

Review of the Kobelco Group Medium-Term Management Plan (Fiscal 2021–2023)

Under the Kobelco Group Medium-Term Management Plan (Fiscal 2021–2023), we worked on the two priority issues: (1) Establishing a stable earnings base and (2) Taking on the challenge of realizing carbon neutrality, with the aim of continuing to be a corporate group indispensable to our stakeholders as we provide solutions to the needs of society by leveraging the Group's collective strengths that enable the integration of its diverse businesses, technologies, and human resources.

Priority Issues of the Kobelco Group Medium-Term Management Plan (Fiscal 2021–2023)

Establishing a stable earnings base

- (1) Strengthening the earnings base in the steel business
- (2) Smooth startup and stable operation of new electric power projects
- (3) Strategic investment in the materials businesses leading to earnings contribution
- (4) Restructuring unprofitable businesses
- (5) Stabilizing earnings in the machinery businesses and responding to growing markets

Taking on the challenge of realizing carbon neutrality

- (1) Reduction of CO₂ emissions in production processes
- (2) Contribution to reduction of CO₂ emissions through technologies, products, and services

Establishing a Stable Earnings Base

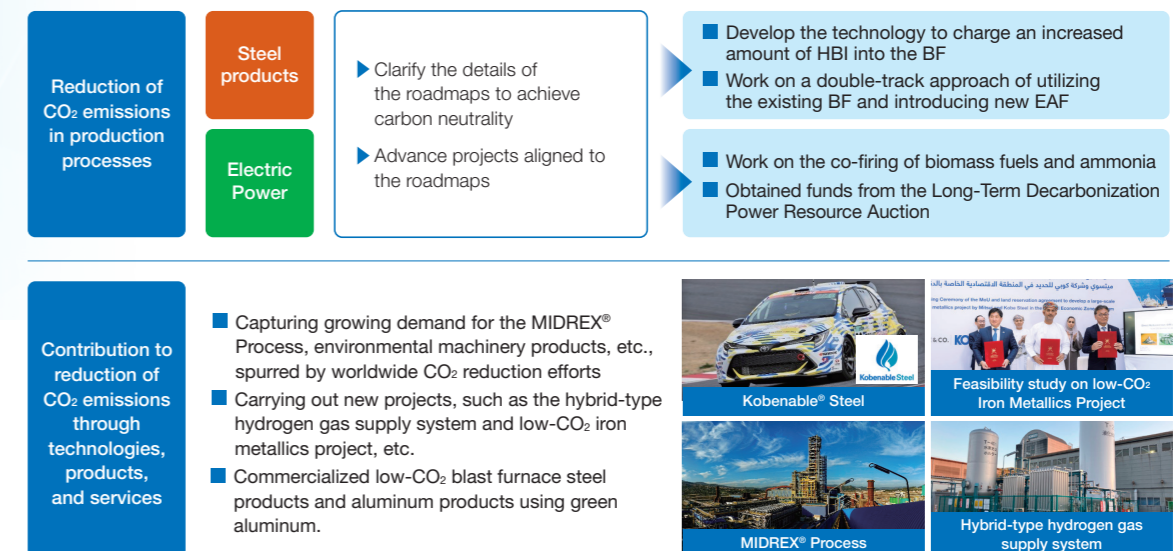
We achieved most of the targets that we have set for the five key measures, except the earnings target for “strategic investment in the materials businesses leading to earnings contribution” due to slow growth of demand, mainly in the aluminum business.

Key measures	Evaluation	Status
(1) Strengthening the earnings base in the steel business Under the assumption that demand will decrease over the long term, we worked to establish a structure to secure stable earnings at 6.3 million tons of crude steel production and maintain profitability even at 6.0 million tons.	○	<ul style="list-style-type: none"> Profitability improved significantly by lowering the break-even point, although the product mix remains an issue.
(2) Smooth startup and stable operation of new electric power projects We worked to secure earnings of about 40 billion yen per year starting in fiscal 2023, with the start of commercial operation of Kobe Power Plant No. 3 and No. 4 units, alongside the stable operation of Kobe Power Plant's No. 1 and No. 2 units and Moka Power Plant's No. 1 and No. 2 units.	○	<ul style="list-style-type: none"> The operation of the Kobe Power Plant No. 3 and No. 4 units started as planned. The new units have made a substantial contribution to establishing a stable earnings base.
(3) Strategic investment in the materials businesses leading to earnings contribution We worked to realize early earnings contribution from strategic investments for automotive weight reduction by responding to the continuously growing need for lighter vehicles, despite adverse factors such as slow growth of demand and challenges in <i>monozukuri</i> capability.	×	<ul style="list-style-type: none"> Earnings contribution has yet to be achieved as planned. Earnings in aluminum rolled products, extrusions, and suspensions businesses remained sluggish.
(4) Restructuring unprofitable businesses Amid changes in the demand environment and industrial structures, we worked to achieve profitability over the fiscal 2021–2022 period in the steel casting and forging business and the titanium business, both of which incurred impairments of non-current assets in fiscal 2019, as well as in the crane business, which continued to be in the red, by streamlining these businesses.	○	<ul style="list-style-type: none"> Achieved profitability in the previously unprofitable steel castings and forgings, titanium, and crane businesses.
(5) Stabilizing earnings in the machinery businesses and responding to growing markets In the machinery businesses, we worked to expand environmental product lineup including those that contribute to CO ₂ reductions, and aggressively address growing markets. In the construction machinery business, we worked to break away from dependence on the Chinese market, generate profits from the solutions businesses that help transform work styles in the construction industry, and commercialize peripheral businesses such as providing on-site installation know-how.	○	<ul style="list-style-type: none"> Orders and earnings increased in the machinery and engineering businesses. Structural reforms are underway in the construction machinery business.

Taking on the Challenge of Realizing Carbon Neutrality

Our Group is working together and taking on the challenge of realizing carbon neutrality, leveraging the strengths of the Group that operates a wide range of businesses with its diverse technologies and human resources as a source of competitiveness, as we strive to turn this challenge into a new business opportunity that can contribute to society.

In addition to steadily promoting the reduction of CO₂ emissions in production processes, we have launched Japan's first low-CO₂ blast furnace steel product Kobenable® Steel, and made steady efforts to capture demand for products that help reduce CO₂ emissions, such as the MIDREX® Process and environmental machinery products. We have also embarked on new businesses, including the hybrid-type hydrogen gas supply system and the supply of low-CO₂ iron metalics.



In fiscal 2023, the final year of the Medium-Term Management Plan (Fiscal 2021–2023), the Company recorded an ordinary profit of 160.9 billion yen, and an ROIC of 6.7% (against the target of 5% or higher), as well as a D/E ratio of 0.55 times (against the target of 0.7 times or lower) as of 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%.

		Fiscal 2023 Targets	Fiscal 2023 Results
Profitability indicator	ROIC	5% or higher	6.7%
Financial stability indicator	D/E ratio	0.7 times or lower	0.55 times
Returns to shareholders	Dividend payout ratio	Reviewed including a raise	Raised to approx. 30%

(Billions of yen)					
Major financial indicators	FY2019	FY2020	FY2021	FY2022	FY2023
Ordinary profit (loss)	(8.0)	16.1	93.2	106.8	160.9
Profit (loss) attributable to owners of parent	(68.0)	23.2	60.0	72.5	109.5
ROIC	0.9%	1.1%	4.7%	4.9%	6.7%
ROE	(9.7%)	3.4%	7.9%	8.4%	11.1%

We focused on strengthening our operation bases and business 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, as we move forward with our strategy from both offensive (proactive) and defensive perspectives.

Kobelco Group Medium-Term Management Plan

(Fiscal 2024–2026)

Recognition of the Business Environment

Our Group needs to respond to various changes in the business environment, including changes in demographic structure in Japan and overseas, along with increasing urbanization, national security and geopolitical risks, growing demand for a sustainable society, and advances in technology. These changes are not necessarily risks, but rather they are expected to be new growth opportunities, including contributing to social transformation toward the realization of carbon neutrality, as well as developing and

implementing new technologies that address various changes. Our Group will actively work on the transformation of its business structure to provide customers with technologies, products, and services that address the future needs of society, as well as the transformation of its human resources, organizations, and systems to flexibly respond to changes in the business environment.

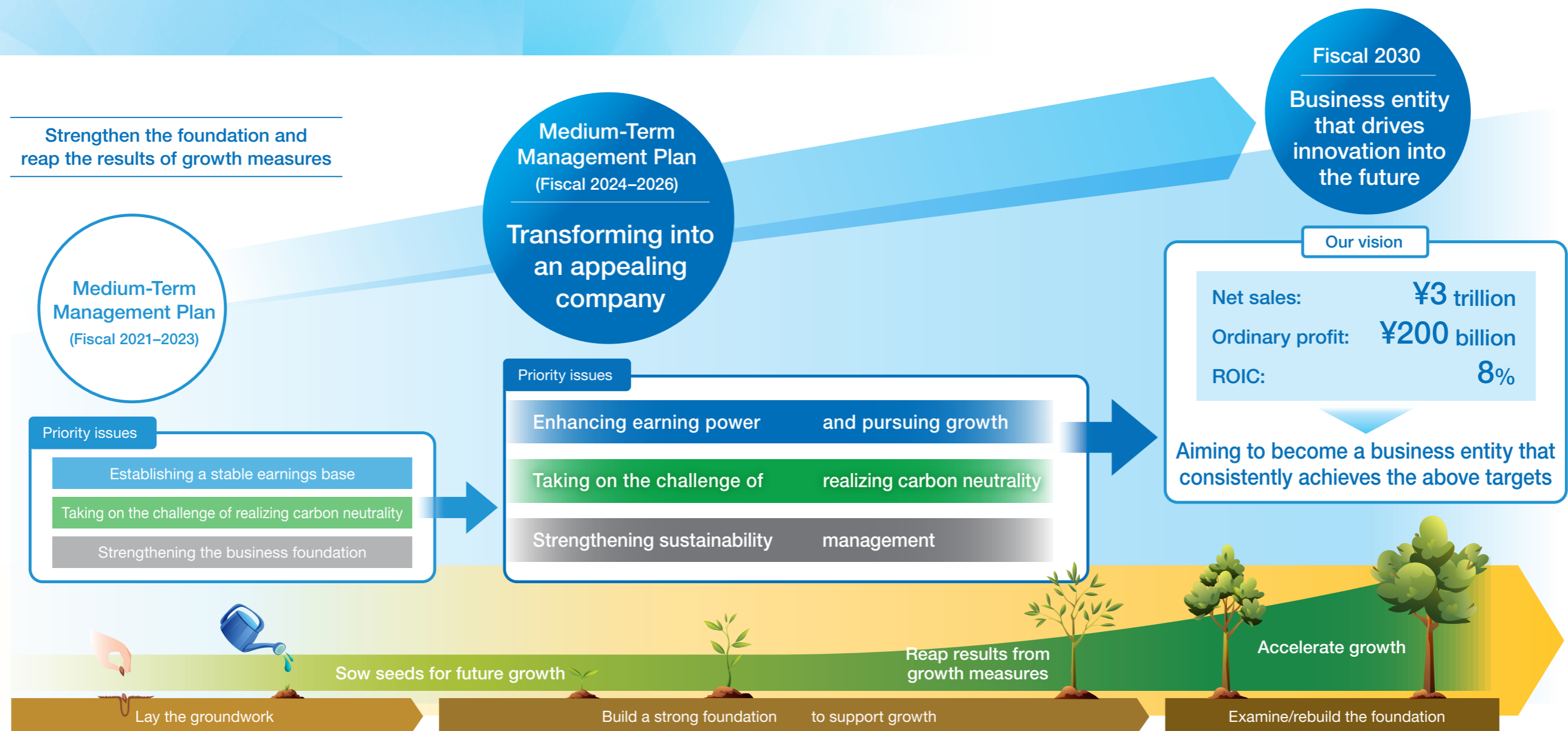
Positioning of the Medium-Term Management Plan

The three-year period of the Medium-Term Management Plan (Fiscal 2024–2026) is positioned as a period in which we will sow the seeds for growth, while strengthening our foundation, and gradually reap the results of growth measures that we began under the previous Medium-Term Management Plan.

Based on the review of the previous Medium-Term Management Plan and our recognition of the medium- to long-term trends in the business environment, the current Medium-Term Management Plan (Fiscal 2024–2026) has set

two priority issues: (1) Enhancing earning power and pursuing growth, and (2) Taking on the challenge of realizing carbon neutrality.

In the current Medium-Term Management Plan, we aim to transform into an appealing company by implementing these two priority issues, while also aiming 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 consistent basis, as we head toward fiscal 2030.

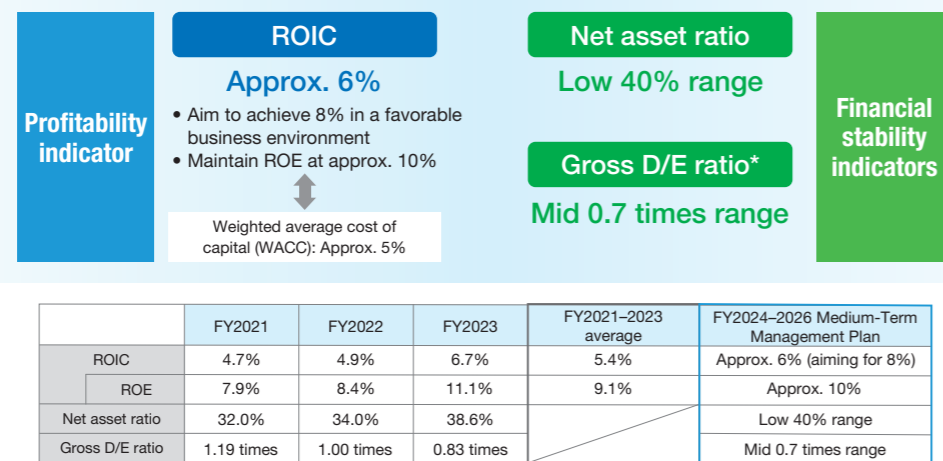


Kobelco Group Medium-Term Management Plan (Fiscal 2024–2026)

Financial Targets

In the current Medium-Term Management Plan, we have set a target of stably achieving an ROIC of approximately 6% as a profitability indicator and increasing it to 8% in a favorable business environment, in order to achieve returns that exceed the cost of capital throughout the three-year period and to further strengthen our financial base in preparation for future strategy implementation.

In addition, we have set targets of achieving a net asset ratio in the low 40% range and a gross D/E ratio* in the mid 0.7 times range, as financial stability indicators, as we strive to establish a financial base that will allow us to make future investments, while being resilient to changes in the business environment.



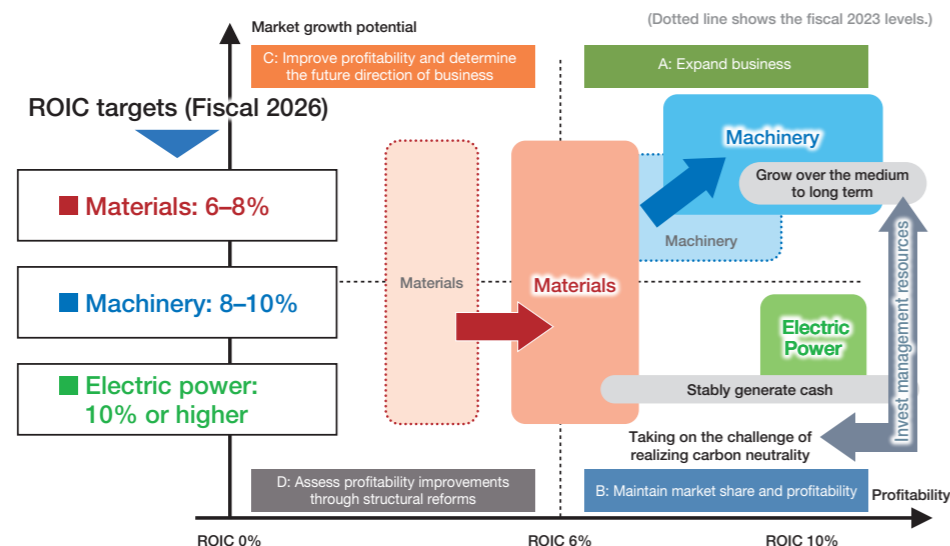
* Starting with the current Medium-Term Management Plan, all financial targets will be managed on a consolidated basis. The gross D/E ratio is now based on interest-bearing debt including project finance.

Business Portfolio Map

The materials businesses aim to achieve an ROIC of 6–8% by improving profitability globally, focusing on enhancing earning power. Meanwhile, the machinery businesses aim to achieve an ROIC of 8–10%, pursuing growth by seizing business opportunities in the changing business environment. The electric power business aims to achieve an ROIC of

10% or higher with its continued contribution to stabilizing earnings, which was established in the previous Medium-Term Management Plan.

