigning” method). Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed (“exceptional” method).

#### **(15) Method for amortization of goodwill**

Goodwill is amortized using the straight-line method (or immediately charged to income if immaterial) over the practically estimated effective periods where estimable during the period in which it arises, or otherwise, over five years.

#### **(16) Application of group tax sharing system**

Group tax sharing system is applied.

#### **(17) Cash and Cash Equivalents**

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

#### **(18) Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported results of operations or retained earnings.

#### **(19) Significant accounting estimates**

##### **(a) Impairment of long-lived assets**

Regarding long-lived assets, if the Group determines that there is an impairment indicator, such as recurring operating losses, the Group estimates the future recoverability and assesses whether or not an impairment loss should be recognized. If the undiscounted future cash flows that are expected to be generated from the asset groups is below the carrying amounts of the long-lived assets, the Group recognizes an impairment loss.

The Group recorded impairment loss of ¥4,438 million (\$33,238 thousand) for the year ended March 31, 2023, and the breakdown is as per the description in Note 19 Impairment Loss.

The total carrying amount of long-lived assets was ¥1,103,615 million (\$8,264,924 thousand), which consisted of ¥1,066,036 million (\$7,983,494 thousand) for property, plant and equipment and ¥37,579 million (\$281,430 thousand) for intangible assets, at March 31, 2023 and ¥1,096,523 million, which consisted of ¥1,060,198 million for property, plant and equipment and ¥36,325 million for intangible assets, at March 31, 2022. there were multiple asset groups for which the Group did not recognize an impairment loss despite there being an impairment indicator. The main asset groups to which this applies were as follows.

##### **< Construction Machinery Business >**

The Group judged that there was an indication of impairment for long-lived assets used in the businesses of Kobelco Construction Machinery Co., Ltd., a subsidiary of the Company in the Construction Machinery Business, as a result of continuous operating losses caused by increasingly fierce competition overseas, higher procurement costs for steel, production cutbacks due to parts supply shortages, and other factors. In future business plans, the Group has incorporated key assumptions, including an improvement in sales prices and an increase in units sold based on higher demand in sales areas owing to increased construction investment and expansion of the market share. The undiscounted future cash flows estimated based on business plans formulated under these assumptions exceeded the book value of the long-lived assets of ¥61,127 million (\$457,775 thousand), which consist of ¥54,358 million (\$407,081 thousand) for property, plant and equipment and ¥6,769 million (\$50,694 thousand) for intangible assets, at March 31, 2023 and ¥58,302 million, which consist of ¥54,165 million for property, plant and equipment and ¥4,137 million for intangible assets, at March 31, 2022. Therefore, the Group did not recognize an impairment loss. If there are significant changes to the assumptions for these estimates, such as a large divergence between the assumptions set when the estimates were made and the actual results, and future cash flows underperform as a result, the Group may recognize an impairment loss in the following consolidated fiscal year.

##### **(b) Deferred tax assets**

The Group recorded ¥46,681 million (\$349,595 thousand) at March 31, 2023 and ¥57,069 million at March 31, 2022 in “Deferred tax assets” under “Investments and other assets” in “non-current assets” on the

consolidated balance sheets to the extent that deductible temporary differences and tax losses carryforwards were expected to reduce future taxable income\*. The Group has estimated taxable income over a certain future period based on the Medium-Term Management Plan, budget, and other business plans that management has judged to be appropriate, and has made judgments about when specific deductible temporary differences are expected to be reversed. As such, the Group has judged that the possibility of recovery is high for deferred tax assets pertaining to the deductible temporary differences expected to be reversed within a certain period, etc. In addition, the Group has incorporated key assumptions, including forecasts of demand and sales prices in the main businesses, when formulating business plans.

If projections of future taxable income fluctuate significantly as a result of the impact on the Group's demand field caused by stagnant supply chains and the prolonged global shortage of semiconductors, and by delays in resolving the gap between prices for raw and other materials and energy and sales prices, or other factors, and the recoverability of deferred tax assets fluctuates significantly as a result, there may be a material impact on the recorded amount of deferred tax assets in the next consolidated fiscal year.

\* The amount before offsetting with deferred tax liabilities was ¥87,177 million (\$652,867 thousand) at March 31, 2023 and ¥89,363 million at March 31, 2022. Of these amounts, ¥56,804 million (\$425,407 thousand) at March 31, 2023 was held by the Company and some of its domestic consolidated subsidiaries that adopt a group tax sharing system, and ¥58,769 million at March 31, 2022 was held by the Company and some of its domestic subsidiaries that adopt a consolidated taxation system.

### 3. Leases

#### Operating Leases

Future minimum lease payments as lessee under operating leases at March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within one year	¥ 4,039	¥ 4,366	\$ 30,248
Due after one year	29,074	29,641	217,735
	<u>¥ 33,113</u>	<u>¥ 34,007</u>	<u>\$ 247,983</u>

Future minimum lease fees receivable as lessor under operating leases at March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within one year	¥ 32	¥ 65	\$ 243
Due after one year	227	235	1,703
	<u>¥ 259</u>	<u>¥ 300</u>	<u>\$ 1,946</u>

### 4. Financial Instruments

#### Policies for Using Financial Instruments

The Group raises long-term funds mainly by bank loans and bonds based on its capital budget. For short-term capital needs, the Group raises funds mainly by bank loans and commercial paper in relation to its projected income and working capital. The Group invests temporary excess cash in secure financial assets. The Group enters into derivative contracts to hedge the risks discussed below and does not enter into derivative transactions for trading or speculative purposes.

#### Financial Instruments, Exposure to Risk and Policies and Processes for Managing Risk

Notes and accounts receivable are exposed to the credit risks of customers. In order to manage these risks, the Group regularly monitors whether due dates are properly met for each customer and evaluates the credit standing of major customers based on credit management policies. Accounts receivable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. In order to hedge these risks, the Group utilizes forward currency exchange contracts.

Investments in securities consist principally of the listed shares of customers and are exposed to the risk of change in quoted market prices. Quoted market prices for securities are regularly monitored and reported to the Board of Directors, and management evaluates the effectiveness of holding the securities taking into consideration the customer relationship.

Notes and accounts payable and borrowings are exposed to liquidity risk. The Group makes adequate financial plans to manage the risk. Floating rate long-term borrowings are exposed to the additional risk of change in interest rates. In order to manage the risk, the Group enters into interest rate swap agreements. Furthermore, accounts payable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. The Group uses forward currency exchange contracts, non-deliverable forward contracts and currency option contracts to manage the risk of currency fluctuation.

Derivative transactions comprise forward currency exchange contracts, non-deliverable forward contracts, currency option contracts, currency swaps, interest rate swap agreements and commodity forward contracts to hedge the risk of movement in the market value of Steel & Aluminum and Advanced Materials. The Group is also exposed to credit risk in the event of nonperformance by the counterparties to its derivative instruments. However, the Group does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties. The Group has established policies and controls to manage both market and credit risk, including using only highly rated banks and trading companies as counterparties, hedging exposed positions, limiting transaction types and amounts and reporting to management.

### Supplemental Information on Fair Values

Fair values of financial instruments include values estimated by using reasonable methods of valuation as well as values based on quoted market prices. Estimates resulting from these methods are subjective in nature and involve uncertainties and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. In addition, the contracted amounts of the derivative transactions presented in Note 6 do not reflect the exposure to market risk or credit risk of the derivative instruments themselves.

### Fair Value of Financial Instruments

The carrying amounts of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2023 and 2022 were as follows:

	Millions of yen						Thousands of
	2023			2022			U.S. dollars (Note 1)
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	2023
Investments in securities:							
Shares of subsidiaries and associates	¥ 6,249	¥ 6,839	¥ 590	¥ 5,688	¥ 4,441	¥(1,247)	\$ 4,416
Available-for-sale securities	97,804	97,804	—	90,248	90,248	—	—
Short-term borrowings and current portion of long-term borrowings	(169,216)	(173,419)	(4,203)	(87,266)	(91,656)	(4,390)	(31,473)
Current portion of bonds payable	(900)	(894)	6	(25,150)	(25,170)	(20)	47
Bonds payable	(45,000)	(45,345)	(345)	(45,900)	(46,459)	(559)	(2,580)
Long-term borrowings	(646,698)	(643,793)	2,905	(750,126)	(755,575)	(5,449)	21,756
Lease liabilities	(45,241)	(44,366)	875	(51,427)	(50,515)	912	6,549
Derivative transactions:							
Hedge accounting not applied	(1,467)	(1,467)	—	(2,578)	(2,578)	—	—
Hedge accounting applied	(9,975)	(9,975)	—	(18,281)	(18,281)	—	—

Notes:

1. "Cash and deposits" is omitted as it is cash and the carrying amounts approximate fair values because of the short maturities of deposits.

2. “Notes - trade,” “Accounts receivable - trade,” “Securities” and “Notes and accounts payable - trade” are omitted as the carrying amounts approximate fair values because of the short maturities of these instruments.
3. Liabilities are presented with parentheses ( ).
4. Assets and liabilities arising from derivative transactions are presented after offsetting and with parentheses ( ) if the offset results in a liability.
5. Financial instruments without fair values at March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Non-listed equity securities	¥ 100,574	¥ 98,445	\$ 753,194

The aggregate annual maturities of financial assets at March 31, 2023 and 2022 were as follows:

### Cash and deposits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	¥ 203,521	¥ 243,502	\$ 1,524,157
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	<u>¥ 203,521</u>	<u>¥ 243,502</u>	<u>\$ 1,524,157</u>

### Notes receivable - trade

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	¥ 23,632	¥ 29,544	\$ 176,982
Due after 1 year through 5 years	27	43	199
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	<u>¥ 23,659</u>	<u>¥ 29,587</u>	<u>\$ 177,181</u>

### Accounts receivable - trade

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	¥ 316,648	¥ 265,113	\$ 2,371,365
Due after 1 year through 5 years	4,288	4,788	32,110
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	<u>¥ 320,936</u>	<u>¥ 269,901</u>	<u>\$ 2,403,475</u>

### Available-for-sale securities

#### (Negotiable certificates of deposit)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	¥ —	¥ 17,200	\$ —
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	<u>¥ —</u>	<u>¥ 17,200</u>	<u>\$ —</u>

The aggregate annual maturities of financial liabilities at March 31, 2023 and 2022 were as follows:

### Bonds payable

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	¥ 900	¥ 25,150	\$ 6,740
Due after 1 year through 2 years	—	900	—
Due after 2 years through 3 years	35,000	—	262,113
Due after 3 years through 4 years	10,000	35,000	74,890
Due after 4 years through 5 years	—	10,000	—
Due after 5 years	—	—	—
	<u>¥ 45,900</u>	<u>¥ 71,050</u>	<u>\$ 343,743</u>

### Long-term borrowings

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	¥ 136,478	¥ 56,953	\$ 1,022,078
Due after 1 year through 2 years	123,214	132,169	922,743
Due after 2 years through 3 years	133,397	118,095	999,007
Due after 3 years through 4 years	105,099	127,849	787,079
Due after 4 years through 5 years	61,994	102,331	464,269
Due after 5 years	222,994	269,682	1,669,992
	<u>¥ 783,176</u>	<u>¥ 807,079</u>	<u>\$ 5,865,168</u>

### Lease liabilities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	¥ 10,208	¥ 13,975	\$ 76,451
Due after 1 year through 2 years	10,003	9,449	74,913
Due after 2 years through 3 years	29,066	8,961	217,672
Due after 3 years through 4 years	2,411	28,614	18,056
Due after 4 years through 5 years	1,659	2,141	12,427
Due after 5 years	2,102	2,262	15,738
	<u>¥ 55,449</u>	<u>¥ 65,402</u>	<u>\$ 415,257</u>

### Other interest bearing debt

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	¥ 119,033	¥ 46,159	\$ 891,432
Due after 1 year through 2 years	301	331	2,255
Due after 2 years through 3 years	215	244	1,609
Due after 3 years through 4 years	137	154	1,028
Due after 4 years through 5 years	61	75	457
Due after 5 years	—	28	—
	<u>¥ 119,747</u>	<u>¥ 46,991</u>	<u>\$ 896,781</u>

### Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

- Level 1 fair value: Fair value measured using observable inputs, i.e., quoted prices in active markets for assets or liabilities that are the subject of the measurement
- Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs
- Level 3 fair value: Fair value measured using unobservable inputs

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

Financial instruments measured at fair value in the consolidated balance sheets at March 31, 2023 and 2022 were as follows:

**Investments in securities:**

**Available-for-sale securities**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Level 1	¥ 97,804	¥ 90,248	\$ 732,452
Level 2	—	—	—
Level 3	—	—	—
	<u>¥ 97,804</u>	<u>¥ 90,248</u>	<u>\$ 732,452</u>

**Derivative transactions:**

**Hedge accounting not applied**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Level 1	¥ —	¥ —	\$ —
Level 2	(1,467)	(2,578)	(10,983)
Level 3	—	—	—
	<u>¥ (1,467)</u>	<u>¥ (2,578)</u>	<u>\$ (10,983)</u>

**Derivative transactions:**

**Hedge accounting applied**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Level 1	¥ —	¥ —	\$ —
Level 2	(9,975)	(18,281)	(74,702)
Level 3	—	—	—
	<u>¥ (9,975)</u>	<u>¥ (18,281)</u>	<u>\$ (74,702)</u>

Financial instruments other than those measured at fair value in the consolidated balance sheets at March 31, 2023 and 2022 were as follows:

**Investments in securities:**

**Shares of subsidiaries and associates**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Level 1	¥ 6,839	¥ 4,441	\$ 51,216
Level 2	—	—	—
Level 3	—	—	—
	<u>¥ 6,839</u>	<u>¥ 4,441</u>	<u>\$ 51,216</u>

### Short-term borrowings and current portion of long-term borrowings

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Level 1	¥ —	¥ —	\$ —
Level 2	(173,419)	(91,656)	(1,298,726)
Level 3	—	—	—
	<u>¥ (173,419)</u>	<u>¥ (91,656)</u>	<u>\$ (1,298,726)</u>

### Current portion of bonds payable

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Level 1	¥ —	¥ —	\$ —
Level 2	(894)	(25,170)	(6,693)
Level 3	—	—	—
	<u>¥ (894)</u>	<u>¥ (25,170)</u>	<u>\$ (6,693)</u>

### Bonds payable

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Level 1	¥ —	¥ —	\$ —
Level 2	(45,345)	(46,459)	(339,583)
Level 3	—	—	—
	<u>¥ (45,345)</u>	<u>¥ (46,459)</u>	<u>\$ (339,583)</u>

### Long-term borrowings

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Level 1	¥ —	¥ —	\$ —
Level 2	(643,793)	(755,575)	(4,821,335)
Level 3	—	—	—
	<u>¥ (643,793)</u>	<u>¥ (755,575)</u>	<u>\$ (4,821,335)</u>

### Lease liabilities (long-term liabilities)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Level 1	¥ —	¥ —	\$ —
Level 2	(44,366)	(50,515)	(332,257)
Level 3	—	—	—
	<u>¥ (44,366)</u>	<u>¥ (50,515)</u>	<u>\$ (332,257)</u>

Note: A description of the valuation technique and inputs used in the fair value measurements

### Investments in securities

Listed shares are valued using market prices. As listed shares are traded in active markets, their fair value is classified as Level 1.

### Short-term borrowings, long-term borrowings, and lease liabilities (long term liabilities)

The fair values of short-term borrowings, long-term borrowings, and lease liabilities are determined based on the present value by discounting the sum of the principal and interest by the assumed rate which would be

applied if a similar new borrowings or lease transaction were entered into. The fair values of floating rate long-term borrowings hedged by interest rate swaps that qualify for hedge accounting and meet specific matching criteria for an exceptional method are calculated by discounting the sum of the principal and interest, including the differential paid or received under the swap agreements, by the reasonably estimated rate which would be applied if similar new borrowings were entered into. They are all classified as Level 2.

### Bonds and notes due within one year and bonds and notes

The fair values of bonds and notes due within one year and bonds and notes are determined based on market prices (reference statistical prices and yields) etc., and are classified as Level 2.

### Derivative transactions

For foreign currency exchange contracts, the fair values are determined based on the discounted present value method using observable inputs, including forward foreign exchange rates. For interest rate swaps and currency swaps, the fair values are determined based on quotes obtained from counterparty financial institutions with which contracts calculated primarily by the discounted present value method using observable inputs, including interest rates and foreign exchange rates, have been entered into. For commodity forward contracts, the fair values are determined based on the discounted present value method using observable inputs, including commodity futures prices, and classified as Level 2.

## 5. Securities

The following tables summarize available-for-sale securities at March 31, 2023 and 2022.

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2023			2022			2023
	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference	Difference
<b>Available-for-sale securities</b>							
Securities with available carrying amount exceeding acquisition cost:							
Equity securities	¥ 96,159	¥ 48,427	¥ 47,732	¥ 88,449	¥ 49,518	¥ 38,931	\$ 357,462
Subtotal	96,159	48,427	47,732	88,449	49,518	38,931	357,462
Securities with available carrying amount not exceeding acquisition cost:							
Equity securities	1,645	2,325	(680)	1,799	2,528	(729)	(5,093)
Subtotal	1,645	2,325	(680)	1,799	2,528	(729)	(5,093)
	¥ 97,804	¥ 50,752	¥ 47,052	¥ 90,248	¥ 52,046	¥ 38,202	\$ 352,369

Unlisted stocks and others (¥13,400 million (\$100,353 thousand) for the year ended March 31, 2023 and ¥11,866 million for the year ended March 31, 2022) are not included in the above table because they do not have market prices.

Sales of available-for-sale securities for the years ended March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Sales	¥4,461	¥468	\$ 33,412
Gains on sales	3,062	220	22,931
Losses on sales	(60)	(11)	(450)

## 6. Derivative Transactions

### Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2023 and 2022 were as follows:

	Millions of yen								Thousands of
	2023				2022				U.S. dollars (Note 1)
	Contracted amount		Recognized gain (loss)	Fair value	Contracted amount		Recognized gain (loss)	Fair value	2023
Over one year	Fair value	Over one year			Fair value	Fair value			
<b>Foreign currency exchange contracts</b>									
To sell foreign currencies:									
U.S. dollars	¥44,407	¥3,905	¥ 149	¥ 149	¥15,857	¥5,857	¥(1,090)	¥(1,090)	\$ 1,116
Others	55,460	2,696	(252)	(252)	24,320	—	(1,256)	(1,256)	(1,885)
To buy foreign currencies:									
U.S. dollars	17,507	—	(863)	(863)	12,979	—	82	82	(6,466)
Others	25,644	—	(501)	(501)	12,981	—	(314)	(314)	(3,750)
				¥(1,467)				¥(2,578)	\$(10,985)

Commodity forward contracts outstanding at March 31, 2023 and 2022 were as follows:

	Millions of yen								Thousands of
	2023				2022				U.S. dollars (Note 1)
	Contracted amount		Recognized gain (loss)	Fair value	Contracted amount		Recognized gain (loss)	Fair value	2023
Over one year	Fair value	Over one year			Fair value	Fair value			
<b>Commodity forward contracts</b>									
To sell commodities	¥—	¥—	¥—	¥—	¥10	¥—	¥(1)	¥(1)	\$—
To buy commodities	3	—	0	0	¥ 9	—	1	1	1

### Derivative transactions for which hedge accounting is applied

Forward currency exchange contracts and currency options outstanding at March 31, 2023 and 2022 were as follows:

	Millions of yen								Thousands of
	2023				2022				U.S. dollars (Note 1)
	Contracted amount		Recognized gain (loss)	Fair value	Contracted amount		Recognized gain (loss)	Fair value	Fair value
Over one year	Fair value	Over one year			Fair value	Fair value			
<b>Hedges for which the “deferred hedge” method is applied</b>									
<b>Foreign currency exchange contracts</b>									
To sell foreign currencies:									
U.S. dollars	¥49,429	¥17,613	¥ (9)	¥29,056	¥9,549	¥(2,250)	¥(2,250)	¥(2,250)	\$ (70)
Others	20,733	4,711	(451)	22,729	2,754	(1,769)	(1,769)	(1,769)	(3,379)
To buy foreign currencies:									
U.S. dollars	7,294	2,231	42	3,200	279	263	263	263	311
Others	11,220	603	428	8,291	256	216	216	216	3,207
<b>Foreign currency options</b>									
To sell foreign currency options:									
Call									
U.S. dollars	—	—	—	—	—	—	—	—	—
		[—]						[—]	

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2023			2022			2023
	Contracted amount Over one year		Fair value	Contracted amount Over one year		Fair value	Fair value
To buy foreign currency options:							
Put							
U.S. dollars	—	—	—	—	—	—	—
	[—]			[—]			
<b>Hedges for which the “assigning” method is applied</b>							
<b>Foreign currency exchange contracts</b>							
To sell foreign currencies:							
U.S. dollars	¥9,814	¥ 459	¥—	¥26,973	¥269	¥—	\$—
Others	9,518	1,083	—	29,672	733	—	—
To buy foreign currencies:							
U.S. dollars	1,695	164	—	1,193	—	—	—
Others	1,112	66	—	15,445	—	—	—

Notes:

- Hedges for which the “assigning” method is applied

For certain accounts receivable and accounts payable denominated in foreign currencies for which foreign currency exchange contracts are used to hedge foreign currency fluctuations, the fair values are included in the fair values of the hedged accounts receivable and accounts payable.

- Option premiums are presented below the contracted amount with brackets [ ].

Foreign currency options are zero cost options in which option premiums are not paid or received.

Interest rate swap agreements outstanding at March 31, 2023 and 2022 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2023			2022			2023
	Contracted amount Over one year		Fair value	Contracted amount Over one year		Fair value	Fair value
<b>Hedges for which the “deferred hedge” method is applied</b>							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥297,460	¥291,350	¥(10,031)	¥261,130	¥254,200	¥(14,486)	\$(75,124)
<b>Hedges for which the “exceptional” method is applied</b>							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥ 48,120	¥ 48,120	¥ —	¥ 48,480	¥ 48,480	¥ —	\$ —

Notes:

- Hedges for which the “exceptional” method is applied

For certain long-term borrowings for which interest rate swap agreements are used to hedge the variable risk to interest, the fair values are included in the fair values of the long-term borrowings.

Commodity forward contracts outstanding at March 31, 2023 and 2022 were as follows:

	Millions of yen						Thousands of
	2023		2022				U.S. dollars (Note 1)
	Contracted amount Over one year	Fair value	Contracted amount Over one year	Fair value			2023
<b>Hedges for which the “deferred hedge” method is applied</b>							
Commodity forward contracts							
To sell commodities	¥4,193	¥—	¥131	¥3,319	¥ —	¥(542)	\$ 978
To buy commodities	2,062	20	(84)	2,871	143	287	(626)

## 7. Short-Term Borrowings and Long-Term Borrowings

Short-term borrowings at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of
	2023	2022	U.S. dollars (Note 1)
Bank loans (average rate: 2.28% in 2023 and 1.90% in 2022)	¥ 32,738	¥ 30,313	\$ 245,176

Long-term borrowings at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of
	2023	2022	U.S. dollars (Note 1)
0.04% to 1.23% yen bonds, due 2022	¥ —	¥ 25,150	\$ —
0.04% to 0.92% yen bonds, due 2023 through 2026	45,900	45,900	343,743
Loans, principally from banks and insurance companies, due 2023 through 2036	783,176	807,079	5,865,168
	829,076	878,129	6,208,911
Less current portion	137,378	82,103	1,028,818
	¥ 691,698	¥ 796,026	\$ 5,180,093

The aggregate annual maturities of long-term borrowings at March 31, 2023 were as follows:

	Millions of yen		Thousands of
	2023		U.S. dollars (Note 1)
Due within 1 year	¥ 137,378	\$ 1,028,818	
Due after 1 year through 2 years	123,214	922,743	
Due after 2 years through 3 years	168,397	1,261,120	
Due after 3 years through 4 years	115,099	861,968	
Due after 4 years through 5 years	61,994	464,269	
Due after 5 years	222,994	1,669,993	
	¥ 829,076	\$ 6,208,911	

At March 31, 2023 and 2022, assets pledged as collateral for short-term borrowings and long-term borrowings were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)			
	2023	2022	2023			
<b>Assets pledged as collateral:</b>						
Property, plant and equipment, net of accumulated depreciation	¥ 258,043	¥[255,203]	¥ 248,772	¥[244,280]	\$1,932,459	\$[1,911,202]
Cash and deposits	58,741	[57,956]	20,044	[19,122]	439,911	[434,027]
Other assets	53,183	[35,853]	29,950	[14,654]	398,384	[268,505]
	<u>¥ 369,967</u>	<u>¥[349,012]</u>	<u>¥ 298,766</u>	<u>¥[278,056]</u>	<u>\$2,770,664</u>	<u>\$[2,613,734]</u>
Secured short-term borrowings and long-term borrowings:	<u>¥ 272,375</u>	<u>¥[271,287]</u>	<u>¥ 254,170</u>	<u>¥[278,056]</u>	<u>\$2,039,802</u>	<u>\$[2,031,659]</u>
	<u>¥ 272,375</u>	<u>¥[271,287]</u>	<u>¥ 254,170</u>	<u>¥[253,287]</u>	<u>\$2,039,802</u>	<u>\$[2,031,659]</u>

Notes:

1. Amounts in brackets [ ] indicate those related to the factory foundation, etc.

## 8. Provision for Loss on Construction Contracts

Inventories for construction contracts with anticipated losses and provision for loss on construction contracts were not offset. The inventories for the construction contracts for which the provision for loss on construction contracts were provided were ¥3,976 million (\$29,779 thousand) for the year ended March 31, 2023 and ¥4,981 million for the year ended March 31, 2022. These amounts were included in “Work-in-process.”

## 9. Land Revaluation

In the years ended March 31, 2002 and 2001, land used for operations was revalued by certain consolidated subsidiaries in accordance with the Land Revaluation Law. The revaluation amount, net of related taxes, is shown as accumulated other comprehensive income in net assets.

The difference has not been stated because the fair value at March 31, 2023 and at March 31, 2022 exceeded the carrying amount of the revalued amount.

## 10. Commitment Line

The unexercised portion of facilities based on commitment line contracts at March 31, 2023 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2023	2022	2023	
Total commitment line available	¥ 153,327	¥ 153,161	\$	1,148,257
Less amount utilized	—	—		—
	<u>¥ 153,327</u>	<u>¥ 153,161</u>	<u>\$</u>	<u>1,148,257</u>

## 11. Contingent Liabilities Regarding Notes and Loans Guaranteed

Contingent liabilities regarding notes and loans guaranteed at March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2023	2022	2023	
Trade notes discounted	¥ 1,086	¥ —	\$	8,133
Trade notes endorsed	3,658	132		27,396
Guarantees of loans:				
Related parties	1,631	7,800		12,212
Others	4,944	154		37,024
	<u>¥ 11,319</u>	<u>¥ 8,086</u>	<u>\$</u>	<u>84,765</u>

Guarantees of loans included ¥2,508 million at March 31, 2022 covered by reassurances from other companies.

