

# Kobelco Group Medium-Term Management Plan (Fiscal 2024–2026)

## —Transformation into an Appealing Company—

May 20, 2024

Kobe Steel, Ltd.

### 【1】 Introduction

The Kobe Steel Group (also known as the Kobelco Group) has formulated its Medium-Term Management Plan (Fiscal 2024–2026). The plan aims to further strengthen our efforts to address materiality (medium- to long-term priority issues) by pursuing our Group’s uniqueness by utilizing internal capital, such as our technologies, human resources, and know-how cultivated in diverse businesses, in combination with external capital, such as relationships with a wide variety of customers and business partners. Through this, we will strive to realize a world in which people, now and in the future, can fulfill their hopes and dreams while enjoying safe, secure, and prosperous lives.

### 【2】 Review of the previous Medium-Term Management Plan (Fiscal 2021–2023)

In fiscal 2023, the final year of the Medium-Term Management Plan (Fiscal 2021-2023) that started in April 2021, the Company recorded an ordinary profit of 160.9 billion yen and ROIC of 6.7% (against the target of 5% or higher), as well as the D/E ratio of 0.55 times (against the target of 0.7 times or less) at the end of fiscal 2023, achieving both the earnings and financial targets. In addition, the Company raised the dividend payout ratio as planned to approximately 30%.

As to establishing a stable earnings base, one of the two priority issues, we generally made good progress, despite some issues remaining regarding the contribution of strategic investments to earnings in the materials businesses. In terms of another priority issue of taking on the challenge of realizing carbon neutrality, we also made steady progress as planned.

We focused on initiatives to strengthen our business and management foundations, such as reviewing our management structures and promoting ESG initiatives based on materiality indicators and targets, while implementing initiatives aimed at creating an optimal business portfolio from a proactive as well as defensive perspective.

### 【3】 Medium-Term Management Plan (Fiscal 2024–2026)

Based on the review of the previous medium term and the projection for the medium- to long-term business environment climate, we have identified two priority issues under the Medium-Term Management Plan (Fiscal 2024-2026): (1) Enhancing earning power and pursuing growth and (2) Taking on the challenge of realizing carbon neutrality.

The targets of initiatives by business segment are as follows.

- Materials businesses: Focus on enhancing earning power and improve profitability globally ROIC target: 6-8%
- Machinery businesses: Pursue growth by seizing business opportunities in the changing business environment ROIC target: 8-10%
- Electric Power business: Continue to contribute to stable earnings as implemented in the previous medium term ROIC target: 10% or higher

In order to promote these business strategies, we will strengthen our sustainability management through transformation (Kobelco-X).

In the current medium term, we will promote the above measures to transform us into an appealing company and aim to become a business entity that drives innovation into the future, achieving net sales of 3 trillion yen, an ordinary profit of 200 billion yen, and an ROIC of 8% on a stable basis, as we move toward fiscal 2030.

## 1. Financial Targets

As a profitability indicator in the current medium term, we aim to stably achieve an ROIC of 6%, looking to achieve an even higher ROIC of 8%, when the business environment is favorable to us.

As a safety indicator, we aim to achieve a net asset ratio in the low-40% range and a gross D/E ratio\* in the mid-0.7 range.

\* Beginning in the current medium term, the gross D/E ratio will be based on an interest-bearing debt, including project financing.

## 2. Cash Allocation

We plan to secure operating cash flow of 500–600 billion yen for the three-year period from fiscal 2024–2026 in total. We plan to invest in each business, considering the return to shareholders in accordance with our policy.

During the current medium term, we plan to carry out active investment projects as shown below (on a decision-making basis).

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|---|-------------------------|
| ● Investment related to carbon-neutrality response:   | Approx. 300 billion yen |
| ● Investment related to enhancing earning power:  | Approx. 170 billion yen |
| ● Investment related to pursuing growth:  | Approx. 100 billion yen |
| ● Investment related to human capital (investment to improve the work environment and address human resource shortages) | Approx. 60 billion yen  |
| ● Investment for rationalization, renewal investment, etc., including digital transformation (DX):                      | Approx. 320 billion yen |

In anticipation of future capital needs, we will work to maximize capital efficiency by taking measures such as selling assets and lowering cash and deposit levels.

## 3. Return to Shareholders

Our Company determines dividends taking its financial condition, future capital needs, quarterly business performance, dividend payout ratio, and other factors into overall consideration with the aim of paying dividends on a continuous and steady basis in principle. The target dividend payout ratio will continue to be around 30%, which was raised in fiscal 2023.

## 4. Key Measures

### (1) Enhancing earning power (materials businesses): Rebuilding the operation bases for the future business environment

#### ● Restructuring the aluminum rolled products and aluminum advanced materials businesses

While demand for both aluminum rolled products and aluminum advanced materials is expected to continue to grow, we need to review our strategy due to the growing need for local production and local consumption. Aiming to return to profitability in fiscal 2024, we will continue to promote the restructuring of our business by improving base earnings (through price improvements, cost reductions, stable production) as well as by considering the establishment of a joint venture with Baowu Aluminum Technology Co., Ltd. in China, in order to meet the increasing need for local production and local consumption. In the aluminum advanced materials business, we will promote structural reforms, including examining the optimal business scale and production system, in order to make our North American business (KAAP and KPEX) profitable.