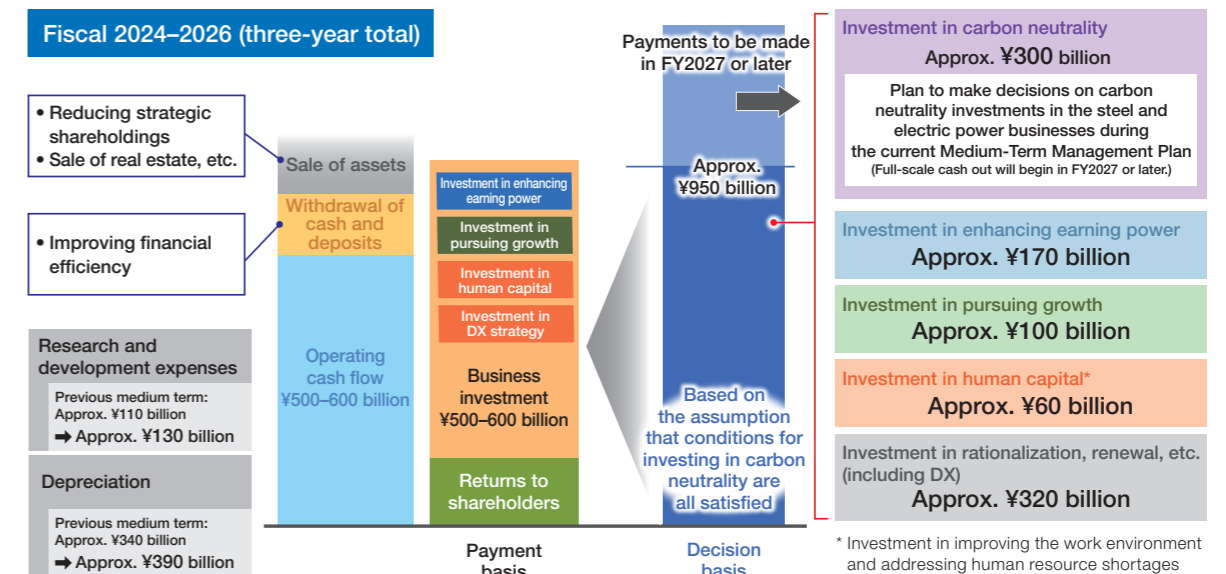
We will achieve sustainable growth by investing management resources earned by each business in pursuing growth and taking on the challenge of carbon neutrality.



Approach to Cash Allocation

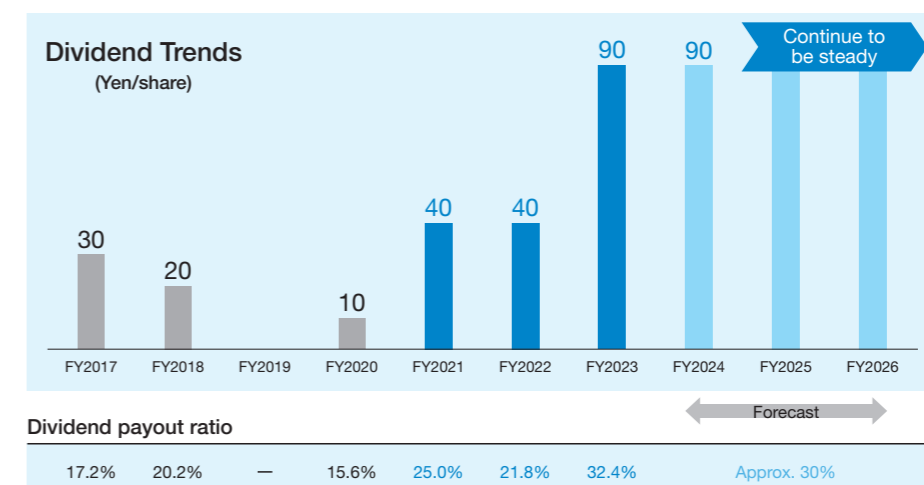
We plan to secure an operating cash flow of 500–600 billion yen in total for the three-year period from fiscal 2024 to 2026. We will invest in each business, considering the returns to shareholders in accordance with our policy.

During the period of the current Medium-Term Management Plan, we also plan to make decisions on carbon neutrality investments in the steel and electric power businesses, provided that all necessary conditions are satisfied.



Returns to Shareholders

Kobe Steel determines dividends taking its financial condition, future capital needs, financial results, 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 was raised to approximately 30% in fiscal 2023 and remains unchanged.



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

Basic Policy

Under the current Medium-Term Management Plan, we will work on enhancing earning power and pursuing growth, as we continue to take on the challenge of realizing carbon neutrality.

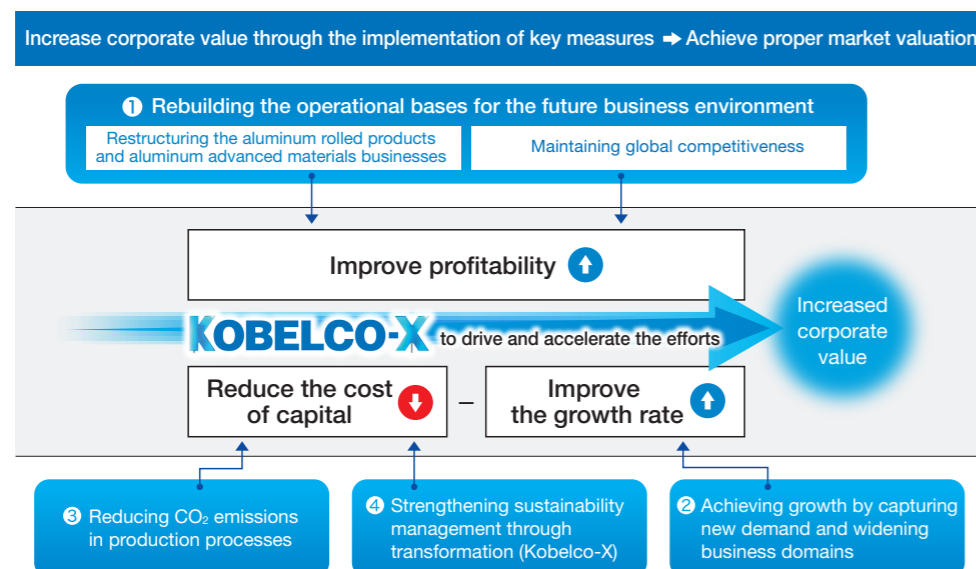
Through our transformation initiatives (Kobelco-X), we will strengthen our sustainability management, increase corporate value, and transform into an appealing company.



Four Key Measures

In order to address the two priority issues of “enhancing earning power and pursuing growth” and “taking on the challenge of realizing carbon neutrality,” we will steadily implement four key measures: (1) Rebuilding the operational bases for the future business environment, (2) Achieving

growth by capturing new demand and widening business domains, (3) Reducing CO₂ emissions in production processes, and (4) Strengthening sustainability management through transformation (Kobelco-X), thereby increasing corporate value.



1 Enhancing Earning Power and Pursuing Growth

During the period of the Kobelco Group Medium-Term Management Plan (Fiscal 2021–2023), we worked to create a business foundation focused on establishing a stable earnings base and achieved a certain level of results. During the period of the Medium-Term Management Plan (Fiscal 2024–2026), while further reinforcing the foundation by enhancing earning power, we will invest various management resources that have been made available from the foundation

in pursuing growth and taking on the challenge of realizing carbon neutrality to capture future growth opportunities. Through these efforts, we aim to secure stable earnings with an ROIC of approximately 6% throughout the three-year period of the plan, looking to achieve an even higher ROIC of 8% when the business climate is favorable to us. Our vision for the future is to become a corporate group that achieves an ROIC of 8% or higher on a stable basis and grows sustainably.

Key Measure 1

Rebuilding the operational bases for the future business environment
Enhancing earning power (materials businesses)

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 and other factors. 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, and stable production, and will proceed with the establishment of a joint venture company with Baoshan Iron

& Steel Co., Ltd. and Baowu Aluminum Technology Co., Ltd. in China in the aluminum panel business, 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 achieve profitability in the extrusions and suspensions businesses in North America.

	FY2023	FY2024	FY2025	FY2026	FY2027–
Aluminum rolled products Restructuring the automotive panel business		Establish a joint venture company with Baoshan Iron & Steel and Baowu Aluminum Technology	Expand sales through Chinese OEMs	Consider ways to utilize Ulsan Aluminum's surplus supply capacity	Shift the source of base material supply to Baowu Aluminum Technology
Aluminum advanced materials Restructuring the North American operations		Improve prices and trading terms and conditions	Study and implement optimal business scale and production systems		

Maintaining global competitiveness

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

Regional Megatrends and Future Strategic Directions for the Steel and Welding Businesses

	Japan	China	Asia	North America
Megatrends	Declining population and shrinking market High-value-added markets	Geopolitical risks Growing markets, local production/consumption	Emerging countries: Growing population/markets, local production/consumption	Advanced countries: High-value-added markets, local production/consumption
Steel business	Optimize	Examine	Strengthen	Strengthen
Welding business	Optimize	Optimize	Strengthen	Strengthen

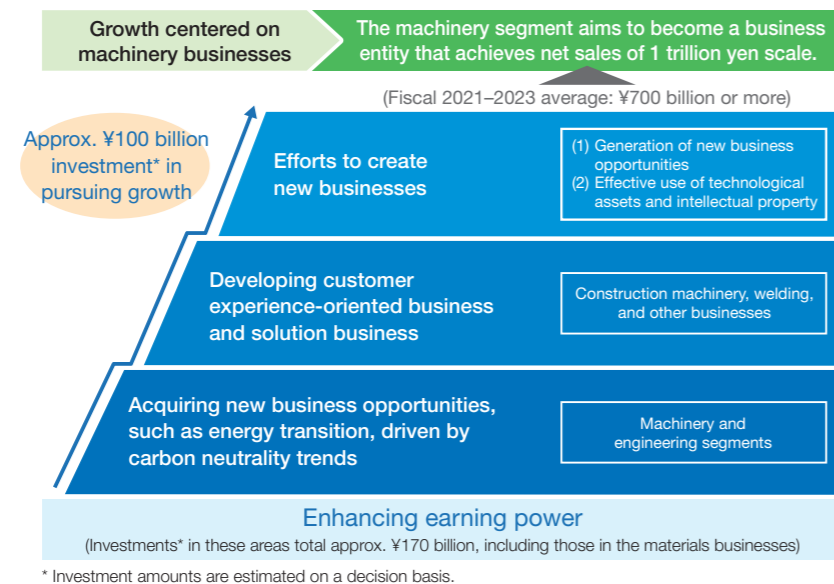
Along with the structural reforms of the aluminum rolled products and aluminum advanced materials businesses, we will carry out area strategies that meet the regional megatrends in the steel and welding businesses.

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

Key Measure 2

Achieving growth by capturing new demand and widening business domains Pursuing growth (machinery businesses)

In the machinery businesses, while enhancing 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 efforts, the machinery segment will strive to become a business entity that achieves net sales of 1 trillion yen scale.



Acquiring new business opportunities, such as energy transition

Machinery segment

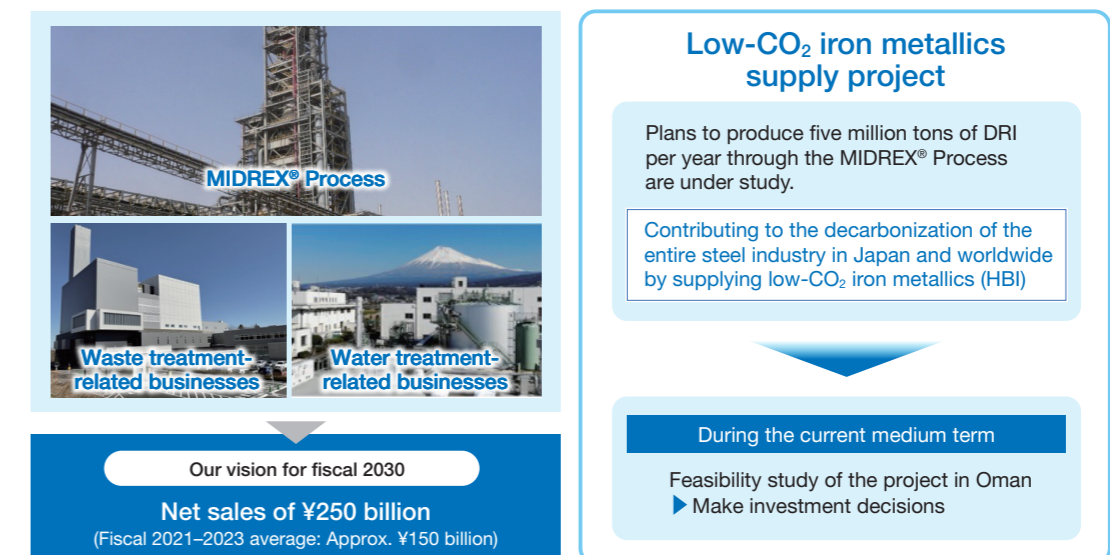
We aim to secure orders in rotating machinery, which is expected to see increased demand for environmental applications, while expanding business in the semiconductor inspection equipment and isostatic pressing (IP) sectors. Our vision for fiscal 2030 is to achieve net sales of 300 billion yen scale.



Engineering segment

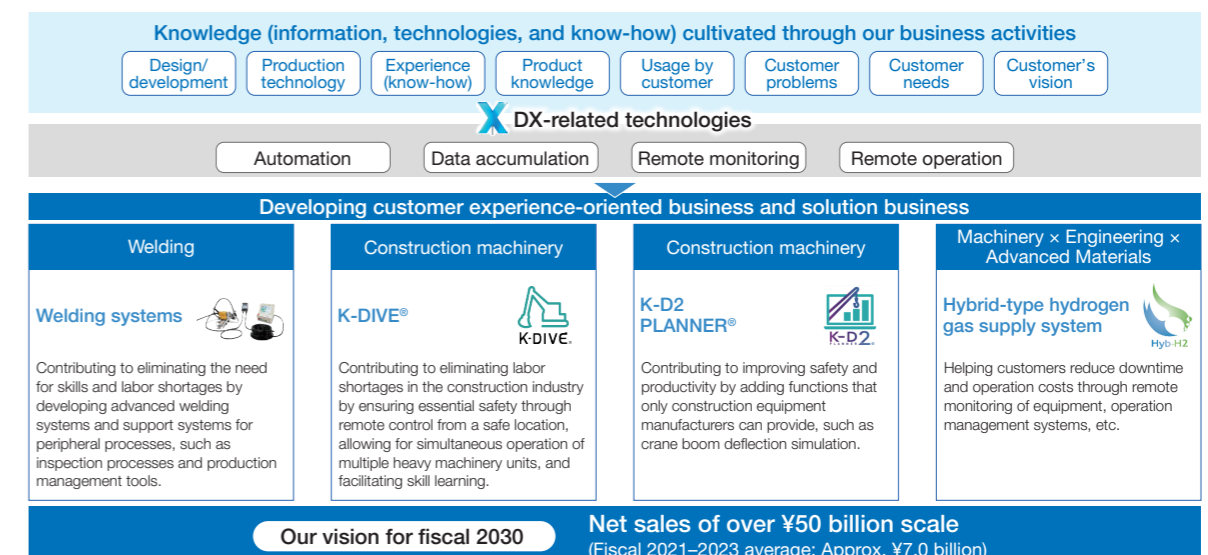
We aim to steadily capture the increasing demand for direct reduced iron (DRI), prompted by the global efforts of steelmakers to achieve carbon neutrality, while advancing the feasibility study on the low-CO₂ iron metallurgy supply project in Oman.

In addition, we are stepping up our efforts in the environmental and energy sectors by promoting initiatives that leverage our strengths as a company operating both waste and water treatment businesses. Our vision for fiscal 2030 is to achieve net sales of 250 billion yen scale.



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®, K-D2 PLANNER®, and the hybrid-type hydrogen gas supply system, utilizing the knowledge, technologies, and know-how we have built up through our business activities in combination with digital transformation (DX) technologies. Our vision for fiscal 2030 is to achieve net sales of 50 billion yen scale.



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

2 Taking on the Challenge of Realizing Carbon Neutrality

The Kobelco Group has set the 2030 target and 2050 vision from two angles: (1) reducing CO₂ emissions in its own production processes, and (2) contributing to reduction of CO₂ emissions through its technologies, products, and services.

In the current Medium-Term Management Plan, we have

revised upward the 2030 Target for contribution to reduction of CO₂ emissions to 78 million tons, taking into account the growth of our machinery businesses, as we aim for net sales of products that contribute to reducing CO₂ emissions to reach 550 billion yen.

	2030 Target	2050 Vision
Reduction of CO₂ emissions in production processes	30–40% (compared to fiscal 2013) ¹	Taking on the challenge of realizing carbon neutrality
Contribution to reduction of CO₂ emissions² through technologies, products, and services	61 million tons or more → 78 million tons (Net sales: ¥550 billion)	100 million tons or more

¹ Most of the reduction targets are associated with iron and steelmaking processes.