Kobelco Construction Machinery (China) Co., Ltd., which is a consolidated subsidiary of the Company, sells construction machinery to customers through sales agents or leasing companies. Sales agents pledge guarantees to buy up construction machinery pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Kobelco Construction Machinery (China) Co., Ltd. pledges reassurances for these guarantees. The balances of the reassurances were ¥5,921 million (\$44,340 thousand) for the year ended March 31, 2023 and ¥12,751 million for the year ended March 31, 2022.

## 12. Contingent Liabilities Regarding Repurchase Obligations Accompanying Securitization of Receivables

Contingent liabilities regarding repurchase obligations accompanying securitization of receivables at March 31, 2023 and 2022 were as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2023	2022	2023
	¥	5,379	¥ 5,696	\$ 40,284

## 13. Net Assets

Net assets comprise stockholders' equity, accumulated other comprehensive income and non-controlling interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006. The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus), depending on the equity account charged upon the payment of such dividends, until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, generally with a resolution of the shareholders' meeting, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or be capitalized.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

## 14. Revenue recognized from contracts with customers

Revenue recognized from contracts with customers and revenue recognized from other sources are not stated separately because the amount of revenue recognized from other sources is not material. Revenue recognized from contracts with customers is presented in "(1) Disaggregation of revenue from contracts with customers" of Note 21.

## 15. Cost of Sales

Loss on the write-down of inventories included in the cost of sales was ¥3,864 million (\$28,934 thousand) loss for the year ended March 31, 2023 and ¥308 million loss for the year ended March 31, 2022.

The provision for loss on construction contracts included in the cost of sales was ¥8,839 million (\$66,194 thousand) for the year ended March 31, 2023 and ¥8,487 million for the year ended March 31, 2022.

## 16. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses were ¥36,702 million (\$274,863 thousand) for the year ended March 31, 2023 and ¥33,245 million for the year ended March 31, 2022.

## 17. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2023 and 2022 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Freight	¥ 63,395	¥ 56,161	\$ 474,764
Employees' compensation	48,138	45,564	360,507
Research and development	20,976	19,754	157,086
Commission fee	14,372	13,617	107,629
Welfare and legal welfare expenses	13,341	12,633	99,912
Rent expenses	9,656	9,951	72,310
Taxes and dues	11,022	8,542	82,545
Provision for bonuses	6,166	6,081	46,178
Depreciation	5,574	5,213	41,744
Travel expenses	4,869	3,152	36,465
Others	37,417	39,513	280,205
	¥ 234,926	¥ 220,181	\$ 1,759,345

## 18. Loss on liquidation of business

Loss on liquidation of business of ¥4,332 million (\$32,446 thousand) consists of compensation, etc. for retirees due to the integration of the production of hydraulic excavators of Hangzhou Kobelco Construction Machinery Co., Ltd., a production subsidiary in China in the Construction Machinery Business, into Kobelco Construction Machinery (China) Co., Ltd. of ¥3,419 million (\$25,611 thousand) and additional retirement benefits, etc. expected due to the business downsizing of Koshuha Precision Co., Ltd., a subsidiary in the Steel & Aluminum Business, of ¥913 million (\$6,835 thousand).

## 19. Impairment Losses

The Group recognized impairment losses of ¥4,438 million (\$33,238 thousand) on the below asset groups for the fiscal year ended March 31, 2023. The breakdown of impairment losses was as follows: buildings and structures of ¥3,120 million (\$23,368 thousand), machinery, equipment and vehicles of ¥650 million (\$4,866 thousand), land of ¥43 million (\$325 thousand) and intangible assets of ¥625 million (\$4,679 thousand).

Use	Location and number	Type	Millions of yen	Thousands of U.S. dollars (Note 1)
			2023	2023
Assets for manufacturing construction machinery (Kobelco Construction Machinery (China) Co., Ltd.,)	Sichuan, China 3 cases in total	Buildings and structures, etc.	¥ 4,097	\$ 30,682
Idle assets	Chuo-ku, Kobe-shi and other locations 6 cases in total	Intangible assets, etc.	341	2,556
			¥ 4,438	\$ 33,238

In the Group's determination of impairment losses, the assets for business use are, in principle, grouped by business office while taking into account continuous income/loss management and the unit of cash generation. Idle assets are grouped for each individual property.

A recoverable value is measured primarily by a net sales value, which is based on an appraisal value, estimated sales value, and others.

The background for recognizing impairment losses for each main asset group was as follows.

Assets for manufacturing construction machinery (Kobelco Construction Machinery (China) Co., Ltd.,)

Book values of ¥6,788 million (\$50,832 thousand) were reduced to the respective recoverable values, and the reductions were recorded as impairment losses of ¥4,097 million (\$30,682 thousand) under extraordinary losses due to lower profitability as a result of a decline in demand caused by slower infrastructure investment and other factors.

## 20. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities at March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of
	2023	2022	U.S. dollars (Note 1)
Deferred tax assets:			2023
Tax loss carryforwards	¥ 24,940	¥ 23,873	\$ 186,779
Retirement benefit liability	21,547	24,685	161,361
Impairment losses	16,356	17,877	122,486
Unrealized profit	15,305	15,106	114,615
Provision for bonuses	7,907	7,689	59,215
Loss on valuation of inventories	6,456	5,473	48,350
Provision for product warranties	5,537	4,426	41,468
Allowance for doubtful accounts	5,029	4,622	37,659
Other	35,760	36,697	267,813
Total deferred tax assets	138,837	140,448	1,039,746
Valuation allowance related to tax loss carryforwards	(13,043)	(12,245)	(97,680)
Valuation allowance related to total deductible temporary difference, etc.	(38,617)	(38,840)	(289,199)
Valuation allowance	(51,660)	(51,085)	(386,879)
Deferred tax assets	87,177	89,363	652,867
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	14,413	11,742	107,942
Gain on return of assets from retirement benefit trust	8,030	8,030	60,134
Revaluation reserve for land	3,254	3,254	24,366
Special tax purpose reserve	1,987	2,126	14,878
Other	22,621	18,555	169,414
Total deferred tax liabilities	50,305	43,707	376,734
Net deferred tax assets	¥ 36,872	¥ 45,656	\$ 276,133

Amount of tax loss carryforwards and related deferred tax assets by tax loss carryforwards for the year ended March 31, 2023 and 2022 were as follows:

Tax loss carryforwards (Note 1)	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	824	1,545	6,174
Due after 1 year through 2 years	918	788	6,878
Due after 2 years through 3 years	3,667	1,530	27,459
Due after 3 years through 4 years	123	3,571	922
Due after 4 years through 5 years	2,023	269	15,153
Due after 5 years	17,385	16,170	130,193
	<u>¥ 24,940</u>	<u>¥ 23,873</u>	<u>\$ 186,779</u>

Notes:

1. Figures for the tax loss carryforwards were the amounts multiplied by the effective statutory tax rate.

Valuation allowance	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	(326)	(949)	(2,443)
Due after 1 year through 2 years	(237)	(309)	(1,777)
Due after 2 years through 3 years	(2,505)	(888)	(18,760)
Due after 3 years through 4 years	(25)	(3,242)	(189)
Due after 4 years through 5 years	(1,965)	(118)	(14,716)
Due after 5 years	(7,985)	(6,739)	(59,795)
	<u>¥ (13,043)</u>	<u>¥ (12,245)</u>	<u>\$ (97,680)</u>

Deferred tax assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within 1 year	498	596	3,731
Due after 1 year through 2 years	681	479	5,101
Due after 2 years through 3 years	1,162	642	8,699
Due after 3 years through 4 years	98	329	733
Due after 4 years through 5 years	58	151	437
Due after 5 years	9,400	9,431	70,398
	<u>¥ 11,897</u>	<u>¥ 11,628</u>	<u>\$ 89,099</u>

The reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2023 and 2022 were as follows:

	2023	2022
Aggregate statutory income tax rate in Japan	30.6%	30.6%
Nondeductible entertainment expenses	0.8	0.9
Exclusion of dividends received	(0.5)	(0.6)
Share of profit of entities accounted for using equity method	(2.1)	(1.9)
Adjustment of gain on sale of investment securities	—	2.2
Increase (Decrease) in valuation allowance	0.9	(6.7)
Differences in normal tax rates of subsidiaries	(1.1)	(2.5)
Tax deduction	(5.6)	(2.4)
Other	0.2	4.6
Effective income tax rate	<u>23.2%</u>	<u>24.2%</u>

Accounting for income taxes and tax effect accounting

The Company and some of its domestic consolidated subsidiaries have adopted the group tax sharing system from fiscal year ended March 31, 2023. In addition, income taxes, as well as their tax effects, are accounted for and disclosed under Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System (ASBJ Guidance No. 42, August 12, 2021).

## 21. Revenue Recognition

### (1) Disaggregation of revenue from contracts with customers

The following is a breakdown of the Group's net sales by reportable segments, broken down by region and by the time of the transfer of the goods or services.

① Breakdown by region for the years ended March 31, 2022 and 2023 was as follows:

		Millions of yen		Thousands of
		2023	2022	U.S. dollars (Note 1)
				2023
Japan	Steel & Aluminum:	¥ 820,998	¥ 678,171	\$ 6,148,414
	Steel	702,009	572,581	5,257,313
	Aluminum sheet	118,989	105,590	891,101
	Advanced Materials	149,508	193,029	1,119,652
	Welding	46,793	42,867	350,429
	Machinery	68,318	61,624	511,632
	Engineering	110,846	107,974	830,119
	Construction Machinery	150,916	147,405	1,130,201
	Electric Power	324,369	109,866	2,429,187
	Other Businesses	15,714	17,687	117,684
	Subtotal	¥ 1,687,462	¥ 1,358,623	\$ 12,637,318
China	Steel & Aluminum:	82,763	72,736	619,813
	Steel	37,850	41,294	283,460
	Aluminum sheet	44,913	31,442	336,353
	Advanced Materials	24,310	23,265	182,056
	Welding	8,775	7,257	65,716
	Machinery	40,921	41,779	306,455
	Engineering	10,621	7,652	79,537
	Construction Machinery	28,092	47,586	210,388
	Electric Power	—	—	—
	Other Businesses	1,271	1,600	9,513
	Subtotal	¥ 196,753	¥ 201,875	\$ 1,473,478
Other	Steel & Aluminum:	161,996	130,146	1,213,180
	Steel	135,624	108,135	1,015,679
	Aluminum sheet	26,372	22,011	197,501
	Advanced Materials	92,362	108,055	691,698
	Welding	31,751	26,099	237,781
	Machinery	72,353	58,426	541,849
	Engineering	22,273	18,694	166,803
	Construction Machinery	202,712	176,558	1,518,097
	Electric Power	—	—	—
	Other Businesses	3,200	2,646	23,967
	Subtotal	¥ 586,647	¥ 520,624	\$ 4,393,375

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2023	2022	2023
Segment total	Steel & Aluminum:	¥ 1,065,757	¥ 881,053	\$ 7,981,407
	Steel	875,483	722,010	6,556,452
	Aluminum sheet	190,274	159,043	1,424,955
	Advanced Materials	266,180	324,349	1,993,406
	Welding	87,319	76,223	653,926
	Machinery	181,592	161,829	1,359,936
	Engineering	143,740	134,320	1,076,459
	Construction Machinery	381,720	371,549	2,858,686
	Electric Power	324,369	109,866	2,429,187
	Other Businesses	20,185	21,933	151,164
	Total sales to external customers	2,470,862	2,081,122	18,504,171
	Adjustment	1,647	1,461	12,333
	Consolidated sales to external customers	¥ 2,472,509	¥ 2,082,583	\$ 18,516,504

② Breakdown by the time of the transfer of the goods or services for the years ended March 31, 2022 and 2023 was as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2023	2022	2023
Goods or services transferred at a point in time	Steel & Aluminum:	¥ 1,053,363	¥ 868,427	\$ 7,888,586
	Steel	863,089	709,384	6,463,631
	Aluminum sheet	190,274	159,043	1,424,955
	Advanced Materials	266,180	324,349	1,993,406
	Welding	87,319	76,223	653,926
	Machinery	164,651	148,860	1,233,067
	Engineering	49,426	46,909	370,150
	Construction Machinery	372,500	362,100	2,789,635
	Electric Power	324,369	109,866	2,429,187
	Other Businesses	19,663	21,421	147,254
	Subtotal	¥ 2,337,471	¥ 1,958,155	\$ 17,505,211
Goods or services transferred over a certain period of time	Steel & Aluminum:	12,394	12,626	92,821
	Steel	12,394	12,626	92,821
	Aluminum sheet	—	—	—
	Advanced Materials	—	—	—
	Welding	—	—	—
	Machinery	16,941	12,969	126,869
	Engineering	94,314	87,411	706,309
	Construction Machinery	9,220	9,449	69,051
	Electric Power	—	—	—
Other Businesses	522	512	3,910	
	Subtotal	¥ 133,391	¥ 122,967	\$ 998,960

		Millions of yen		Thousands of
		2023	2022	U.S. dollars (Note 1)
Segment total	Steel & Aluminum:	¥ 1,065,757	¥ 881,053	\$ 7,981,407
	Steel	875,483	722,010	6,556,452
	Aluminum sheet	190,274	159,043	1,424,955
	Advanced Materials	266,180	324,349	1,993,406
	Welding	87,319	76,223	653,926
	Machinery	181,592	161,829	1,359,936
	Engineering	143,740	134,320	1,076,459
	Construction Machinery	381,720	371,549	2,858,686
	Electric Power	324,369	109,866	2,429,187
	Other Businesses	20,185	21,933	151,164
	Total sales to external customers	2,470,862	2,081,122	18,504,171
	Adjustment	1,647	1,461	12,333
	Consolidated sales to external customers	¥ 2,472,509	¥ 2,082,583	\$ 18,516,504

Notes:

1. "Other" segment is a business segment not included in the reportable segments and includes Kobelco Research Institute, Inc. (special alloys and other new materials (target materials, etc.), analysis of various materials, etc.) and other businesses.
2. Revenue recognized from contracts with customers includes revenue recognized from other sources because most sales to external customers are revenue recognized from contracts with customers.
3. Information on net sales by region is based on the location of customers and broken down by country.

(2) Information to understand the amount of revenue for the current fiscal year and subsequent fiscal years

① Contract asset and contract liability balances at March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of
	2023	2022	U.S. dollars (Note 1)
Receivables from contracts with customers (beginning balance)	¥ 328,099	¥ 273,985	\$ 2,457,117
Receivables from contracts with customers (ending balance)	402,497	328,099	3,014,284
Contract assets (beginning balance)	29,874	40,009	223,726
Contract assets (ending balance)	26,074	29,874	195,269
Contract liabilities (beginning balance)	45,219	36,109	338,642
Contract liabilities (ending balance)	58,828	45,219	440,562

Contract assets relate to the consideration for transactions for which an invoice has not yet been issued under the contract for revenue recognized based on progress, mainly in the machinery and engineering businesses. Once the right to the consideration becomes unconditional, it is reclassified to receivables from contracts with customers.

Contract liabilities primality relate to advances received from customers. Revenue recognized in the current fiscal year that was included in the contract liability balance at the beginning of the period was ¥33,058 million (\$247,570 thousand) for the year ended March 31, 2023 and ¥21,833 million for the year ended March 31, 2022. The amount of revenue recognized in the current fiscal year from performance obligations that were satisfied in the previous fiscal year was not material.

② Transaction price allocated to the remaining performance obligations

The total transaction price allocated to the remaining performance obligations and the time frame over which the Group expects to recognize the amount as revenue were as follows. The performance obligations primarily relate to the sales of products, construction contracts, and the provision of services in the machinery and engineering businesses.

The Group has applied the practical expedient to the notes on transaction prices allocated to the remaining performance obligations and does not disclose contracts with an original expected duration of one year or less.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Within one year	¥ 238,441	¥ 226,468	\$ 1,785,675
Over one year	374,677	240,326	2,805,938
	¥ 613,118	¥ 466,794	\$ 4,591,613

## 22. Consolidated Statements of Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income for the years ended March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Valuation difference on available-for-sale securities:			
Unrealized gains arising during the period	¥ 10,693	¥ 19,051	\$ 80,081
Less reclassification adjustment included in profit	(1,958)	(111)	(14,662)
	8,735	18,940	65,419
Tax effects	(2,681)	(5,728)	(20,078)
	6,054	13,212	45,341
Deferred gains or losses on hedges:			
Unrealized gains arising during the period	6,631	2,103	49,665
Less reclassification adjustment included in profit	2,051	(3,242)	15,357
Adjustments of acquisition cost for assets	(436)	553	(3,268)
	8,246	(586)	61,754
Tax effects	(2,230)	558	(16,701)
	6,016	(28)	45,053
Revaluation reserve for land:			
Unrealized losses arising during the period	—	—	—
Less reclassification adjustment included in profit	—	—	—
	—	—	—
Tax effects	—	5	—
	—	5	—
Foreign currency translation adjustment:			
Translation adjustments arising during the period	16,830	19,162	126,039
Less reclassification adjustment included in profit	—	173	—
	16,830	19,335	126,039
Remeasurements of defined benefit plans:			
Unrealized gains arising during the period	18,965	6,240	142,027
Less reclassification adjustment included in profit	1,221	3,535	9,147
	20,186	9,775	151,174
Tax effects	(5,145)	(2,604)	(38,534)
	15,041	7,171	112,640
Share of other comprehensive gains related to equity method companies:			
Unrealized gains arising during the period	1,614	2,424	12,084
Less reclassification adjustment included in profit	(527)	70	(3,944)
	1,087	2,494	8,140
Total other comprehensive income	¥ 45,028	¥ 42,189	\$ 337,213

### 23. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the years ended March 31, 2023 and 2022 were as follows:

	Number of shares
Common shares outstanding	
Balance at March 31, 2021	364,364,210
Increase due to issuance of common shares in a share exchange (No decrease)	31,981,753 —
Balance at March 31, 2022	396,345,963
(No increase) (No decrease)	— —
Balance at March 31, 2023	396,345,963

Changes in the number of treasury shares outstanding during the years ended March 31, 2023 and 2022 were as follows:

	Number of shares
Treasury shares outstanding	
Balance at March 31, 2021	1,670,210
Increase due to purchase of odd-lot shares	8,930
Increase due to gain by associates accounted for by the equity method	155,743
Decrease due to sale of odd-lot shares	(642)
Decrease in equity ratio in associates accounted for by the equity method	(24,405)
Decrease due to BBT	(11,600)
Balance at March 31, 2022	1,798,236
Increase due to purchase of odd-lot shares	8,224
Decrease due to sale of odd-lot shares	(1,146)
Decrease due to sale by associates accounted for by the equity method	(16,718)
Decrease due to BBT	(356,400)
Balance at March 31, 2023	1,432,196

Amount of dividend payments during the year ended March 31, 2023 was as follows:

Decision	Kind of stock	Millions of yen / Thousands of U.S. dollars (Note 1)		Cash dividends per share	Record date	Operative date
		Total payments	Yen/ U.S. dollars (Note 1)			
At the Board of Directors' meeting held on May 18, 2022	Common share	¥11,883 \$88,988		¥30.00 \$ 0.22	March 31, 2022	June 23, 2022
At the Board of Directors' meeting held on November 9, 2022	Common share	¥ 5,941 \$44,494		¥15.00 \$ 0.11	September 30, 2022	December 1, 2022

Dividends for which the record date belongs to the year ended March 31, 2023, and the operative date is the year ending March 31, 2024 were as follows:

Decision	Kind of stock	Source of dividends	Millions of yen / Thousands of U.S. dollars (Note 1)		Cash dividends per share	Record date	Operative date
			Total payments	Yen/ U.S. dollars (Note 1)			
At the Board of Directors' meeting held on May 17, 2023	Common share	Retained earnings	¥ 9,902 \$74,156		¥25.00 \$ 0.19	March 31, 2023	June 1, 2023

## 24. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the consolidated statements of cash flows and the consolidated balance sheets at March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Cash and deposits in the consolidated balance sheets	¥ 203,521	¥ 243,502	\$ 1,524,157
Time deposits due over three months	(127)	(190)	(947)
Certificates of deposit included in the securities account	—	17,200	—
Cash and cash equivalents in the consolidated statements of cash flows	¥ 203,394	¥ 260,512	\$ 1,523,210

Breakdown of assets and liabilities at the time of sale as Kobelco & Materials Copper Tube, Ltd., etc. ceased to be consolidated subsidiaries due to the sale of shares and the selling price of shares and payment for sale of investment in subsidiaries resulting in change in scope of consolidation were as follows:

	Millions of yen 2022
Current assets	¥ 42,118
Non-current assets	10,048
Current liabilities	(18,748)
Non-current liabilities	(18,689)
Accumulated other comprehensive income	(652)
Non-controlling interests	(5,071)
Loss on sale of investment securities	(9,220)
Incidental expenses associated with the sale of shares	126
Selling price of shares	¥ (88)
Cash and cash equivalents	(4,236)
Incidental expenses associated with the sale of shares	(126)
Accounts payable	443
Deduction: Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	¥ (4,007)

## 25. Related Party Transactions

Transactions of the Company with related parties for the year ended March 31, 2023 consisted of the following:

Category	Name	Paid-in capital	Content of business	Percentage of ownership	Millions of yen / thousands of U.S. dollars (Note 1)			
					Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Associates	Shinsho Corporation	¥5,650 million	Trades iron and steel, nonferrous metals, machinery	13.42% directly and 1.05% indirectly (21.70%)	Sales of our products	¥ 276,511 \$2,070,775	Accounts receivable	¥ 47,110 \$352,802
					Purchases of raw materials and materials for equipment	¥ 812,816 \$6,087,144	Accounts payable	¥ 27,077 \$202,780
Associates	Kansai Coke and Chemicals Co., Ltd.	¥6,000 million	Produces and sells industrial chemical products such as coke	24.00% directly	Supplies of coal	¥ 137,507 \$1,029,785	Accounts receivable	¥ 3,245 \$ 24,299
					Purchases of coke	¥ 143,459 \$1,074,360	Accounts payable	¥ 32,255 \$241,556

Transactions of the Company with related parties for the year ended March 31, 2022 consisted of the following:

Category	Name	Paid-in capital	Content of business	Percentage of ownership	Millions of yen			
					Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Associates	Shinsho Corporation	¥5,650 million	Trades iron and steel, nonferrous metals, machinery	13.33% directly and 1.04% indirectly (21.56%)	Sales of our products	¥236,473	Accounts receivable	¥14,757
					Purchases of raw materials and materials for equipment	¥523,545	Accounts payable	¥37,263
					Supplies of coal	¥ 86,545	Accounts receivable	¥14,065
Associates	Kansai Coke and Chemicals Co., Ltd.	¥6,000 million	Produces and sells industrial chemical products such as coke	24.00% directly	Purchases of coke	¥ 91,172	Accounts payable	¥21,844

Notes:

1. The terms and conditions applicable to the above transactions were determined by the negotiation considering the market trend.
2. The above amounts of transactions do not include transactions which were eliminated in the consolidation process with consolidated subsidiaries via Shinsho Corporation.
3. The number in parentheses is the percentage of shareholders who agree with the Company when exercising voting rights.

## 26. Employees' Severance and Retirement Benefits

### Summary of Adopted Retirement Benefits

The Company and its domestic consolidated subsidiaries operate two defined benefit retirement plans which consist of unfunded lump-sum payment plans and funded non-contributory pension plans. Some unfunded lump-sum payment plans became funded as a result of contributions of securities to retirement benefit trusts. The Company and certain domestic consolidated subsidiaries operate contribution pension plans.

Net defined benefit asset or liability in the consolidated balance sheet for the years ended March 31, 2023 and 2022 consisted of the following:

### Defined Benefit Retirement Plans

#### (1) Changes in projected benefit obligation

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Balance at beginning of year	¥ 155,635	¥ 157,109	\$ 1,165,538
Service costs	10,968	11,111	82,138
Interest cost on projected benefit obligation	362	367	2,708
Actuarial differences arising during the period	(12,290)	281	(92,040)
Unrecognized prior service cost arising during the period	102	(3,133)	763
Amount of payment of retirement benefits	(6,264)	(6,662)	(46,909)
Increase (decrease) due to change in scope of consolidation	41	(3,367)	312
Exchange difference	200	111	1,502
Adjustment from the simplified method to the principle method	192	—	1,440
Other	(28)	(182)	(205)
Balance at end of year	¥ 148,918	¥ 155,635	\$ 1,115,247

#### (2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Balance at beginning of year	¥ 95,192	¥ 92,430	\$ 712,889
Expected return on plan assets	224	218	1,674
Actuarial differences arising during the period	6,777	5,202	50,751
Amount of contribution by the employer	1,658	1,978	12,416
Amount of payment of retirement benefits	(4,248)	(5,549)	(31,815)
Increase (decrease) due to change in scope of consolidation	—	(589)	—
Increase (decrease) due to Share exchange	—	1,486	—
Other	31	16	242
Balance at end of year	¥ 99,634	¥ 95,192	\$ 746,157

(3) Reconciliation from projected benefit obligations and plan assets to net defined benefit liability and asset

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Funded projected benefit obligation	¥ 109,049	¥ 119,583	\$ 816,666
Plan assets	(99,634)	(95,192)	(746,157)
	9,415	24,391	70,509
Unfunded projected benefit obligation	39,869	36,052	298,581
Net of defined benefit liability and asset	¥ 49,284	¥ 60,443	\$ 369,090
Net defined benefit liability	71,376	79,979	534,534
Net defined benefit asset	(22,092)	(19,536)	(165,444)
Net of defined benefit liability and asset	¥ 49,284	¥ 60,443	\$ 369,090

(4) Breakdown of severance and retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Service costs	¥ 10,968	¥ 11,111	\$ 82,138
Interest cost on projected benefit obligation	362	367	2,708
Expected return on plan assets	(224)	(218)	(1,674)
Amortization of actuarial differences	1,179	3,510	8,831
Amortization of prior service cost	42	(1,789)	316
Adjustment from the simplified method to the principle method	192	—	1,440
Other	(1)	13	(14)
Severance and retirement benefit expenses on defined benefit retirement plans	¥ 12,518	¥ 12,994	\$ 93,745
Compensation, etc. for retirees due to the liquidation of business	3,672	—	27,501
Total	¥ 16,190	¥ 12,994	\$ 121,246

Compensation, etc. for retirees due to the integration of business was recorded in “Loss on liquidation of business” of extraordinary losses.