#### ● Maintaining global competitiveness

In order to maintain global competitiveness in the steel and welding businesses, we will continue to restructure the entire business structure without delay, including reviewing target regions and the production systems in respective regions, considering the megatrends in each region. In particular, we will strengthen our production and sales systems in Asia to meet the need for local production and local consumption.

### (2) Pursuing growth (machinery businesses): Capturing new demand and achieving growth by widening business domains

In the machinery business, while strengthening its earning power, we will pursue growth by focusing on acquiring new business opportunities, such as energy transition driven by carbon neutrality trends and developing customer experience-oriented business and solution business. Through these, the machinery segment strives to become a business entity that achieves net sales of 1 trillion scale.

#### ● Acquiring new business opportunities such as energy transition

Machinery:	Aims to secure orders in rotating machinery, which is expected to grow in demand for environmental applications, while expanding business in the semiconductor inspection equipment and IP sectors	Looking to achieve net sales of 300 billion yen in fiscal 2030
Engineering:	Aims to steadily capture the increasing demand for direct reduced iron (DRI) due to the increase in electric furnaces and expand our waste and water treatment businesses, while proceeding with feasibility studies and making investment decisions on the low-CO <sub>2</sub> iron metallics project planned in Oman.	Looking to achieve net sales of 250 billion yen in fiscal 2030

- **Developing customer experience-oriented business and solution business**

We will strengthen our customer experience-oriented business and solution business, which include welding systems, K-DIVE<sup>®</sup>, K-D2 PLANNER<sup>®</sup>, and hybrid-type hydrogen gas supply systems, utilizing the knowledge, technologies, and know-how we have built up through our business activities in combination with digital transformation (DX) technologies. Looking to achieve net sales of 50 billion yen

### **(3) Taking on the challenge of realizing carbon neutrality**

- **Reduction of CO<sub>2</sub> emissions in production processes**

Ironmaking process: Aims to achieve the target of 30–40% reduction in fiscal 2030 by implementing various energy-saving measures, including charging an increased amount of hot briquetted iron (HBI) into the blast furnace, while accelerating the study of large-scale innovative electric furnaces that can produce high-grade steel without limiting the future possibilities to the current two-unit blast furnace steelmaking system.

Electric Power: Aims to achieve the efficiency higher than the ultra-supercritical pressure (USC) coal-fired thermal power generation (43%) in fiscal 2030 by advancing efforts to realize 20% co-firing of ammonia in the Kobe Power Plant No.1 and 2 units. Continues to work to build the ammonia supply chain and purchase equipment, with the funds obtained from winning the Long-Term Decarbonization Power Source Auction. Plans to work on increasing the ammonia co-firing rate and ammonia single fuel firing at the Kobe Power Plant No. 1 to 4 units in the future.

- **Contribution to reduction of CO<sub>2</sub> emissions through technologies, products, and services**

The target for fiscal 2030 has been revised upward to 78.0 million tons, taking into account the growth of the machinery business. We aim for net sales of products that contribute to reducing CO<sub>2</sub> emissions to reach 550 billion yen in fiscal 2030.

### **(4) Taking on the challenge of realizing carbon neutrality**

We have positioned our “ambidextrous management” that focuses on both enhancing existing businesses and exploring new business opportunities (called AX) and taking on the challenge of realizing carbon neutrality (called GX) as two wheels of our business strategy, with other five Xs, including operational transformation (BX), customer service transformation (CX<sup>2</sup>), digital transformation (DX), employee experience (EX), and manufacturing transformation (FX), functioning as driving forces for realizing AX and GX. In addition, we will continue to strengthen our business foundation, including safety, quality, and compliance governance, which are the cornerstone of our business continuity, aiming to strengthen our sustainability management.

- **Promoting the active participation of diverse human resources**

Our Group's human resources strategy is based on three approaches: Enhancing organizational diversity; Promoting individuals' growth and the willingness to take on new challenges; and creating a work environment that enables employees to realize their full potential.

Improving diversity:

We are promoting diversity and inclusion (D&I) measures such as the recruitment of women and people with disabilities, as well as promoting the recruitment of diverse human resources through the use of advertising and focusing on mid-career recruitment.

Promoting individuals' growth and their willingness to take on new challenges, and work environment improvements

we plan to invest management resources of approximately 60 billion yen to improve wages, develop human resources, and address the human resource shortages through work environment improvements, labor-savings, automation, etc.

- **Promoting digital transformation (DX)**

Recognizing the importance of promoting DX as a means/tool that supports our various efforts, particularly in order to realize our transformation initiative (Kobelco-X), we plan to invest approximately 60 billion yen. By strengthening each element of human resources, work environment, and corporate culture, while enhancing the DX driving force, we will realize, accelerate, and advance the transformation, enabling us to provide solutions to the needs of society and create new value.

#### **【4】 Conclusion**

Our company will celebrate its 120th anniversary in 2025. We will move forward with our transformation initiatives that will allow us to become an appealing company and be recognized as such by our diverse stakeholders, including customers, business partners, local communities, shareholders, investors, and Group employees.

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