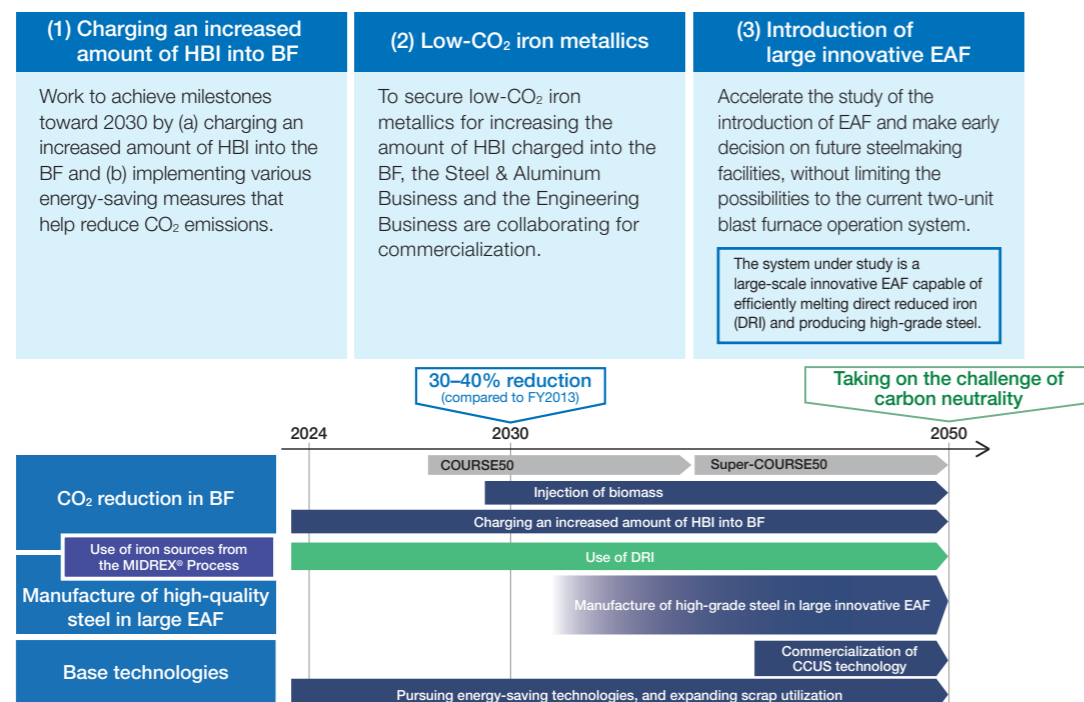
² Our Group contributes to the reduction of CO₂ emissions in various areas of society through its distinctive technologies, products, and services.

Key Measure 3

Reducing CO₂ emissions in production processes

Reduction of CO₂ emissions in the ironmaking process

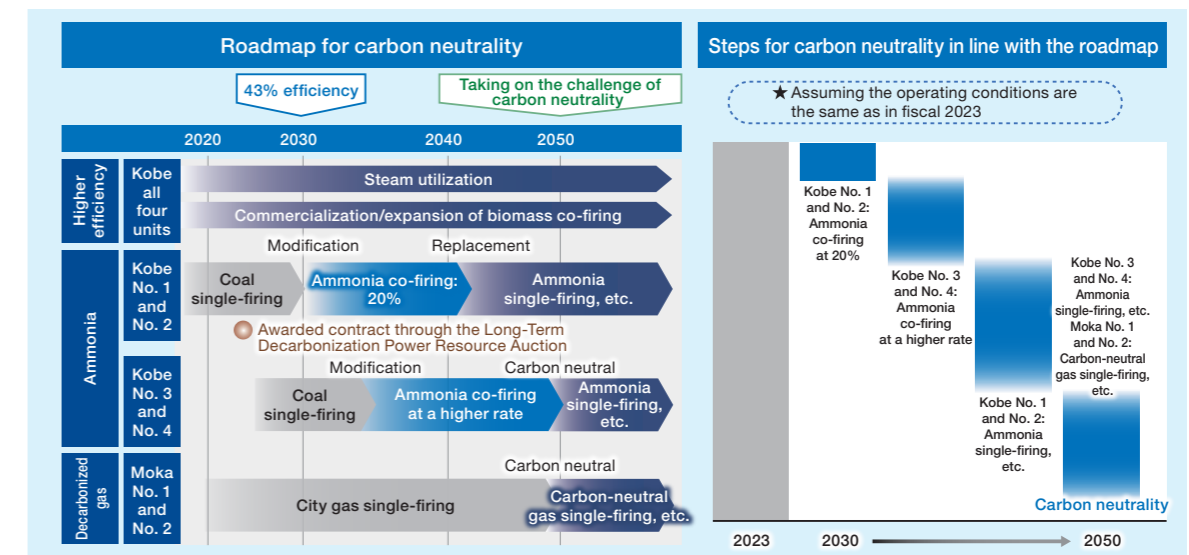
We aim to achieve the 2030 target of 30–40% reduction (compared to fiscal 2013) by charging an increased amount of hot briquetted iron (HBI) into the blast furnace (BF) and implementing various energy-saving measures. Along with this, we will accelerate the study of the large-scale innovative electric arc furnace (EAF) capable of producing high-grade steel in order to enable early decision-making on future steelmaking facilities.



Reduction of CO₂ emissions in the electric power business

We aim to achieve the efficiency exceeding that of ultra-supercritical pressure (USC) coal-fired thermal power generation (43%) in fiscal 2030 by advancing efforts to realize 20% ammonia co-firing in the Kobe Power Plant No. 1 and No. 2 units. In April 2024, we were awarded a contract through the Long-Term Decarbonization Power Resource

Auction, which propels our efforts to build the ammonia supply chain and advance equipment planning. Our future plans include increasing the ammonia co-firing rate and implementing ammonia single-firing at the Kobe Power Plant No. 1 to No.4 units, among other initiatives.



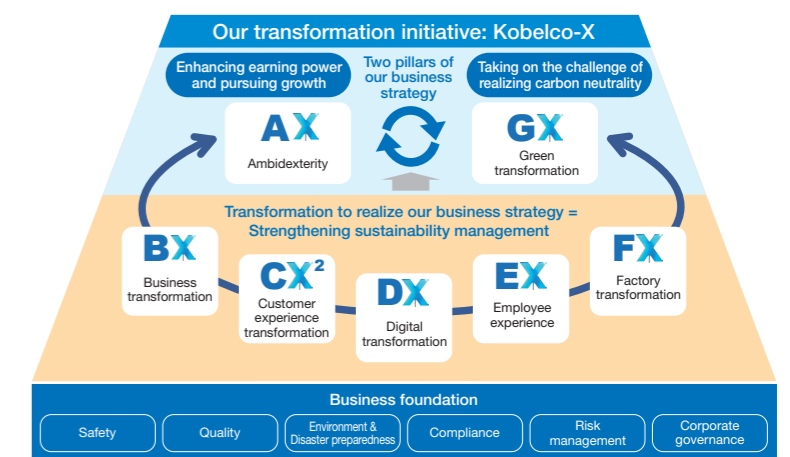
3 Strengthening Sustainability Management

Key Measure 4

Strengthening sustainability management through transformation

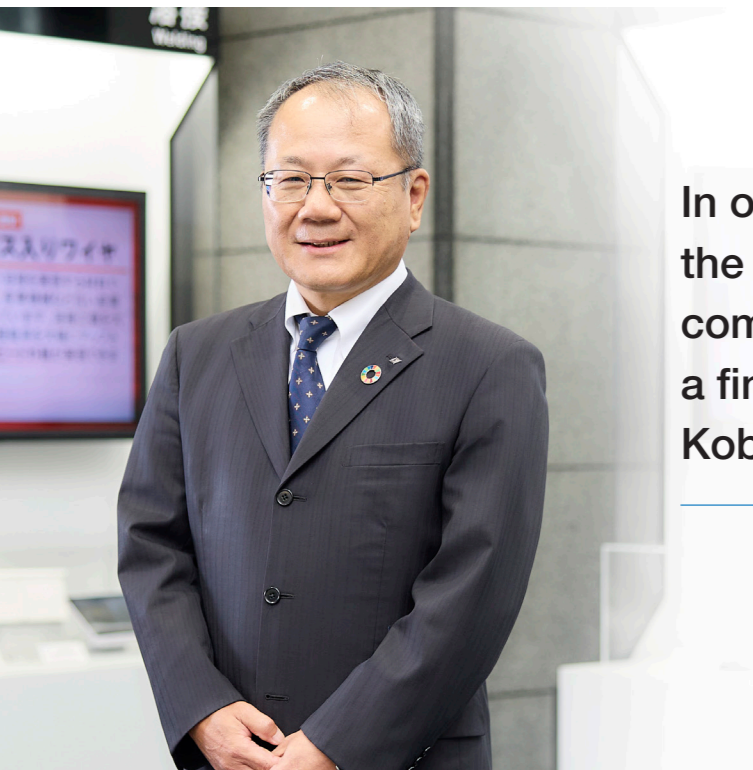
In the new Medium-Term Management Plan, we have identified the areas of initiatives essential for the transformation into an appealing company and collectively named them “Kobelco-X.” Kobelco-X consists of seven elements: ambidexterity (AX) and green transformation (GX)—two pillars of our business strategy—and five other transformation initiatives serving as the driving force for realizing AX and GX, including customer experience transformation (CX²), employee experience (EX), factory transformation (FX), business transformation (BX), and digital transformation (DX).

In addition to these five Xs, we will continue to strengthen our business foundation in key areas such as safety, quality, compliance, and governance, which are primary prerequisites for our existence, thereby strengthening our sustainability management and implementing our business strategies.



For details on each initiative, please see Section 3 Promotion of Sustainability Management.

Message from the CFO



In order to accomplish the transformation into an appealing company, we are working to develop a financial strategy that only Team Kobelco can implement.

Kazuhiko Kimoto
Director, Executive Officer

Aim to Revitalize Head Office Divisions, Leveraging Experience in Business Division

My name is Kazuhiko Kimoto, and I am serving as a director overseeing finance and accounting of the Company. After joining Kobe Steel in 1988, I was assigned to a sales division for steel products, and spent time in Canada and Thailand while working in steel export. From then on, I was overseeing sales of steel products in sales management and other divisions. Given my entire career in sales divisions, the appointment as CFO was wholly unexpected until I received the internal notification. When I was contemplating what I could offer in the new position, my predecessor Yoshihiko Katsukawa suggested that I take my own approach. His suggestion reminded me that my mission was to bring a fresh perspective to the head office while leveraging my experience in the business division, reaffirming my commitment to the new role. Shortly after my appointment, I was given an opportunity to explain the fiscal 2023 financial results at a press conference. As a speaker, I tried to communicate our Group's situation in a way that would enhance our stakeholders' understanding, as I seek to be creative while also honoring the approach taken by my predecessor. I felt that I had made the first step as CFO, tasked with revitalizing the head office divisions by leveraging

my experience in the business division.

My mission, as CFO with a point of view from the business divisions, is not only to approach the capital markets effectively but also to find appropriate ways to engage with the business divisions and employees, while serving as part of a trusted headquarters. To grow into a truly strong Kobelco Group, we will also enhance internal communication and work toward our transformation into an appealing company as outlined in the Medium-Term Management Plan (Fiscal 2024–2026).

Efforts to Strengthen the Earnings Base under the Previous Medium-Term Management Plan (Fiscal 2021–2023)

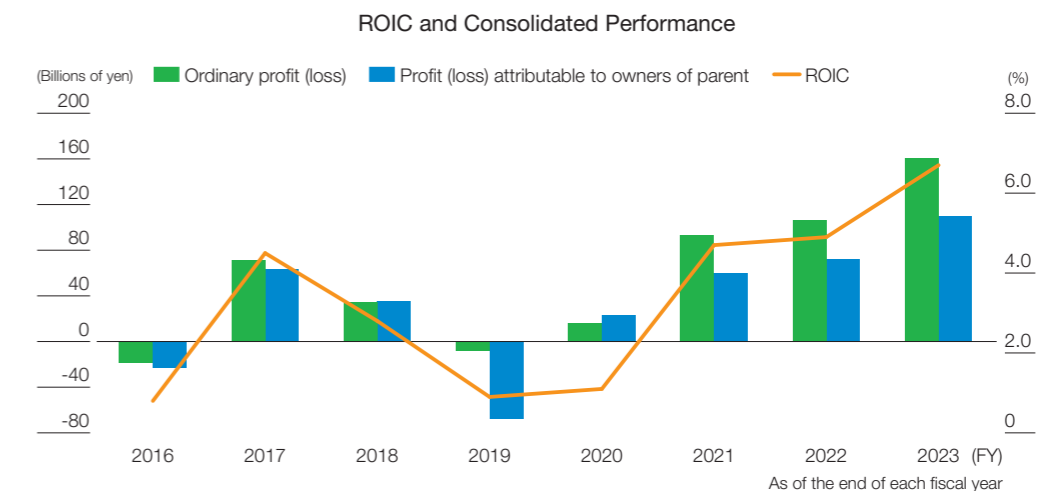
For many years, the performance of our Group has been influenced by external factors. Over the three years of the previous Medium-Term Management Plan, despite a challenging business environment, we achieved our targets with a return on invested capital (ROIC) of 6.7%, which is a profitability indicator, and a debt-to-equity (D/E) ratio of 0.55, which is a financial stability indicator. This allowed us to provide our shareholders with the highest dividend in our history. This is a remarkable achievement, from the standpoint of the business division where I was working

toward the goals. Although there were remaining issues in the aluminum business, we achieved almost all the targets for key measures aimed at establishing a stable earnings base, steadily enhancing profitability. Our efforts toward carbon neutrality and strengthening our business foundation and operation bases are progressing smoothly, and improvements in corporate governance, risk management, and other internal controls have laid a solid foundation for future growth.

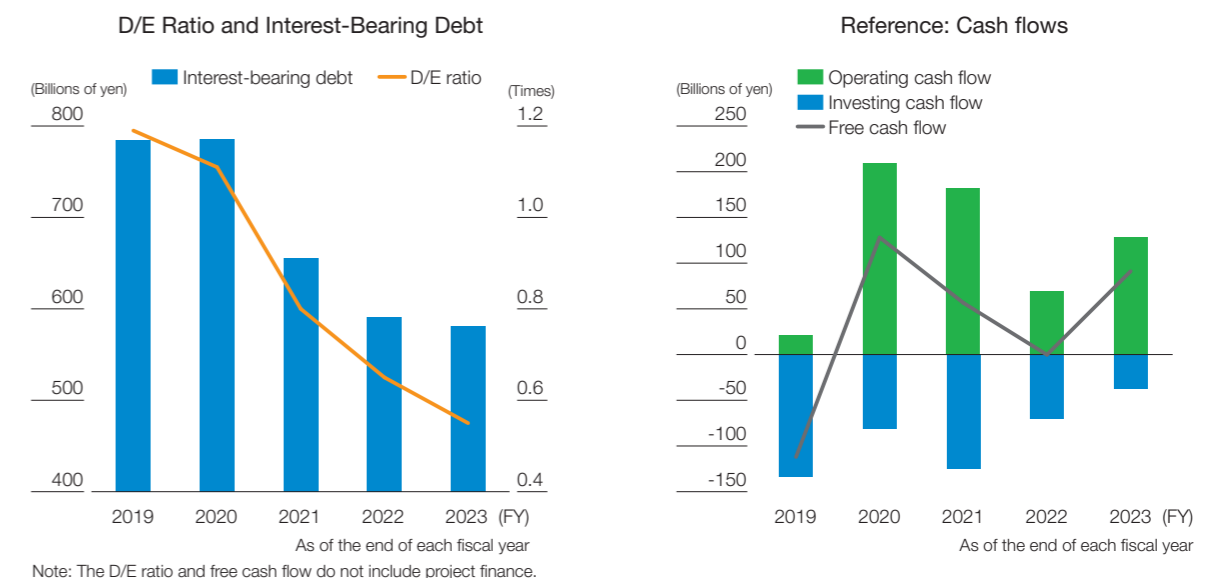
With the improvement in our earnings base, which had been previously influenced by external factors, we reduced

consolidated interest-bearing debt by 200 billion yen. As a result, our credit rating was upgraded from A- to A by Japan Credit Rating Agency, Ltd (JCR). This improvement in our rating has not only increased the stability of our financing through both direct and indirect financing, but it has also allowed us to diversify our financing, including the issuance of zero coupon convertible bonds with stock acquisition rights. We have thus established a robust base to proactively pursue an ideal financial strategy. In addition, we have established a framework for strategic and systematic information disclosure aimed at reducing the cost of capital.