(5) Breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Prior service cost	¥ (60)	¥ 1,344	\$ (447)
Actuarial differences	20,246	8,431	151,621
Total	¥ 20,186	¥ 9,775	\$ 151,174

(6) Accumulated breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Unrecognized prior service cost	¥ (7,897)	¥ (7,957)	\$ (59,140)
Unrecognized actuarial differences	(18,019)	2,227	(134,946)
Total	¥ (25,916)	¥ (5,730)	\$ (194,086)

(7) Plan assets

(a) Breakdown of plan assets

	2023	2022
Stock	30%	25%
General account of insurance company	36	39
Bonds	20	21
Other	14	15
Total	100%	100%

(b) The method used to determine long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2023 and 2022 were as follows:

	2023	2022
Discount rates	mainly 0.8%	mainly 0.0%
Long-term expected rate of return	mainly 0.1%	mainly 0.1%

### Defined contribution plan

Required contributions of the Company and its domestic consolidated subsidiaries for the years ended March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Required contributions	¥ 2,194	¥ 1,906	\$ 16,430

## 27. Segment Information

### (1) Overview of Reportable Segments

The reportable segments of the Group are defined as components for which separate financial information is available and reviewed regularly by the Board of Directors to decide how to allocate management resources and to evaluate operating performance.

The Company has business units based on products and services (some of which are made by subsidiaries), and every business unit and subsidiary plans domestic and foreign global strategies to operate their businesses.

The Group consists of segments of business units and subsidiaries based on products and services. The reportable segments of the Group is seven: “Steel & Aluminum,” “Advanced Materials,” “Welding,” “Machinery,” “Engineering,” “Construction Machinery,” and “Electric Power.”

#### The main products and services of the reportable segments are as follows:

Steel & Aluminum:	wire rod & bar products, steel sheets, heavy plates and aluminum sheets
Advanced Material:	steel castings and forgings, aluminum castings and forgings, titanium, suspensions, aluminum extrusions, copper rolled products and steel powder
Welding:	welding materials, welding robots, welding power sources, welding robot systems, welding-related testing, analysis, and consulting
Machinery:	equipment for energy and chemical fields, equipment for nuclear power plants, tire and rubber machinery, plastic processing machinery, ultra-high-pressure presses, physical vapor deposition systems, metalworking machinery, compressors, refrigeration compressors, heat pumps, plants and internal combustion engines
Engineering:	various plants and equipment, civil engineering, advanced urban transit systems, chemical and food processing equipment
Construction Machinery:	hydraulic excavators, mini excavators, wheel loaders, crawler cranes, rough terrain cranes and work vessels
Electric Power:	power supply
Other:	special alloys and other new materials, material analysis and testing, high-pressured gas cylinder manufacturing, superconducting products and general trading company business

## (2) Methods used to Calculate Sales, Income (Loss), Assets and Other Items of Reportable Segments

The accounting policies of the reportable segments are the same as those described in Note 2, "Summary of Significant Accounting Policies."

Profit (loss) of reportable segments is based on ordinary profit (loss). Intersegment sales prices are based on prices applicable to transactions with third parties.

## (3) Information about Sales, Income (Loss), Assets and Other Items of Reportable Segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2023	2022	2023
Sales to outside customers:	Steel & Aluminum	¥ 1,065,757	¥ 881,053	\$ 7,981,407
	Advanced Materials	266,180	324,349	1,993,406
	Welding	87,319	76,223	653,926
	Machinery	181,592	161,829	1,359,936
	Engineering	143,740	134,320	1,076,459
	Construction Machinery	381,720	371,549	2,858,686
	Electric Power	324,369	109,866	2,429,187
	Other Businesses	20,185	21,933	151,164
	Total sales to outside customers	¥ 2,470,862	¥ 2,081,122	\$ 18,504,171
Intersegment sales:	Steel & Aluminum	¥ 39,410	¥ 33,856	\$ 295,136
	Advanced Materials	11,586	8,912	86,768
	Welding	1,111	702	8,321
	Machinery	5,324	5,018	39,868
	Engineering	1,485	1,341	11,122
	Construction Machinery	61	83	456
	Electric Power	—	—	—
	Other Businesses	7,328	6,880	54,881
	Total intersegment sales	¥ 66,305	¥ 56,792	\$ 496,552
Total sales:	Steel & Aluminum	¥ 1,105,167	¥ 914,909	\$ 8,276,543
	Advanced Materials	277,766	333,261	2,080,174
	Welding	88,430	76,925	662,247
	Machinery	186,916	166,847	1,399,804
	Engineering	145,225	135,661	1,087,581
	Construction Machinery	381,781	371,632	2,859,142
	Electric Power	324,369	109,866	2,429,187
	Other Businesses	27,513	28,813	206,045
	Total segment sales	2,537,167	2,137,914	19,000,723
	Adjustment	1,647	1,461	12,333
	Elimination	(66,305)	(56,792)	(496,552)
	Consolidated net sales	¥ 2,472,509	¥ 2,082,583	\$ 18,516,504
Segment profit (loss):	Steel & Aluminum	¥ 41,970	¥ 37,537	\$ 314,308
	Advanced Materials	943	5,150	7,061
	Welding	2,837	2,781	21,250
	Machinery	14,336	12,564	107,361
	Engineering	4,198	7,755	31,440
	Construction Machinery	12,365	12,086	92,604
	Electric Power	24,560	13,259	183,932
	Other Businesses	6,333	7,047	47,422
	Total segment income (loss)	107,542	98,179	805,378
	Adjustment	(705)	(4,945)	(5,279)
	Consolidated ordinary income	¥ 106,837	¥ 93,234	\$ 800,099

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2023	2022	2023
Assets:	Steel & Aluminum	¥ 1,185,496	¥ 1,089,054	\$ 8,878,127
	Advanced Materials	270,417	244,430	2,025,142
	Welding	86,459	79,402	647,491
	Machinery	212,757	190,983	1,593,326
	Engineering	144,980	132,567	1,085,750
	Construction Machinery	408,508	361,978	3,059,295
	Electric Power	470,216	397,894	3,521,423
	Other Businesses	58,723	59,803	439,770
	Total segment assets	2,837,556	2,556,111	21,250,324
	Adjustment	37,196	172,634	278,558
Total	¥ 2,874,752	¥ 2,728,745	\$ 21,528,882	
Depreciation:	Steel & Aluminum	¥ 57,636	¥ 57,437	\$ 431,628
	Advanced Materials	10,582	11,392	79,250
	Welding	2,364	2,510	17,707
	Machinery	5,594	5,242	41,895
	Engineering	1,594	1,642	11,940
	Construction Machinery	12,557	13,835	94,035
	Electric Power	19,516	10,367	146,155
	Other Businesses	606	584	4,535
	Total segment depreciation	110,449	103,009	827,145
	Adjustment	2,056	2,138	15,400
Total	¥ 112,505	¥ 105,147	\$ 842,545	
Amortization of goodwill:	Steel & Aluminum	¥ 56	¥ —	\$ 419
	Advanced Materials	—	—	—
	Welding	73	73	549
	Machinery	447	451	3,344
	Engineering	—	—	—
	Construction Machinery	—	—	—
	Electric Power	—	—	—
	Other Businesses	—	—	—
	Total segment amortization of goodwill	576	524	4,312
	Adjustment	—	—	—
Total	¥ 576	¥ 524	\$ 4,312	
Interest income:	Steel & Aluminum	¥ 292	¥ 317	\$ 2,185
	Advanced Materials	46	50	342
	Welding	291	243	2,176
	Machinery	380	317	2,844
	Engineering	298	344	2,228
	Construction Machinery	1,157	1,679	8,668
	Electric Power	9	6	69
	Other Businesses	1	2	15
	Total segment interest income	2,474	2,958	18,527
	Adjustment	(795)	(688)	(5,951)
Total	¥ 1,679	¥ 2,270	\$ 12,576	

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2023	2022	2023
Interest expense:	Steel & Aluminum	¥ 4,794	¥ 4,998	\$ 35,899
	Advanced Materials	2,149	1,760	16,094
	Welding	42	40	312
	Machinery	473	409	3,540
	Engineering	78	47	588
	Construction Machinery	1,460	1,783	10,935
	Electric Power	6,013	4,749	45,031
	Other Businesses	62	58	464
	Total segment interest expense	15,071	13,844	112,863
	Adjustment	(1,727)	(607)	(12,931)
	Total	¥ 13,344	¥ 13,237	\$ 99,932
Equity in income (loss) of equity method companies:	Steel & Aluminum	¥ 7,298	¥ 9,698	\$ 54,653
	Advanced Materials	286	91	2,145
	Welding	1	59	5
	Machinery	(181)	45	(1,358)
	Engineering	560	326	4,197
	Construction Machinery	641	830	4,798
	Electric Power	—	—	—
	Other Businesses	4,065	3,272	30,449
	Total segment equity in income (loss) of equity method companies	12,670	14,321	94,889
	Adjustment	(527)	(195)	(3,951)
	Total	¥ 12,143	¥ 14,126	\$ 90,938
Investments in equity method companies:	Steel & Aluminum	¥ 106,291	¥ 97,773	\$ 796,011
	Advanced Materials	848	563	6,347
	Welding	1,352	1,358	10,122
	Machinery	978	806	7,322
	Engineering	2,534	2,259	18,975
	Construction Machinery	8,209	7,811	61,480
	Electric Power	—	—	—
	Other Businesses	27,712	25,621	207,541
	Total segment investments in equity method companies	147,924	136,191	1,107,798
	Adjustment	(2,954)	(2,820)	(22,124)
	Total	¥ 144,970	¥ 133,371	\$ 1,085,674
Capital expenditures:	Steel & Aluminum	¥ 33,428	¥ 27,185	\$ 250,338
	Advanced Materials	8,065	8,282	60,398
	Welding	1,647	1,375	12,337
	Machinery	6,201	4,032	46,440
	Engineering	2,851	1,456	21,353
	Construction Machinery	13,815	9,800	103,461
	Electric Power	27,896	52,955	208,913
	Other Businesses	1,036	550	7,757
	Total segment capital expenditures	94,939	105,635	710,997
	Adjustment	2,364	2,505	17,701
	Total	¥ 97,303	¥ 108,140	\$ 728,698

Notes:

Details about adjustments at March 31, 2023 and 2022 were as follows:

### Segment sales

Sales of companies that do not belong to any segment are included in “Adjustment.”

### Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Companywide profit (loss)	¥ 2,164	¥ (1,591)	\$ 16,210
Other adjustments	(2,869)	(3,354)	(21,489)
Total	¥ (705)	¥ (4,945)	\$ (5,279)

Companywide profit (loss) is mainly financial profit or loss which is not allocated to reportable segments and other businesses. Other adjustments are mainly intersegment transactions.

### Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Companywide assets	¥ 266,968	¥ 348,596	\$ 1,999,313
Other adjustments	(229,772)	(175,962)	(1,720,755)
Total	¥ 37,196	¥ 172,634	\$ 278,558

Companywide assets are mainly investments in securities which are not allocated to reportable segments or other businesses. Other adjustments are mainly intersegment transactions.

### Depreciation

Adjustment is related mainly to the assets of administrative departments which are not allocated to reportable segments or other businesses.

### Interest income

Adjustment is related mainly to financial assets which are not allocated to reportable segments or other businesses.

### Interest expense

Adjustment is related mainly to financial liabilities which are not allocated to reportable segments or other businesses.

### Equity in income (loss) of equity method companies

Adjustment is related mainly to the income (loss) of affiliates which are not allocated to reportable segments or other businesses.

### Investments in equity method companies

Adjustment is related mainly to intersegment transactions.

### Capital expenditures

Adjustment is related mainly to the assets of administrative departments which are not allocated to reportable segments or other businesses.

## Related Information

### (1) Information by Geographic Area

#### (a) Net sales

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Japan	¥ 1,689,028	¥ 1,360,023	\$ 12,649,054
China	196,789	201,906	1,473,745
Others	586,692	520,654	4,393,705
Total	¥ 2,472,509	¥ 2,082,583	\$ 18,516,504

#### (b) Property, plant and equipment by geographic location

Substantially all of the Group's property, plant and equipment are located in Japan.

### (2) Information by Major Customer

#### Net sales

	Related segment	Millions of yen		Thousands of U.S. dollars (Note 1)
		2023	2022	2023
Shinsho Corporation	Iron & Aluminum, etc.	¥ 292,648	¥ 277,119	\$ 2,191,629

### (3) Impairment Loss by Reportable Segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2023	2022	2023
Impairment loss	Steel & Aluminum	¥ 16	¥ —	\$ 118
	Advanced Materials	6	—	43
	Welding	65	—	483
	Machinery	91	—	683
	Engineering	0	—	1
	Construction Machinery	4,097	—	30,687
	Electric Power	—	—	—
	Other Businesses	—	—	—
	Total segment impairment loss	4,275	—	32,015
Adjustment	163	—	1,223	
Total	¥ 4,438	¥ —	\$ 33,238	

#### (4) Amortization and Balance of Goodwill by Reportable Segments

		Millions of yen		Thousands of U.S. dollars (Note 1)	
		2023	2022	2023	
Amortization of goodwill	Steel & Aluminum	¥ 56	¥ —	\$ 419	
	Advanced Materials	—	—	—	
	Welding	73	73	549	
	Machinery	447	451	3,344	
	Engineering	—	—	—	
	Construction	—	—	—	
	Machinery	—	—	—	
	Electric Power	—	—	—	
	Other Businesses	—	—	—	
	Total segment				
Amortization of goodwill		576	524	4,312	
Adjustment		—	—	—	
Total		576	524	4,312	
Balance at the end of the period	Steel & Aluminum	—	—	—	
	Advanced Materials	—	—	—	
	Welding	342	416	2,563	
	Machinery	2,667	2,957	19,969	
	Engineering	—	—	—	
	Construction	—	—	—	
	Machinery	—	—	—	
	Electric Power	—	—	—	
	Other Businesses	—	—	—	
	Total segment balance of goodwill		3,009	3,373	22,532
Adjustment		—	—	—	
Total		¥ 3,009	¥ 3,373	\$ 22,532	

#### (5) Gain from Negative Goodwill by Reportable Segments

No gain on negative goodwill was recognized for the year ended March 31, 2023 and 2022.

#### 28. Profit Per Share

The basis of calculating Profit per share for the years ended March 31, 2023 and 2022 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Profit attributable to owners of parent	Weighted average number of shares	Profit per share	Profit per share
For the year ended March 31, 2023				
Profit attributable to common stockholders	¥ 72,566	394,792	¥183.80	\$ 1.38
For the year ended March 31, 2022				
Profit attributable to common stockholders	¥ 60,084	374,961	¥160.23	\$ 1.20

Notes:

- Diluted profit per share is not presented for the fiscal years ended March 31, 2023 and 2022 as potential common shares did not exist.
- The shares held by the Board Benefit Trust (BBT) are recorded under net assets as treasury shares. In calculating profit (loss) per share, the number of treasury shares excluded from the weighted-average number of shares issued during the fiscal year includes the number of shares held by the BBT (500 thousand of shares for the year ended March 31, 2023 and 750 thousand of shares for the year ended March 31, 2022).

## **29. Additional Information**

### **Introduction of a Board Benefit Trust (BBT) for Directors**

The Company introduced a stock compensation plan, a “Board Benefit Trust (BBT),” to more clearly link the compensation of Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) and Executive Officers to the Company’s performance and the value of its stock and in order to encourage the Directors to contribute to improve medium- to long-term business performance and enhance corporate value.

The accounting method regarding the BBT agreement complies with the Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc., through Trusts (Practical Issues Task Force (PITF) No. 30, March 26, 2015).

#### **(a) Overview of transactions**

This plan is a stock compensation plan under which money contributed by the Company is used as funds to acquire the Company’s shares through a trust. With regard to Directors, etc., in accordance with the director stock benefit rules established by the Company, the Company’s shares (hereinafter the “Company’s Shares and Money”) are provided through the trust.

In addition, Directors and Other Executives shall receive the Company’s Shares and Money in principle every three years on a fixed date during the trust period.

#### **(b) Kobe Steel stock remaining in the Trust**

The Company’s stock remaining in the trust is posted as treasury shares as part of net assets based on the book value (excludes amounts for incidental expenses). The corresponding treasury shares book value was ¥350 million (\$2,624 thousand) for 390 thousand shares for the year ended March 31, 2023 and ¥671 million for 746 thousand shares for the year ended March 31, 2022.

### **Approach to the impact of COVID-19 when forming accounting estimates**

The Company forms accounting estimates of the recoverability of deferred tax assets etc., based on the assumption that the impact of COVID-19 on the business performance of the next fiscal year will be immaterial.

## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of Kobe Steel, Ltd.:**

### Opinion

We have audited the accompanying consolidated financial statements of Kobe Steel, Ltd. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2022 and 2021, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the Group’s judgment on whether to recognize an impairment loss on long- lived assets used by Kobelco Construction Machinery Co., Ltd.	
The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet of the Group, Property, plant and equipment of ¥1,060,198 million and intangible assets of ¥36,325 million were recognized for the current fiscal year. As described in Notes to Consolidated Financial Statements 2, “Summary of Significant Accounting Policies, (20) Significant accounting estimates, (a) Impairment of long-lived assets,” included therein were property, plant and equipment of ¥54,165 million and intangible assets of ¥4,136 million used by Kobelco Construction Machinery Co., Ltd. (hereinafter referred to as “Kobelco Construction Machinery”) within the construction machinery segment, in total, accounting for approximately 2% of total assets in the consolidated financial statements.</p> <p>While these long-lived assets are depreciated/ amortized in a systematic manner, they need to be tested for impairment whenever there is an impairment indicator. The impairment test is performed by comparing the undiscounted future cash flows that are expected to be generated from the asset groups with their carrying amounts. If the recognition</p>	<p>The primary procedures we performed to assess the appropriateness of the Group’s judgment with respect to whether an impairment loss should be recognized on long-lived assets used by Kobelco Construction Machinery included the following:</p> <p><b>(1) Internal control testing</b></p> <p>We tested the design and operating effectiveness of certain of the Group’s internal controls relevant to determining impairment loss to be recognized. In this assessment, we focused our testing on internal controls designed to prevent and/or detect the use of unreasonable key assumptions in the business plan.</p> <p><b>(2) Assessment of the appropriateness of estimated undiscounted future cash flows</b></p> <p>We inquired of management and the personnel responsible for accounting at Kobelco Construction Machinery about the basis on which their assumptions were developed in order to assess the appropriateness of the key assumptions adopted by management in preparing the business plan that</p>

<p>of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.</p> <p>Kobelco Construction Machinery has recognized recurring operating losses for several consecutive years, primarily due to increasing competitive pressures in global markets, a decline in demand resulting from the COVID-19 pandemic, and an increase of procurement costs, including for steel materials, indicating impairment. Accordingly, the Group performed an impairment test during the current fiscal year. In the impairment testing, undiscounted future cash flows were estimated based on the business plan prepared by management, which reflected key assumptions such as improved unit sales prices and increased sales volume as a result of a growth in market share and expanded demand in the sales region due to increased construction investment. These assumptions involved a high degree of uncertainty, and management’s judgment thereon had a significant effect on the estimated undiscounted future cash flows.</p> <p>We, therefore, determined that our assessment of the appropriateness of the Group’s judgment as to whether an impairment loss should be recognized on long-lived assets used by Kobelco Construction Machinery was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year and, accordingly, a key audit matter.</p>	<p>formed the basis for estimating undiscounted future cash flows. In addition, we:</p> <ul style="list-style-type: none"> <li>assessed the feasibility of improved sales prices considering the results of past similar measures;</li> <li>assessed the feasibility of expanded demand in the sales region by referring to the forecast reports published by external organizations regarding the increase in construction investment, which is a prerequisite for this; and</li> <li>compared growth of market share forecasts with past market share growth results after understanding the details of the sales expansion measures.; and</li> <li>after considering the results of the procedures above including the analysis of the causes of any variances with actual results, developed undiscounted future cash flow projections by incorporating the effect of specific uncertainties into the business plan assessed by the management and then assessed whether there was any potential effect on the determination of impairment loss to be recognized.</li> </ul>
---	--

Appropriateness of the Group’s judgment on the recoverability of deferred tax assets of the consolidated tax-return group

The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet of the Group, deferred tax assets of ¥57,069 million were recognized for the current fiscal year.</p> <p>As described in Notes to Consolidated Financial Statements 2, “Summary of Significant Accounting Policies, (20) Significant accounting estimates, (b) Deferred tax assets,” the amount of gross deferred tax assets before being offset by deferred tax liabilities amounted to ¥89,363 million. Of this amount, the gross deferred tax assets held by Kobe Steel, Ltd. and certain domestic subsidiaries of Kobe Steel, Ltd. that file a consolidated tax return (hereinafter, collectively referred to as the “consolidated tax-return group”) accounted for ¥58,769 million, representing approximately 2% of total assets in the consolidated financial statements.</p> <p>Deferred tax assets are recognized to the extent that deductible temporary differences and tax loss carryforwards are expected to reduce future taxable income. As the consolidated tax-return group files a consolidated tax return, the Group determines the</p>	<p>The primary procedures we performed to assess whether the Group’s judgment on the recoverability of deferred tax assets of the consolidated tax-return group was appropriate included the following:</p> <p><b>(1) Internal control testing</b></p> <p>We tested the design and operating effectiveness of certain of the Group’s internal controls relevant to the taxable income projections, including the development of the business plan. In this assessment, we focused our testing on internal controls designed to prevent and/or detect the use of unreasonable key assumptions in the business plan.</p> <p><b>(2) Assessment of the appropriateness of the estimated future taxable income to be generated in the taxable income projections of the consolidated tax-return group.</b></p> <p>We inquired of management and the personnel responsible for accounting regarding the basis for the key assumptions used to estimate the amount of future taxable income to be generated in the taxable</p>

<p>recoverability of deferred tax assets concerning corporation tax and local corporation tax with consideration for the amount of consolidated taxable income of the consolidated tax-return group.</p> <p>The estimated future taxable income to be generated in the taxable income projections of the consolidated tax-return group, which was used to determine the recoverability of the deferred tax assets, was based on the business plan prepared by management. Accordingly, there was a high degree of uncertainty in the estimation because the estimate involved significant management judgment on key assumptions, such as forecasts of demand and sales prices in major businesses.</p> <p>Therefore, we determined that our assessment of the appropriateness of the Group's judgment on the recoverability of deferred tax assets of the consolidated tax-return group was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year and, accordingly, a key audit matter.</p>	<p>income projections prepared by the consolidated tax-return group in order to assess the appropriateness of those assumptions which were important for management's judgment on the recoverability of deferred tax assets. In addition, we:</p> <ul style="list-style-type: none"> <li>• assessed whether the estimated taxable income to be generated under the taxable income projections of the consolidated tax-return group was consistent with the business plan, which formed the basis for the taxable income projections; and</li> <li>• analyzed the achievement of past taxable income projections of the consolidated tax-return group including the causes of any differences from actual taxable income, and compared the estimated future taxable income with our own estimate that incorporated specific uncertainties reflecting the achievement of past taxable income projections; and</li> <li>• analyzed the achievement of forecasts of demand in major businesses, including the causes of any variances with actual results, and compared management's sales forecast with the research reports on the market outlook published by external organizations; and</li> <li>• assessed the appropriateness of assumptions in forecasting sales prices in major businesses by referring to the results of past similar measures.</li> </ul>
--	--

### Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

### Responsibilities of Management and the audit and supervisory committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes

our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

**Interest required to be disclosed by the Certified Public Accountants Act of Japan**

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Hisaki Nakajima  
Designated Engagement Partner  
Certified Public Accountant

Sakurako Ohtsuki  
Designated Engagement Partner  
Certified Public Accountant

Ken Tsukamoto  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Osaka Office, Japan  
June 22, 2022

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

**Consolidated Balance Sheets**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**At March 31, 2022 and 2021**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and deposits (Note 25)	¥ 243,502	¥ 262,346	\$ 1,989,559
Notes, accounts receivable and contract assets:			
Notes and accounts receivable – trade	—	287,103	—
Notes – trade	29,587	—	241,747
Accounts receivable – trade	269,901	—	2,205,250
Unconsolidated subsidiaries and affiliates	50,201	39,459	410,176
Contract assets (Note 22)	29,874	—	244,090
Other	44,866	26,063	366,582
Allowance for doubtful accounts	(4,256)	(2,428)	(34,777)
	<u>420,173</u>	<u>350,197</u>	<u>3,433,068</u>
Securities (Note 25)	17,200	55,200	140,534
Merchandise and finished goods	209,417	169,718	1,711,066
Work-in-process (Note 8)	138,665	122,115	1,132,975
Raw materials and supplies	225,053	158,442	1,838,822
Other	33,304	38,162	272,112
	<u>1,287,314</u>	<u>1,156,180</u>	<u>10,518,136</u>
<b>Non-current assets:</b>			
<b>Property, plant and equipment (Note 7):</b>			
Land (Note 9)	131,896	134,962	1,077,674
Buildings and structures	814,969	762,567	6,658,790
Machinery and equipment	2,590,466	2,510,761	21,165,658
Construction in progress	92,718	240,124	757,565
	<u>3,630,049</u>	<u>3,648,414</u>	<u>29,659,687</u>
Less accumulated depreciation	(2,569,851)	(2,569,794)	(20,997,231)
Total property, plant and equipment	1,060,198	1,078,620	8,662,456
<b>Intangible assets</b>	36,325	36,566	296,795
<b>Investments and other assets:</b>			
Investments in securities (Note 5)	102,114	80,805	834,335
Investments in and advances to unconsolidated subsidiaries and affiliates	135,746	121,657	1,109,126
Long-term loans receivable	3,109	3,623	25,399
Deferred tax assets (Note 20)	57,069	69,262	466,288
Net defined benefit asset (Note 27)	19,536	19,457	159,624
Other	46,742	35,158	381,912
Allowance for doubtful accounts	(19,408)	(18,454)	(158,578)
	<u>344,908</u>	<u>311,508</u>	<u>2,818,106</u>
Total non-current assets	1,441,431	1,426,694	11,777,357
Total assets	<u>¥ 2,728,745</u>	<u>¥ 2,582,874</u>	<u>\$ 22,295,493</u>

**Consolidated Balance Sheets**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**At March 31, 2022 and 2021**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 7)	¥ 30,313	¥ 72,845	\$ 247,676
Current portion of long-term debt (Note 7)	82,103	109,532	670,830
Notes and accounts payable:			
Trade	465,205	334,435	3,801,006
Construction	19,031	67,014	155,491
Unconsolidated subsidiaries and affiliates	76,456	51,457	624,694
Other	13,353	15,980	109,101
	<u>574,045</u>	<u>468,886</u>	<u>4,690,292</u>
Contract liabilities (Note 22)	45,219	—	369,466
Income and enterprise taxes payable	8,318	9,588	67,967
Provision for loss on construction contracts (Note 8)	14,730	18,563	120,355
Provision for customer compensation expenses	344	1,398	2,809
Other	129,867	134,937	1,061,096
	<u>884,939</u>	<u>815,749</u>	<u>7,230,491</u>
Total current liabilities			
<b>Long-term liabilities:</b>			
Long-term debt (Note 7)	796,026	805,433	6,504,013
Lease obligations	51,427	59,970	420,190
Net defined benefit liability (Note 27)	79,979	84,136	653,473
Provision for environmental measures	1,635	1,799	13,355
Provision for dismantlement related expenses	1,417	1,620	11,576
Deferred tax liabilities (Note 20)	11,413	9,890	93,248
Other	29,563	34,902	241,554
	<u>971,460</u>	<u>997,750</u>	<u>7,937,409</u>
Total long-term liabilities			
<b>Contingent liabilities (Notes 11 and 12)</b>			
Total liabilities	<u>¥ 1,856,399</u>	<u>¥ 1,813,499</u>	<u>\$ 15,167,900</u>
<b>Net assets:</b>			
Stockholders' equity:			
Common stock (Notes 13 and 24)	250,930	250,930	2,050,249
Authorized — 600,000,000 shares			
Issued — 396,345,963 shares			
Capital surplus (Note 13)	116,435	102,229	951,341
Retained earnings (Note 13)	418,034	368,892	3,415,590
Treasury stock, at cost (Note 24):	(2,262)	(2,261)	(18,482)
1,798,236 shares in 2022 and 1,670,210 shares in 2021			
	<u>783,137</u>	<u>719,790</u>	<u>6,398,698</u>
Accumulated other comprehensive income (Note 23):			
Valuation difference on available-for-sale securities	28,988	15,757	236,849
Deferred losses on hedges	(13,141)	(13,765)	(107,370)
Revaluation reserve for land (Note 9)	(3,401)	(3,406)	(27,784)
Foreign currency translation adjustments	16,055	(4,569)	131,174
Remeasurements of defined benefit plans	3,689	(3,445)	30,143
	<u>32,190</u>	<u>(9,428)</u>	<u>263,012</u>
Non-controlling interests	57,019	59,013	465,883
	<u>57,019</u>	<u>59,013</u>	<u>465,883</u>
Total net assets	<u>872,346</u>	<u>769,375</u>	<u>7,127,593</u>
Total liabilities and net assets	<u>¥ 2,728,745</u>	<u>¥ 2,582,874</u>	<u>\$ 22,295,493</u>

See accompanying notes.

