



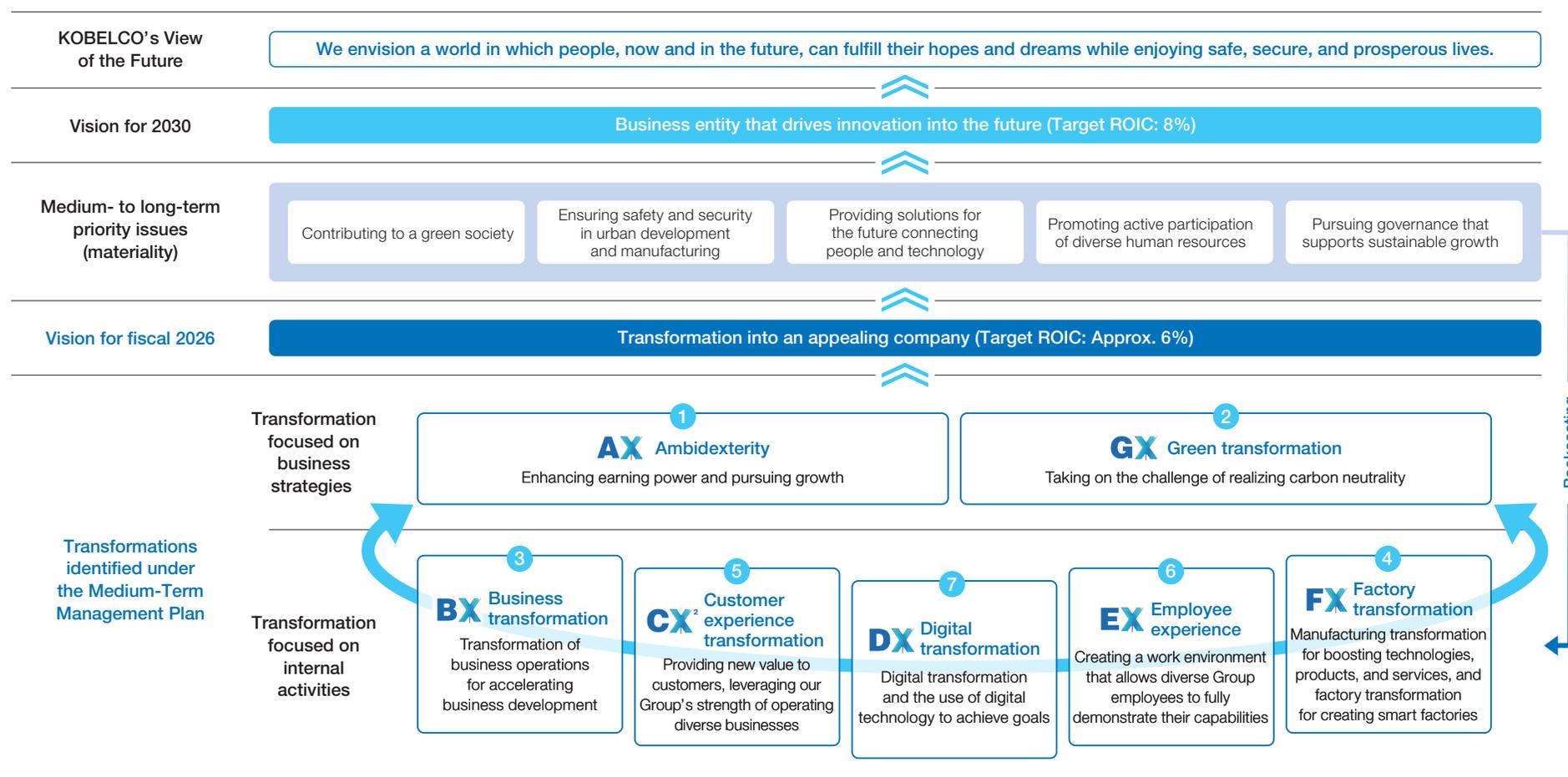
# 02

Management Strategy  
for Value Creation

# Transformation for the Future We Envision

## Our Approach to Medium- to Long-Term Priority Issues (Materiality)

In order to achieve our fiscal 2030 vision of becoming a business entity that drives innovation into the future, we have set a goal of transforming into an appealing company under the Medium-Term Management Plan that began in fiscal 2024. Toward this end, we have identified seven transformation initiatives focused on Kobelco Group's business strategies as well as its internal activities.