Profitability Indicators Trend



Financial Stability Indicators Trend



Message from the CFO

Foster True Competencies by Steadily Carrying Out Investment Plans under the Medium-Term Management Plan (Fiscal 2024–2026)

In May 2024, the Kobelco Group announced its Medium-Term Management Plan for the three years from fiscal 2024 to 2026. I was involved in the development of the presentation materials and discussed over and over with relevant departments until I fully understood. Once we grasped the overall picture of the plan, it became evident that this three-year period will be crucial for turning the outcomes of the previous plan into true competencies. Our goal is to evolve the Group, inherited from previous generations, into a competitive corporate group and build a robust business entity ready to meet the new challenges of the upcoming 2030s for the next generation. In order to accomplish the transformation into an appealing company, we have positioned the current Medium-Term Management Plan (Fiscal 2024–2026) as an important step toward our 2030 goal of becoming a business entity that drives innovation into the future. It represents our commitment to building a strong Kobelco Group that will prosper for decades to come.

Under the new plan, the key to achieving the goals will be how well we can control volatility and enhance our earning power in the materials businesses, which are susceptible to changes in the business environment, and how effectively we can implement our growth strategies in the machinery businesses, which have significant business opportunities in a global movement toward a sustainable society. During the previous medium term, ROIC-based management was recognized and practiced more extensively in the organization. In the current medium term, we will face a critical challenge in terms of bringing each business division on track to consistently implement the PDCA cycle to achieve their ROIC targets. We have set respective ROIC targets by segment: 6–8% for materials businesses, 8–10% for machinery businesses, and 10% or higher for the electric power business. I recognize that my role as CFO is to promote KPI management for each business division to achieve their ROIC targets, and this requires strong leadership.

In addition, under the current plan, I am committed to steadily advancing investments toward our priority issues: “enhancing earning power and pursuing growth,” and “taking on the challenge of realizing carbon neutrality.” These efforts are crucial to get ready for the unprecedented turmoil of the 2030s, where conventional approaches may no longer be effective. In this context, we have set the following financial stability indicators: a net asset ratio in the low 40% range and a gross D/E ratio in the mid 0.7 times

range. By achieving these targets, we believe we can maintain our creditworthiness over the long term. To achieve the goals under the Medium-Term Management Plan set by each business division, we will strive to generate cash necessary for planned investments by maximizing operating cash flow through effective ROIC-based KPI management, while also reducing cash and deposits and decreasing strategic holdings of shares. In terms of financing, the mission of the finance and accounting department is to create an environment that enables the steady execution of investments aimed at fostering true competencies, as outlined in the plan, by utilizing a variety of financing methods.

During the formulation process of the plan, we also discussed returns to shareholders, together with business strategies, and reached a conclusion that we must build up equity capital by retaining a portion of periodic earnings as internal reserves in order to achieve the financial targets under the current Medium-Term Management Plan. To this end, we have decided to maintain a payout ratio of approximately 30%, balancing internal reserves necessary to ensure future growth with shareholder returns. We will continuously evaluate the appropriate level of shareholder returns while considering the progress of strengthening our financial base.

Aiming to Realize “Appealing Financial Management” for All Stakeholders

As a director overseeing finance and accounting of the Group that aims to transform into an appealing company, I will also strive to realize “appealing financial management” that satisfies all stakeholders, leveraging the insights gained from my experience in the business division.

For our shareholders and investors, we will advance initiatives to enhance the appeal of our Group and its corporate value by providing stable returns and improving the price-to-book (P/B) ratio. Rather than relying on technical methods, our focus for the P/B ratio will be on achieving the financial targets outlined in the Medium-Term Management Plan, as well as on providing stable and continuous shareholder returns with a payout ratio of approximately 30%. As we do so, we will also actively engage in investor relations by strategically and systematically communicating with stakeholders and collaborating with each business division to enhance corporate value.

In Pursuit of Transformation Unique to the Kobelco Group

From a sustainability management perspective, we will



enhance our appeal through the efforts toward carbon neutrality. Our Group is working to reduce CO₂ emissions in the ironmaking process and electric power business, both of which require leveraging our collective strengths to the fullest extent by integrating our diverse technologies. We will address this significant societal challenge utilizing Kobelco Group's unique technologies and solutions, as we strive to enhance our corporate value.

In addition to addressing carbon neutrality, strengthening our sustainability management involves various transformation initiatives across all aspects of our business and organization, which are collectively called Kobelco-X. To proceed with this, I will ensure to keep to a minimum the use of technical terms and abbreviations within the Company, thereby eliminating barriers between the head office and business divisions, and promote the effective sharing of strategies, as I work to foster a transformational mindset in each individual, building momentum for the entire Group's transformation.

I hope these efforts will enable faster and clearer communication and accelerate our business activities as well as our investment decisions.

Last but not least, I would like to underline that we are committed to promoting our Group's uniqueness to all our stakeholders. The Kobelco Group is a unique entity that cannot be assessed within the framework of a steel company; it is capable of integrating technologies developed in its materials, machinery, and electric power businesses. I will actively highlight this Kobelco Group's uniqueness with diverse potentials stemming from its comprehensive strengths from a finance and accounting perspective. In our financial reports, integrated reports, ESG data books, and other publications, we will constantly emphasize the unique qualities of the Group. In next year's integrated report, we hope to present the Kobelco Group's further advanced and competitive evolution.

Message from Independent Director

In the previous Medium-Term Management Plan, the Kobelco Group achieved most of the targets for its management indicators, including ROIC, and has gained a certain level of trust through extensive dialogue with the capital markets. However, in terms of the market evaluations, the Company is only halfway through its efforts. Moving forward, we must become more aware of the importance of human capital and technology, which are the source of its pursuit of growth, and further promote business development through transformation (Kobelco-X). I believe that all of these efforts will result in a higher profitability of invested capital and enhanced corporate value, allowing the Group to attain a higher level of shareholder returns along with a higher market evaluations.



Nobuko Sekiguchi
Independent Director

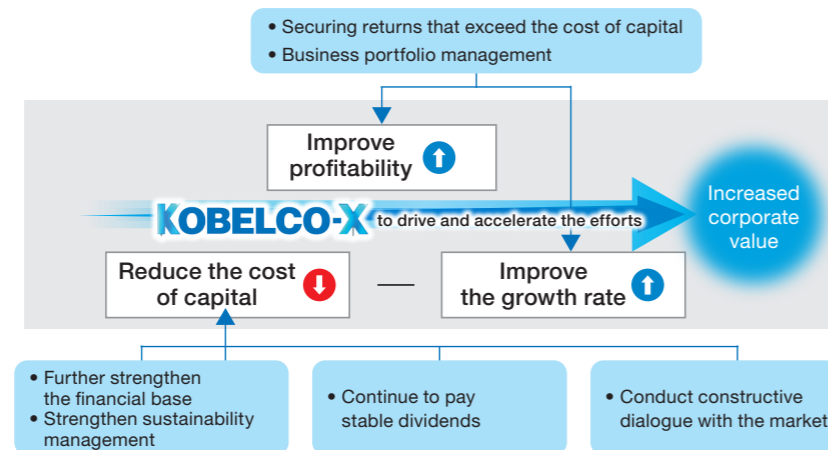
Enhancement of Corporate Value

Enhancement of Corporate Value

We believe that the Kobelco Group's corporate value comes from the various technologies, products, and services that we have cultivated over the past 118 years, the human resources and intellectual property that have supported and developed them, and the relationships of trust that we have built with our stakeholders. While keeping in mind that all initiatives contribute to enhancing corporate value, we will advance the transformation into an appealing company and work toward improving long-term corporate value.

Approach to Enhancing Corporate Value

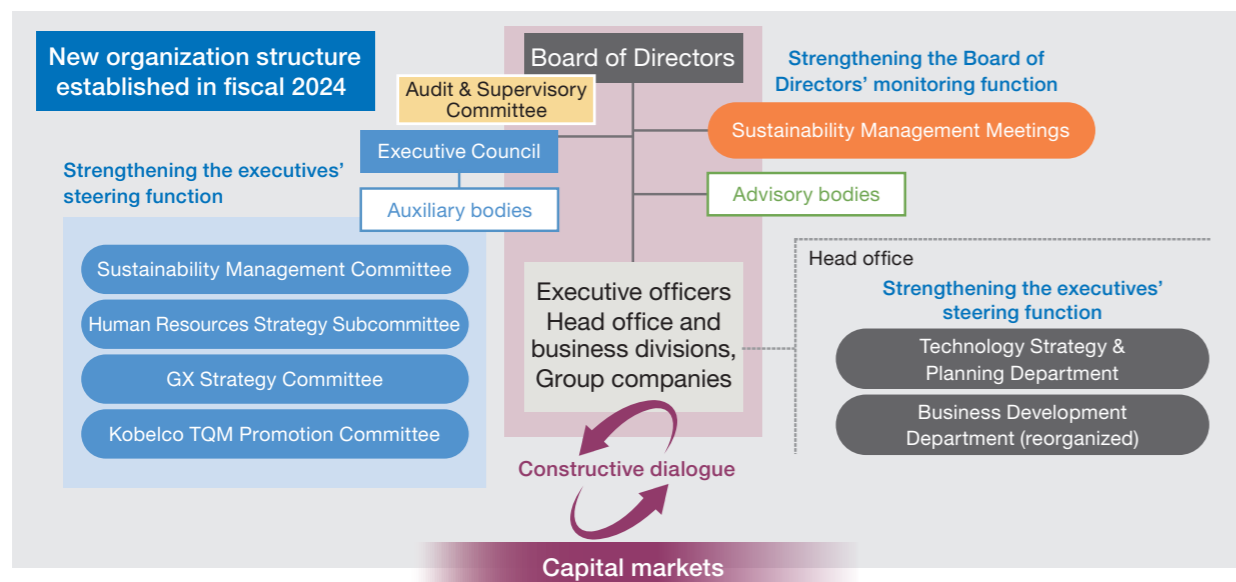
- We aim to enhance corporate value by improving both profitability and growth rates while also reducing the cost of capital.
- The subsequent sections provide detailed explanations of our initiatives outlined in the figure on the right.



Reinforce the Structure to Support the Enhancement of Corporate Value

To bolster our measures for enhancing corporate value, we implemented organizational reforms and revised the director and executive officer remuneration system effective as of fiscal 2024. With these organizational reforms, we will strengthen the Board of Directors' monitoring function on sustainability and enhance efforts on carbon neutrality—one of the priority issues, human capital management, and other areas. We will also work to further increase the incentives for directors and executive officers to improve corporate value, through the revision of the director and executive officer remuneration system with an increase in performance-based compensation ratio and the introduction of ESG indicators.

We believe that constructive dialogue with the capital market is a key factor in enhancing corporate value. We will broaden our ongoing efforts while promoting active engagement of senior management in dialogue.



► For more details on the organizational structure, please see Corporate Governance on p. 110.

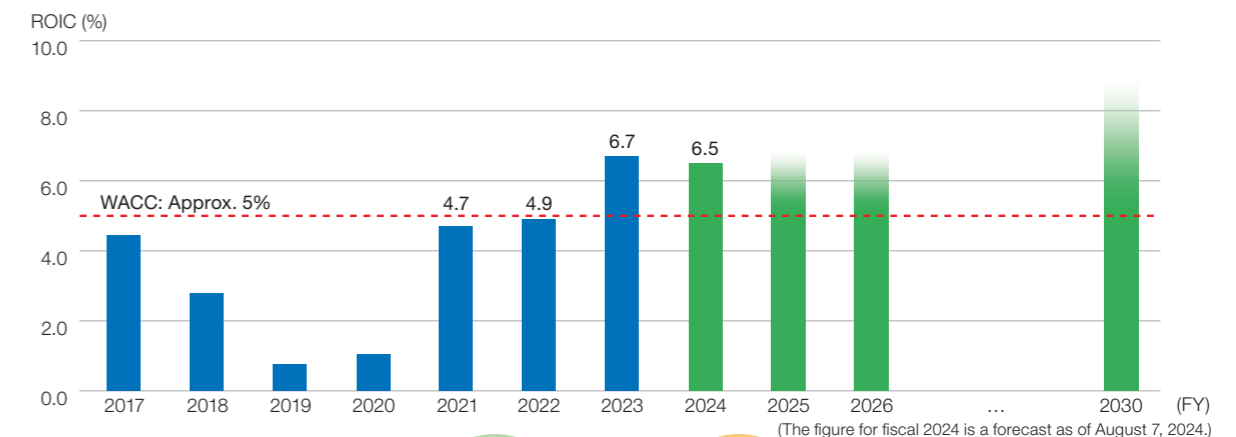
► Announcement on organizational changes: https://www.kobelco.co.jp/english/releases/1214487_15581.html

► Announcement on changes to director and executive officer remuneration: https://www.kobelco.co.jp/english/releases/1214556_15581.html

Improving Profitability and the Growth Rate

Securing Returns that Exceed the Cost of Capital

In fiscal 2023, we achieved a return on invested capital (ROIC) of 6.7%, exceeding the weighted average cost of capital (WACC) of 5%. In the Medium-Term Management Plan (Fiscal 2024–2026), we have identified enhancing earning power and pursuing growth as a priority issue. We aim to further boost profitability by enhancing ROIC-based management.



Profitability of invested capital
= ROIC

Approx. 6%
(Aim for 8%)

Approx. 5%

Cost of capital = WACC
(Weighted average cost of capital)

We use ROIC as an indicator for measuring the profitability of invested capital. We set ROIC targets for respective segments and monitor and manage performance from the aspects of both earning power and invested capital through the Business Portfolio Management Committee.

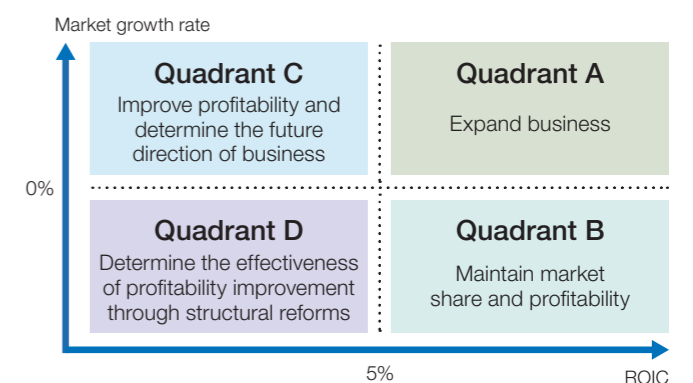
We use WACC as a metric for the cost of capital against ROIC. The cost of shareholders' equity is calculated based on the capital asset pricing model (CAPM), and then the WACC is calculated by taking a weighted average of the cost of debt.

Business Portfolio Management Structure

The Business Portfolio Management Committee, which serves as an auxiliary body to the Executive Council, plays a central role in formulating business portfolio strategies, addressing medium- to long-term changes in the business environment, and optimizing the allocation of management resources. The committee also monitors the performance and KPI management of respective business units.

Operations

In our business portfolio management, we classify our business units into four quadrants (A to D) along the axes of profitability (ROIC) and market growth potential. This allows us to examine measures tailored to each quadrant and implement them while allocating management resources according to the corresponding strategy.



Under the Medium-Term Management Plan, we will build a solid earnings base and actively invest management resources, such as cash generated from each business, in growth areas. We will work to expand into new business domains to achieve our ideal portfolio and improve profitability as well as growth rates.

Business Portfolio Map in the Medium-Term Management Plan ► See p. 36.

Enhancement of Corporate Value

Reducing the Cost of Capital

We will work to enhance our financial stability by stabilizing earnings and strengthening our financial base. We will also advance sustainability management, including efforts toward carbon neutrality, and strive to reduce the cost of capital.

Strengthening Sustainability Management

For achieving sustainable growth and enhancing corporate value, it is crucial to appropriately manage non-financial indicators, such as contribution to a green society and promotion of active participation of diverse human resources. Our Group has identified five key issues of materiality and monitors and manages indicators relevant to materiality.

We have also determined the areas of transformation initiatives necessary for advancing each business strategy and collectively named them Kobelco-X. In order to strengthen sustainability management, we will continuously drive transformation through the integration of technologies, businesses, and human resources in a way that demonstrates the Kobelco Group's uniqueness.

Materiality and Indicators/Targets ▶ See pp. 12–15.

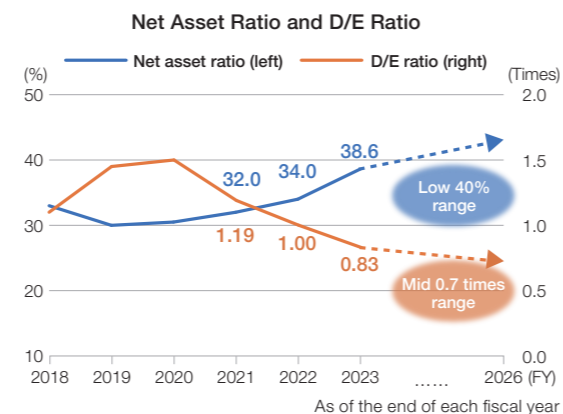
Kobelco Group Medium-Term Management Plan (Fiscal 2024–2026) ▶ See p. 43.

Further Strengthen the Financial Base

We will work to further strengthen our financial base in order to ensure stable, low-interest financing under any circumstances and to prepare for future large-scale investments, such as investment in carbon neutrality. Specific financial targets are as follows.