**Consolidated Statements of Income**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Years ended March 31, 2022 and 2021**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
<b>Net sales (Notes 14 and 22)</b>	¥ 2,082,583	¥ 1,705,566	\$ 17,015,954
<b>Cost of sales (Note 15)</b>	(1,774,779)	(1,482,378)	(14,501,011)
Gross profit	<b>307,804</b>	223,188	<b>2,514,943</b>
<b>Selling, general and administrative expenses (Note 17)</b>	<b>(220,181)</b>	(192,789)	<b>(1,799,014)</b>
Operating income	<b>87,623</b>	30,399	<b>715,929</b>
<b>Non-operating income (expenses):</b>			
Interest and dividend income	5,529	4,890	45,177
Interest expense	(13,237)	(11,526)	(108,153)
Seconded employees' salaries, net of reimbursement	(6,079)	(5,403)	(49,673)
Equity in income of equity method companies	14,126	666	115,421
Compensation income	8,671	610	70,845
Other, net (Note 5)	(3,399)	(3,448)	(27,769)
	<b>5,611</b>	(14,211)	<b>45,848</b>
Ordinary income	<b>93,234</b>	16,188	<b>761,777</b>
<b>Extraordinary income (loss):</b>			
Gain on sale of fixed assets (Note 18)	—	9,901	—
Gain on step acquisitions	—	3,260	—
Gain on sale of investment securities	—	2,909	—
Loss on sale of investment securities (Note 21)	(9,220)	—	(75,335)
Loss on impairment (Note 19)	—	(13,509)	—
	<b>(9,220)</b>	2,561	<b>(75,335)</b>
<b>Income before income taxes and non-controlling interests</b>	<b>84,014</b>	18,749	<b>686,442</b>
<b>Income taxes (Note 20):</b>			
Current	16,084	9,586	131,416
Deferred	4,240	(13,490)	34,643
	<b>20,324</b>	(3,904)	<b>166,059</b>
<b>Income before non-controlling interests</b>	<b>63,690</b>	22,653	<b>520,383</b>
<b>Net income (loss) attributable to non-controlling interests</b>	<b>3,606</b>	(581)	<b>29,464</b>
<b>Net income attributable to owners of the parent</b>	<b>¥ 60,084</b>	¥ 23,234	<b>\$ 490,919</b>
		Yen	U.S. dollars (Note 1)
Per share	2022	2021	2022
Net income	¥ 160.23	¥ 64.05	\$ 1.31
Cash dividends applicable to the year	40.00	10.00	0.33

See accompanying notes.

**Consolidated Statements of Comprehensive Income**

**Kobe Steel, Ltd. and Consolidated Subsidiaries**

**Years ended March 31, 2022 and 2021**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
<b>Income before non-controlling interests</b>	¥ <b>63,690</b>	¥ 22,653	\$ <b>520,383</b>
<b>Other comprehensive income:</b>			
Valuation difference on available-for-sale securities	13,212	13,262	107,949
Deferred gains (losses) on hedges	(28)	3,234	(231)
Revaluation reserve for land	5	(793)	48
Foreign currency translation adjustments	19,335	(4,464)	157,983
Remeasurements of defined benefit plans	7,171	17,439	58,591
Share of other comprehensive gains related to equity method companies	2,494	2,637	20,375
<b>Total other comprehensive income</b> (Note 23)	<b>42,189</b>	31,315	<b>344,715</b>
<b>Total comprehensive income</b>	¥ <b>105,879</b>	¥ 53,968	\$ <b>865,098</b>
<b>Total comprehensive income attributed to:</b>			
Stockholders of the parent interests	¥ <b>101,701</b>	¥ 53,605	\$ <b>830,957</b>
Non-controlling interests	<b>4,178</b>	363	<b>34,141</b>

See accompanying notes.

**Consolidated Statements of Changes in Net Assets**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**

**Years ended March 31, 2022 and 2021**

	Thousands				Millions of yen							
	Number of shares of common stock	Common stock (Notes 13 and 24)	Capital surplus (Note 13)	Retained earnings (Note 13)	Treasury stock (Note 24)	Valuation difference on available-for- sale securities (Note 23)	Deferred gains (losses) on hedges (Note 23)	Revaluation reserve for land (Note 23)	Foreign currency translation adjustments (Note 23)	Remeasurements of defined benefit plans (Note 23)	Non- controlling interests	Total
<b>Balance at April 1, 2020</b>	364,364	¥250,930	¥102,350	¥345,661	¥(2,262)	¥ 1,484	¥(15,873)	¥(2,995)	¥(1,984)	¥(20,430)	¥59,488	¥716,369
Net income attributable to owners of the parent			23,234		(2)							23,234
Purchase of treasury stock				(1)	1							(2)
Disposal of treasury stock												—
Changes in stockholders interest due to transaction with non-controlling interests			(121)									(121)
Change in scope of consolidation and equity method				(2)								(2)
Change in treasury shares arising from change in equity in entities accounted for using equity method-treasury stock					2							2
Net changes in items other than stockholders' equity			(121)	23,231	1	14,273	2,108	(411)	(2,585)	16,985	(475)	29,895
Net changes during the year						14,273	2,108	(411)	(2,585)	16,985	(475)	53,006
<b>Balance at April 1, 2021</b>	364,364	¥250,930	¥102,229	¥368,892	¥(2,261)	¥15,757	¥(13,765)	¥(3,406)	¥(4,569)	¥(3,445)	¥59,013	¥769,375
Cumulative effects of changes in accounting policies				(631)								(631)
<b>Balance at April 1, 2021 (Restated balance)</b>	364,364	¥250,930	¥102,229	¥368,261	¥(2,261)	¥15,757	¥(13,765)	¥(3,406)	¥(4,569)	¥(3,445)	¥59,013	¥768,744
Dividends of surplus				(7,283)								(7,283)
Net income attributable to owners of the parent				60,084								60,084
Share exchanges	31,982		21,908									21,908
Purchase of treasury stock					(6)							(6)
Disposal of treasury stock					12							12
Changes in stockholders interest due to transaction with non-controlling interests				(1)								(1)
Change in scope of consolidation and equity method												(7,702)
Change in treasury stock due to change in scope of equity method				(3,022)								(3,022)
Change in shares of parent held by entities accounted for using equity method					34							34
Reversal of revaluation reserve for land					(41)							(41)
Net changes in items other than stockholders' equity				(5)		13,231	624	5	20,624	7,134	(1,994)	39,624
Net changes during the year	31,982		14,206	49,773	(1)	13,231	624	5	20,624	7,134	(1,994)	103,602
<b>Balance at March 31, 2022</b>	396,346	¥250,930	¥116,435	¥418,034	¥(2,262)	¥28,988	¥(13,141)	¥(3,401)	¥16,055	¥ 3,689	¥57,019	¥872,346

**Consolidated Statements of Changes in Net Assets**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**

**Years ended March 31, 2022 and 2021**

	Thousands of U.S. dollars (Note 1)											
	Thousands	Thousands of U.S. dollars (Note 1)										
	Number of shares of common stock	Common stock (Notes 13 and 24)	Capital surplus (Note 13)	Retained earnings (Note 13)	Treasury stock (Note 24)	Valuation difference on available-for-sale securities (Note 23)	Deferred gains (losses) on hedges (Note 23)	Revaluation reserve for land (Note 23)	Foreign currency translation adjustments (Note 23)	Remeasurements of defined benefit plans (Note 23)	Non-controlling interests	Total
<b>Balance at April 1, 2021</b>	364,364	\$2,050,249	\$835,272	\$3,014,071	\$(18,475)	\$128,747	\$(112,468)	\$(27,832)	\$(37,329)	\$(28,147)	\$482,173	\$6,286,261
Cumulative effects of changes in accounting policies				(5,158)								(5,158)
<b>Balance at April 1, 2021 (Restated balance)</b>	364,364	\$2,050,249	\$835,272	\$3,008,913	\$(18,475)	\$128,747	\$(112,468)	\$(27,832)	\$(37,329)	\$(28,147)	\$482,172	\$6,281,102
Dividends of surplus				(59,500)								(59,500)
Net income attributable to owners of the parent				490,919								490,919
Share exchanges	31,982		178,997									178,997
Purchase of treasury stock					(49)							(49)
Disposal of treasury stock				(9)	99							90
Changes in stockholders interest due to transaction with non-controlling interests												
Change in scope of consolidation and equity method			(62,928)									(62,928)
Change in treasury stock due to change in scope of equity method				(24,687)								(24,687)
Change in shares of parent held by entities accounted for using equity method					279							279
Reversal of revaluation reserve for land												(336)
Net changes in items other than stockholders' equity				(46)								(46)
Net changes during the year	31,982	—	116,069	406,677	(7)	108,102	5,098	48	168,503	58,290	(16,289)	323,752
<b>Balance at March 31, 2022</b>	396,346	\$2,050,249	\$951,341	\$3,415,590	\$(18,482)	\$236,849	\$(107,370)	\$(27,784)	\$131,174	\$30,143	\$465,883	\$7,127,593

See accompanying notes.

**Consolidated Statements of Cash Flows**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Years ended March 31, 2022 and 2021**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 84,014	¥ 18,749	\$ 686,442
Depreciation	105,147	100,857	859,116
Increase (decrease) in liabilities for retirement benefits	7,904	18,232	64,582
Interest and dividend income	(5,529)	(4,890)	(45,177)
Interest expense	13,237	11,526	108,153
Loss (income) on sale of securities	9,220	(4,452)	75,335
Equity in loss (income) of equity method companies	(14,126)	(666)	(115,421)
Loss (gain) on sale of plant and equipment	(545)	(9,900)	(4,455)
Loss on disposal of plant and equipment	1,453	1,391	11,871
Loss (gain) on step acquisitions	—	(3,260)	—
Loss on impairment	—	13,509	—
Decrease (increase) in trade receivables from customers	(52,782)	39,485	(431,257)
Net decrease (increase) in lease receivables and investment assets	6,961	5,688	56,872
Decrease (increase) in inventories	(136,976)	40,929	(1,119,178)
Increase (decrease) in trade payables to customers	173,310	(12,583)	1,416,044
Increase (decrease) in accrued consumption taxes	(15,201)	14,634	(124,199)
Increase (decrease) in accounts receivable-other	(17,669)	1,921	(144,359)
Increase (decrease) in accrued expenses	7,414	(2,187)	60,576
Increase (decrease) in liabilities related to paid supply transactions	12,048	—	98,439
Other	10,475	(20,329)	85,592
Subtotal	188,355	208,654	1,538,976
Cash received for interest and dividends	8,108	6,806	66,244
Cash paid for interest	(13,462)	(11,701)	(109,994)
Cash paid for income taxes	(14,192)	(8,960)	(115,955)
Net cash provided by operating activities	168,809	194,799	1,379,271
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment and other assets	(156,448)	(173,222)	(1,278,272)
Proceeds from sale of property, plant and equipment and other assets	1,581	13,362	12,919
Purchase of investments in securities	(5,975)	(1,287)	(48,820)
Proceeds from sale of investments in securities	2,386	5,264	19,493
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(668)	—
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	—	13,719	—
Payment for sale of investment in subsidiaries resulting in change in scope of consolidation (Note 25)	(4,007)	—	(32,742)
Decrease (increase) in short-term loans receivable	4	(912)	36
Payments for long-term loans receivable	(85)	(220)	(695)
Proceeds from collection of long-term loans receivable	815	940	6,660
Other	219	1,171	1,786
Net cash used in investing activities	(161,510)	(141,853)	(1,319,635)

**Consolidated Statements of Cash Flows**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Years ended March 31, 2022 and 2021**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
<b>Cash flows from financing activities:</b>			
Net decrease (increase) in short-term borrowings	<b>(44,425)</b>	(25,333)	<b>(362,976)</b>
Proceeds from long-term borrowings	<b>78,180</b>	202,588	<b>638,776</b>
Repayment of long-term borrowings	<b>(91,174)</b>	(71,345)	<b>(744,943)</b>
Proceeds from issuance of bonds	<b>10,000</b>	—	<b>81,706</b>
Repayment of bonds	<b>(20,573)</b>	(30,215)	<b>(168,090)</b>
Repayment of finance lease obligations	<b>(10,205)</b>	(8,492)	<b>(83,382)</b>
Payment of dividends	<b>(7,249)</b>	(53)	<b>(59,226)</b>
Payment of dividends to non-controlling interests	<b>(1,330)</b>	(777)	<b>(10,868)</b>
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	<b>15</b>	—	<b>119</b>
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	<b>(75)</b>	—	<b>(612)</b>
Proceeds from share issuance to non-controlling shareholders	<b>13,700</b>	229	<b>111,937</b>
Other	<b>3,992</b>	51,842	<b>32,612</b>
Net cash provided by (used in) financing activities	<b>(69,144)</b>	118,444	<b>(564,947)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>5,192</b>	150	<b>42,418</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(56,653)</b>	171,540	<b>(462,893)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>317,311</b>	145,659	<b>2,592,619</b>
<b>Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation</b>	<b>(146)</b>	9	<b>(1,190)</b>
<b>Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries</b>	<b>—</b>	103	<b>—</b>
<b>Cash and cash equivalents at end of year (Note 25)</b>	<b>¥ 260,512</b>	<b>¥ 317,311</b>	<b>\$ 2,128,536</b>

See accompanying notes.

**Notes to Consolidated Financial Statements**  
Kobe Steel, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2022 and 2021

**1. Basis of Presenting Consolidated Financial Statements**

The accompanying consolidated financial statements of Kobe Steel, Ltd. (“the Company”) and its consolidated subsidiaries (“the Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which differ in certain significant respects from accounting principles generally accepted in other countries, including accounting principles generally accepted in the United States, or U.S. GAAP, and International Financial Reporting Standards, or IFRS.

The accounts of the Company’s overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of domicile, with necessary adjustments to be in accordance with Japanese GAAP.

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosure from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2022, which was ¥122.39 to U.S.\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

**2. Summary of Significant Accounting Policies**

**(1) Consolidation**

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, the management of which is controlled by the Company. For the year ended March 31, 2022, the accounts of 169 (175 in 2021) subsidiaries have been included in the consolidated financial statements.

Intercompany transactions and accounts have been eliminated. 74 (76 in 2021) consolidated subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material transactions or events occurring during the January 1 to March 31 period are adjusted for in these consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired the control of the respective subsidiary.

Investments in unconsolidated subsidiaries and affiliates over which the Company has significant influence, except for insignificant companies, are accounted for by the equity method. For the year ended March 31, 2022, 37 (38 in 2021) affiliates were accounted for by the equity method.

The difference between the cost of an investment in a subsidiary and the equity in the net assets of the subsidiary at the date of acquisition, if considered significant, is amortized over the estimated number of years when the amortization period can be determined or over five years when it cannot. When the difference is small, it is recognized as expense when incurred.

When the Company’s share of the net losses of an affiliate exceeds the adjusted cost of the investment, the Company discontinues applying the equity method and the investment is reduced to zero. Losses in excess of the amounts due from the investee are recorded in other payables when the losses are expected to be shared by the Company.

## **(2) Securities**

The Group has no trading securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as accumulated other comprehensive income in net assets.

Realized gains and losses on the sale of such securities are computed using moving average cost based on the carrying value.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible.

Other securities with no available fair market value are stated at moving average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies or available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline.

If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method is not readily available, the securities are written down to net asset value with a corresponding charge in the statement of operations in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

## **(3) Allowance for Doubtful Accounts**

To provide for potential losses on doubtful accounts, allowance is made at an amount based on the actual bad debt ratio in the past for normal accounts, and estimated uncollectible amounts based on specific collectability assessments for certain individual receivables, such as those with a possibility of default.

## **(4) Provision for Loss on Construction Contracts**

To provide for future losses on construction contracts, mainly for steel castings and forgings as well as titanium products in the Advanced Materials Business, Machinery Business and Engineering Business, provision is made based on an estimated loss on construction contracts outstanding at the end of the year ended March 31, 2022.

## **(5) Provision for Environmental Measures**

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste” and others, provision is made at an estimated amount at the end of the year ended March 31, 2022.

## **(6) Provision for Dismantlement Related Expenses**

For expenses expected to arise from dismantlement of equipment in relation to construction of the power station at Kobe Wire Rod & Bar Plant, provision is made at an estimated amount at the end of the year ended March 31, 2022.

## **(7) Provision for Customer Compensation Expenses**

For expenses related to the response to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the year ended March 31, 2022.

## **(8) Inventories**

Cost basis, determined principally by the average method for inventories in the Steel & Aluminum Business, Advanced Materials Business (except for cast forged steel products), Welding Business and Electric Power Business, and by the specific identification method for cast forged steel products in the Advanced Materials Business and inventories in the Machinery Business, Engineering Business and Construction Machinery Business (the book value on the balance sheets may be written down to market value due to decline in the profitability).

## **(9) Depreciation and amortization method of significant depreciable assets**

Depreciation of tangible and amortization of intangible assets are provided principally by the straight-line method.

The useful life of these assets is determined mainly by schedules in Japanese tax laws. Intangible assets include software for internal use, which is amortized over the estimated useful life of five years.

Depreciation of leased assets under finance leases that do not transfer ownership of the leased assets is provided by the straight-line method with the lease term as the useful life.

## **(10) Income Taxes**

The Group applies deferred tax accounting to recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

Deferred taxes related to temporary differences between financial accounting and tax reporting are also recognized by the asset-liability method.

## **(11) Employees' Severance and Retirement Benefits**

In determining retirement benefit obligations, the benefit formula basis is adopted as the attribution method of the projected retirement benefit obligations up to the current consolidated fiscal year.

Prior service costs are charged to income mainly using the straight-line method mainly 22 years based on the average remaining service period of the employees. Actuarial differences are charged to income from the period following the period in which it arises mainly using the straight-line method based on the average remaining service period of the employees. The average remaining service period of the employees are mainly 22 years for those accrued in 2022 and 2021, mainly 18 years for those accrued in 2020, mainly 20 years for those accrued in 2019, 2018 and 2017, mainly 19 years for those accrued in 2016, mainly 18 years for those accrued in 2015, mainly 17 years for those accrued in 2014 and 2013, mainly 16 years for those accrued in 2012 and 2011, mainly 15 years for those accrued in 2010 and 14 years for those accrued in 2009.

Unrecognized prior service costs and unrecognized actuarial differences, net of applicable taxes, are stated in "Remeasurements of defined benefit plans" in accumulated other comprehensive income under net assets.

## **(12) Basis for translation of significant assets and liabilities denominated in foreign currencies into Japanese yen**

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates as of the consolidated balance sheet date, except for those hedged by foreign currency exchange contracts, with the resulting gains and losses recognized in income.

Assets and liabilities of consolidated foreign subsidiaries are translated into Japanese yen at the spot exchange rates as of the balance sheet date and revenues and expenses are translated into Japanese yen at average rates for the period, with the resulting gains and losses included in "Foreign currency translation adjustments" under net assets and "Non-controlling interests".

## **(13) Basis for recognition of revenue and expenses**

The Group applies the following five steps with respect to recognition of revenue.

Step 1: Identify a contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when or as the performance obligations are satisfied

In relation to recognition of revenue from contracts with customers, the nature of the principal performance obligations for major businesses of the Group and the typical timing of the satisfaction of those performance obligations (i.e., the typical timing of revenue recognition) are as follows.

Revenues from the materials business (steel and aluminum, advanced materials, and welding) are primarily from product sales; revenues from the machinery business (machinery, engineering, and construction machinery) are primarily from product sales, construction contracts, and provision of services; and revenues from the electric power business are primarily from the supply of electric power.

(a) Performance obligations satisfied at a point in time

For sales of products, in principle, revenue is recognized at the time of delivery of the product since control of the product is transferred to the customer and the performance obligation is satisfied at that time.

However, if the period from the time of shipment to the time when control of the product is transferred to the customer is a normal period of time, control of the product is deemed to be transferred to the customer at the time of shipment, and revenue is recognized at the time of shipment. For the provision of services, the performance obligation is satisfied when the services are provided, and revenue is recognized at that time. For supply of electric power, the performance obligation is satisfied when the electric power is supplied, and the Company recognizes revenue based on the amount of electric power supplied to the customer, as measured by meter readings taken on the contractually specified measurement dates.

(b) Performance obligations satisfied over a certain period of time

For construction contracts, the Company primarily estimates the progress toward the satisfaction of performance obligations to be provided to the customer and recognizes revenue based on such progress. Since the accrual of cost is an appropriate measure of the degree of progress of construction, the degree of progress is calculated as the ratio of the cumulative actual cost incurred to the estimated total cost. The consideration for a transaction is received primarily in stages during the contract period, separately from the satisfaction of performance obligations, and the remaining amount is received after a specified period of time has elapsed following the satisfaction of the performance obligations. For the provision of services, revenue is recognized based on a percentage of the total amount of services transferred.

Revenue is measured at the amount of consideration promised in the contract with the customer, less discounts, rebates, etc. If the consideration promised in the contract with the customer includes variable consideration such as a discount, the Company includes an estimate of the variable consideration in the transaction price only to the extent that it is highly unlikely that a significant reversal in the amount of cumulative revenue recognized will occur when the uncertainty associated with the variable consideration is subsequently resolved. The consideration for the transaction is generally received within approximately one year of the satisfaction of the performance obligation and does not include a significant financial component.

## **(14) Derivatives**

The Company and its domestic consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instrument was used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gain or loss resulting from changes in the fair value of a derivative financial instrument until the related loss or gain on the corresponding hedged item is recognized (“deferred hedge” method).

Deferred gains and losses on these derivative instruments are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income in net assets.

If foreign currency exchange contracts are used as hedges and meet certain hedging criteria, the hedged items are stated at the forward exchange rates (“assigning” method). Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed (“exceptional” method).

#### **(15) Method for amortization of goodwill**

Goodwill is amortized using the straight-line method (or immediately charged to income if immaterial) over the practically estimated effective periods where estimable during the period in which it arises, or otherwise, over five years.

#### **(16) Application of consolidated taxation system**

Consolidated taxation system is applied.

#### **(17) Cash and Cash Equivalents**

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

#### **(18) Treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system**

The Company and some of its domestic consolidated subsidiaries will transfer from the consolidated taxation system to the group tax sharing system from the next fiscal year. However, with regards to the transition to the group tax sharing system, which was instituted by the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020), and the items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system, in accordance with Paragraph 3 of Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Practical Issues Task Force (PITF) No. 39, March 31, 2020), the Company and some of its domestic consolidated subsidiaries have applied the provisions of the pre-amendment tax law to deferred tax assets and liabilities, instead of the provisions of Paragraph 44 of Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018).

From the beginning of the next consolidated fiscal year, the Company plans to apply the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (ASBJ Guidance No. 42, August 12, 2021), which provides for the accounting treatment and disclosure of income taxes, local income taxes and tax effect accounting under the group tax sharing system.

#### **(19) Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported results of operations or retained earnings.

#### **(20) Significant accounting estimates**

##### **(a) Impairment of long-lived assets**

Regarding long-lived assets, if the Group determines that there is an impairment indicator, such as recurring operating losses, the Group estimates the future recoverability and assesses whether or not an impairment loss should be recognized. If the undiscounted future cash flows that are expected to be generated from the asset groups is below the carrying amounts of the long-lived assets, the Group recognizes an impairment loss.

The total carrying amount of long-lived assets was ¥1,096,523 million (\$8,959,251 thousand), which consisted of ¥1,060,198 million (\$8,662,456 thousand) for property, plant and equipment and ¥36,325 million (\$296,795 thousand) for intangible assets, at March 31, 2022 and ¥ 1,115,186 million, which consisted of ¥1,078,620 million for property, plant and equipment and ¥36,566 million for intangible assets, at March 31, 2021. there were multiple asset groups for which the Group did not recognize an impairment loss despite there being an impairment indicator. The main asset groups to which this applies were as follows.