# Medium-Term Management Plan (Fiscal 2024–2026) – Transforming into an Appealing Company

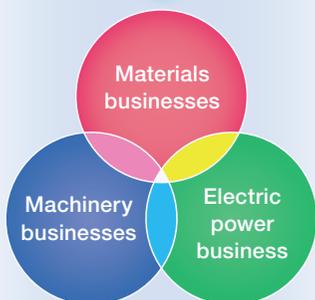
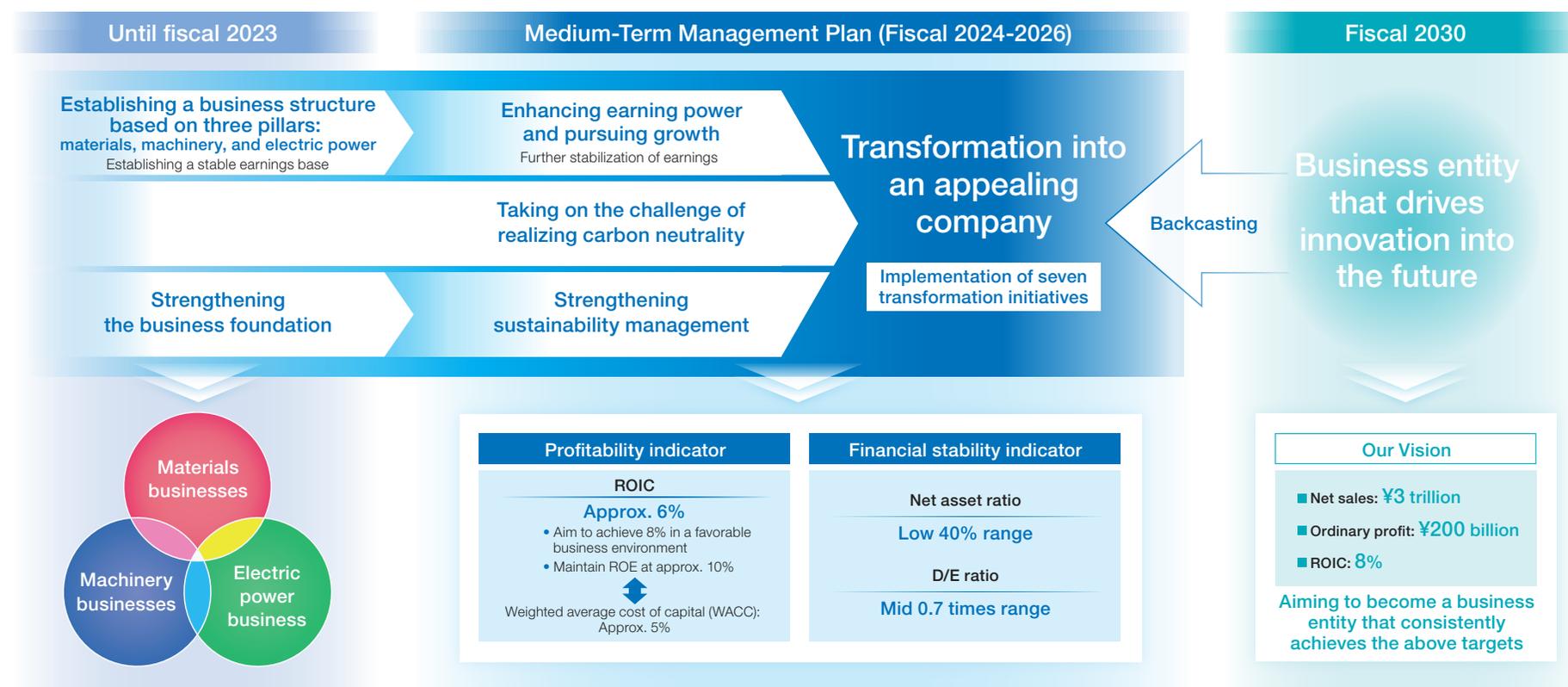
Under the previous Medium-Term Management Plan, we have established a business enterprise with a solid business base in three core business areas. Now, we are geared up for transforming this into an appealing company toward our fiscal 2030 vision of becoming a business entity that drives innovation into the future.

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, and reap the results of growth measures that we began under the previous Medium-Term Management Plan, while strengthening our foundation.