Fiscal 2026 Targets

- Net asset ratio: Low 40% range
- Gross D/E ratio: Mid 0.7 times range



The gross D/E ratio has been revised retroactively to include project finance associated with the electric power business in interest-bearing debt, effective from fiscal 2024.

Cash Allocation

While making investments aimed at increasing returns to shareholders, profitability, and growth rates, we will pursue maximizing capital efficiency primarily through asset sales and reductions in cash and deposits.

Proactive Investment Plan

In addition to investments aimed at enhancing earning power and pursuing growth, we will also actively consider investments in carbon neutrality, human capital, and digital transformation (DX) strategies. Our aim is to increase corporate value through strengthened sustainability efforts. We will strive to make investment decisions that allow for optimal allocation of management resources, taking into account discussions at the Business Portfolio Management Committee and other relevant bodies.

Cash Generation

While using operating cash flow generated from business activities as a source of capital, we will also aim to maximize capital efficiency by enhancing ROIC-based management. To achieve optimal capital efficiency, we will flexibly consider measures, such as optimizing inventory levels, reducing cash and deposits, and selling assets, including reducing strategic holdings of shares.

Cash allocation under the Medium-Term Management Plan ▶ See Kobelco Group Medium-Term Management Plan (Fiscal 2024–2026) on p. 37.

Returns to Shareholders

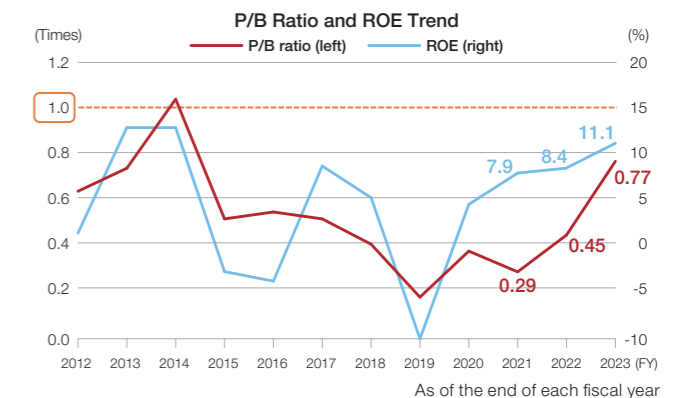
In fiscal 2023, we raised the target dividend payout ratio to approximately 30%. Future dividends will be determined based on our financial condition, future capital needs, performance trends, and the payout ratio. Under the Medium-Term Management Plan, we aim to pay dividends on a continuous and steady basis.

Market Evaluation and Initiatives for Improvement

Market Evaluation

In fiscal 2023, both our stock price and price-to-book (P/B) ratio significantly improved. We believe that the main factor behind the increase in the stock price is the successful establishment of a stable earnings base, including improved profitability in the steel business and earnings contribution from the electric power business, which were implemented as key measures under the previous Medium-Term Management Plan.

On the other hand, the current P/B ratio remains at around 0.7 to 0.8.



Reasons for the Discrepancy with Market Evaluation

The current ROE is roughly at the same level as at the end of fiscal 2014, when the P/B ratio was above 1.0, and profitability (ROIC) exceeds the WACC based on CAPM. Despite this, the P/B ratio remains below 1.0. We believe that the reason behind this is a discrepancy in the cost recognition between the capital market and our Company.

Main Causes of the Discrepancy

- (1) Concerns about the instability of the earnings base and financial vulnerabilities due to past performance.
- (2) Concerns about future uncertainty in various business environments, including environmental, social, and governance (ESG) perspectives, including carbon neutrality.

Efforts to Resolve the Discrepancy

Enhancing Profitability and Stability

We will steadily advance our efforts to enhance earning power and pursue growth, one of the priority issues set forth in the Medium-Term Management Plan, while striving to become a business entity that consistently achieves an ROIC of 8%, namely, a business entity that drives innovation into the future.

Reducing the Cost of Capital

To alleviate concerns in the capital market, we will work to reduce the cost of capital by strengthening our sustainability management, including taking on the challenge of realizing carbon neutrality, as well as by reinforcing our financial base, and providing continuous and stable returns to shareholders.

Continuing and Expanding Dialogue with the Capital Market

We believe that timely and appropriate information disclosure to investors, along with constructive dialogue, will help reduce information asymmetry with the capital market and foster trust in our management, thereby contributing to lowering our cost of capital. Under the policy of strategic and systematic information dissemination, we ensure active participation of our executives in dialogues with the capital market. We share the feedback from these dialogues regularly with the members of the Board of Directors to reflect the opinions of the capital market in our management decisions.

In fiscal 2023, our IR activities were highly evaluated, and we were ranked first in the steel and non-ferrous metal category in the 2023 Award for Excellence in Corporate Disclosure from the Securities Analysts Association of Japan.

We will continue to strive for enhancing corporate value through constructive dialogue with the capital market.

An example of information disclosure efforts:

Outside directors panel discussion



2023 Award for Excellence
in Corporate Disclosure



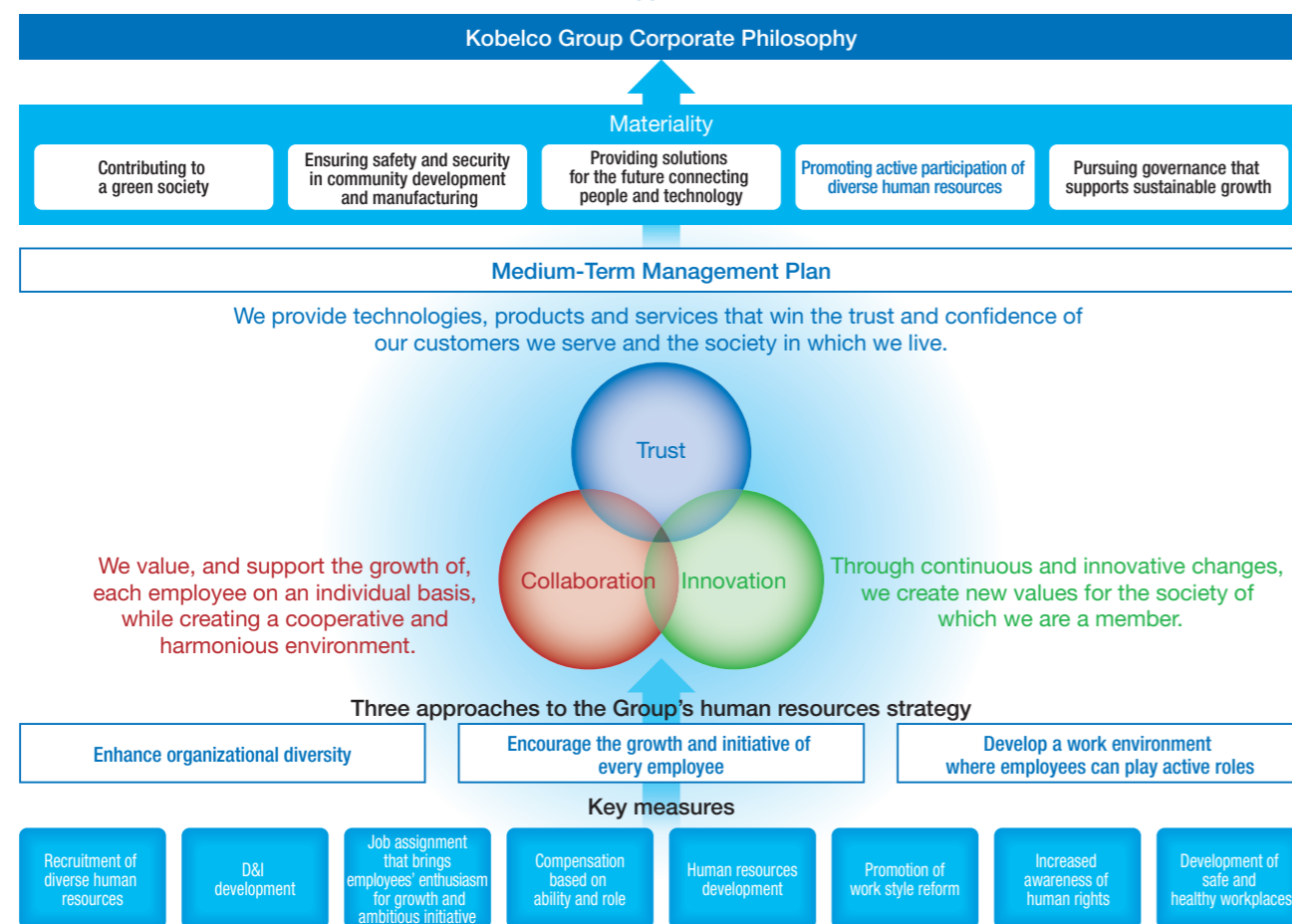
▶ Dialogue with the Capital Market (for fiscal 2022 and 2023): https://www.kobelco.co.jp/english/about_kobelco/kobesteel/governance/index.html#13

Kobelco Group Human Resources Strategy

The Kobelco Group believes that in order to fulfill its social responsibilities as a corporate group and create new value, it is important to develop human resources who understand and implement the Group Corporate Philosophy.

Our Group operates in a wide range of business fields and possess human resources with diverse backgrounds, values, and skills. Amid changes in society and world trends, our bold efforts to contribute to society and realize a world we envision will be a key to further bolstering our strengths. In order to make it happen, we will strive to create a work environment in which our people can perform at their full potential.

Kobelco Group's Human Resources Strategy



Improving Employee Engagement

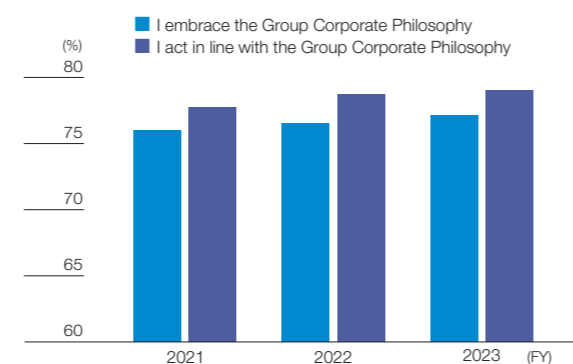
To promote our human resources strategy, our Group conducts its own employee awareness surveys annually to obtain an objective measure of changes in employee awareness, including their level of understanding and implementation of the Group Corporate Philosophy. Based on the results, we are working to improve their engagement.

We believe that increasing the number of highly engaged employees who embrace and implement the philosophy will lead to enhanced corporate value. Therefore, we regularly measure the penetration rate of the Group Corporate Philosophy as a KPI. Beginning in fiscal 2024, we have also adopted it as a materiality monitoring indicator.

For improving employee engagement, we are continuously working to instill the Group Corporate Philosophy through various activities, which include the Dialogue Platforms, an annual forum for dialogue between executives and employees and the Declaration of Pledges by Senior Management.

Questions on the Group Corporate Philosophy in the Employee Awareness Survey

(Percentage of employees who answered "I agree" or "I agree more than disagree" on the five-point scale)



Roundtable Discussion between a Director and Employees



Nao Kozakai

Recruitment & Training Group,
Human Resources Department

Yosuke Okazaki

Personnel Group,
Human Resources Department

Hajime Nagara

Executive Vice President and
Representative Director

Keita Fukunaga

Diversity, Inclusion and Labor
Relations Group,
Human Resources Department

Yuta Iwamoto

Facilitator
Personnel Group, Human Resources
Department (at the time of the photo)

Employee experience (EX) transformation initiative (human resources strategy and employee experience improvement) is one of the key initiatives aimed at "strengthening sustainability management through transformation (Kobelco-X)" under the Medium-Term Management Plan (Fiscal 2024–2026). Executive Vice President and Representative Director Hajime Nagara and employees from the Human Resources Department sat down and talked about the ongoing initiatives aimed at leveraging the diverse talents that are the source of the Kobelco Group's uniqueness, as well as their effectiveness, progress, achievements, and the challenges they are facing.

Characteristics of the Kobelco Group's Human Resources

Iwamoto What are your impressions of our Group employees?

Kozakai I am in charge of recruiting new graduates for career-track positions, and I often hear from students that the internal recruiters they interact with are kind, gentle, and good communicators. In recruiting activities, we are collaborating with around 1,000 employees, including those outside the Human Resources Department, I believe that many of our employees actually possess these qualities.

Fukunaga In my interviews with students, I often hear them mention "the people" as the main reason they decided to join the Company. During conversations with people from other companies as well, I often receive comments that our Company has a good atmosphere in terms of relationships among employees. More specifically, in my observation, we have a culture of mutual acceptance, regardless of differences in attributes, such as whether they joined the Company as a new graduate or mid-career hire. Since our Group operates various businesses, the organizational culture and staff traits vary depending on each business division. This is another unique quality of our organization. Now, we have no dress code at the head office, branch offices, and sales offices,

Roundtable Discussion between a Director and Employees



allowing employees to express their individuality through their clothing and hairstyles.

Okazaki Prior to joining the Human Resources Department, I worked in steel sales for about six years. During that period, we went through production adjustments due to the COVID-19 outbreak and logistics disruption by typhoons. Even in such situations, we were able to supply materials to our customers by coordinating efforts not only within the sales team but also with the production teams at the steelworks. I believe this was possible because we value communication and work together as one team even in critical situations.

Nagara Interesting stories. Our people are known for their kind and gentle nature, and we also have the ability to overcome a crisis. This is how our customers and business partners have described us in their feedback for many years. I've found that such traits are still present among our Group's human resources. On the other hand, aside from these shared traits, I believe we need to strive for even greater diversity, considering our Group's diverse businesses and human resources.

Importance of Diverse Human Resources in Achieving Sustainable Growth of the Group

Iwamoto As some of you mentioned earlier, one of the characteristics of the Group is its diverse human base. Why is a diverse workforce so important in achieving sustainable growth? What kind of value can we create by promoting the active participation of diverse human resources? Could you share your thoughts and what you are working on in these areas?

Kozakai One of the things I am focusing on is increasing the percentage of women in career-track administrative positions. At the management level, the percentage of female managers remains low at 3.1% (as of fiscal 2023), although I believe Kobe Steel has developed a work environment that enables active participation of women. As a recruiter, I aim to hire women who aspire to assume roles as managers and executives. I believe that ensuring diversity in our workforce will lead to securing broad talents who can contribute to our Group's diverse businesses.

Fukunaga When I joined the Company in 2012, there were 47 new graduate hires in career-track administrative positions, with about 15% being women. In 2024, the percentage has increased to 44%.

Iwamoto The situation is changing these days. We are seeing an increase in female students wishing to join our Company. Thanks to the efforts of recruiters to date, it seems we are steadily raising awareness of the Company that is becoming inclusive to everyone.

Okazaki In my role of managing and assigning personnel, I constantly recognize the importance of diversity. In my work, it is critical to enhance organizational diversity and build a strong organization. However, given that an organization's role evolves over time, it would be impossible to develop effective strategies if I relied solely on my own instincts and the knowledge that I acquired in the past. By incorporating feedback from colleagues across business divisions into our daily discussions, we are able to design more effective strategies.

Fukunaga I am constantly aware that diverse human resources are essential in fulfilling our mission of providing solutions to the needs of society through the integration of our various businesses and technologies. Last year, we introduced the Kobelco Life Support Leave system, allowing employees to take leave not only for nursing care and childcare but also for medical treatment, volunteer activities, reskilling, and other reasons. In the formulation process of this policy, we collected the opinions of various employees, including those from the labor union. If we had discussions among individuals with similar thinking and backgrounds, we might have overlooked numerous opinions and ended up with a system similar to those already in place. I realized the importance of diversity once again through this experience.

Iwamoto When starting something new, we can achieve better results by exploring ideas with individuals with different perspectives and backgrounds. By maximizing each one's performance, I believe we can make a stronger team.

Fukunaga At the 4th Kobelco Core Values Awards, the Jury's Special Award was given to a team that carried out a workplace improvement activity at Chofu Works. I heard from a member of the team that this activity was initially aimed at creating a more comfortable work environment for female employees, including improving heavy lifting operations, but it also led to the creation of a better work environment for all employees, including male staff. It was an impressive story for me. This is a good example of how we can make a better organization by prioritizing diversity.

Nagara Diversity is a significant element in our effort to create new value for society as we strive for a better future. Along with this, good communication is also vital to attaining the effective utilization of diverse human resources. By valuing communication and fostering unity among employees, we can build a stronger organization. In this positive cycle, diverse human resources are essential.

Measures to Promote the Human Resources Strategy

Iwamoto As human capital management is gaining increased attention as a crucial driver for a company's sustainable growth, it is also important to effectively communicate our initiatives to both internal and external stakeholders. In order to further enhance our Group's ongoing human resources strategy efforts, we established the Human Resources Strategy Subcommittee under the Sustainability Management Committee in April 2024. Our Group's initiatives have been disclosed through integrated reports, securities reports, and other channels. In light of these, I'd like to hear what approach you are taking, as members of the human resources team, in order to promote our human resources strategy.