## < Construction Machinery Business >

The Group determined that there was an impairment indicator for long-lived assets used in the businesses of Kobelco Construction Machinery Co., Ltd., a subsidiary of the Company within the construction machinery segment, as a result of recurring operating losses caused by increasing competitive pressures in global markets, lower demand owing to the COVID-19 pandemic, higher procurement costs for steel, and other factors. In business plans for the future, the Group has incorporated key assumptions, such as improved unit sales prices and increased sales volume by capturing demand in sales areas owing to increased construction investment and expansion of market share. The undiscounted future cash flows estimated based on business plans formulated under these assumptions exceeded the book value of the long-lived assets of ¥58,302 million (\$476,366 thousand), which consist of ¥54,165 million (\$442,565 thousand) for property, plant and equipment and ¥4,136 million (\$33,801 thousand) for intangible assets, at March 31, 2022 and ¥58,632 million, which consist of ¥55,292 million for property, plant and equipment and ¥3,340 million for intangible assets, at March 31, 2021. Therefore, the Group did not recognize an impairment loss. If there are significant changes to the assumptions for these estimates, such as a large divergence between the assumptions set when the estimates were made and the actual results, and future cash flows underperform as a result, the Group may recognize an impairment loss in the following consolidated fiscal year.

### (b) Deferred tax assets

The Group recorded ¥57,069 million (\$466,288 thousand) at March 31, 2022 and ¥69,262 million at March 31, 2021 in “Deferred tax assets” under “Investments and other assets” in “non-current assets” on the consolidated balance sheets to the extent that deductible temporary differences and tax losses carryforwards were expected to reduce future taxable income.\*

The Group has estimated taxable income over a certain future period based on the Medium-Term Management Plan, budget, and other business plans that management has judged to be appropriate, and has made judgments about when specific deductible temporary differences are expected to be reversed. As such, the Group has judged that the possibility of recovery is high for deferred tax assets pertaining to the deductible temporary differences expected to be reversed within a certain period, etc. In addition, the Group has incorporated key assumptions, including forecasts of demand and sales prices in the main businesses, when formulating business plans.

If projections of future taxable income fluctuate significantly as a result of the impact on the Group’s demand field caused by stagnant supply chains and the prolonged global shortage of semiconductors, and by delays in resolving the gap between prices for raw and other materials and energy and sales prices, or other factors, and the recoverability of deferred tax assets fluctuates significantly as a result, there may be a material impact on the recorded amount of deferred tax assets in the next consolidated fiscal year.

\*The amount before offsetting with deferred tax liabilities was ¥89,363 million (\$730,151 thousand) at March 31, 2022 and ¥97,413 million at March 31, 2021. Of these amounts, ¥58,769 million (\$480,177 thousand) at March 31, 2022 and ¥54,742 million at March 31, 2021 were held by the Company and certain of its domestic subsidiaries that file a consolidated tax return.

## **(21) Changes in Accounting Policies**

### (a) Application of the “Accounting Standard for Revenue Recognition,” etc.

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Standard”) and other standards from the beginning of the current fiscal year. The Company has decided to recognize revenue when control of a promised good or service is transferred to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. As a result, discounts, rebates, etc., which were previously deducted from net sales at the time the amount was determined, are now reflected in the transaction price at the time of revenue recognition.

The Company applies the Revenue Recognition Standard, etc., in accordance with the transitional treatment provided for in Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to retained earnings at the beginning of the current fiscal year, with the new accounting policies applied from the beginning balance. However, the Company applies the method provided for in Paragraph 86 of the Revenue Recognition Standard and does not apply the new accounting policies retrospectively to contracts for which substantially all revenue amounts had been recognized prior to the beginning of the current fiscal year, in accordance with the previous treatment. In

addition, applying the method stipulated in Paragraph 86 of the Revenue Recognition Standard, contract modifications that occurred prior to the beginning of the current fiscal year were accounted for based on the terms of the contract after reflecting all contract modifications, with the cumulative impact adjusted to retained earnings at the beginning of the current fiscal year.

Furthermore, “notes and accounts receivable—trade,” which were presented under “current assets” in the consolidated balance sheets of the previous period, have been included under “notes—trade,” “accounts receivable—trade” and “contract assets” from the current fiscal year, and “advances from customers,” which was presented under “current liabilities,” has been included under “contract liabilities” and “other” from the current fiscal year. However, in accordance with the transitional treatment provided for in Paragraph 89-2 of the Revenue Recognition Standard, the previous period has not been reclassified to the new presentation.

The cumulative impact of this change has been reflected in net assets at the beginning of the current fiscal year. As a result, the beginning balance of retained earnings decreased by ¥631 million (\$5,158 thousand) in the consolidated statements of changes in net assets. The impact on the consolidated statements of income for the current fiscal year was immaterial. In accordance with the transitional treatment provided for in Paragraph 89-3 of the Revenue Recognition Standard, notes on “Revenue Recognition” for the previous period has not been stated.

(b) Application of the “Accounting Standard for Fair Value Measurement,” etc.

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the current fiscal year and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc., in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This has had no impact on the consolidated balance sheets and the consolidated statements of income.

In addition, notes on the breakdown of the fair value of financial instruments by level, etc., are provided in the “Notes on Financial Instruments.” However, In accordance with the transitional treatment provided for in Paragraph 7-4 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 19, July 4, 2019,) the notes for the previous period have not been stated.

### 3. Leases

#### Operating Leases

Future minimum lease payments as lessee under operating leases at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Due within one year	¥ 4,366	¥ 4,423	\$ 35,672
Due after one year	29,641	31,231	242,183
	¥ 34,007	¥ 35,654	\$ 277,855

Future minimum lease fees receivable as lessor under operating leases at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Due within one year	¥ 65	¥ 79	\$ 530
Due after one year	235	164	1,918
	¥ 300	¥ 243	\$ 2,448

### 4. Financial Instruments

#### Policies for Using Financial Instruments

The Group raises long-term funds mainly by bank loans and bonds based on its capital budget. For short-term capital needs, the Group raises funds mainly by bank loans and commercial paper in relation to its projected income and working capital.

The Group invests temporary excess cash in highly liquid assets. The Group enters into derivative contracts to hedge the risks discussed below and does not enter into derivative transactions for trading or speculative purposes.

### Financial Instruments, Exposure to Risk and Policies and Processes for Managing Risk

Notes and accounts receivable are exposed to the credit risks of customers. In order to manage these risks, the Group regularly monitors whether due dates are properly met for each customer and evaluates the credit standing of major customers based on credit management policies. Accounts receivable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. In order to hedge these risks, the Group utilizes forward currency exchange contracts.

Investments in securities consist principally of the listed shares of customers and are exposed to the risk of change in quoted market prices. Quoted market prices for securities are regularly monitored and reported to the Board of Directors, and management evaluates the effectiveness of holding the securities taking into consideration the customer relationship. Notes and accounts payable and borrowings are exposed to liquidity risk. The Group makes adequate financial plans to manage the risk. Floating rate long-term borrowings are exposed to the additional risk of change in interest rates. In order to manage the risk, the Group enters into interest rate swap agreements. Furthermore, accounts payable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. The Group uses forward currency exchange contracts, non-deliverable forward contracts and currency option contracts to manage the risk of currency fluctuation.

Derivative transactions comprise forward currency exchange contracts, non-deliverable forward contracts, currency option contracts, currency swaps, interest rate swap agreements and commodity forward contracts to hedge the risk of movement in the market value of Steel & Aluminum and Advanced Materials. The Group is also exposed to credit risk in the event of nonperformance by the counterparties to its derivative instruments. However, the Group does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties. The Group has established policies and controls to manage both market and credit risk, including using only highly rated banks and trading companies as counterparties, hedging exposed positions, limiting transaction types and amounts and reporting to management.

### Supplemental Information on Fair Values

Fair values of financial instruments include values estimated by using reasonable methods of valuation as well as values based on quoted market prices. Estimates resulting from these methods are subjective in nature and involve uncertainties and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. In addition, the contracted amounts of the derivative transactions presented in Note 6 do not reflect the exposure to market risk or credit risk of the derivative instruments themselves.

### Fair Value of Financial Instruments

The carrying amounts of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2022 and 2021 were as follows:

	Millions of yen						Thousands of
	2022			2021			U.S. dollars (Note 1)
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	2022
Investments in securities:							
Securities of affiliates	¥ 5,688	¥ 4,441	¥ (1,247)	¥ 11,784	¥ 13,407	¥ 1,623	\$ (10,189)
Available-for-sale securities	90,248	90,248	—	68,862	68,862	—	—
Short-term borrowings and current portion of long-term debt	(87,266)	(91,656)	(4,390)	(161,804)	(166,346)	(4,542)	(35,866)
Bonds included in current portion of long-term debt	(25,150)	(25,170)	(20)	(20,573)	(20,705)	(132)	(164)
Bonds included in long-term debt	(45,900)	(46,459)	(559)	(61,050)	(61,109)	(59)	(4,567)
Long-term borrowings included in long-term debt	(750,126)	(755,575)	(5,449)	(744,383)	(700,878)	43,505	(44,523)
Lease obligations	(51,427)	(50,515)	912	(59,970)	(58,524)	1,446	7,449
Derivative transactions:							
Hedge accounting not applied	(2,578)	(2,578)	—	(1,149)	(1,149)	—	—
Hedge accounting applied	(18,281)	(18,281)	—	(17,830)	(17,830)	—	—

Notes:

1. "Cash and deposits" is omitted as it is cash and the carrying amounts approximate fair values because of the short maturities of deposits.

2. “Notes—trade,” “Accounts receivable—trade,” “Securities” and “Notes and accounts payable—trade” are omitted as the carrying amounts approximate fair values because of the short maturities of these instruments.
3. Liabilities are presented with parentheses ( ).
4. Assets and liabilities arising from derivative transactions are presented after offsetting and with parentheses ( ) if the offset results in a liability.
5. Financial instruments without fair values at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Non-listed equity securities	¥ 98,445	¥ 91,770	\$ 804,358

The aggregate annual maturities of financial assets at March 31, 2022 and 2021 were as follows:

### Cash and deposits

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Due within 1 year	¥ 243,502	¥ 262,346	\$ 1,989,559
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥ 243,502	¥ 262,346	\$ 1,989,559

### Notes and accounts receivable—trade

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Due within 1 year	¥ —	¥ 283,799	\$ —
Due after 1 year through 5 years	—	3,304	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥ —	¥ 287,103	\$ —

### Notes—trade

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Due within 1 year	¥ 29,544	¥ —	\$ 241,392
Due after 1 year through 5 years	43	—	355
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥ 29,587	¥ —	\$ 241,747

### Accounts receivable—trade

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Due within 1 year	¥ 265,113	¥ —	\$ 2,166,127
Due after 1 year through 5 years	4,788	—	39,123
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥ 269,901	¥ —	\$ 2,205,250

## Available-for-sale securities

### (Negotiable certificates of deposit)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Due within 1 year	¥ 17,200	¥ 55,200	\$ 140,534
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	<u>¥ 17,200</u>	<u>¥ 55,200</u>	<u>\$ 140,534</u>

The aggregate annual maturities of financial liabilities at March 31, 2022 and 2021 were as follows:

## Bonds

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Due within 1 year	¥ 25,150	¥ 20,573	\$ 205,491
Due after 1 year through 2 years	900	25,150	7,354
Due after 2 years through 3 years	—	900	—
Due after 3 years through 4 years	35,000	—	285,970
Due after 4 years through 5 years	10,000	35,000	81,706
Due after 5 years	—	—	—
	<u>¥ 71,050</u>	<u>¥ 81,623</u>	<u>\$ 580,521</u>

## long-term borrowings

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Due within 1 year	¥ 56,953	¥ 88,959	\$ 465,340
Due after 1 year through 2 years	132,169	59,359	1,079,900
Due after 2 years through 3 years	118,095	125,699	964,909
Due after 3 years through 4 years	127,849	108,282	1,044,607
Due after 4 years through 5 years	102,331	119,070	836,105
Due after 5 years	269,682	331,973	2,203,461
	<u>¥ 807,079</u>	<u>¥ 833,342</u>	<u>\$ 6,594,322</u>

## lease obligations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Due within 1 year	¥ 13,975	¥ 9,389	\$ 114,182
Due after 1 year through 2 years	9,449	12,654	77,200
Due after 2 years through 3 years	8,961	8,366	73,213
Due after 3 years through 4 years	28,614	8,139	233,800
Due after 4 years through 5 years	2,141	28,039	17,491
Due after 5 years	2,262	2,772	18,485
	<u>¥ 65,402</u>	<u>¥ 69,359</u>	<u>\$ 534,371</u>

## other interest bearing debt

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Due within 1 year	¥ 46,159	¥ 27,340	\$ 377,139
Due after 1 year through 2 years	331	753	2,706
Due after 2 years through 3 years	244	235	1,995
Due after 3 years through 4 years	154	146	1,262
Due after 4 years through 5 years	75	54	616
Due after 5 years	28	16	229
	¥ 46,991	¥ 28,544	\$ 383,947

## Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using observable inputs, i.e., quoted prices in active markets for assets or liabilities that are the subject of the measurement

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs

Level 3 fair value: Fair value measured using unobservable inputs

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

Financial instruments measured at fair value in the consolidated balance sheets at March 31, 2022 was as follows:

### Investments in securities

#### Available-for-sale securities

	Millions of yen		Thousands of
	2022		U.S. dollars (Note 1)
Level 1	¥ 90,248		\$ 737,381
Level 2	—		—
Level 3	—		—
	¥ 90,248		\$ 737,381

### Derivative transactions

#### Hedge accounting not applied

	Millions of yen		Thousands of
	2022		U.S. dollars (Note 1)
Level 1	¥ —		\$ —
Level 2	(2,578)		(21,061)
Level 3	—		—
	¥ (2,578)		\$ (21,061)

### Derivative transactions

#### Hedge accounting applied

	Millions of yen		Thousands of
	2022		U.S. dollars (Note 1)
Level 1	¥ —		\$ —
Level 2	(18,281)		(149,370)
Level 3	—		—
	¥ (18,281)		\$ (149,370)

Financial instruments other than those measured at fair value in the consolidated balance sheets at March 31, 2022 was as follows:

### Investments in securities

#### Shares of subsidiaries and affiliates

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2022	2022
Level 1	¥ 4,441	\$ 36,289
Level 2	—	—
Level 3	—	—
	¥ 4,441	\$ 36,289

#### Short-term borrowings

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2022	2022
Level 1	¥ —	\$ —
Level 2	(91,656)	(748,882)
Level 3	—	—
	¥ (91,656)	\$ (748,882)

#### Bonds and notes due within one year

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2022	2022
Level 1	¥ —	\$ —
Level 2	(25,170)	(205,655)
Level 3	—	—
	¥ (25,170)	\$ (205,655)

#### Bonds and notes

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2022	2022
Level 1	¥ —	\$ —
Level 2	(46,459)	(379,598)
Level 3	—	—
	¥ (46,459)	\$ (379,598)

#### Long-term borrowings

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2022	2022
Level 1	¥ —	\$ —
Level 2	(755,575)	(6,173,505)
Level 3	—	—
	¥ (755,575)	\$ (6,173,505)

## Lease obligations (long-term liabilities)

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2022		2022	
Level 1	¥	—	\$	—
Level 2		(50,515)		(412,741)
Level 3		—		—
	¥	(50,515)	\$	(412,741)

Note: A description of the valuation technique and inputs used in the fair value measurements

## Investments in securities

Listed shares are valued using market prices. As listed shares are traded in active markets, their fair value is classified as Level 1.

## Short-term borrowings, Long-term borrowings, and Lease obligations (long term liabilities)

The fair values are determined based on the present value by discounting the sum of the principal and interest by the assumed rate which would be applied if a similar new borrowings or lease payments were entered into. The fair values of floating rate long-term borrowings hedged by interest rate swaps that qualify for hedge accounting and meet specific matching criteria for an exceptional method are calculated by discounting the sum of the principal and interest, including the differential paid or received under swap agreements, by the reasonably estimated rate which would be applied if similar new borrowings were entered into. They are all classified as Level 2.

## Bonds and notes due within one year and Bonds and notes

The fair values are determined based on market prices (reference statistical prices and yields) etc., and are classified as Level 2.

## Derivative transactions

For foreign currency exchange contracts, the fair values are determined based on forward foreign exchange rates. For interest rate swaps and currency swaps, the fair values are determined based on quotes obtained from counterparty financial institutions. For commodity forward contracts, the fair values are determined based on commodity futures prices and are classified as Level 2.

## 5. Securities

The following tables summarize available-for-sale securities at March 31, 2022 and 2021.

	Millions of yen						Thousands of U.S. dollars (Note 1)	
	2022			2021			2022	
	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference	Difference	
<b>Available-for-sale securities</b>								
Securities with available carrying amount exceeding acquisition cost:								
Equity securities	¥ 88,449	¥ 49,518	¥ 38,931	¥ 68,207	¥ 48,279	¥ 19,928	\$	318,089
Subtotal	88,449	49,518	38,931	68,207	48,279	19,928		318,089
Securities with available carrying amount not exceeding acquisition cost:								
Other securities:								
Equity securities	1,799	2,528	(729)	655	803	(148)		(5,953)
Subtotal	1,799	2,528	(729)	655	803	(148)		(5,953)
	¥ 90,248	¥ 52,046	¥ 38,202	¥ 68,862	¥ 49,082	¥ 19,780	\$	312,136

Unlisted stocks and others (¥11,866 million (\$96,954 thousand) for the year ended March 31, 2022 and ¥11,943 million for the year ended March 31, 2021 are not included in the above table because they do not have market prices.

Sales of available-for-sale securities for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2022	2021	2022	
Sales	¥ 468	¥ 5,332	\$	3,826
Gains on sales	220	1,857		1,800
Losses on sales	(11)	(277)		(93)

## 6. Derivative Transactions

### Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2022 and 2021 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)	
	2022			2021			2022	
	Contracted amount Over one year	Fair value	Recognized gain (loss)	Contracted amount Over one year	Fair value	Recognized gain (loss)	Fair value	
<b>Foreign currency exchange contracts</b>								
To sell foreign currencies:								
U.S. dollars	¥ 15,857	¥ 5,857	¥ (1,090)	¥ 13,273	¥ 7,810	¥ (307)	\$ (8,909)	
Others	24,320	—	(1,256)	9,809	—	(389)	(10,260)	
To buy foreign currencies:								
U.S. dollars	12,979	—	82	4,917	—	(152)	668	
Others	12,981	—	(314)	8,079	—	(301)	(2,564)	
			¥ (2,578)			¥ (1,149)		

Commodity forward contracts outstanding at March 31, 2022 and 2021 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)	
	2022			2021			2022	
	Contracted amount Over one year	Fair value	Recognized gain (loss)	Contracted amount Over one year	Fair value	Recognized gain (loss)	Fair value	
<b>Commodity forward contracts</b>								
To sell commodities	¥ 10	¥ —	¥ (1)	¥ —	¥ —	¥ —	\$ (6)	
To buy commodities	9	—	1	—	—	¥ —	10	
			¥ 0				\$ 4	

## Derivative transactions for which hedge accounting is applied

Forward currency exchange contracts and currency options outstanding at March 31, 2022 and 2021 were as follows:

	Millions of yen						Thousands of
	2022			2021			U.S. dollars (Note 1)
	Contracted amount Over one year	Fair value		Contracted amount Over one year	Fair value		2022 Fair value
<b>Hedges for which the “deferred hedge” method is applied</b>							
<b>Foreign currency exchange contracts</b>							
To sell foreign currencies:							
U.S. dollars	¥ 29,056	¥ 9,549	¥ (2,250)	¥ 12,964	¥ 2,497	¥ (611)	\$ (18,388)
Others	22,729	2,754	(1,769)	23,930	2,141	(481)	(14,452)
To buy foreign currencies:							
U.S. dollars	3,200	279	263	2,427	442	111	2,148
Others	8,291	256	216	5,977	34	119	1,766
<b>Foreign currency options</b>							
To sell foreign currency options:							
Call							
U.S. dollars	—	—	—	73	—	(0)	—
	[—]			[0]			
To buy foreign currency options:							
Put							
U.S. dollars	—	—	—	73	—	(0)	—
	[—]			[0]			
<b>Hedges for which the “assigning” method is applied</b>							
<b>Foreign currency exchange contracts</b>							
To sell foreign currencies:							
U.S. dollars	¥ 26,973	¥ 269	¥ —	¥ 23,910	¥ 523	¥ —	\$ —
Others	29,672	733	—	24,095	1,269	—	—
To buy foreign currencies:							
U.S. dollars	1,193	—	—	433	29	—	—
Others	15,445	—	—	9,103	—	—	—

Notes:

- Hedges for which the “assigning” method is applied For certain accounts receivable and accounts payable denominated in foreign currencies for which foreign currency exchange contracts are used to hedge foreign currency fluctuations, the fair values are included in the fair values of the hedged accounts receivable and accounts payable.
- Option premiums are presented below the contracted amount with brackets [ ]. Foreign currency options are zero cost options in which option premiums are not paid or received.

Interest rate swap agreements outstanding at March 31, 2022 and 2021 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)		
	2022		2021		2022		
	Contracted amount		Contracted amount		Fair value		
	Over one year	Fair value	Over one year	Fair value	Fair value		
<b>Hedges for which the “deferred hedge” method is applied</b>							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥261,130	¥254,200	¥(14,486)	¥267,480	¥261,130	¥(18,821)	
						<b>\$(118,360)</b>	
<b>Hedges for which the “exceptional” method is applied</b>							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥ 48,480	¥ 48,480	¥ —	¥ 67,140	¥ 48,840	¥ —	
						<b>\$ —</b>	

Notes:

1. Hedges for which the “exceptional” method is applied

For certain long-term debt for which interest rate swap agreements are used to hedge the variable risk to interest, the fair values are included in the fair values of the long-term debt.

Commodity forward contracts outstanding at March 31, 2022 and 2021 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)		
	2022		2021		2022		
	Contracted amount		Contracted amount		Fair value		
	Over one year	Fair value	Over one year	Fair value	Fair value		
<b>Hedges for which the “deferred hedge” method is applied</b>							
Commodity forward contracts							
To sell commodities	¥3,319	¥ —	¥(542)	¥ 2,577	¥—	¥ (311)	
To buy commodities	2,871	143	287	6,661	—	2,165	
						<b>\$2,344</b>	

## 7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Bank loans (average rate: 1.90% in 2022 and 1.42% in 2021)	¥30,313	¥72,845	<b>\$247,676</b>

Long-term debt at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
0.04% to 1.23% yen bonds, due 2022 through 2026	¥ 71,050	¥ 81,623	<b>\$ 580,521</b>
Loans, principally from banks and insurance companies, due 2022 through 2036	807,079	833,342	<b>6,594,322</b>
	878,129	914,965	<b>7,174,843</b>
Less current portion	82,103	109,532	<b>670,830</b>
	¥796,026	¥805,433	<b>\$6,504,013</b>

The aggregate annual maturities of long-term debt at March 31, 2022 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	<u>2022</u>	<u>2022</u>
Due within 1 year	¥ 82,103	\$ 670,830
Due after 1 year through 2 years	133,069	1,087,254
Due after 2 years through 3 years	118,095	964,909
Due after 3 years through 4 years	162,849	1,330,578
Due after 4 years through 5 years	112,331	917,811
Due after 5 years	269,682	2,203,461
	<u>¥878,129</u>	<u>\$7,174,843</u>

At March 31, 2022 and 2021, assets pledged as collateral for short-term borrowings and long-term debt were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	<u>2022</u>		2021		<u>2022</u>	
Assets pledged as collateral:						
Property, plant and equipment, net of accumulated depreciation	¥248,772	¥[244,280]	¥206,372	¥[72,807]	\$2,032,618	\$[1,995,914]
Other assets	49,994	[33,776]	43,260	[19,738]	408,478	[275,971]
	<u>¥298,766</u>	<u>¥[278,056]</u>	<u>¥249,632</u>	<u>¥[92,545]</u>	<u>\$2,441,096</u>	<u>\$[2,271,885]</u>
Secured short-term borrowings and long-term borrowings:	¥254,170	¥[253,287]	¥203,591	¥[61,363]	\$2,076,720	\$[2,069,510]
	<u>¥254,170</u>	<u>¥[253,287]</u>	<u>¥203,591</u>	<u>¥[61,363]</u>	<u>\$2,076,720</u>	<u>\$[2,069,510]</u>

Notes:

1. Amounts in brackets [ ] indicate those related to the factory foundation, etc.

## 8. Provision for Loss on Construction Contracts

Inventories for construction contracts with anticipated losses and provision for loss on construction contracts were not offset. The inventories for the construction contracts for which the provision for loss on construction contracts were provided were ¥4,981 million (\$40,697 thousand) for the year ended March 31, 2022 and ¥4,171 million for the year ended March 31, 2021. These amounts were included in “Work-in-process.”

## 9. Land Revaluation

In the years ended March 31, 2002 and 2001, land used for operations was revalued by certain consolidated subsidiaries in accordance with the Land Revaluation Law.

The revaluation amount, net of related taxes, is shown as accumulated other comprehensive income in net assets.

The excess of the carrying amount of the revalued land over the fair value at March 31, 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
<u>Revaluation date</u>	<u>2022</u>	2021	<u>2022</u>
March 31, 2001	¥ —	¥ 2,833	\$ —
March 31, 2002	—	(4,413)	—
	<u>¥ —</u>	<u>¥ (1,580)</u>	<u>\$ —</u>

The difference has not been stated because the fair value at March 31, 2022 exceeded the carrying amount of the revalued amount.

## 10. Commitment Line

The unexercised portion of facilities based on commitment line contracts at March 31, 2022 and 2021 was as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Total commitment line available	<u>¥53,161</u>	<u>¥52,779</u>	<u>\$1,251,414</u>
Less amount utilized	<u>—</u>	<u>—</u>	<u>—</u>
	<u>¥53,161</u>	<u>¥52,779</u>	<u>\$1,251,414</u>

## 11. Contingent Liabilities Regarding Notes and Loans Guaranteed

Contingent liabilities regarding notes and loans guaranteed at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Trade notes discounted	¥ —	¥ 205	\$ —
Trade notes endorsed	132	87	1,077
Guarantees of loans:			
Related parties	7,800	17,525	63,729
Others	154	312	1,261
	<u>¥8,086</u>	<u>¥18,129</u>	<u>\$66,067</u>

Guarantees of loans don't include contingent guarantees and letters of awareness at March 31, 2022, but include ¥269 million at March 31, 2021. Guarantees of loans include ¥2,508 million (\$20,491 thousand) at March 31, 2022 and ¥6,037 million at March 31, 2021 covered by reassurances from other companies.

Kobelco Construction Machinery (China) Co., Ltd., which is a consolidated subsidiary of the Company, sells construction machinery to customers through sales agents or leasing companies. Sales agents pledge guarantees to buy up construction machinery pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Kobelco Construction Machinery (China) Co., Ltd. pledges reassurances for these guarantees. The balances of the reassurances were ¥12,751 million (\$104,180 thousand) for the year ended March 31, 2022 and ¥15,092 million for the year ended March 31, 2021.

## 12. Contingent Liabilities Regarding Repurchase Obligations Accompanying Securitization of Receivables

Contingent liabilities regarding repurchase obligations accompanying securitization of receivables at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
	<u>¥5,696</u>	<u>¥5,485</u>	<u>\$46,536</u>

## 13. Net Assets

Net assets comprise stockholders' equity, accumulated other comprehensive income and non-controlling interests. The Japanese Corporate Law ("the Law") became effective on May 1, 2006.

The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date. Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus), depending on the equity account charged upon the payment of such dividends, until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, generally with a resolution of the shareholders meeting, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or be capitalized.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends.

Under the Law, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

#### 14. Revenue recognized from contracts with customers

Revenue recognized from contracts with customers and revenue recognized from other sources are not stated separately because the amount of revenue recognized from other sources is not material. Revenue recognized from contracts with customers is presented in “(1) Disaggregation of revenue from contracts with customers” of Note 22.

#### 15. Cost of Sales

Gain/Loss on the write-down of inventories included in the cost of sales was ¥307 million (\$2,515 thousand) loss for the year ended March 31, 2022 and ¥3,520 million gain for the year ended March 31, 2021.

The provision for loss on construction contracts included in the cost of sales was ¥8,487 million (\$69,346 thousand) for the year ended March 31, 2022 and ¥11,795 million for the year ended March 31, 2021.

#### 16. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses were ¥33,245 million (\$271,629 thousand) for the year ended March 31, 2022 and ¥31,008 million for the year ended March 31, 2021.

#### 17. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2022 and 2021 were summarized as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
Freight	¥ 56,161	¥ 45,956	\$ 458,873
Employees' compensation	45,564	43,792	372,284
Research and development	19,754	17,028	161,406
Commission fee	13,617	11,662	111,258
Welfare and legal welfare expenses	12,633	11,067	103,218
Rent expenses	9,951	10,066	81,305
Taxes and dues	8,542	2,709	69,794
Provision for bonuses	6,081	4,928	49,684
Depreciation	5,213	4,762	42,594
Provision for allowance for doubtful accounts	4,632	3,491	37,845
Others	38,033	37,328	310,753
	<u>¥220,181</u>	<u>¥192,789</u>	<u>\$1,799,014</u>

#### 18. Gain on sale of fixed assets

Gain on sale of fixed assets for the year ended March 31, 2021 was due to the sale of land, etc.

## 19. Loss on Impairment

The Company and the Group recorded loss on impairment of ¥13,509 million on the below asset groups for the fiscal year ended March 31, 2021. The breakdown of loss on impairment was as follows: buildings and structures of ¥1,587 million, machinery and equipment of ¥6,631 million, land of ¥4,111 million, construction in progress of ¥966 million and intangible assets of ¥214 million.

Use	Location and number	Type	Millions of yen 2021
Assets for manufacturing special steel products (Nippon Koshuha Steel Co., Ltd.)	Imizu-shi, Toyama Prefecture	Machinery and equipment, etc.	<b>¥ 9,788</b>
Assets to be disposed of	1 case Nada-ku, Kobe-shi and another location	Machinery and equipment, etc.	<b>1,534</b>
Assets for titanium business*	2 cases in total Takasago-shi, Hyogo Prefecture and another location	Machinery and equipment, etc.	<b>1,218</b>
Assets for other businesses, Prefecture and other etc.	2 cases in total Takasago-shi, Hyogo locations 5 cases in total	Machinery and equipment, etc.	<b>969</b>
			<b>¥13,509</b>

\* Includes assets for manufacturing forged titanium products, assets for manufacturing pure titanium and jointly used assets

The Company and the Group conduct grouping per business location for business assets to recognize loss on impairment in principle, while considering the status of ongoing management of profit and loss and cash-generating units. In addition, idle assets were grouped individually.

The recoverable value of an asset was measured based on its value in use, etc., which was obtained by discounting the future cash flows mainly using a discount rate of 6%.

The circumstances that led to the recognition of loss on impairment by each major asset group were as follows:

(1) Assets for manufacturing special steel products (Nippon Koshuha Steel Co., Ltd.)

Book values of ¥17,193 million were reduced to the respective recoverable values, and the reductions were recorded as loss on impairment of ¥9,788 million under extraordinary losses due to a general worsening of demand conditions across the product sectors of tool steel, special alloy, bearing steel.

(2) Assets to be disposed of

Book values of ¥1,653 million were reduced to the respective recoverable values, and the reductions were recorded as loss on impairment of ¥1,534 million under extraordinary losses due to the decision to partially dispose of facilities belonging to Kobe Wire Rod & Bar Plan etc.

(3) Assets for titanium business

Book values of ¥1,218 million were reduced to the respective recoverable values, and the reductions were recorded as loss on impairment of ¥1,218 million under extraordinary losses due to the decrease in profitability resulting from equipment productivity continuously being at a low level.

(4) Assets for other business, etc.

Book values of ¥1,008 million were reduced to the respective recoverable values, and the reductions were recorded as loss on impairment of ¥970 million under extraordinary losses due to the decrease in profitability resulting from the deterioration of the order environment and other factors.

## 20. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Deferred income tax assets:			
Net defined benefit liability	¥ 24,685	¥ 24,871	\$ 201,689
Tax loss carryforwards	23,873	37,676	195,060
Impairment loss	17,877	21,831	146,069
Unrealized profit	15,106	13,105	123,422
Accrued bonuses to employees	7,689	6,181	62,821
Loss on the write-down of inventories	5,473	4,881	44,716
Deferred losses on hedges	5,359	5,337	43,787
Loss on valuation of investment securities	4,722	5,061	38,585
Other	35,664	37,403	291,400
	<u>140,448</u>	<u>156,346</u>	<u>1,147,549</u>
Valuation allowance related to tax loss carryforwards	(12,245)	(19,282)	(100,051)
Valuation allowance related to total deductible temporary difference, etc.	<u>(38,840)</u>	<u>(39,651)</u>	<u>(317,347)</u>
Valuation allowance	<u>(51,085)</u>	<u>(58,933)</u>	<u>(417,398)</u>
Deferred income tax assets	<u>89,363</u>	<u>97,413</u>	<u>730,151</u>
Deferred income tax liabilities:			
Valuation difference on available-for-sale securities	11,742	5,824	95,940
Gain on return of assets from retirement benefit trust	8,030	8,030	65,607
Revaluation reserve for land	3,254	3,251	26,585
Special tax purpose reserve	2,126	2,262	17,371
Other	18,555	18,674	151,608
	<u>43,707</u>	<u>38,041</u>	<u>357,111</u>
Net deferred income tax assets	<u>¥ 45,656</u>	<u>¥ 59,372</u>	<u>\$ 373,040</u>

Amount of tax loss carryforwards and related deferred tax assets by tax loss carryforwards for the year ended March 31, 2022 and 2021 were as follows:

### Tax loss carryforwards (Note 1)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Due within 1 year	1,545	5,125	12,627
Due after 1 year through 2 years	788	1,860	6,431
Due after 2 years through 3 years	1,530	833	12,502
Due after 3 years through 4 years	3,571	1,043	29,181
Due after 4 years through 5 years	269	5,108	2,198
Due after 5 years	16,170	23,707	132,121
	<u>¥ 23,873</u>	<u>¥ 37,676</u>	<u>\$ 195,060</u>

Notes:

- Figures for the tax loss carryforwards were the amounts multiplied by the effective statutory tax rate.

## Valuation allowance

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Due within 1 year	(949)	(4,614)	(7,759)
Due after 1 year through 2 years	(309)	(1,733)	(2,521)
Due after 2 years through 3 years	(888)	(539)	(7,253)
Due after 3 years through 4 years	(3,242)	(723)	(26,492)
Due after 4 years through 5 years	(118)	(4,587)	(964)
Due after 5 years	(6,739)	(7,086)	(55,062)
	<u>¥(12,245)</u>	<u>¥(19,282)</u>	<u>\$(100,051)</u>

## Deferred tax assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Due within 1 year	596	511	4,868
Due after 1 year through 2 years	479	127	3,910
Due after 2 years through 3 years	642	294	5,249
Due after 3 years through 4 years	329	320	2,689
Due after 4 years through 5 years	151	521	1,234
Due after 5 years	9,431	16,621	77,059
	<u>¥11,628</u>	<u>¥18,394</u>	<u>\$95,009</u>

The reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2022 and 2021 were as follows:

	2022	2021
Aggregate statutory income tax rate in Japan	30.6 %	30.6 %
Nondeductible entertainment expenses	0.9	2.9
Exclusion of dividends received	(0.6)	(1.3)
Equity in income of equity method companies	(1.9)	(3.6)
Gain on step acquisitions	—	(5.3)
Adjustment of gain on sale of investment securities	2.2	4.1
Decrease in valuation allowance	(6.7)	(33.6)
Differences in normal tax rates of subsidiaries	(2.5)	(5.3)
Tax deduction	(2.4)	(3.7)
Other	4.6	(5.6)
Effective income tax rate	<u>24.2%</u>	<u>(20.8)%</u>

## 21. Business Combination

### Common control transaction

#### Share exchange to make Kobelco Eco-Solutions Co., Ltd. a wholly-owned subsidiary

The Company and Kobelco Eco-Solutions Co., Ltd. (Kobelco Eco-Solutions) approved a resolution in the Board of Directors' meetings of each company held on August 5, 2021, based on which the Company becomes a wholly-owning parent company and Kobelco Eco-Solutions becomes a wholly-owned subsidiary, and on the same date, the two companies entered into the share exchange agreement on the same date. The share exchange was implemented on November 1, 2021 as the effective date in accordance with simplified share exchange procedures, which do not require the approval of a general meeting of shareholders in accordance with Article 796, Paragraph 2 of the Company Law, and with approval of the share exchange agreement at the extraordinary general meeting of shareholders held on September 30, 2021 for Kobelco Eco-Solution.

Prior to the share exchange, the common stock of Kobelco Eco-Solutions was delisted from the 2nd Section of Tokyo Stock Exchange, Inc. on October 28, 2021 (the last trading day was October 27, 2021).

(1) Outline of the business combination

① Name and business of the acquired company

Acquired company name: Kobelco Eco-Solutions Co., Ltd.

Business of the acquired company: Design, manufacture, construction, and maintenance of environmental plants  
Design, manufacture, and maintenance of industrial machinery and equipment

② Date of the business combination

November 1, 2021

③ Legal method of the business combination

Share exchange

④ Name of the company after the business combination

There was no change in the name of the company after the business combination.

⑤ Other matters with regard to the transaction

The global movement toward decarbonization is accelerating, and in Japan, the Government declared the policy of “Aiming to realize carbon neutrality and decarbonized society by 2050” in the Prime Minister’s Policy Speech on October 26, 2020. The business environment surrounding the Company and Kobelco Eco-Solutions is rapidly changing, including the transition to carbon neutrality and progress in social reforms. The Group recognizes that it is essential to utilize the many distinctive technologies possessed by Kobelco Eco-Solutions and to further strengthen cooperation between the Company and Kobelco Eco-Solutions in order to achieve carbon neutrality by 2050, create new businesses in fields such as hydrogen, biomass fuels and renewable energy that contribute to CO2 reduction and maximize profits in the environmental contribution menu. In addition, the environmental business fields and underlying technologies owned by Kobelco Eco-Solutions will contribute significantly to the growth of the Group’s engineering segment and increase its business value, which in turn will lead to the growth of the Group as a whole and increase its corporate value. Therefore, in order to ensure that such growth and increase in corporate value, it is not appropriate to maintain the parent/subsidiary listing with inherent conflict of interest risks from the perspective of our group management.

By making Kobelco Eco-Solutions a wholly-owned subsidiary of the Company, it is expected that Kobelco Eco-Solutions will accelerate its efforts to create new businesses in the Group and achieve carbon neutrality, expand business by further utilizing the Group’s management resources and networks, and further demonstrate Group synergies from a medium- to long-term perspective. In addition, by de-listing Kobelco Eco-Solutions, it will be possible for Kobelco Eco-Solutions to make swift and flexible decisions without being restricted by short-term stock market evaluations and to reduce expenses of the parent/subsidiary listing. Accordingly, the Company decided to make Kobelco Eco-Solutions a wholly-owned subsidiary through a share exchange because making Kobelco Eco-Solutions a wholly-owned subsidiary would be beneficial for increasing the corporate value of not only the Company but also Kobelco Eco-Solutions.

(2) Outline of accounting treatment

The transaction was treated as a common control transaction in accordance with the “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21 of January 16, 2019) and the “Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 of January 16, 2019).

(3) Additional purchase of the subsidiary's shares

① Acquisition cost and breakdown

	Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration for acquisition (the company common stock)	<u>¥21,908</u>	<u>\$178,997</u>
Acquisition cost	<u>¥21,908</u>	<u>\$178,997</u>

② Exchange ratio and calculation method, and the number of shares delivered by class of shares

(a) Exchange ratio by class of shares

4.85 shares of the Company common stock for each share of Kobelco Eco-Solutions common stock

(b) Calculation method for the exchange ratio

The Company and Kobelco Eco-Solutions carefully examined the share exchange ratio based on the results of the due diligence conducted by each company, with reference to the calculation results and advice received from the third-party appraisers and the advice received from legal advisors. As a result of careful negotiations and discussions between the two companies regarding the share exchange ratio after comprehensively taking into account the financial condition, performance trends, stock price trends, etc., of the other side, the two companies decided on and agreed to the share exchange ratio.

(c) Number of shares delivered

31,981,753 shares

(4) Details about the change in shareholders' equity by the transaction with non-controlling shareholders

① Main reason for the change in capital surplus

Acquisition of additional shares in the subsidiary

② The amount of capital surplus decreased due to the transaction with non-controlling shareholders  
¥8,605 million (\$70,306 thousands)

### Business Divestiture

#### Transfer of shares of Kobelco & Materials Copper Tube Co., Ltd.

(1) Outline of the business divestiture

① Name of purchasing company: M Cap No. 7, Co., Ltd.\*

\* M Cap No. 7, Co., Ltd. is a special purpose company wholly owned by Marunouchi Capital Fund 2, which is managed by Marunouchi Capital Co., Ltd.

② Description of the divested business

Consolidated subsidiaries: Kobelco & Materials Copper Tube Co., Ltd. and three other companies

Business of the divested companies: Manufacture and sales of copper tubes for air conditioners, construction, and cold/hot water supply

③ Objectives of the business divestiture

In the KOBELCO Group Medium-Term Management Plan (FY2021-FY2023), the Group places top priorities on “establishing a stable earnings base” and “taking on the challenge of realizing carbon neutrality.” Under these initiatives, the key measures concerning the materials business have been identified as the strategic investment leading to earnings contribution and the restructuring of unprofitable businesses. The Group has studied various measures to optimize the future growth and development of the copper tube business, in which Kobelco & Materials Copper Tube Co., Ltd. is involved, while leveraging the business foundation that has been cultivated to date.

As a result, the Group came to the conclusion that the most effective way for Kobelco & Materials Copper Tube Co., Ltd. to further expand its operations, develop its business and improve its corporate value

in the future would be to promote Kobelco & Materials Copper Tube Co., Ltd.'s business operations by gaining overall support from Marunouchi Capital Co., Ltd. in the management and financial aspects.

④ Date of the business divestiture

March 31, 2022

⑤ Other information on the business divestiture including the legal form thereof

A transfer of all shares of Kobelco & Materials Copper Tube Co., Ltd. for which only cash was received as consideration

(2) Outline of the accounting treatment applied

① Amount of transfer gain/loss: Loss on sale of investment securities ¥7,420 million (\$60,625 thousand)

② Appropriate book values of assets and liabilities related to the transferred business and the breakdown by major items

	Millions of yen	Thousands of U.S. dollars (Note 1)
	<u>2022</u>	<u>2022</u>
Current assets	¥38,633	\$315,657
Non-current assets	9,665	78,966
Total assets	<u>¥48,298</u>	<u>\$394,623</u>
Current liabilities	17,440	142,496
Long-term liabilities	18,024	147,270
Total liabilities	<u>¥35,464</u>	<u>\$289,766</u>

③ Accounting treatment

The difference between the transfer price and book values of the shares of Kobelco & Materials Copper Tube Co., Ltd. and three other companies in the consolidated financial statements was recognized as "Loss on sale of investment securities" in Extraordinary income (loss).

(3) Reportable segments including the divested business: Advanced Materials

(4) Estimated effect on profit/loss of the divested business in the consolidated statements of operations

	Millions of yen	Thousands of U.S. dollars (Note 1)
	<u>2022</u>	<u>2022</u>
Sales	¥96,863	\$791,425
Operating income	2,938	24,005

## 22. Revenue Recognition

(1) Disaggregation of revenue from contracts with customers

The following is a breakdown of the Group's net sales by reportable segments, broken down by region and by the time of the transfer of the goods or services.

① Breakdown by region for the years ended March 31, 2022 was as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)
		<u>2022</u>	<u>2022</u>
Japan	Steel & Aluminum:	¥ 678,171	\$ 5,541,058
	Steel	572,581	4,678,331
	Aluminum sheet	105,590	862,727
	Advanced Materials	193,029	1,577,166
	Welding	42,867	350,250
	Machinery	61,624	503,505
	Engineering	107,974	882,211
	Construction Machinery	147,405	1,204,391
	Electric Power	109,866	897,674
	Other Businesses	17,687	144,513
	Subtotal	<u>¥ 1,358,623</u>	<u>\$11,100,768</u>
China	Steel & Aluminum:	72,736	594,297
	Steel	41,294	337,395
	Aluminum sheet	31,442	256,902
	Advanced Materials	23,265	190,091
	Welding	7,257	59,290
	Machinery	41,779	341,362
	Engineering	7,652	62,523
	Construction Machinery	47,586	388,806
	Electric Power	—	—
	Other Businesses	1,600	13,068
	Subtotal	<u>¥ 201,875</u>	<u>\$ 1,649,437</u>
Other	Steel & Aluminum:	130,146	1,063,376
	Steel	108,135	883,530
	Aluminum sheet	22,011	179,846
	Advanced Materials	108,055	882,870
	Welding	26,099	213,243
	Machinery	58,426	477,373
	Engineering	18,694	152,740
	Construction Machinery	176,558	1,442,582
	Electric Power	—	—
	Other Businesses	2,646	21,630
	Subtotal	<u>¥ 520,624</u>	<u>\$ 4,253,814</u>
Segment total	Steel & Aluminum:	881,053	7,198,731
	Steel	722,010	5,899,256
	Aluminum sheet	159,043	1,299,475
	Advanced Materials	324,349	2,650,127
	Welding	76,223	622,783
	Machinery	161,829	1,322,240
	Engineering	134,320	1,097,474
	Construction Machinery	371,549	3,035,779
	Electric Power	109,866	897,674
	Other Businesses	21,933	179,211
	Total sales to external customers	<u>2,081,122</u>	<u>17,004,019</u>
Adjustment	1,461	11,935	
Consolidated sales to external customers	<u>¥ 2,082,583</u>	<u>\$17,015,954</u>	

- ② Breakdown by the time of the transfer of the goods or services for the years ended March 31, 2022 was as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)	
		<u>2022</u>	<u>2022</u>	
Goods or services transferred at a point in time	Steel & Aluminum:	¥ 868,427	\$ 7,095,569	
	Steel	709,384	5,796,094	
	Aluminum sheet	159,043	1,299,475	
	Advanced Materials	324,349	2,650,127	
	Welding	76,223	622,783	
	Machinery	148,860	1,216,273	
	Engineering	46,909	383,278	
	Construction Machinery	362,100	2,958,572	
	Electric Power	109,866	897,674	
	Other Businesses	21,421	175,027	
	Subtotal	<u>¥1,958,155</u>	<u>\$15,999,303</u>	
Goods or services transferred over a certain period of time	Steel & Aluminum:	12,626	103,162	
	Steel	12,626	103,162	
	Aluminum sheet	—	—	
	Advanced Materials	—	—	
	Welding	—	—	
	Machinery	12,969	105,967	
	Engineering	87,411	714,196	
	Construction Machinery	9,449	77,207	
	Electric Power	—	—	
	Other Businesses	512	4,184	
	Subtotal	<u>¥ 122,967</u>	<u>\$ 1,004,716</u>	
Segment total	Steel & Aluminum:	881,053	7,198,731	
	Steel	722,010	5,899,256	
	Aluminum sheet	159,043	1,299,475	
	Advanced Materials	324,349	2,650,127	
	Welding	76,223	622,783	
	Machinery	161,829	1,322,240	
	Engineering	134,320	1,097,474	
	Construction Machinery	371,549	3,035,779	
	Electric Power	109,866	897,674	
	Other Businesses	21,933	179,211	
		Total sales to external customers	<u>2,081,122</u>	<u>17,004,019</u>
		Adjustment	<u>1,461</u>	<u>11,935</u>
		Consolidated sales to external customers	<u>¥2,082,583</u>	<u>\$17,015,954</u>

Notes:

1. "Other" segment is a business segment not included in the reportable segments and includes Kobelco Research Institute, Inc. (special alloys and other new materials (target materials, etc.), analysis of various materials, etc.) and other businesses.
2. Revenue recognized from contracts with customers includes revenue recognized from other sources because most sales to external customers are revenue recognized from contracts with customers.
3. Information on net sales by region is based on the location of customers and broken down by country.

(2) Information to understand the amount of revenue for the current fiscal year and subsequent fiscal years

① Contract asset and contract liability balances at March 31, 2022 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	<u>2022</u>	<u>2022</u>
Receivables from contracts with customers (beginning balance)	¥273,985	\$2,238,625
Receivables from contracts with customers (ending balance)	328,099	2,680,765
Contract assets (beginning balance)	40,009	326,900
Contract assets (ending balance)	29,874	244,090
Contract liabilities (beginning balance)	36,109	295,030
Contract liabilities (ending balance)	45,219	369,466

Contract assets relate to the consideration for transactions for which an invoice has not yet been issued under the contract for revenue recognized based on progress, mainly in the machinery and engineering businesses. Once the right to the consideration becomes unconditional, it is reclassified to receivables from contracts with customers. Contract liabilities primarily relate to advances received from customers. Revenue recognized in the current fiscal year that was included in the contract liability balance at the beginning of the period was ¥21,833 million (\$178,392 thousand). The amount of revenue recognized in the current fiscal year from performance obligations that were satisfied in the previous fiscal year is not material.

② Transaction price allocated to the remaining performance obligations

The total transaction price allocated to the remaining performance obligations and the time frame over which the Group expects to recognize the amount as revenue are as follows. The performance obligations primarily relate to the sales of products, construction contracts, and the provision of services in the machinery and engineering businesses.

The Group has applied the practical expedient to the notes on transaction prices allocated to the remaining performance obligations and does not disclose contracts with an original expected duration of one year or less.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	<u>2022</u>	<u>2022</u>
Within one year	¥226,468	\$1,850,378
Over one year	240,326	1,963,607
	<u>¥466,794</u>	<u>\$3,813,985</u>

### 23. Consolidated Statements of Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars (Note 1)
			2022
Valuation difference on available-for-sale securities:			
Unrealized gains arising during the period	<b>¥19,051</b>	¥19,822	<b>\$155,661</b>
Less reclassification adjustment included in net income	<b>(111)</b>	(1,046)	<b>(907)</b>
	<b>18,940</b>	18,776	<b>154,754</b>
Tax effects	<b>(5,728)</b>	(5,514)	<b>(46,805)</b>
	<b>13,212</b>	13,262	<b>107,949</b>
Deferred gains (losses) on hedges:			
Unrealized gains arising during the period	<b>2,103</b>	5,056	<b>17,182</b>
Less reclassification adjustment included in net income	<b>(3,242)</b>	(996)	<b>(26,487)</b>
Adjustments of acquisition cost for assets	<b>553</b>	546	<b>4,515</b>
	<b>(586)</b>	4,606	<b>(4,790)</b>
Tax effects	<b>558</b>	(1,372)	<b>4,559</b>
	<b>(28)</b>	3,234	<b>(231)</b>
Revaluation reserve for land:			
Unrealized losses arising during the period	—	—	—
Less reclassification adjustment included in net income	—	—	—
	—	—	—
Tax effects	<b>5</b>	(793)	<b>48</b>
	<b>5</b>	(793)	<b>48</b>
Foreign currency translation adjustments:			
Translation adjustments arising during the period	<b>19,162</b>	(4,464)	<b>156,570</b>
Less reclassification adjustment included in net income	<b>173</b>	—	<b>1,413</b>
	<b>19,335</b>	(4,464)	<b>157,983</b>
Remeasurements of defined benefit plans:			
Unrealized gains arising during the period	<b>6,240</b>	18,566	<b>50,981</b>
Less reclassification adjustment included in net income	<b>3,535</b>	4,861	<b>28,885</b>
	<b>9,775</b>	23,427	<b>79,866</b>
Tax effects	<b>(2,604)</b>	(5,988)	<b>(21,275)</b>
	<b>7,171</b>	17,439	<b>58,591</b>
Share of other comprehensive gains related to equity method companies:			
Unrealized gains arising during the period	<b>2,424</b>	4,137	<b>19,805</b>
Less reclassification adjustment included in net income	<b>70</b>	(1,500)	<b>570</b>
	<b>2,494</b>	2,637	<b>20,375</b>
Total other comprehensive income	<b>¥42,189</b>	¥31,315	<b>\$344,715</b>

## 24. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the years ended March 31, 2022 and 2021 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2020	364,364,210
(No increase)	—
(No decrease)	—
Balance at March 31, 2021	364,364,210
Increase due to issuance of common stock in a share exchange	31,981,753
(No decrease)	—
Balance at March 31, 2022	396,345,963

Changes in the number of shares of treasury stock outstanding during the years ended March 31, 2022 and 2021 were as follows:

	Number of shares
Treasury stock outstanding	
Balance at March 31, 2020	1,666,949
Increase due to purchase of odd-lot stock	5,630
Decrease due to sale of odd-lot stock	(503)
Decrease in equity ratio in affiliates accounted for by the equity method	(1,866)
Balance at March 31, 2021	1,670,210
Increase due to purchase of odd-lot stock	8,930
Increase due to gain by affiliates accounted for by the equity method	155,743
Decrease due to sale of odd-lot stock	(642)
Decrease due to change in scope of equity method	(24,405)
Decrease due to BBT	(11,600)
Balance at March 31, 2022	1,798,236

Amount of dividend payments during the year ended March 31, 2022 was as follows:

Decision	Kind of stock	Millions of yen / Thousands of U.S. dollars (Note 1)		Yen/ U.S. dollars (Note 1)		Record date	Operative date
		Total payments	Cash dividends per share	Total payments	Cash dividends per share		
At the Board of Directors' meeting held on May 17, 2021	Common stock	¥ 3,641		¥10.0		31-Mar-21	24-Jun-21
		<u>\$29,750</u>		<u>\$0.08</u>			
At the Board of Directors' meeting held on November 5, 2021	Common stock	¥ 3,641		¥10.0		30-Sep-21	1-Dec-21
		<u>\$29,750</u>		<u>\$0.08</u>			