Nagara I believe that the three approaches of Kobelco Group's Human Resources Strategy—enhancing organizational diversity, encouraging the growth and initiative of every employee, and developing a work environment where employees can play active roles—are closely connected to increasing employee engagement.

Fukunaga Technical employees, in particular, appear to face a greater challenge in recognizing the connection between their job and society and to find a sense of fulfillment due to the nature of their work. Since 2018, our Company has been conducting employee awareness surveys about work and the Company, and there is a persistent tendency among technical employees to give lower ratings. As a member of the secretariat of the Human Resources Strategy Subcommittee,

I am working to enhance understanding of the Company's strengths and human resource systems to address this issue. Currently, we regularly hold events such as Kobelco Gatherings, where executives explain the Company's business performance and other matters online and take questions directly from employees, as well as financial briefings for employees conducted by the IR team. Along with this, we need to reduce the digital divide among employees, since many technical employees do not have access to mobile devices (laptops, smartphones, etc.) at their workplace, making it difficult to deliver information to them via digital communication. We must address the information gap caused by disparities in hardware provision between employees who work with and without digital devices.

Okazaki Our initiatives aimed at developing an environment that allows active participation of employees include the introduction of a system that enables employees to request temporary exemption from transfers for a specific period of time if certain conditions are met, and permission for long-distance commuting, such as using Shinkansen (bullet train) or express trains. These measures address the needs of employees who previously had to leave the Company due to location issues, allowing them to balance their work with their personal lives and continue working with no worries. I believe this system supports diversified values of work styles. We are also expanding the career self-development system (internal recruitment system), which allows employees to proactively apply for transfers to their desired departments. I believe that by encouraging employees' endeavors in new positions, roles, and desired career paths, our initiatives enable enhancing the diversity of the organization and encouraging the growth and initiative of every employee.



Roundtable Discussion between a Director and Employees



Nagara To increase employee engagement, we need to communicate the significance of their work, as well as how it links to the Company's business and society. Our efforts to support human resources should not be limited to explaining the frameworks of the career self-development and other systems, but should also include providing opportunities for them to find ways to increase motivation at their workplace within the human resource management system.

Okazaki Agreed. When we think about the meaning of our work, we can gain a deeper understanding of our contribution, which in turn enhances engagement. I believe it's important to create such opportunities and, as a member of the Human Resources Department, I am committed to facilitating this.

Kozakai Career path and job location are significant concerns for students joining our Group, often referred to as the "assignment lottery." Students do worry a lot about whether they will have to live a life of frequent relocations or whether they will be able to achieve a good work-life balance. Although transfers may not be completely eliminated, our career self-development and transfer exemption systems are helping alleviate these concerns. I believe these have a strong appeal to students.

Fukunaga I am committed to advancing initiatives that enable employees to find joy and fulfillment in their work. By ensuring the effective implementation of these initiatives, we aim to stably secure and retain human resources, even though employment becomes more fluid. Meanwhile, there remain many issues to be addressed, such as the transfer of knowledge and skills from experienced employees to younger employees, improvements of the workplace environment, and automation and labor-saving measures to address labor shortages. We will move forward with our measures for

these issues, including those budgeted in the Medium-Term Management Plan.

Striving to Be a Company of Choice

Iwamoto How do you see our Group evolving in 10 years from now?

Kozakai I wish to see the Kobelco Group emerge as a desirable company. While our brand is well-recognized among students in the Kansai region, it remains less known in the Kanto region. I hope that Kobe Steel will be associated with the broader reputation as a good company.

Fukunaga It's always rewarding when family and friends recognize the value of working at Kobe Steel. I believe the Company's recognition is definitely improving.

Okazaki Recently, our Group has been boosting its advertising and promotion efforts. Increased visibility through commercials and advertisements on the pitcher's mound at Hanshin Koshien Stadium boost employee pride in working for Kobe Steel.

Nagara As a 2030 target, we aim to become a business entity that drives innovation into the future under the Medium-Term Management Plan (Fiscal 2024–2026). I believe that by steadily implementing the measures outlined in the plan, we can make the Company even more appealing. Let's work together toward what we aim for.

Core Values of KOBELCO—Next 100 Project

In fiscal 2017, the Kobelco Group launched the Core Values of KOBELCO—Next 100 Project. This project aims to achieve sustainable development into the future, together with all stakeholders, including all employees, by fostering a sense of fulfillment that unites all employees and creating a corporate group full of pride, confidence, passion, and hope. A key focus of this initiative is to further instill the Group Corporate Philosophy, to prevent us from forgetting the quality misconduct (namely, passing on the lessons learned to future generations), and to increase a sense of fulfillment as a member of the Group. The project is promoting recognition and empathy among all employees, as well as participation and practice by all employees, hoping that such actions of each individual will grow into our corporate culture and take firm root in the organization.



Main activities

We are working to instill the Group Corporate Philosophy, prevent us from forgetting the quality misconduct, and increase a sense of fulfillment as a member of the Group, in order to improve the engagement between senior executives and employees, as well as among employees, through the activities listed below. As we approach our 120th anniversary in 2025, we will increase our efforts to promote understanding of our Group and its efforts to live in harmony with the local community, along with our ongoing activities.

Participation and Practice

Declaration of pledges by senior executives and employees

- An initiative in which senior executives and employees declare their pledges.
- Beginning in fiscal 2022, the video of declaration of pledges by all executives has been made available to the entire Group.

Dialogue Platforms

- Has been held every year since fiscal 2018 with the participation of all individuals engaged in the business operations of Kobe Steel and its Group companies for the following purposes:
 - (1) Instilling the Group Corporate Philosophy
 - (2) Preventing the quality misconduct from being forgotten
 - (3) Promoting two-way communication in the organization
- Each year, we conduct group training for about 600 line managers who facilitate the Dialogue Platforms.

Kobelco Core Values Awards

- Launched in fiscal 2019 as an initiative to commend activities that implement the Group Corporate Philosophy and contribute to building a new corporate culture and to promote the practice of the Group Corporate Philosophy.

Recognition and Empathy

Dialogues between senior executives and employees

- An activity to proactively convey senior executives' commitment to transformation through dialogues in which the president and CEO and other senior executives speak directly to employees. It is being implemented in two forms: dialogue through business site visits and Kobelco Gatherings, which are large-scale online dialogues.
 - Former president Yamaguchi had engaged in dialogues with around 1,500 employees on approximately 150 occasions (as of March 31, 2024).
 - Kobelco Gathering: Around 4,000 cumulative participants as of fiscal 2023

Kobelco Core Values Place

- Established in 2019 within the Kobelco HRD Center in Kobe as a facility to share the lessons learned from the quality misconduct and pass them onto future generations. We are promoting visits in a variety of ways, including in-person visits to the facility in Kobe and to satellite facilities, as well as virtual visits to the online Kobelco Core Values Place.
 - About 29,000 employees have visited so far (as of March 31, 2024).

Kobelco Core Values Day

- We have designated March 6, the day we announced the final report on the misconduct, as Kobelco Core Values Day to remind ourselves every year of our pledge to society to prevent recurrence and to ensure that the lessons learned are not forgotten. We share a message from the president and CEO, as part of commemorative events of the day.

The 5th Kobelco Core Values Awards

Of the 86 entries submitted from domestic and overseas business locations of the Group, 12 were awarded, including the Grand Prix and Semi Grand Prix awards. The Grand Prix winner was "Kobelco Barrier-Free Map," which was recognized for the creation of a barrier-free map that helps people with disabilities visit Kobe Steel. The map shows the way from the nearest station to the Kobe Head Office and has been made available on the Kobe Steel corporate website. We hope that the award-winning projects will promote the realization of the Group Corporate Philosophy.



Economic Environment by Customer Domain

The Kobelco Group operates businesses centered on seven segments, and its main customer fields can be divided into the three categories of Mobility, Life, and Energy & Infrastructure. The table below shows how we see the the economic environment in these three areas.



Related segments: ● Steel & Aluminum ● Advanced Materials ● Welding ● Machinery ● Engineering ● Construction Machinery ● Electric Power

Mobility		Energy & Infrastructure	
<div>Automobiles</div> <div>●●●●●</div>	<ul style="list-style-type: none">The semiconductor shortage that caused supply constraints is easing, resulting in an increase in domestic automobile production. In the long term, while domestic automobile production is expected to decrease due to growing local production, automobile production is anticipated to increase in emerging countries in Asia and other regions.As part of efforts to achieve carbon neutrality, countries are tightening regulations on greenhouse gas (GHG) emission reduction and fuel efficiency and implementing measures to promote EVs. This is expected to lead to an increase in EVs in the long run, however EV sales are slowing down in some areas.Due to the rise in demand for new structures and performance-enhancing components, driven by the EV transition, new manufacturing processes and technologies are emerging, resulting in changes in the supply chain.	<div>Urban transit</div> <div>●</div>	<ul style="list-style-type: none">In the AGT sector, while the number of passengers is returning to pre-pandemic levels, rising electricity prices and other factors are anticipated to result in higher costs.In emerging countries, there is a high demand for transportation systems to alleviate air pollution and traffic congestion caused by population concentration in metropolitan areas.
	<div>Aircraft</div> <div>●●</div>		<div>Industrial machinery</div> <div>●●</div> <ul style="list-style-type: none">The world is recovering from the pandemic, and the economy continues to grow. With this upward trend, equipment investment demand is high in various industries.Economic growth rates are particularly high in India and ASEAN countries, and we expect this to lead to increased demand. Meanwhile, the Chinese economy is slowing down, and we expect demand to decrease in the immediate future.The emergence of geopolitical risks and other factors may cause fluctuations in the business environment, including the supply chain. The situation warrants close attention.
	<div>Shipbuilding</div> <div>●●●●●</div>		<div>Energy, petroleum refining, and petrochemical</div> <div>●●</div> <ul style="list-style-type: none">Global energy consumption is on the rise, with particularly significant increases in energy consumption in India, ASEAN countries, and the Middle East, driven by economic growth.As the transition to next-generation energy sources progresses, there is a rise in capital investment demand for environmental applications such as hydrogen, ammonia, and carbon capture and storage (CCS). Meanwhile, capital investment is declining in existing fields such as the petroleum refining and petrochemical sectors.In the short term, the situation remains unpredictable, primarily due to uncertainty about future development in the business environment, as carbon neutrality efforts progress.
Life		<div>Renewable energy</div> <div>●●●●●</div>	<div>Direct reduced iron (DRI)</div> <div>●●</div> <ul style="list-style-type: none">There are high expectations for direct reduction and hydrogen reduction ironmaking processes, which emit less CO₂ than conventional blast furnace ironmaking, as key solutions for achieving carbon neutrality. Companies are actively exploring iron metallics (DRI) supply businesses.On the other hand, there are concerns that companies may postpone their investment decisions due to uncertainties about the future, such as increasing energy costs, possible inflation and economic downturns, rising geopolitical risks, etc.
<div>Food containers</div> <div>●</div>	<ul style="list-style-type: none">Due to environmental concerns, a shift from plastic bottles to aluminum cans is progressing, particularly in Europe and the United States. However, the demand for can materials is expected to remain flat due to a drop in home drinking trends with the end of the COVID-19 pandemic, as well as declining demand for beverage products along with rising prices.Domestic demand is expected to remain on a modest downward trend in the medium to long term, as the population declines.		
<div>IT and semiconductors</div> <div>●●●●</div>	<ul style="list-style-type: none">Semiconductor demand is expected to grow significantly in the medium to long term, with the growing demand for advanced and diversified functionalities of products, as well as accelerating digitalization in the automotive and other sectors.Construction of new semiconductor foundries is accelerating worldwide, including in Japan.Hard disk drive (HDD) shipment volumes are expected to recover from fiscal 2024 onward, driven by growing demand for IoT and AI applications. Due to the growing need for increased storage capacity in data centers, the number of disks mounted on a HDD is also increasing.		
Energy & Infrastructure		<div>Water treatment and waste treatment</div> <div>●</div>	<div>Electric power</div> <div>●●●</div> <ul style="list-style-type: none">Despite the recovery trend of economic activities in fiscal 2023, domestic electricity demand remained flat year on year, as higher electricity prices have increased energy conservation awareness. From fiscal 2024 onward, demand is anticipated to rise due mainly to the construction and expansion of data centers and semiconductor foundries.The thermal coal price soared globally, affected by the supply-demand crunch caused by Russia's invasion of Ukraine, but it has fallen sharply to the pre-invasion level since early 2023, due to stagnant demand resulting from a mild winter in the northern hemisphere. This trend has persisted with no significant changes. Meanwhile, wholesale electricity market prices, which rose sharply in 2022, have declined since the beginning of 2023 and have remained low.
<div>Construction and civil engineering</div> <div>●●●●●</div>	<ul style="list-style-type: none">Global demand is expected to decrease in Europe and the United States due to a decline in housing construction and the economic slowdown. In China, demand has been shrinking due to a slowdown in infrastructure investment but is expected to gradually recover.Domestic demand has decreased more than anticipated due primarily to postponements and cancellations of building constructions caused by rising material and labor costs. Robust demand is anticipated in the medium to long term as suspended construction projects are resumed. However, demand is not expected to reach the planned level, with continued labor shortages.Labor shortages are becoming more serious due to the declining working population, and there is an increasing demand for improvements in the labor environment, including work conditions and safety.		

Business Overview by Operating Segment

Materials Businesses

ROIC target 6–8%

The materials businesses consist of the three segments of Steel & Aluminum, Advanced Materials, and Welding, with primary customer domains including the automotive, aircraft, shipbuilding, food container, IT and semiconductor, and construction and civil engineering sectors. We aim for enhancing earning power by rebuilding operational bases for the future business environment and improving profitability on a global scale. We will also aim to contribute to the reduction of CO₂ emissions in society as a whole by promoting initiatives aimed at reducing CO₂ emissions in our own production processes as well as contributing to reduction of CO₂ emissions through our technologies, products, and services.

Review of the Previous Medium-Term Management Plan

Establishing a stable earnings base

- **Strengthening the earnings base in the steel business:** Profitability improved significantly by lowering the break-even point, although the product mix remains an issue.
- **Strategic investment leading to earnings contribution:** Earnings contribution has yet to be achieved as planned, with earnings in the aluminum rolled products, extrusions, and suspensions businesses remaining sluggish.
- **Restructuring unprofitable businesses:** Achieved profitability in the previously unprofitable steel castings and forgings and titanium businesses.

Taking on the challenge of realizing carbon neutrality

- **CO₂ reduction in ironmaking process:** Developed a technology to charge an increased amount of hot briquetted iron (HBI) into the blast furnace (BF), while promoting a double-track approach, which include the introduction of a new EAF.
- **Contribution to reduction of CO₂ emissions through technologies, products, and services:** Commercialized the low-CO₂ blast furnace steel product Kobenable® Steel, low-CO₂ aluminum sheets and advanced materials, and fuel cell bipolar plate materials.

Business Strategy

Enhancing earning power and pursuing growth

Rebuilding operational 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 in light of 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, and stable production, and will proceed with the establishment of a joint venture company with Baoshan Iron & Steel Co., Ltd. and Baowu Aluminum Technology Co., Ltd. in China in the aluminum panel business, 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 achieve profitability in the extrusions and suspensions businesses in North America.

- **Maintaining global competitiveness**

In order to maintain global competitiveness of the steel and welding businesses, we will continue to restructure the entire business structure without delay, including reviewing

target regions and regional production systems, considering megatrends in respective regions. In particular, we will strengthen our production and sales systems in Asia to meet the need for local production and local consumption.

Taking on the challenge of realizing carbon neutrality

- **CO₂ reduction in ironmaking process**

We aim to achieve the 2030 target of a 30–40% reduction (compared to fiscal 2013) by charging an increased amount of HBI into the BF and implementing various energy-saving measures. Along with this, we will accelerate the study of the large-scale innovative EAF capable of producing high-quality steel.

- **Expanding sales of environmental and other products that meet the needs of society**

While expanding sales of the low-CO₂ blast furnace steel product Kobenable® Steel, and low-CO₂ aluminum sheets and advanced materials, we will promote activities to establish international standards for green steel and actively work to increase the Kobenable brand recognition and expand the market in the future. Our materials businesses' key products that contribute to CO₂ reduction are listed below. The list includes products whose contribution to CO₂ reduction is not reasonably calculable.

Products that contribute to reduction of CO₂ emissions through technologies, products, and services

Materials businesses	Low-CO ₂ blast furnace steel products	Low-CO ₂ aluminum sheets and advanced materials	Lightweight materials
	Magnetic materials	Fuel cell bipolar plate materials	Welding materials for ultra-high-tensile strength steel
	Non-heat-treated wire rods	Blast furnace cement	Aircraft materials



Steel & Aluminum

We will provide solutions to the needs of society, such as the realization of a low-carbon, recycling-oriented society, with the power of distinctive materials products. We will also actively transform our business model and production system to adapt to the drastic changes in the surrounding environment, and become a sustainable business entity that contributes to society in the future.