Dividends for which the record date belongs to the year ended March 31, 2022, and the operative date is the year ending March 31, 2023 were as follows:

Decision	Kind of stock	Source of dividends	Millions of yen / Thousands of U.S. dollars (Note 1)		Yen/ U.S. dollars (Note 1)		Record date	Operative date
			Total payments	Cash dividends per share	Total payments	Cash dividends per share		
At the Board of Directors' meeting held on May 18, 2022	Common stock	Retained earnings	¥11,883		¥30.0		31-Mar-22	23-Jun-22
			<u>\$97,088</u>		<u>\$0.25</u>			

## 25. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the consolidated statements of cash flows and the consolidated balance sheets at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Cash and deposits in the consolidated balance sheets	<b>¥243,502</b>	¥262,346	<b>\$1,989,559</b>
Time deposits due over three months	(190)	(235)	(1,557)
Certificates of deposit included in the securities account	<b>17,200</b>	55,200	<b>140,534</b>
Cash and cash equivalents in the consolidated statements of cash flows	<b>¥260,512</b>	¥317,311	<b>\$2,128,536</b>

Breakdown of assets and liabilities at the time of sale as Kobelco & Materials Copper Tube, Ltd., etc. ceased to be consolidated subsidiaries due to the sale of shares and the selling price of shares and payment for sale of investment in subsidiaries resulting in change in scope of consolidation were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2022	2022
Current assets	<b>¥ 42,118</b>	<b>\$ 344,132</b>
Fixed assets	<b>10,048</b>	<b>82,095</b>
Current liabilities	<b>(18,748)</b>	<b>(153,180)</b>
Long-term liabilities	<b>(18,689)</b>	<b>(152,697)</b>
Accumulated other comprehensive income	<b>(652)</b>	<b>(5,325)</b>
Non-controlling interests	<b>(5,071)</b>	<b>(41,437)</b>
Loss on sale of investment securities	<b>(9,220)</b>	<b>(75,335)</b>
Incidental expenses associated with the sale of shares	<b>126</b>	<b>1,031</b>
Selling price of shares	<b>(88)</b>	<b>(716)</b>
Cash and cash equivalents	<b>(4,236)</b>	<b>(34,616)</b>
Incidental expenses associated with the sale of shares	<b>(126)</b>	<b>(1,031)</b>
Accounts payable	<b>443</b>	<b>3,621</b>
Deduction : Payment for sale of investment in subsidiaries resulting in change in scope of consolidation	<b>¥ (4,007)</b>	<b>\$ (32,742)</b>

## 26. Related Party Transactions

Transactions of the Company with related parties for the year ended March 31, 2022 consisted of the following:

Category	Name	Paid-in capital	Content of business	Percentage of ownership	Millions of yen / thousands of U.S. dollars (Note 1)			
					Description of transactions	Amount	Account	Resulting accounting balance Amount
Affiliate	Shinsho Corporation	¥5,650 million	Trades iron and steel,	13.33% directly and	Sales of our products	¥ 236,473	Accounts receivable	¥ 14,757
			nonferrous metals, machinery	1.04% indirectly (21.56%)	Purchases of raw materials and materials for equipment	¥ 523,545	Accounts payable	¥ 37,263
Affiliate	Kansai Coke and Chemicals Co., Ltd.	¥6,000 million	Produces and sells industrial chemical products such as coke	24.00% directly	Supplies of coal	¥ 86,545	Accounts receivable	¥14,065
					Purchases of coke	\$ 707,126	Accounts payable	\$114,916
					\$ 91,172		Accounts payable	¥ 21,844
					\$ 744,933			\$178,475

Transactions of the Company with related parties for the year ended March 31, 2021 consisted of the following:

Category	Name	Paid-in capital	Content of business	Percentage of ownership	Millions of yen			
					Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Affiliate	Shinsho Corporation	¥5,650 million	Trades iron and steel, nonferrous metals, machinery	13.33% directly and 1.04% indirectly (21.56%)	Sales of our products	¥ 176,272	Accounts receivable	¥ 11,505
Purchases of raw materials and materials for equipment					¥ 252,818	Accounts payable	¥ 21,971	
Supplies of coal					¥ 44,211	Accounts receivable	¥ 6,231	
Affiliate	Kansai Coke and Chemicals Co., Ltd.	¥6,000 million	Produces and sells industrial chemical products such as coke	24.00% directly	Purchases of coke	¥ 60,603	Accounts payable	¥ 12,395

Notes:

1. The terms and conditions applicable to the above transactions were determined by the negotiation considering the market trend.
2. The above amounts of transactions do not include transactions which were eliminated in the consolidation process with consolidated subsidiaries via Shinsho Corporation.
3. Consumption taxes were not included in the amount of the transactions but were included in the amount of the resulting account balances.
4. The number in parentheses is the percentage of shareholders who agree with the Company when exercising voting rights.

## 27. Employees' Severance and Retirement Benefits

### Summary of Adopted Retirement Benefits

The Company and its domestic consolidated subsidiaries operate two defined benefit retirement plans which consist of unfunded lump-sum payment plans and funded non-contributory pension plans.

Some unfunded lump-sum payment plans became funded as a result of contributions of securities to retirement benefit trusts. The Company and certain domestic consolidated subsidiaries operate contribution pension plans.

Net defined benefit asset or liability in the consolidated balance sheet for the years ended March 31, 2022 and 2021 consisted of the following:

### Defined Benefit Retirement Plans

#### (1) Changes in projected benefit obligation

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Balance at beginning of year	¥157,109	¥165,393	\$1,283,676
Service costs	11,111	11,590	90,782
Interest cost on projected benefit obligation	367	364	3,002
Actuarial differences arising during the period	281	271	2,299
Unrecognized prior service cost arising during the period	(3,133)	(11,768)	(25,601)
Amount of payment of retirement benefits	(6,662)	(7,688)	(54,432)
Increase (decrease) due to change in scope of consolidation	(3,367)	(2,269)	(27,513)
Increase due to transfer	—	711	—
Adjustment from the simplified method to the principle method	—	485	—
Other	(71)	20	(587)
Balance at end of year	<u>¥155,635</u>	<u>¥157,109</u>	<u>\$1,271,626</u>

#### (2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Balance at beginning of year	¥ 92,430	¥ 89,302	\$ 755,207
Expected return on plan assets	218	213	1,784
Actuarial differences arising during the period	5,202	7,283	42,500
Amount of contribution by the employer	1,978	2,542	16,164
Amount of payment of retirement benefits	(5,549)	(6,329)	(45,336)
Increase (decrease) due to change in scope of consolidation	(589)	(610)	(4,817)
Increase (decrease) due to Share exchange	1,486	—	12,143
Other	16	29	132
Balance at end of year	<u>¥ 95,192</u>	<u>¥ 92,430</u>	<u>\$ 777,777</u>

#### (3) Reconciliation from projected benefit obligations and plan assets to net defined benefit liability and asset

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Funded projected benefit obligation	¥119,583	¥117,348	\$ 977,067
Plan assets	<u>(95,192)</u>	<u>(92,430)</u>	<u>(777,777)</u>
	24,391	24,918	199,290
Unfunded projected benefit obligation	36,052	39,761	294,559
Net of defined benefit liability and asset	60,443	64,679	493,849
Net defined benefit liability	79,979	84,136	653,473
Net defined benefit asset	<u>(19,536)</u>	<u>(19,457)</u>	<u>(159,624)</u>
Net of defined benefit liability and asset	<u>¥ 60,443</u>	<u>¥ 64,679</u>	<u>\$ 493,849</u>

(4) Breakdown of severance and retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Service costs	¥11,111	¥11,590	\$ 90,782
Interest cost on projected benefit obligation	367	364	3,002
Expected return on plan assets	(218)	(213)	(1,784)
Amortization of actuarial differences	3,510	3,945	28,678
Amortization of prior service cost	(1,789)	550	(14,616)
Adjustment from the simplified method to the principle method	—	485	—
Other	13	2	103
Severance and retirement benefit expenses on defined benefit retirement plans	<u>¥12,994</u>	<u>¥16,723</u>	<u>\$106,165</u>

(5) Breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Prior service cost	¥ 1,344	¥12,318	\$ 10,985
Actuarial differences	8,431	11,109	68,880
Total	<u>¥ 9,775</u>	<u>¥23,427</u>	<u>\$ 79,865</u>

(6) Accumulated breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Unrecognized prior service cost	¥(7,957)	¥(6,612)	\$(65,011)
Unrecognized actuarial differences	2,227	10,657	18,194
Total	<u>¥(5,730)</u>	<u>¥ 4,045</u>	<u>\$(46,817)</u>

(7) Plan assets

(a) Breakdown of plan assets

	2022	2021
Stock	25%	31%
General account of insurance company	39	40
Bonds	21	23
Other	15	6
Total	<u>100%</u>	<u>100%</u>

(b) The method used to determine long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2022 and 2021 were as follows:

	2022	2021
Discount rates	mainly 0.0%	mainly 0.0%
Long-term expected rate of return	mainly 0.1%	mainly 0.1%

## **28. Segment Information**

### **(1) Overview of Reportable Segments**

The reportable segments of the Group are defined as components for which separate financial information is available and reviewed regularly by the Board of Directors to decide how to allocate management resources and to evaluate operating performance.

The Company has business units based on products and services (some of which are made by subsidiaries), and every business unit and subsidiary plans domestic and foreign global strategies to operate their businesses.

The Group consists of segments of business units and subsidiaries based on products and services. The reportable segments of the Group is seven: “Steel & Aluminum,” “Advanced Materials,” “Welding,” “Machinery,” “Engineering,” “Construction Machinery,” and “Electric Power”

#### **The main products and services of the reportable segments are as follows:**

Steel & Aluminum: wire rod & bar products, steel sheets, heavy plates and aluminum sheets

Advanced Material: steel castings and forgings, aluminum castings and forgings, titanium, suspensions, aluminum extrusions, copper rolled products and steel powder

Welding: welding materials, welding robots, welding power sources, welding robot systems, welding-related testing, analysis, and consulting

Machinery: equipment for energy and chemical fields, equipment for nuclear power plants, tire and rubber machinery, plastic processing machinery, ultra-high-pressure presses, physical vapor deposition systems, metalworking machinery, compressors, refrigeration compressors, heat pumps, plants and internal combustion engines

Engineering: various plants and equipment, civil engineering, advanced urban transit systems, chemical and food processing equipment

Construction Machinery: hydraulic excavators, mini excavators, wheel loaders, crawler cranes, rough terrain cranes and work vessels

Electric Power: power supply

Other: special alloys and other new materials, material analysis and testing, high-pressured gas cylinder manufacturing, superconducting products and general trading company business

### **(2) Methods used to Calculate Sales, Income (Loss), Assets and Other Items of Reportable Segments**

The accounting policies of the reportable segments are the same as those described in Note 2, “Summary of Significant Accounting Policies.” Profit (loss) of reportable segments is based on ordinary income (loss). Intersegment sales prices are based on prices applicable to transactions with third parties.

### (3) Information about Sales, Income (Loss), Assets and Other Items of Reportable Segments

		Millions of yen		Thousands of U.S. dollars (Note 1)	
		2022	2021	2022	
Sales to outside customers:	Steel & Aluminum	¥ 881,053	¥ 667,145	\$ 7,198,731	
	Advanced Materials	324,349	229,844	2,650,127	
	Welding	76,223	69,239	622,783	
	Machinery	161,829	170,403	1,322,240	
	Engineering	134,320	132,534	1,097,474	
	Construction Machinery	371,549	333,127	3,035,779	
	Electric Power	109,866	80,440	897,674	
	Other Businesses	21,933	21,508	179,211	
	Total sales to outside customers		¥2,081,122	¥1,704,240	\$17,004,019
	Intersegment sales:	Steel & Aluminum	¥ 33,856	¥ 29,176	\$ 276,627
Advanced Materials		8,912	8,286	72,818	
Welding		702	779	5,737	
Machinery		5,018	4,915	41,003	
Engineering		1,341	3,605	10,959	
Construction Machinery		83	52	676	
Electric Power		—	—	—	
Other Businesses		6,880	6,306	56,204	
Total intersegment sales		¥ 56,792	¥ 53,119	\$ 464,024	
Total sales:		Steel & Aluminum	¥ 914,909	¥ 696,321	\$ 7,475,358
	Advanced Materials	333,261	238,130	2,722,945	
	Welding	76,925	70,018	628,520	
	Machinery	166,847	175,318	1,363,243	
	Engineering	135,661	136,139	1,108,433	
	Construction Machinery	371,632	333,179	3,036,455	
	Electric Power	109,866	80,440	897,674	
	Other Businesses	28,813	27,814	235,415	
	Total segment sales		2,137,914	1,757,359	17,468,043
	Adjustment		1,461	1,327	11,935
	Elimination		(56,792)	(53,120)	(464,024)
	Consolidated net sales		¥2,082,583	¥1,705,566	\$17,015,954
	Segment income (loss):	Steel & Aluminum	¥ 37,537	¥ (22,657)	\$ 306,699
		Advanced Materials	5,150	(12,186)	42,076
Welding		2,781	1,771	22,723	
Machinery		12,564	11,465	102,658	
Engineering		7,755	4,444	63,365	
Construction Machinery		12,086	12,773	98,747	
Electric Power		13,259	20,662	108,334	
Other Businesses		7,047	4,231	57,577	
Total segment income (loss)		98,179	20,503	802,179	
Adjustment		(4,945)	(4,315)	(40,402)	
Consolidated ordinary income		¥ 93,234	¥ 16,188	\$ 761,777	
Assets:	Steel & Aluminum	¥1,089,054	¥1,000,311	\$ 8,898,231	
	Advanced Materials	244,430	256,075	1,997,137	
	Welding	79,402	77,613	648,760	
	Machinery	190,983	181,383	1,560,443	
	Engineering	132,567	123,811	1,083,154	
	Construction Machinery	361,978	334,682	2,957,576	
	Electric Power	397,894	321,323	3,251,030	
	Other Businesses	59,803	56,136	488,637	
	Total segment assets		2,556,111	2,351,334	20,884,968
	Adjustment		172,634	231,540	1,410,525
	Total		¥2,728,745	¥2,582,874	\$22,295,493

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2022	2021	2022
Depreciation:	Steel & Aluminum	¥ 57,437	¥ 57,279	\$ 469,295
	Advanced Materials	11,392	10,277	93,083
	Welding	2,510	2,432	20,506
	Machinery	5,242	5,288	42,831
	Engineering	1,642	1,692	13,417
	Construction Machinery	13,835	12,881	113,044
	Electric Power	10,367	8,438	84,708
	Other Businesses	584	576	4,760
	Total segment depreciation	103,009	98,863	841,644
	Adjustment	2,138	1,994	17,472
Total	¥ 105,147	¥ 100,857	\$ 859,116	
Amortization of goodwill:	Steel & Aluminum	¥ —	¥ —	\$ —
	Advanced Materials	—	—	—
	Welding	73	73	599
	Machinery	451	289	3,686
	Engineering	—	3	—
	Construction Machinery	—	—	—
	Electric Power	—	—	—
	Other Businesses	—	—	—
	Total segment amortization of goodwill	524	365	4,285
	Adjustment	—	(3)	—
Total	¥ 524	¥ 362	\$ 4,285	
Interest income:	Steel & Aluminum	¥ 317	¥ 249	\$ 2,590
	Advanced Materials	50	44	408
	Welding	243	316	1,989
	Machinery	317	140	2,591
	Engineering	344	309	2,809
	Construction Machinery	1,679	1,805	13,717
	Electric Power	6	5	46
	Other Businesses	2	2	17
	Total segment interest income	2,958	2,870	24,167
	Adjustment	(688)	(673)	(5,616)
Total	¥ 2,270	¥ 2,197	\$ 18,551	
Interest expense:	Steel & Aluminum	¥ 4,998	¥ 4,882	\$ 40,835
	Advanced Materials	1,760	1,701	14,378
	Welding	40	28	327
	Machinery	409	408	3,343
	Engineering	47	77	385
	Construction Machinery	1,783	1,940	14,566
	Electric Power	4,749	3,314	38,803
	Other Businesses	58	56	473
	Total segment interest expense	13,844	12,406	113,110
	Adjustment	(607)	(880)	(4,957)
Total	¥ 13,237	¥ 11,526	\$ 108,153	

		Millions of yen		Thousands of U.S. dollars (Note 1)	
		2022	2021	2022	
Equity in income (loss) of equity method companies:	Steel & Aluminum	¥ 9,698	¥ (1,367)	\$ 79,237	
	Advanced Materials	91	(1,475)	743	
	Welding	59	38	478	
	Machinery	45	(78)	371	
	Engineering	326	429	2,662	
	Construction Machinery	830	1,422	6,779	
	Electric Power	—	—	—	
	Other Businesses	3,272	2,162	26,739	
	Total segment equity in income (loss) of equity method companies		14,321	1,131	117,009
	Adjustment		(195)	(465)	(1,588)
Total		¥ 14,126	¥ 666	\$ 115,421	
Investments in equity method companies:	Steel & Aluminum	¥ 97,773	¥ 80,186	\$ 798,865	
	Advanced Materials	563	6,765	4,597	
	Welding	1,358	1,312	11,097	
	Machinery	806	732	6,585	
	Engineering	2,259	2,179	18,459	
	Construction Machinery	7,811	7,196	63,822	
	Electric Power	—	—	—	
	Other Businesses	25,621	24,362	209,337	
	Total segment investments in equity method companies		136,191	122,732	1,112,762
	Adjustment		(2,820)	(2,948)	(23,040)
Total		¥ 133,371	¥ 119,784	\$ 1,089,722	
Capital expenditures:	Steel & Aluminum	¥ 27,185	¥ 69,267	\$ 222,115	
	Advanced Materials	8,282	14,258	67,668	
	Welding	1,375	2,157	11,236	
	Machinery	4,032	4,177	32,946	
	Engineering	1,456	1,672	11,900	
	Construction Machinery	9,800	10,448	80,075	
	Electric Power	52,955	81,173	432,678	
	Other Businesses	550	847	4,482	
	Total segment capital expenditures		105,635	183,999	863,100
	Adjustment		2,505	1,093	20,466
Total		¥ 108,140	¥ 185,092	\$ 883,566	

Notes:

Details about adjustments at March 31, 2022 and 2021 were as follows:

### Segment sales

Sales of companies that do not belong to any segment are included in “Adjustment.”

### Segment income (loss)

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2022	2021	2022
Companywide profit (loss)		¥(1,591)	¥(2,872)	\$(12,997)
Other adjustments		(3,354)	(1,443)	(27,405)
Total		¥(4,945)	¥(4,315)	\$(40,402)

Companywide profit (loss) is mainly financial profit or loss which is not allocated to reportable segments and other businesses.

Other adjustments are mainly intersegment transactions.

### Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Companywide assets	¥ 348,596	¥ 394,691	\$ 2,848,237
Other adjustments	(175,962)	(163,151)	(1,437,712)
Total	¥ 172,634	¥ 231,540	\$ 1,410,525

Companywide assets are mainly investments in securities which are not allocated to reportable segments or other businesses. Other adjustments are mainly intersegment transactions.

### Depreciation

Adjustment is related mainly to the assets of administrative departments which are not allocated to reportable segments or other businesses.

### Interest income

Adjustment is related mainly to financial assets which are not allocated to reportable segments or other businesses.

### Interest expense

Adjustment is related mainly to financial liabilities which are not allocated to reportable segments or other businesses.

### Equity in income (loss) of equity method companies

Adjustment is related mainly to the income (loss) of affiliates which are not allocated to reportable segments or other businesses.

### Investments in equity method companies

Adjustment is related mainly to intersegment transactions.

### Capital expenditures

Adjustment is related mainly to the assets of administrative departments which are not allocated to reportable segments or other businesses.

### Related Information

#### (1) Information by Geographic Area

##### (a) Net sales

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Japan	¥1,360,023	¥1,131,881	\$11,112,211
China	201,906	167,854	1,649,692
Others	520,654	405,831	4,254,051
Total	¥2,082,583	¥1,705,566	\$17,015,954

##### (b) Property, plant and equipment by geographic location

Substantially all of the Group's property, plant and equipment are located in Japan.

## (2) Information by Major Customer

Net sales

	Related segment	Millions of yen		Thousands of U.S. dollars (Note 1)
		2022	2021	2022
Shinsho Corporation	Iron & Aluminum, etc.	¥277,119	¥215,576	\$2,264,233

## (3) Impairment Loss by Reportable Segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2022	2021	2022
Impairment loss	Steel & Aluminum	¥—	¥11,317	\$—
	Advanced Materials	—	1,815	—
	Welding	—	110	—
	Machinery	—	160	—
	Engineering	—	—	—
	Construction Machinery	—	1	—
	Electric Power	—	—	—
	Other Businesses	—	106	—
	Total segment impairment loss	—	13,509	—
	Adjustment	—	—	—
	Total	¥—	¥13,509	\$—

## (4) Amortization and Balance of Goodwill by Reportable Segments

		Millions of yen		U.S. dollars (Note 1)
		2022	2021	2022
Amortization of goodwill	Steel & Aluminum	¥ —	¥ —	\$ —
	Advanced Materials	—	—	—
	Welding	73	73	599
	Machinery	451	289	3,686
	Engineering	—	3	—
	Construction Machinery	—	—	—
	Electric Power	—	—	—
	Other Businesses	—	—	—
	Total segment Amortization of goodwill	524	365	4,285
	Adjustment	—	(3)	—
	Total	524	362	4,285
Balance at the end of the period	Steel & Aluminum	—	—	—
	Advanced Materials	—	—	—
	Welding	416	489	3,396
	Machinery	2,957	2,987	24,167
	Engineering	—	7	—
	Construction Machinery	—	—	—
	Electric Power	—	—	—
	Other Businesses	—	—	—
	Total segment balance of goodwill	3,373	3,483	27,563
	Adjustment	—	(7)	—
	Total	¥3,373	¥3,476	\$27,563

## (5) Gain from Negative Goodwill by Reportable Segments

No gain on negative goodwill was recognized for the year ended March 31, 2022 and 2021.

## 29. Net Income Per Share

The basis of calculating net income per share for the years ended March 31, 2022 and 2021 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income attributable to owners of the parent	Weighted average number of shares	Net income per share	Net income per share
For the year ended March 31, 2022				
Net income attributable to common stockholders	<u>¥60,084</u>	<u>374,961</u>	<u>¥160.23</u>	<u>\$1.31</u>
For the year ended March 31, 2021				
Net loss attributable to common stockholders	<u>¥23,234</u>	<u>362,695</u>	<u>¥ 64.05</u>	<u>\$0.52</u>

Notes:

1. Diluted net income per share is not presented for the fiscal years ended March 31, 2022 and 2021 as potential common stock did not exist.
2. The shares held by the Board Benefit Trust (BBT) are recorded under net assets as treasury stock. In calculating net income (loss) per share, the number of shares of treasury stock excluded from the weighted-average number of shares issued during the fiscal year includes the number of shares held by the BBT (750 thousand of shares for the year ended March 31, 2022 and 758 thousand of shares for the year ended March 31, 2021).

## 30. Additional Information

### Introduction of a Board Benefit Trust (BBT) for Directors

The Company introduced a stock compensation plan, a “Board Benefit Trust (BBT),” to more clearly link the compensation of Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) and Executive Officers to the Company’s performance and the value of its stock and in order to encourage the Directors to contribute to improve medium- to long-term business performance and enhance corporate value.

The accounting method regarding the BBT agreement complies with the Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc., through Trusts (Practical Issues Task Force (PITF) No. 30, March 26, 2015).

#### (a) Overview of transactions

This plan is a stock compensation plan under which money contributed by the Company is used as funds to acquire the Company’s shares through a trust.

With regard to Directors, etc., in accordance with the director stock benefit rules established by the Company, the Company’s shares (hereinafter the “Company’s Shares and Money”) are provided through the trust.

In addition, Directors and Other Executives shall receive the Company’s Shares and Money in principle every three years on a fixed date during the trust period.

#### (b) Kobe Steel stock remaining in the Trust

The Company’s stock remaining in the trust is posted as treasury stock as part of net assets based on the book value (excludes amounts for incidental expenses).

The corresponding treasury stock’s book value was ¥671 million (\$5,481 thousand) for 746 thousand shares for the year ended March 31, 2022 and ¥681 million for 758 thousand shares for the year ended March 31, 2021.

### Approach to the impact of the COVID-19 outbreak when forming accounting estimates

It is difficult to forecast how the COVID-19 infection will spread in the future, when it will recede, etc. However, the Group forms accounting estimates of the recoverability of deferred tax assets etc., based on information available at the time of preparing the estimates. Although demand is currently declining in the automotive and other sectors due to production cutbacks caused by parts supply shortages, the impact is considered temporary and has not had a material impact on forming accounting estimates.

The Group has assumed that the current and future impacts of the decline in production and order volume on the Group have largely been accounted for, with the exception of certain demand fields such as the aircraft sector, in which the market is expected to perform poorly for some years.

## INDEX TO THE UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

	<b>Page</b>
Independent Auditor's Report on Review of Quarterly Consolidated Financial Statements .....	Q-2
Quarterly Consolidated Balance Sheets as of September 30, 2023 and March 31, 2023 .....	Q-4
Quarterly Consolidated Statements of Income for the Six Months ended September 30, 2023 and 2022 ...	Q-6
Quarterly Consolidated Statements of Comprehensive Income for the Six Months ended September 30, 2023 and 2022 .....	Q-7
Quarterly Consolidated Statements of Cash Flows for the Six Months ended September 30, 2023 and 2022 .....	Q-8
Notes to Quarterly Consolidated Financial Statements .....	Q-9

## **Independent Auditor's Report on Review of Quarterly Consolidated Financial Statements**

To the Board of Directors of Kobe Steel, Ltd.:

### **Conclusion**

We have reviewed the accompanying quarterly consolidated financial statements of Kobe Steel, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the quarterly consolidated balance sheet as at September 30, 2023, the quarterly consolidated statement of income, the quarterly consolidated statement of comprehensive income and the quarterly consolidated statement of cash flows for the six-month period then ended, and the related notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying quarterly consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2023, and its consolidated financial performance and its consolidated cash flows for the six-month period then ended in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan.

### **Basis for Conclusion**

We conducted our review in accordance with quarterly review standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Review of the Quarterly Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our review of the quarterly consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### **Responsibilities of Management, the Audit and Supervisory Committee for the Quarterly Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the quarterly consolidated financial statements in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of the quarterly consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the quarterly consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

### **Auditor's Responsibilities for the Review of the Quarterly Consolidated Financial Statements**

Our responsibility is to express a conclusion on these quarterly consolidated financial statements based on our review in our report on the review of quarterly consolidated financial statements.

As part of our review in accordance with quarterly review standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the review. We also:

- Make inquiries, primarily of management and persons responsible for financial and accounting matters, and apply analytical and other review procedures. A quarterly review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.
- Conclude, based on the evidence obtained, that nothing has come to our attention that causes us to believe that the quarterly consolidated financial statements do not present fairly in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan, if a material uncertainty relating to events or conditions comes to our attention that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report on the review of quarterly consolidated financial statements to the related disclosures in the quarterly consolidated financial statements or, if such disclosures are inadequate,

to express a qualified conclusion or an adverse conclusion. Our conclusions are based on the evidence obtained up to the date of our report on the review of quarterly consolidated financial statements; however, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate that nothing has come to our attention that causes us to believe that the presentation and disclosures in the quarterly consolidated financial statements are not in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan, the overall presentation, structure and content of the quarterly consolidated financial statements, including the disclosures, and that nothing has come to our attention that causes us to believe that the quarterly consolidated financial statements do not represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express a conclusion on the quarterly consolidated financial statements. We are responsible for the direction, supervision and performance of the group review. We remain solely responsible for our review conclusion.

We communicate with the audit and supervisory committee regarding, the planned scope and timing of the review, significant review findings that we identify during our review.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

#### **Interest required to be disclosed by the Certified Public Accountants Act of Japan**

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Hisaki Nakajima  
Designated Engagement Partner  
Certified Public Accountant

Sakurako Ohtsuki  
Designated Engagement Partner  
Certified Public Accountant

Ken Tsukamoto  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Osaka Office, Japan  
November 24, 2023

## I Quarterly Consolidated Financial Statements

### Quarterly Consolidated Balance Sheets Kobe Steel, Ltd. and Consolidated Subsidiaries At September 30, 2023 and at March 31, 2023

	Millions of yen	
	At September 30, 2023	At March 31, 2023
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and deposits (Note 8)	¥ 291,984	¥ 203,521
Notes, accounts receivable and contract assets:		
Notes receivable – trade	28,508	23,659
Accounts receivable – trade	279,060	320,936
Unconsolidated subsidiaries and associates	55,217	65,378
Contract assets	37,348	25,700
Other	31,077	43,424
Allowance for doubtful accounts	(4,880)	(4,802)
	<b>426,330</b>	474,295
Merchandise and finished goods	257,503	242,752
Work in process	170,414	167,486
Raw materials and supplies	281,832	290,420
Other	34,675	37,514
Total current assets	<b>1,462,738</b>	1,415,988
<b>Non-current assets:</b>		
<b>Property, plant and equipment :</b>		
Land	136,297	135,518
Buildings and structures	846,153	836,150
Machinery, equipment and vehicles	2,740,062	2,718,666
Other	47,450	36,462
	<b>3,769,962</b>	3,726,796
Accumulated depreciation	(2,710,781)	(2,660,760)
Total property, plant and equipment	<b>1,059,181</b>	1,066,036
<b>Intangible assets</b>	<b>38,750</b>	37,579
<b>Investments and other assets:</b>		
Investment securities	133,567	111,205
Investments in and advances to unconsolidated subsidiaries and associates	155,346	147,499
Other	107,566	116,732
Allowance for doubtful accounts	(22,041)	(20,287)
Total investments and other assets	<b>374,438</b>	355,149
Total non-current assets	<b>1,472,369</b>	1,458,764
Total assets	<b>¥ 2,935,107</b>	¥ 2,874,752

**Quarterly Consolidated Balance Sheets**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**At September 30, 2023 and at March 31, 2023**

	Millions of yen	
	At September 30, 2023	At March 31, 2023
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Short-term borrowings (Note 2)	¥ 36,718	¥ 32,738
Current portion of long-term borrowings (Note 2)	111,673	137,378
Notes and accounts payable:		
Trade	503,921	530,235
Unconsolidated subsidiaries and associates	70,270	77,968
Other	49,513	42,108
	<u>623,704</u>	<u>650,311</u>
Income taxes payable	27,509	13,141
Provisions	51,974	51,038
Other	172,392	165,197
	<u>1,023,970</u>	<u>1,049,803</u>
<b>Non-current liabilities:</b>		
Long-term borrowings (Note 2)	669,225	691,698
Lease liabilities	42,058	45,241
Retirement benefit liability	74,850	71,376
Provisions	1,091	2,688
Other	30,050	36,293
	<u>817,274</u>	<u>847,296</u>
<b>Contingent liabilities (Notes 3 and 4)</b>		
Total liabilities	<u>¥ 1,841,244</u>	<u>¥ 1,897,099</u>
<b>Net assets:</b>		
Shareholders' equity:		
Share capital	250,930	250,930
Authorized – 600,000,000 shares		
Issued – 396,345,963 shares		
Capital surplus	116,307	116,430
Retained earnings	537,571	472,758
Treasury shares	(1,839)	(1,879)
1,384,943 shares at September 30, 2023 and 1,432,196 shares at March 31, 2023		
	<u>902,969</u>	<u>838,239</u>
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	51,850	34,877
Deferred gains or losses on hedges	(5,844)	(7,083)
Revaluation reserve for land	4,707	(3,400)
Foreign currency translation adjustment	50,767	32,563
Remeasurements of defined benefit plans	18,701	18,761
	<u>120,181</u>	<u>75,718</u>
Non-controlling interests	70,713	63,696
	<u>1,093,863</u>	<u>977,653</u>
Total net assets	<u>1,093,863</u>	<u>977,653</u>
Total liabilities and net assets	<u>¥ 2,935,107</u>	<u>¥ 2,874,752</u>

See accompanying notes.

**Quarterly Consolidated Statements of Income**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Six months ended September 30, 2023 and 2022**

	Millions of yen	
	Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
<b>Net sales (Note 10)</b>	¥ 1,253,834	¥ 1,169,657
<b>Cost of sales</b>	(1,039,447)	(1,035,270)
Gross profit	214,387	134,387
<b>Selling, general and administrative expenses (Note 5)</b>	(122,245)	(114,616)
Operating profit	92,142	19,771
<b>Non-operating income (expenses):</b>		
Interest and dividend income	3,801	3,384
Interest expenses	(7,235)	(6,367)
Seconded employees' salaries, net of reimbursement	(3,173)	(3,234)
Share of profit of entities accounted for using equity method	1,325	8,775
Foreign exchange gains	4,600	10,280
Other, net	142	9,217
	(540)	22,055
Ordinary profit	91,602	41,826
<b>Extraordinary income (losses):</b>		
Gain on sale of non-current assets (Note 6)	27,718	—
Loss on liquidation of business (Note 7)	—	(2,635)
	27,718	(2,635)
<b>Profit before income taxes</b>	119,320	39,191
<b>Income taxes:</b>		
Income taxes – current	29,904	8,844
Income taxes – deferred	3,404	940
	33,308	9,784
<b>Profit</b>	86,012	29,407
<b>Profit attributable to non-controlling interests</b>	5,663	1,398
<b>Profit attributable to owners of parent</b>	¥ 80,349	¥ 28,009

See accompanying notes.

**Quarterly Consolidated Statements of Comprehensive Income**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Six months ended September 30, 2023 and 2022**

	Millions of yen	
	Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
<b>Profit</b>	¥ 86,012	¥ 29,407
<b>Other comprehensive income:</b>		
Valuation difference on available-for-sale securities	15,782	(302)
Deferred gains or losses on hedges	1,231	2,490
Revaluation reserve for land	2,538	—
Foreign currency translation adjustment	16,245	26,646
Remeasurements of defined benefit plans, net of tax	(69)	552
Share of other comprehensive income of entities accounted for using equity method	4,696	1,488
<b>Total other comprehensive income</b>	<b>40,423</b>	<b>30,874</b>
<b>Comprehensive income</b>	<b>¥ 126,435</b>	<b>¥ 60,281</b>
Comprehensive income attributable to:		
Owners of parent	¥ 119,204	¥ 56,702
Non-controlling interests	7,231	3,579

See accompanying notes.

**Quarterly Consolidated Statements of Cash Flows**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**  
**Six months ended September 30, 2023 and 2022**

	Millions of yen	
	Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
<b>Cash flows from operating activities:</b>		
Profit before income taxes	¥ 119,320	¥ 39,191
Depreciation	58,588	54,687
Interest and dividend income	(3,801)	(3,384)
Interest expenses	7,235	6,367
Loss (gain) on sale of investment securities	(991)	(1,079)
Share of loss (profit) of entities accounted for using equity method	(1,325)	(8,775)
Foreign exchange losses (gains)	5,786	5,886
Loss (gain) on sale of property, plant and equipment	(27,632)	(1,182)
Loss on retirement of property, plant and equipment	523	445
Decrease (increase) in trade receivables	57,254	(24,300)
Net decrease (increase) in lease receivables and investments in leases	3,066	3,802
Decrease (increase) in inventories	2,536	(94,487)
Increase (decrease) in trade payables	(49,131)	93,199
Increase (decrease) in accrued consumption taxes	13,618	9,816
Decrease (increase) in accounts receivable-other	1,978	(13,413)
Increase (decrease) in deposits received	(7,939)	(2,019)
Other, net	(2,248)	6,147
Subtotal	176,837	70,901
Interest and dividends received	4,981	4,766
Interest paid	(7,005)	(6,432)
Income taxes paid	(14,497)	(9,015)
Net cash provided by (used in) operating activities	160,316	60,220
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment and intangible assets	(46,233)	(39,210)
Proceeds from sale of property, plant and equipment and intangible assets	30,093	4,469
Purchase of investment securities	(64)	(115)
Proceeds from sale of investment securities	1,665	1,256
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	187	—
Decrease (increase) in short-term loans receivable	(0)	(6,855)
Long-term loan advances	(702)	(732)
Proceeds from collection of long-term loans receivable	307	313
Other, net	952	(439)
Net cash provided by (used in) investing activities	(13,795)	(41,313)
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowings	2,425	(3,640)
Proceeds from long-term borrowings	14,700	1,632
Repayments of long-term borrowings	(85,779)	(26,549)
Proceeds from issuance of bonds	20,000	—
Redemption of bonds	(900)	(25,075)
Repayments of finance lease liabilities	(4,352)	(5,605)
Dividends paid	(9,896)	(11,821)
Dividends paid to non-controlling interests	(1,186)	(1,216)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	112	—
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(102)
Other, net	1,037	719
Net cash provided by (used in) financing activities	(63,839)	(71,657)
<b>Effect of exchange rate change on cash and cash equivalents</b>	5,657	9,150
<b>Net increase (decrease) in cash and cash equivalents</b>	88,339	(43,600)
<b>Cash and cash equivalents at beginning of period</b>	203,394	260,512
<b>Increase (decrease) in cash and cash equivalents resulting from change in scope of con</b>	142	183
<b>Cash and cash equivalents at end of period (Note 8)</b>	¥ 291,875	¥ 217,095

See accompanying notes.

**Notes to Consolidated Financial Statements**  
**Kobe Steel, Ltd. and Consolidated Subsidiaries**

**1. Basis of Presenting Quarterly Consolidated Financial Statements**

The accompanying quarterly consolidated financial statements of Kobe Steel, Ltd. (“the Company”) and its consolidated subsidiaries (“the Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which differ in certain significant respects from accounting principles generally accepted in other countries, including accounting principles generally accepted in the United States, or U.S. GAAP, and International Financial Reporting Standards, or IFRS.

The accounts of the Company’s overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of domicile, with necessary adjustments to be in accordance with Japanese GAAP.

The accompanying quarterly consolidated financial statements have been restructured and translated into English with certain expanded disclosure from the quarterly consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language quarterly consolidated financial statements, but not required for fair presentation, is not presented in the accompanying quarterly consolidated financial statements.

**2. Short-Term Borrowings and Long-Term Borrowings**

Short-term borrowings at September 30, 2023 and at March 31, 2023 consisted of the following:

	Millions of yen	
	At September 30, 2023	At March 31, 2023
Loans	¥ 36,718	¥ 32,738

Current portion of long-term borrowings at September 30, 2023 and at March 31, 2023 consisted of the following:

	Millions of yen	
	At September 30, 2023	At March 31, 2023
Bonds payable	¥ —	¥ 900
Loans	111,673	136,478
	¥ 111,673	¥ 137,378

Long-term borrowings at September 30, 2023 and at March 31, 2023 consisted of the following:

	Millions of yen	
	At September 30, 2023	At March 31, 2023
Bonds payable	¥ 65,000	¥ 45,000
Loans	604,225	646,698
	¥ 669,225	¥ 691,698

**3. Contingent Liabilities Regarding Notes and Loans Guaranteed**

Contingent liabilities regarding notes and loans guaranteed at September 30, 2023 and at March 31, 2023 were as follows:

	Millions of yen	
	At September 30, 2023	At March 31, 2023
Trade notes discounted	¥ —	¥ 1,086
Trade notes endorsed	4,498	3,658
Guarantees of loans:		
Related parties	1,759	1,631
Others	1,676	4,944
	¥ 7,933	¥ 11,319

Kobelco Construction Machinery (China) Co., Ltd., which is a consolidated subsidiary of the Company, sells construction machinery to customers through sales agents or leasing companies. Sales agents pledge guarantees to buy up construction machinery pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Kobelco Construction Machinery (China) Co., Ltd. pledges reassurances for these guarantees. The balances of the reassurances were ¥4,610 million at September 30, 2023 and ¥5,921 million at March 31, 2023.

#### 4. Contingent Liabilities Regarding Repurchase Obligations Accompanying Securitization of Receivables

Contingent liabilities regarding repurchase obligations accompanying securitization of receivables at September 30, 2023 and at March 31, 2023 were as follows:

	Millions of yen	
	At September 30, 2023	At March 31, 2023
	¥ 3,542	¥ 5,379

#### 5. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the six months ended September 30, 2023 and 2022 were as follows:

	Millions of yen	
	Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
Freight	¥ 31,836	¥ 31,776
Employees' compensation	22,450	21,188
Provision for bonuses	5,538	5,258
Provision for allowance for doubtful accounts	631	643
Retirement benefit expenses	1,263	1,613

#### 6. Gain on sale of non-current assets

Gain on sale of non-current assets of ¥27,718 million was mainly due to the transfer of land in Koshuha Precision Co., Ltd. and Kobelco Logistics, Ltd., a subsidiary in the Steel & Aluminum Business.

#### 7. Loss on liquidation of business

Loss on liquidation of business of ¥2,635 million consists of compensation, etc., for retirees due to the integration of the production of hydraulic excavators of Hangzhou Kobelco Construction Machinery Co., Ltd., a production subsidiary in China in the Construction Machinery Business, into Kobelco Construction Machinery (China) Co., Ltd.

#### 8. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the quarterly consolidated statements of cash flows and the quarterly consolidated balance sheets at September 30, 2023 and 2022 were as follows:

	Millions of yen	
	Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
Cash and deposits	¥ 291,984	¥ 217,297
Time deposits due over three months	(109)	(202)
Cash and cash equivalents	¥ 291,875	¥ 217,095

## 9. Shareholders' Equity

Amount of dividend payments during the year ended March 31, 2023 was as follows:

Decision	Kind of share	Source of dividends	Millions of yen	Yen	Record date	Operative date
			Total payments	Cash dividends per share		
At the Board of Directors' meeting held on May 18, 2022	Common share	Retained earnings	¥11,883	¥30.00	March 31, 2022	June 23, 2022
At the Board of Directors' meeting held on November 9, 2022	Common share	Retained earnings	¥ 5,941	¥15.00	September 30, 2022	December 1, 2022

Amount of dividend payments during the six months ended September 30, 2023 was as follows:

Decision	Kind of share	Source of dividends	Millions of yen	Yen	Record date	Operative date
			Total payments	Cash dividends per share		
At the Board of Directors' meeting held on May 17, 2023	Common share	Retained earnings	¥9,902	¥25.00	March 31, 2023	June 1, 2023

Dividends for which the record date belongs to the six months ended September 30, 2023, and the operative date is in the nine months ended December 31, 2023 were as follows:

Decision	Kind of share	Source of dividends	Millions of yen	Yen	Record date	Operative date
			Total payments	Cash dividends per share		
At the Board of Directors' meeting held on November 9, 2023	Common share	Retained earnings	¥17,823	¥45.00	September 30, 2023	December 1, 2023

## 10. Revenue Recognition

### (1) Disaggregation of revenue from contracts with customers

The following is a breakdown of the Group's net sales by reportable segments, broken down by region and by the time of the transfer of the goods or services.

① Breakdown by region for the six months ended September 30, 2023 and 2022 was as follows:

		Millions of yen	
		Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
Japan	Steel & Aluminum:	¥ 417,106	¥ 395,950
	Steel	352,890	335,328
	Aluminum sheet	64,216	60,622
	Advanced Materials	73,297	71,519
	Welding	24,297	21,908
	Machinery	37,919	33,483
	Engineering	47,382	46,725
	Construction Machinery	73,383	70,284
	Electric Power	172,767	147,530
	Other Businesses	3,215	3,244
	Subtotal	¥ 849,366	¥ 790,643

		Millions of yen	
		Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
China	Steel & Aluminum:	36,197	40,848
	Steel	15,493	19,874
	Aluminum sheet	20,704	20,974
	Advanced Materials	11,670	11,580
	Welding	4,555	4,282
	Machinery	23,626	20,557
	Engineering	5,780	4,870
	Construction Machinery	3,952	12,293
	Electric Power	—	—
	Other Businesses	69	0
	Subtotal	¥ 85,848	¥ 94,430
Other	Steel & Aluminum:	77,890	80,090
	Steel	68,198	66,478
	Aluminum sheet	9,692	13,612
	Advanced Materials	50,025	44,134
	Welding	17,185	15,420
	Machinery	36,407	33,727
	Engineering	21,195	8,950
	Construction Machinery	115,268	101,191
	Electric Power	—	—
	Other Businesses	312	327
	Subtotal	¥ 318,282	¥ 283,839
Segment total	Steel & Aluminum:	531,193	516,888
	Steel	436,581	421,680
	Aluminum sheet	94,612	95,208
	Advanced Materials	134,992	127,233
	Welding	46,037	41,610
	Machinery	97,952	87,767
	Engineering	74,357	60,545
	Construction Machinery	192,603	183,768
	Electric Power	172,767	147,530
	Other Businesses	3,595	3,571
	Total sales to external customers	1,253,496	1,168,912
	Adjustment	338	745
	Consolidated sales to external customers	¥ 1,253,834	¥ 1,169,657

② Breakdown by the time of the transfer of the goods or services for the six months ended September 30, 2023 and 2022 was as follows:

		Millions of yen	
		Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
Goods or services transferred at a point in time	Steel & Aluminum:	¥ 526,588	¥ 511,913
	Steel	431,976	416,705
	Aluminum sheet	94,612	95,208
	Advanced Materials	134,992	127,233
	Welding	46,037	41,610
	Machinery	89,919	78,970
	Engineering	23,472	15,341
	Construction Machinery	188,462	179,459
	Electric Power	172,767	147,530
	Other Businesses	3,352	3,326
	Subtotal	¥ 1,185,589	¥ 1,105,382

		Millions of yen		
		Six Months Ended September 30, 2023	Six Months Ended September 30, 2022	
Goods or services transferred over a certain period of time	Steel & Aluminum:	4,605	4,975	
	Steel	4,605	4,975	
	Aluminum sheet	—	—	
	Advanced Materials	—	—	
	Welding	—	—	
	Machinery	8,033	8,797	
	Engineering	50,885	45,204	
	Construction Machinery	4,141	4,309	
	Electric Power	—	—	
	Other Businesses	243	245	
	Subtotal	¥ 67,907	¥ 63,530	
Segment total	Steel & Aluminum:	531,193	516,888	
	Steel	436,581	421,680	
	Aluminum sheet	94,612	95,208	
	Advanced Materials	134,992	127,233	
	Welding	46,037	41,610	
	Machinery	97,952	87,767	
	Engineering	74,357	60,545	
	Construction Machinery	192,603	183,768	
	Electric Power	172,767	147,530	
	Other Businesses	3,595	3,571	
		Total sales to external customers	1,253,496	1,168,912
		Adjustment	338	745
		Consolidated sales to external customers	¥ 1,253,834	¥ 1,169,657

Notes:

1. “Other” segment is a business segment not included in the reportable segments other businesses and includes operating companies under the jurisdiction of the head office.
2. Revenue recognized from contracts with customers includes revenue recognized from other sources because most sales to external customers are revenue recognized from contracts with customers.
3. Information on net sales by region is based on the location of customers and broken down by country.
4. Due to a change in the jurisdiction of Kobelco Research Institute, Inc. (special alloys and other new materials (target materials, etc.), analysis of various materials, etc.), which was previously included in the “Other” segment, has been included in the “Machinery” segment since the first quarter of the consolidated accounting period.

Information disaggregating revenue generated from contracts with customers for the previous cumulative second quarter is disclosed based on the classification of the reporting segment after the change in jurisdiction.

## 11. Segment Information

### Information about Sales, Income (Loss), Assets and Other Items of Reportable Segments

		Millions of yen	
		Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
Sales to outside customers:	Steel & Aluminum	¥ 531,193	¥ 516,888
	Advanced Materials	134,992	127,233
	Welding	46,037	41,610
	Machinery	97,952	87,767
	Engineering	74,357	60,545
	Construction Machinery	192,603	183,768
	Electric Power	172,767	147,530
	Other Businesses	3,595	3,571
		Total sales to outside customers	¥ 1,253,496

		Millions of yen	
		Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
Intersegment sales:	Steel & Aluminum	¥ 17,765	¥ 19,675
	Advanced Materials	6,901	5,922
	Welding	436	570
	Machinery	5,284	5,020
	Engineering	810	607
	Construction Machinery	47	30
	Electric Power	—	—
	Other Businesses	996	712
	Total intersegment sales	<u>¥ 32,239</u>	<u>¥ 32,536</u>
	Total sales:	Steel & Aluminum	¥ 548,958
Advanced Materials		141,893	133,155
Welding		46,473	42,180
Machinery		103,236	92,787
Engineering		75,167	61,152
Construction Machinery		192,650	183,798
Electric Power		172,767	147,530
Other Businesses		4,591	4,283
Total segment sales		1,285,735	1,201,448
Adjustment		338	745
Elimination	(32,239)	(32,536)	
Consolidated net sales	<u>¥ 1,253,834</u>	<u>¥ 1,169,657</u>	
Segment profit (loss):	Steel & Aluminum	¥ 20,763	¥ 22,313
	Advanced Materials	(46)	1,467
	Welding	1,566	852
	Machinery	10,358	5,055
	Engineering	6,222	983
	Construction Machinery	5,080	10,039
	Electric Power	47,449	(1,387)
	Other Businesses	1,780	2,402
	Total segment income (loss)	93,172	41,724
	Adjustment	(1,570)	102
Consolidated ordinary income	<u>¥ 91,602</u>	<u>¥ 41,826</u>	

Notes:

Details about adjustments for the six months ended September 30, 2023 and 2022 were as follows:

#### Segment sales

Sales of companies that do not belong to any segment are included in “Adjustment.”

#### Segment profit (loss)

		Millions of yen	
		Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
Companywide profit (loss)		¥ 5,817	¥ 1,533
Other adjustments		(7,387)	(1,431)
Total		<u>¥ (1,570)</u>	<u>¥ 102</u>

Companywide profit (loss) is mainly financial profit or loss which is not allocated to reportable segments and other businesses. Other adjustments are mainly intersegment transactions.

## 12. Profit Per Share

The basis of calculating Profit per share for the six months ended September 30, 2023 and 2022 was as follows:

	<u>Millions of yen</u>	<u>Thousands of shares</u>	<u>Yen</u>
	Profit attributable to owners of parent	Weighted average number of shares	Profit per share
Six Months Ended September 30, 2023			
Profit attributable to common shareholders	<b>¥ 80,349</b>	<b>394,933</b>	<b>¥ 203.44</b>
Six Months Ended September 30, 2022			
Profit attributable to common shareholders	<u>¥ 28,009</u>	<u>394,699</u>	<u>¥ 70.96</u>

Notes:

1. Diluted profit per share is not presented for the six months ended September 30, 2023 and 2022 as potential common shares did not exist.
2. The shares held by the Board Benefit Trust (BBT) are recorded under net assets as treasury shares. In calculating profit (loss) per share, the number of treasury shares excluded from the weighted-average number of shares issued during the fiscal year includes the number of shares held by the BBT (367 thousand of shares for the year ended September 30, 2023 and 594 thousand of shares for the year ended September 30, 2022).

## II. Other

At the Board of Director meeting held on November 9, 2023, the following resolution was adopted regarding the interim dividend for the fiscal year.

1. Total amount of dividends: 17,823 million yen
2. Dividend per share: 45.0 yen
3. Dividend payments begin: December 1, 2023

Notes:

Payments will be made to shareholders listed or recorded in the shareholder registry as of September 30, 2023.

**REGISTERED OFFICE OF THE COMPANY**

**Kobe Steel, Ltd.**  
2-4, Wakinohama-Kaigandori 2-chome  
Chuo-ku, Kobe  
Hyogo 651-8585  
Japan

**TRUSTEE AND CUSTODIAN**

**The Law Debenture Trust Corporation p.l.c.**  
Eighth Floor,  
100 Bishopsgate  
London EC2N 4AG  
United Kingdom

**PRINCIPAL AGENT AND REGISTRAR**

**Mizuho Trust & Banking (Luxembourg) S.A.**  
1B, Rue Gabriel Lippmann  
L-5365 Munsbach  
Grand-Duché de Luxembourg

**CUSTODIAN'S AGENT IN JAPAN**

**Mizuho Bank, Ltd.**  
5-5, Otemachi 1-chome  
Chiyoda-ku, Tokyo 100-8176  
Japan

**LEGAL ADVISERS**

*To the Joint Lead Managers as to English law*

**Clifford Chance**  
(Gaikokuho Kyodo Jigyō)  
Palace Building, 3rd Floor  
1-1, Marunouchi 1-chome  
Chiyoda-ku, Tokyo 100-0005  
Japan

*To the Company as to Japanese law*

**Nishimura & Asahi**  
(Gaikokuho Kyodo Jigyō)  
Otemon Tower  
1-2, Otemachi 1-chome  
Chiyoda-ku, Tokyo 100-8124  
Japan

*To the Trustee as to English law*

**Clifford Chance LLP**  
10 Upper Bank Street  
London E14 5JJ  
United Kingdom

**INDEPENDENT AUDITOR**

**KPMG AZSA LLC**  
AZSA Center Building  
1-2, Tsukudo-cho  
Shinjuku-ku, Tokyo 162-8551  
Japan

**KOBELCO**