Shoji Miyazaki

Executive Vice President, Head of the Steel & Aluminum Business

Fiscal 2023 Summary

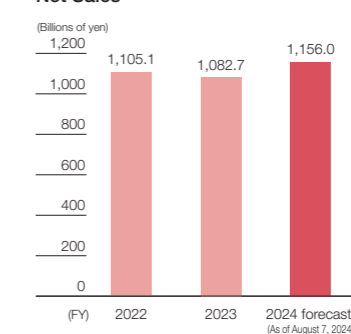
Steel

- Despite an increase in sales volume in the automotive sector along with demand recovery, overall sales volume declined year on year due to the refurbishment of a steel plate finishing rolling mill.
- Selling price increased year on year, primarily due to the progress in selling price improvements.
- Ordinary loss was 39.2 billion yen, down 9.7 billion yen year on year, due to a decrease in sales volume and decrease in inventory valuation gains, despite positive factors such as a decline in coking coal prices and improvements in metal spreads along with the progress in selling price improvements.

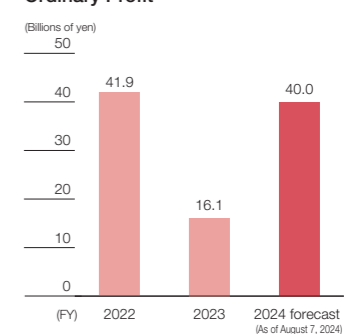
Aluminum

- While sales volume remained at the same level year on year in the automotive sector, overall sales volume decreased year on year due to a sharp decline in the IT and semiconductor sectors that were in a supply-demand adjustment phase.
- Selling prices increased year on year primarily due to the progress in selling price improvements.
- Ordinary loss was 23.1 billion yen, down 16.0 billion yen year on year, due to a decrease in sales volume and in inventory valuation gains, as well as the recording of the share of loss of investments accounted for using equity method resulting from the restructuring of the automotive aluminum panel business.

Net Sales



Ordinary Profit



For details, see Results by Operating Segment. ▶ See pp. 120–121.

Recognition of the Business Environment and Our Business's Strengths

Opportunities	<ul style="list-style-type: none">• Growing decarbonization needs in global markets (Growing demand for high-grade steel and low-CO₂ blast furnace steel)• Increased global steel demand, especially in emerging countries• Progress in reducing steel production capacity in Japan	Risks <ul style="list-style-type: none">• Labor shortages and gradual decline in domestic demand due to declining population in Japan• Growing trend of local production and local consumption around the world• Continued increase in labor and equipment costs• Growing need for decarbonization of the blast furnace ironmaking process
Strengths	Overall Steel & Aluminum Business <ul style="list-style-type: none">• Cross-divisional initiatives for steel and aluminum products (multi-material) and one-stop product sales and services for customers• Delivering value throughout the supply chain in close collaboration with customers	
	Steel products <ul style="list-style-type: none">• Distinctive products (ultra-high-tensile steel sheets, special steel wire rods, environmentally friendly corrosion-resistant steel plating)• Global competitiveness in major overseas markets	
	Aluminum rolled products <ul style="list-style-type: none">• Beverage can stock: Strong relationships with customers and lightweight aluminum beverage cans manufacturing technology• Automobiles: New heat treatment lines and solution proposals (analysis and design)• Disks: Approximately 60% of the global market share and high-capacity HDD manufacturing technology	

Business Topics

(1) Restructuring the aluminum panel business

Demand for disc materials and aluminum plates is declining due to lower semiconductor demand as well as sluggish demand for automotive panel materials. Against this backdrop, we are restructuring the automotive panel business while working to improve base earnings. While demand for automotive aluminum panel materials is expected to continue to rise in China due to the transition to electric vehicles (EVs), we will capture demand for automotive aluminum panels in China by establishing a joint venture and promoting cooperation with Baoshan Iron & Steel Co., Ltd. and Baowu Aluminum Technology Co., Ltd., to meet the growing need for local production for local consumption, along with the global trend toward carbon neutrality.

(2) Ironmaking process

We aim to achieve our 2030 target for CO₂ reduction and our 2050 vision for carbon neutrality by charging an increased amount of HBI into the BF and implementing various energy-saving measures. Along with this, we will accelerate the study of the large-scale innovative EAF capable of producing high-grade steel.

Business Overview by Operating Segment



Advanced Materials

Our distinctive materials and components created from diverse technologies and human resources are highly evaluated by numerous customers. We will continue to provide solutions to the needs of society through continuous improvement and transformation and deliver valuable products and smiles to our customers.

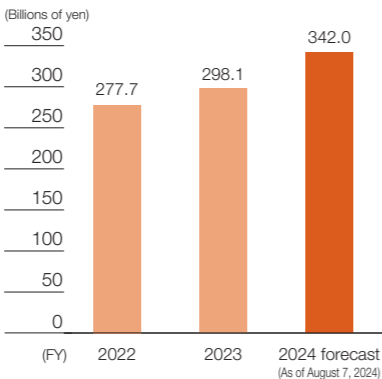
Ryosaku Kadowaki

Executive Officer, Head of the Advanced Materials Business

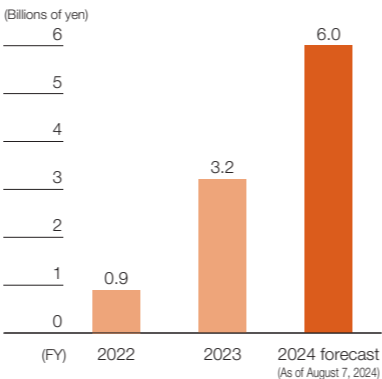
Fiscal 2023 Summary

- Sales volume increased year on year in steel castings and forgings, which saw increased demand in the shipbuilding sector, as well as in aluminum extrusions and suspensions, which saw a recovery in demand in the automotive sector. On the other hand, sales volume of copper rolled products and aluminum castings and forgings decreased year on year due to a decline in demand in the IT and semiconductor sectors.
- Ordinary profit was 3.2 billion yen, up 2.2 billion yen year on year, due to an increase in sales volume and progress in selling price improvements, despite an increase in costs centered on fixed costs.

Net Sales



Ordinary Profit



For details, see Results by Operating Segment. ▶ See pp. 120–121.



Welding

With quality positioned as the pillar of our management, we aim to be the most reliable welding solutions company in the world based on “quality and technology,” “trust and security,” and “pride and responsibility.” We will continue to take on the challenges of providing solutions to the needs of society and realizing a sustainable society.

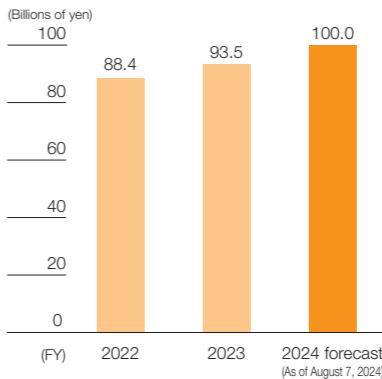
Kazuyuki Suenaga

Executive Officer, Head of the Welding Business

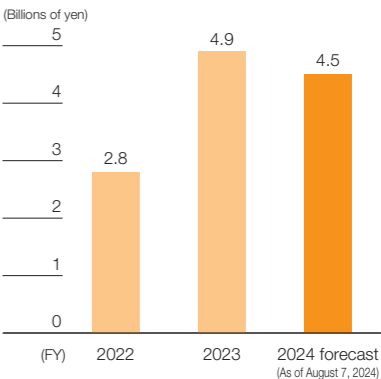
Fiscal 2023 Summary

- Sales volume decreased year on year due to slow recovery in demand in China and Southeast Asia, as well as a decline in demand in the Japanese automotive and construction machinery sectors in China, while domestic sales volume remained at the same level year on year.
- Selling prices increased year on year primarily due to the progress in price improvements.
- Ordinary profit was 4.9 billion yen, up 2.0 billion yen year on year, primarily due to the progress in selling price improvements, despite a decrease in sales volume.

Net Sales



Ordinary Profit



For details, see Results by Operating Segment. ▶ See pp. 120–121.

Recognition of the Business Environment and Our Business's Strengths

Opportunities	<ul style="list-style-type: none">Solid needs for weight reduction in the automotive sector, including the transition to EVsGrowing importance of domestic industries in the shipbuilding and aircraft sectors that support critical infrastructureMedium- to long-term growth expectations in the semiconductor sector	Risks	<ul style="list-style-type: none">Decline in demand for automobiles due to carsharing and growth of Mobility as a Service (MaaS)Decrease in demand for air travel due to lifestyle changesRestrictions on the number of vessels built due to labor shortages in the shipbuilding sectorSupply chain disruptions caused by volatility in demand in the semiconductor sector
Strengths	<ul style="list-style-type: none">Diverse technology and business assets in the automotive, aircraft, shipbuilding, rolling stock, semiconductor, and other sectorsDevelopment/manufacturing technologies to produce niche products with a dominant market share, such as aluminum forgings for automotive suspensions, copper alloys for automotive terminals and connectors, semiconductor lead frame materials, and aluminum parts materials for semiconductor manufacturing equipmentJapan's only full-lineup manufacturer of material products for shipbuilding with a wealth of experience and integrated production system from steelmaking to finished goodsJapan's only supplier of large titanium forgings and large aluminum castings for aircraft with extensive track record		

Recognition of the Business Environment and Our Business's Strengths

Opportunities	<ul style="list-style-type: none">Growing need for welding automation and efficiency improvement to address labor shortages in the manufacturing industryGrowth of the new materials and welding solutions sectors that contribute to carbon neutralityUnique value of being a comprehensive welding manufacturer capable of offering one-stop solutions for skill succession problems arising from the declining birthrate and aging populationGrowing demand for welding in growth markets such as overseas emerging countriesShift of the existing welding systems business to customer experience-oriented business and commercialization of peripheral processes	Risks	<ul style="list-style-type: none">Labor shortages and gradual decline in domestic demand due to the declining population in JapanNational security and geopolitical risks in overseas markets, as well as in our business locations and supply chains
Strengths	<ul style="list-style-type: none">One of the few integrated welding companies in the world, offering comprehensive solutions in welding consumables, robot systems, power supplies, and processesAbility to propose solutions based on thorough on-site focus and quick responsesJapan's largest sales force that handles welding consumables and welding systems in the welding industryOverseas sales bases that provide welding consumables of consistent quality across all basesA spirit of Kobelco Welding Way that promotes innovation while embracing tradition		

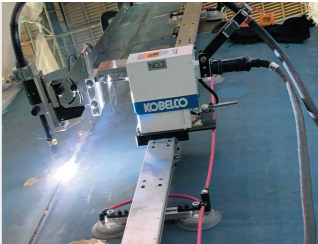
Business Topics

- We deliver products that meet the needs for weight reduction in automobiles, including the transition to EVs, through our aluminum extrusions and suspensions businesses. In addition, we are promoting the use of green aluminum as an initiative to achieve carbon neutrality and will continue to contribute broadly to society and the environment.
- There is an increasing attention for the importance of developing domestic businesses in the sectors of shipbuilding and aircraft, which constitute vital infrastructure. While our steel casting and forging business provide shipbuilding component products, our aluminum castings/forgings and titanium businesses deliver aircraft component products. With a solid business operation base, we support our customers' supply chains.
- Our aluminum casting and forging and copper rolled products businesses contribute to the growth of the semiconductor industry, which has strong growth potential, by providing a stable supply of products that meet customer needs.

Business Topics

• Practical application of small welding robot and welding materials for LNG fuel tanks

As demand for LNG grows as a transitional energy source bridging to carbon neutrality, the shipbuilding industry is working on the in-house production of LNG fuel tanks. In order to improve the quality of welding 9% Ni steel, which requires a high level of workmanship, and to address a shortage of welders, we have developed the KI-700, a compact, portable welding robot, and specialized welding consumables. Practical application of these products has already begun, and we will work to promote their widespread use.



• Steel welding robots evolving with DX technology

In the construction industry, Building Information Modeling (BIM) is being promoted to solve the shortage of welders, and we have developed software linked to 3D-CAD data to improve efficiency and simplify robotic beam welding work. In the future, we will further expand the functions and applications of this software.

Business Overview by Operating Segment

Machinery Businesses

ROIC target 8–10%

The machinery businesses consist of the three segments of Machinery, Engineering, and Construction Machinery, with primary customer domains including the automotive, aircraft, shipbuilding, construction and civil engineering, social and industrial infrastructure, and environmental and energy sectors. While seizing business opportunities in the changing business environment, we will pursue further growth by capturing new demand and widening business domains. Our machinery businesses cover a broad range of technologies, products, and services that help reduce CO₂ emissions and environmental impact. Leveraging these, we will provide solutions to the societal challenges faced by our customers and aim to contribute to the environment and society.

Review of the Previous Medium-Term Management Plan

Establishing a stable earnings base

- **Restructuring unprofitable businesses:** Achieved profitability in the previously unprofitable crane business.
- **Stabilizing earnings in the machinery businesses and responding to growing markets:** Orders and earnings increased in the machinery and engineering businesses. Structural reforms are underway in the construction machinery business.

Taking on the challenge of realizing carbon neutrality

- **Contribution to reduction of CO₂ emissions through technologies, products, and services:** Steadily captured growing demand for the MIDREX® Process and environmental machinery products, etc., spurred by worldwide CO₂ reduction efforts. Carried out new projects such as the hybrid-type hydrogen gas supply system and low-CO₂ iron metalics supply project.

Business Strategy

Enhancing earning power and pursuing growth

While enhancing 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 efforts, the overall machinery businesses will strive to become a business entity that achieves net sales of 1 trillion yen scale by fiscal 2030.

The machinery segment aims to secure orders in rotating machinery, which is expected to see increased demand for environmental applications, while expanding our business in the semiconductor inspection equipment and isostatic press (IP) sectors. The machinery segment aims to achieve net sales of 300 billion yen scale in fiscal 2030.

The engineering segment aims to steadily capture the increasing demand for direct reduced iron (DRI) spurred by global steelmakers' efforts to achieve carbon neutrality, while moving forward with a feasibility study on the low-CO₂ iron metalics supply project in Oman. In the environmental and energy sector, we will promote initiatives leveraging

our strengths of operating both waste and water treatment businesses. The engineering segment aims to achieve net sales of 250 billion yen scale in fiscal 2030.

In addition, we will strengthen our customer experience-oriented business and solution business, by enhancing our welding systems, K-DIVE®, K-D2 PLANNER®, and hybrid-type hydrogen gas supply systems, etc., utilizing the knowledge, technologies, and know-how we have built up through our business activities in combination with digital transformation (DX) technologies. These businesses aim to achieve net sales of 50 billion yen scale in fiscal 2030.

Taking on the challenge of realizing carbon neutrality

The machinery businesses are promoting initiatives to contribute to reduction of CO₂ emission as growth opportunities. Our machinery businesses' key products that contribute to CO₂ reduction are listed below. The list includes products whose contribution to CO₂ reduction is not reasonably calculable.

Products that contribute to reduction of CO₂ emissions through technologies, products, and services

Machinery businesses	MIDREX® Process	Low-CO ₂ iron metalics supply	Compressors
	Heat exchangers and vaporizers	Wood biomass power generation	Waste-to-energy (WtE)
	Electric and fuel cell-type construction machinery	HHOG*	Hybrid-type hydrogen gas supply system

* High-purity Hydrogen Oxygen Generator (HHOG)

Machinery

The machinery segment owns a wide array of products and technologies that contribute to the reduction of CO₂ emissions and environmental impacts. We will continue to work together with our customers to reduce environmental impacts and contribute to the realization of a sustainable society, as we aim for further growth as a business entity.

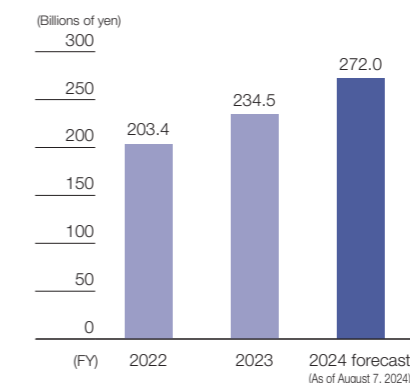
Masamichi Takeuchi

Executive Vice President, Head of the Machinery Business,
General Manager of the Management Division in the Machinery Business

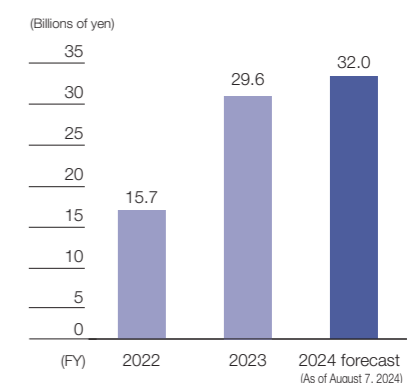
Fiscal 2023 Summary

- Orders in the machinery business segment increased year on year, due to strong demand mainly in the petrochemical and energy sectors.
- Ordinary profit was 29.6 billion yen, up 13.8 billion yen year on year due to improved order profitability along with increasing orders.

Net Sales



Ordinary Profit



For details, see Results by Operating Segment. ▶ See pp. 120–121.

Recognition of the Business Environment and Our Business's Strengths

Opportunities	<ul style="list-style-type: none"> • Increasing demand for non-fossil energy sources, such as hydrogen and ammonia, as well as for decarbonization applications such as CCUS, spurred by the energy transition trends • Higher demand in the electronics and semiconductor sectors, driven by the advancement of digital transformation and growing demand for EVs • Increased relative competitiveness with European and U.S. companies due to foreign exchange effects 	Risks	<ul style="list-style-type: none"> • Stricter CO₂-related restrictions in various countries • As the future of the energy transition remains uncertain, demand for petrochemical-related capital investments is declining at an accelerating pace • Supply chain disruptions due to geopolitical risks
	<ul style="list-style-type: none"> • Over many years, we have developed various technologies for non-standard machinery. Especially, we possess 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 • While many of our competitors are located in Europe, we have main manufacturing facilities in Japan, China, and India, enabling us to supply products and parts quickly to customers in Asia • We are developing technologies in the growing energy transition market (hydrogen, ammonia, LNG, etc.), utilizing our experience accumulated in the energy field 		

Business Topics

Machinery business receives gold prize at the 65th Tamiya Awards* for establishing compressor business structure for LNG carriers

In 2014, we developed a high-pressure vertical reciprocating compressor to make inroads into the non-standard compressor market targeted at the LNG carrier sector, and in 2016 we received our first orders for a reciprocating compressor and an oil-injected screw compressor. To date, we have been receiving constant orders, with a delivery record of about 100 units of reciprocating and screw compressors combined and about 80 units in the production line. The non-standard compressor business is becoming a reliable source of profit in the machinery segment. We are the only supplier capable of providing both screw compressors and reciprocating compressors for LNG carriers from a single source, which is our strength that distinguishes us from other companies in this field.

Kobe Steel's machinery business segment received the Gold Prize at the 65th Tamiya Awards in recognition of its contribution to the energy transition and solving environmental issues by playing a part in the stable transportation of large volumes of LNG, thereby contributing to a green society, which is one of the Group's key issues of materiality, as well as its steady growth as a business as a newcomer in a growth market by acquiring new business opportunities such as carbon neutrality.

* Tamiya Awards: An award system that recognizes technologies, products, and activities that have made significant contributions to the Company's success and society in honor of the legacy and accomplishments of Kaemon Tamiya, the fifth President of the Company.

Business Overview by Operating Segment



Engineering

The engineering segment is particularly focused on lower CO₂ emissions (CO₂ reduction), as well as the environmental and energy sectors. By bringing together the unique qualities, wisdom, and skills of each and every employee and maximizing our value, we will strive to achieve carbon neutrality and earnings growth over the medium to long term.

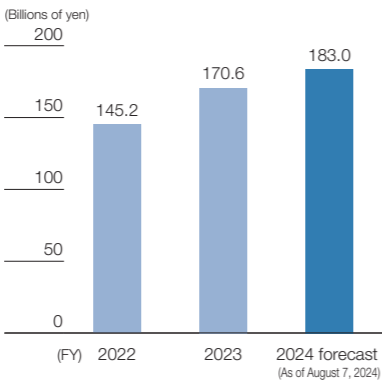
Masahiro Motoyuki

Executive Officer, Head of the Engineering Business,
Responsible for companywide construction businesses

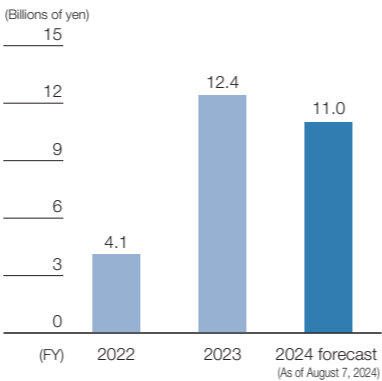
Fiscal 2023 Summary

- Orders increased year on year, driven by favorable factors such as orders for large-scale overseas projects in the DRI-related business and steady orders in the waste treatment-related business
- Ordinary profit was 12.4 billion yen, up 8.2 billion yen year on year.

Net Sales



Ordinary Profit



For details, see Results by Operating Segment. ▶ See pp. 120–121.



Construction Machinery

Based on our user hands-on approach, we will strengthen our DX solutions and parts and maintenance business to provide high-quality products and services that address societal challenges. We will strive to provide on-site safety, comfort, and efficiency at our customers' sites, offering value indispensable to both our customers and society.

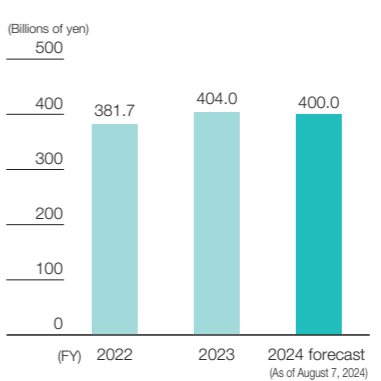
Akira Yamamoto

President and CEO, Kobelco Construction Machinery Co., Ltd.

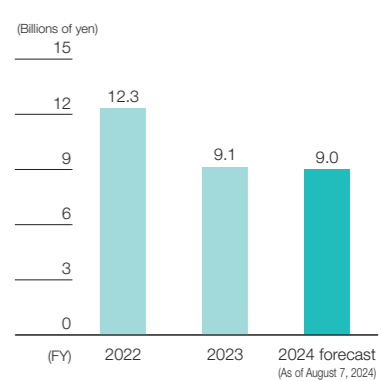
Fiscal 2023 Summary

- Unit sales of hydraulic excavators decreased year on year due to a decline in China where demand was sluggish and in Europe that was affected by the engine certification problem, despite an increase in North America and other regions.
- Unit sales of crawler cranes increased year on year, due to an increase in sales primarily in North America as progress was made in resolving the engine certification problem, despite a decrease in Europe, which was affected by the engine certification problem and production and shipping delays.
- Ordinary profit was 9.1 billion yen, down 3.2 billion yen year on year, mainly due to a decline in compensation income related to the engine certification problem, despite selling price improvements and increased export profitability resulting from a weaker yen.

Net Sales



Ordinary Profit



For details, see Results by Operating Segment. ▶ See pp. 120–121.

Recognition of the Business Environment and Our Business's Strengths

Opportunities	<ul style="list-style-type: none">• Stricter regulations and increasing government support measures aimed at reducing CO₂ emissions and achieving carbon neutrality, as well as the companies and local governments' ongoing efforts toward the introduction of new technologies and equipment and increased capital investment• Increased need for maintenance and after-sales service, labor-saving solutions, and DX due to labor shortages and the aging of existing equipment• Technological advancements and cost reductions enabling mass production and supply of inexpensive hydrogen	Risks	<ul style="list-style-type: none">• Delays or postponement in investment decision due to rising energy costs, inflation, economic recession, and increased geopolitical risks• Price rivalries due to intensifying competition and increased cost burden for the development and verification of technologies• Loss of opportunities for growth and orders due to labor shortages and delays in technical studies
Strengths	<ul style="list-style-type: none">• A wide array of environmental solutions for lower CO₂ emissions (CO₂ reduction), as well as for the environmental, energy, and other sectors• Being the MIDREX® Process owner with a large share in the global DRI market• Possessing both water and waste treatment solutions, enabling treatment processes across the sewage and waste sectors		

Business Topics

The MIDREX® Process is garnering attention as a process that contributes to carbon neutrality in the global steel industry. The process uses hydrogen or hydrogen-rich gas reformed from natural gas as a reducing agent to reduce iron ore pellets processed from powdered ore in a shaft furnace to produce reduced iron, which is a raw material for steelmaking. Natural gas-based MIDREX® Process (MIDREX NG™) can reduce CO₂ emissions in the ironmaking process by up to 40% compared to the conventional blast furnace route, and over 90 MIDREX NG™ DRI plants are in operation worldwide. Along with this, we have a process called MIDREX Flex™, which can flexibly replace natural gas with hydrogen up to 100%, and MIDREX H2™, which uses 100% hydrogen as a reducing agent. We are also moving forward with the feasibility study of a low-CO₂ iron metalics supply project utilizing the MIDREX® Process in Oman.

Recognition of the Business Environment and Our Business's Strengths

Opportunities	<ul style="list-style-type: none">• Automation in construction being promoted by the Ministry of Land, Infrastructure, Transport and Tourism• Acceleration of work style transformation in construction sites• Rising momentum in the efforts toward CO₂ reduction in construction sites	Risks	<ul style="list-style-type: none">• Slow progress of DX efforts in the construction industry and infrastructure sectors• Delays in the spread of carbon-neutral construction machinery due to a lack of environmental and legal regulations and soaring materials and labor costs
Strengths	<ul style="list-style-type: none">• A diverse lineup of construction machinery and sales and service support capabilities that meet market needs, nurtured through a rigorous user hands-on approach• Industry-leading next-generation technology development capabilities, including Japan's first electric mining shovel, Japan's first compact rough terrain crane, the world's first hybrid excavator, the remote operation system for construction machinery K-DIVE® and the crane construction planning support software K-D2 PLANNER®		



Business Topics

While flexibly responding to changes in the business environment, we will strive to increase earnings by promoting region-specific strategies and bolster the parts and maintenance business through the After Sales Division, which was established in April 2024. Based on this stable earnings base, we will work to create new needs for future growth while monitoring changes in our customers and social situations. In particular, we will further promote the use of K-DIVE®, a site improvement solution using heavy machinery remote operation system and operation data, and K-D2 PLANNER®, crane construction planning support software. Along with this, we will offer new value through the development of carbon-neutral construction machinery, such as hydrogen-driven fuel cell electric excavators.

Business Overview by Operating Segment

Electric Power Business

Our Group started its power supply business in fiscal 2002, contributing to the stable supply of electricity in local communities. We currently operate the power plants listed below.

	Location	Power generation method	Power generation capacity	Start of commercial operation	Wholesale customer
Kobe Power Plant No. 1 and No. 2 units	Kobe, Hyogo Prefecture	Coal fired	700 MW/unit	No. 1 unit: Apr. 2002 No. 2 unit: Apr. 2004	Kansai Electric Power Co., Inc.
Kobe Power Plant No. 3 and No. 4 units			650 MW/unit	No. 3 unit: Feb. 2022 No. 4 unit: Feb. 2023	
Moka Power Plant No. 1 and No. 2 units	Moka, Tochigi Prefecture	Gas fired	624 MW/unit	No. 1 unit: Oct. 2019 No. 2 unit: Mar. 2020	Tokyo Gas Co., Ltd.

Total: Approx. 3.95 GW



Kobe Power Plant No. 1 and No. 2 units



Kobe Power Plant No. 3 and No. 4 units



Moka Power Plant No. 1 and No. 2 units

Review of the Previous Medium-Term Management Plan

- Built Kobe Power Plant No. 3 and No. 4 units → Started commercial operation as planned
- Achieved profitability by securing annual earnings of approximately 40 billion yen through the stable operation of all six power plant units → Completed the power plants as planned and achieved profitability
- Taking on the challenge of realizing carbon neutrality by 2050 → Advancing studies aligned with the roadmap

Business Strategy

Enhancing earning power and pursuing growth

Through the stable operation of all six power plant units, we will secure annual earnings of approximately 40 billion yen and support the growth of the entire Group.

Taking on the challenge of realizing carbon neutrality

Based on the roadmap set out in the Medium-Term Management Plan, our Group will continue to provide a stable supply of electricity with low environmental impact and high economic efficiency over the long term, while strengthening its efforts to achieve even higher efficiency and lower CO₂ emissions with the aim of realizing carbon neutrality by 2050.

At the Kobe Power Plant, we plan to implement co-firing of sewage sludge-derived fuel for the effective use of regional biomass and hydrogen supply, along with regional heat supply that is already in place. Kobelco Eco-Solutions Co., Ltd. has

received several orders for equipment that converts sewage sludge into fuel and is now working to implement co-firing.

We also proceeded with studies on the introduction of ammonia co-firing technology and participated in the Long-Term Decarbonization Power Resource Auction and won the bid. We will continue to study ways to secure clean ammonia and promote initiatives to achieve 20% ammonia co-firing as set out in the roadmap.

At the Moka Power Plant, we will continue stable operation of low-CO₂ power generation using the high-efficiency gas turbine combined cycle (GTCC) system, while seeking ways to maximize the use of carbon-neutral city gas in the future.

Through the stable supply of electricity, we will contribute to local communities and the global environment, as we envision a world in which people, now and in the future, can fulfill their hopes and dreams while enjoying safe, secure, and prosperous lives.



In line with the national energy policy, we will continue to provide a stable supply of electricity, while working to achieve even higher efficiency and lower carbon emissions in order to realize carbon neutrality by 2050, as we strive to contribute to increased safety, security, and prosperity in people's lives.

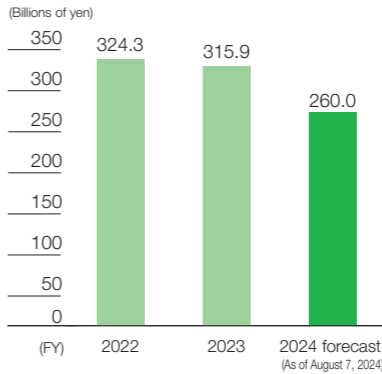
Kunihiro Yoshitake

Executive Officer, Head of the Electric Power Business

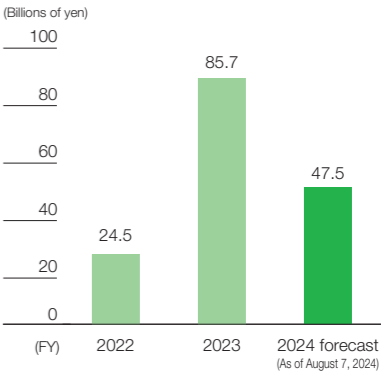
Fiscal 2023 Summary

- Sales volume of electricity increased year on year due to the operation of the Kobe Power Plant No. 4 unit.
- The unit selling price of electricity decreased year on year due to fluctuations in thermal coal prices.
- Ordinary profit was 85.7 billion yen, up 61.2 billion yen year on year, due to the operation of the Kobe Power Plant No. 4 unit, the improved effect of time lags in fuel cost adjustments for the Kobe Power Plant No. 3 and No. 4 units, and the effect of temporary gains from changes in electricity selling prices for the Kobe Power Plant No. 1 to No. 4 units.

Net Sales



Ordinary Profit



For details, see the Results by Operating Segment. ▶ See pp. 120–121.

Recognition of the Business Environment and Our Business's Strengths

Opportunities	<ul style="list-style-type: none">• Medium- to long-term increase in the quantity of electricity required, due to the increasing electrification in society and the advancement of IT, which involves an increase of data centers• Improvement of overall regional energy efficiency through heat supply by taking advantage of urban location and effective use of sewage sludge generated in urban areas as biomass fuel	Risks	<ul style="list-style-type: none">• Anti-coal trend and investor divestment movement• Phase-out of inefficient coal-fired power plants
Strengths	<p>Kobe Power Plant (Coal Fired)</p> <ul style="list-style-type: none">• In-house power generation technology developed through years of steelworks operations, availability of port facilities and other infrastructure, and over 20 years of stable operation of large-scale power plants• An urban power plant that complies with the strictest environmental standards in Japan• Supply capacity exceeding the maximum power demand in Kobe City, which contributes to the improvement of the electric power self-sufficiency rate in the Hanshin area, and multiplexed power supply networks that lead to the creation of cities that are resilient to disasters <p>Moka Power Plant (Gas Fired)</p> <ul style="list-style-type: none">• Japan's first inland thermal power plant with low risk of damage from natural disasters such as earthquakes and tsunamis, serving as backup to coastal power plants in the Tokyo metropolitan area• Gas turbine combined cycle (GTCC) system that meets the world's highest standards• Utilization of existing infrastructure such as gas trunk lines and industrial complexes that have already been developed, as well as technologies and know-how accumulated through in-house power generation		

Business Topics

Long-Term Decarbonization Power Resource Auction

The Long-Term Decarbonization Power Resource Auction is a system introduced by the Ministry of Economy, Trade and Industry (METI) to promote investment in the construction and replacement of power sources, aimed at achieving carbon neutrality by 2050. The auction is implemented by the Organization for Cross-regional Coordination of Transmission Operators, Japan (OCCTO)*. The successful bidders will receive a fixed annual revenue equivalent to their bid price for 20 years, enabling them to recoup fixed cost for capital investment and other purposes. In April 2024, Kobe Steel won the bid to renovate the existing facilities for the 20% ammonia co-firing at the Kobe Power Plant No. 1 and No. 2 units.

* OCCTO: An organization established for the purpose of promoting cross-regional operation of the electric power business.