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 priority

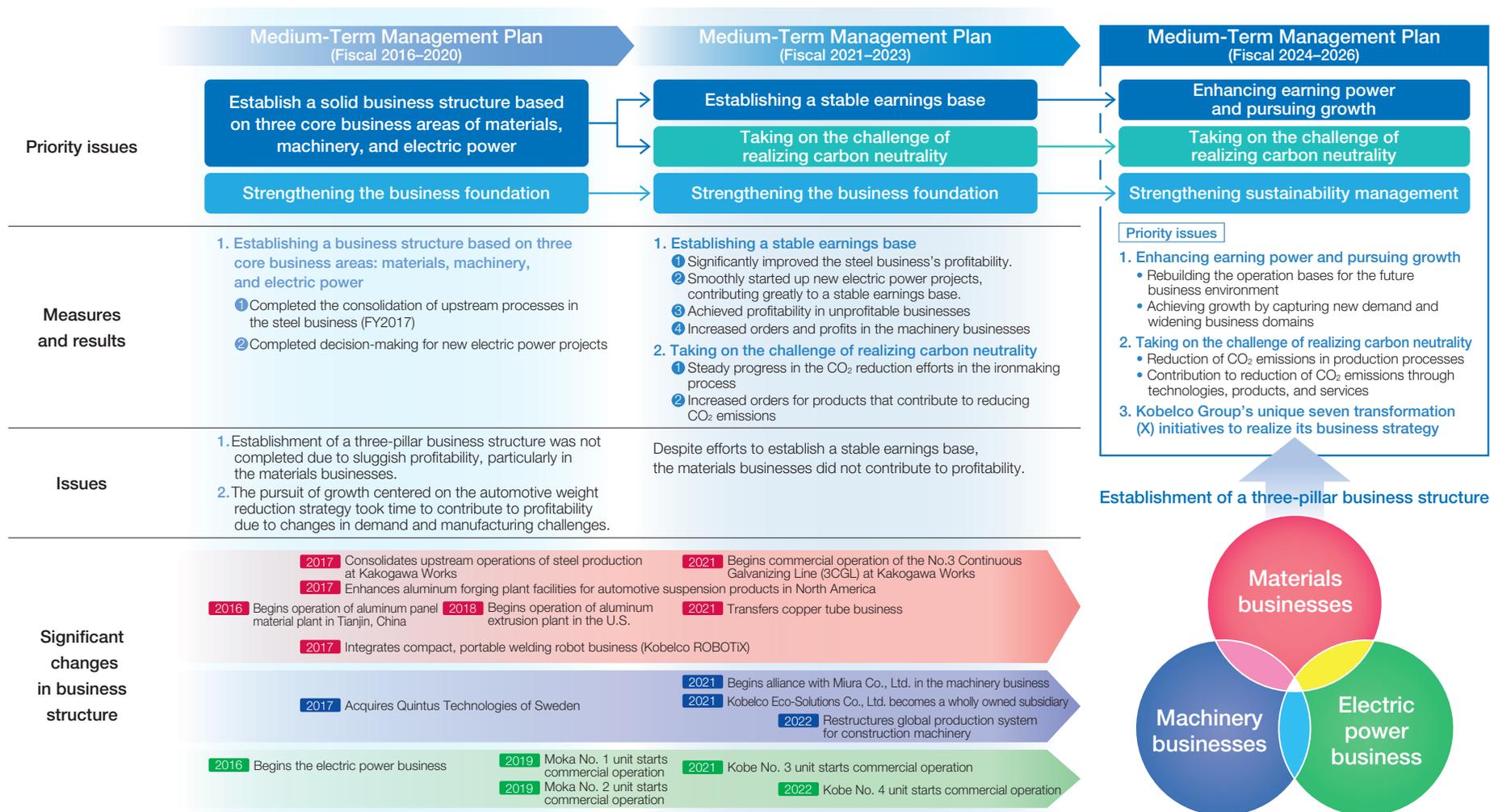
issues: (1) Enhancing earning power and pursuing growth, (2) Taking on the challenge of realizing carbon neutrality, and (3) Strengthening sustainability management.

In the current Medium-Term Management Plan, we aim to transform into an appealing company by implementing these three 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.



# Review of the Medium-Term Management Plans Over the Last Decade

During the period of the previous Medium-Term Management Plan (Fiscal 2021-2023), we began to implement the decisions that were made under the Medium-Term Management Plan (Fiscal 2016-2020) and established a business structure with a solid base in three core business areas of materials, machinery, and electric power. Under the current Medium-Term Management Plan (Fiscal 2024-2026), we are working to pursue growth while strengthening our earning power, based on the three-pillar business structure.



Note: The years in the above chart represent the fiscal year.

# Seven Transformation Initiatives to Achieve the Medium-Term Management Plan –KOBELCO-X

In order to achieve the transformation into an appealing company, the Kobelco Group must embark on a companywide transformation. The Group has defined seven transformation initiatives, collectively called KOBELCO-X, to boost internal efforts to fulfill its priority challenges.

By promoting KOBELCO-X, we will transform into an appealing company and realize our 2030 vision of becoming a business entity that drives innovation into the future.

## The Framework of KOBELCO-X

The seven transformation (X) initiatives are broadly categorized into two groups based on their content. First is AX and GX, which correspond to the priority issues set out in the Medium-Term Management Plan, forming the two pillars of the Group’s business strategy. Second is the remaining five Xs, which are initiatives linked to the sustainability management to address the priority issues. Along with various organizational efforts as a company, each employee joins forces to achieve the companywide transformation.

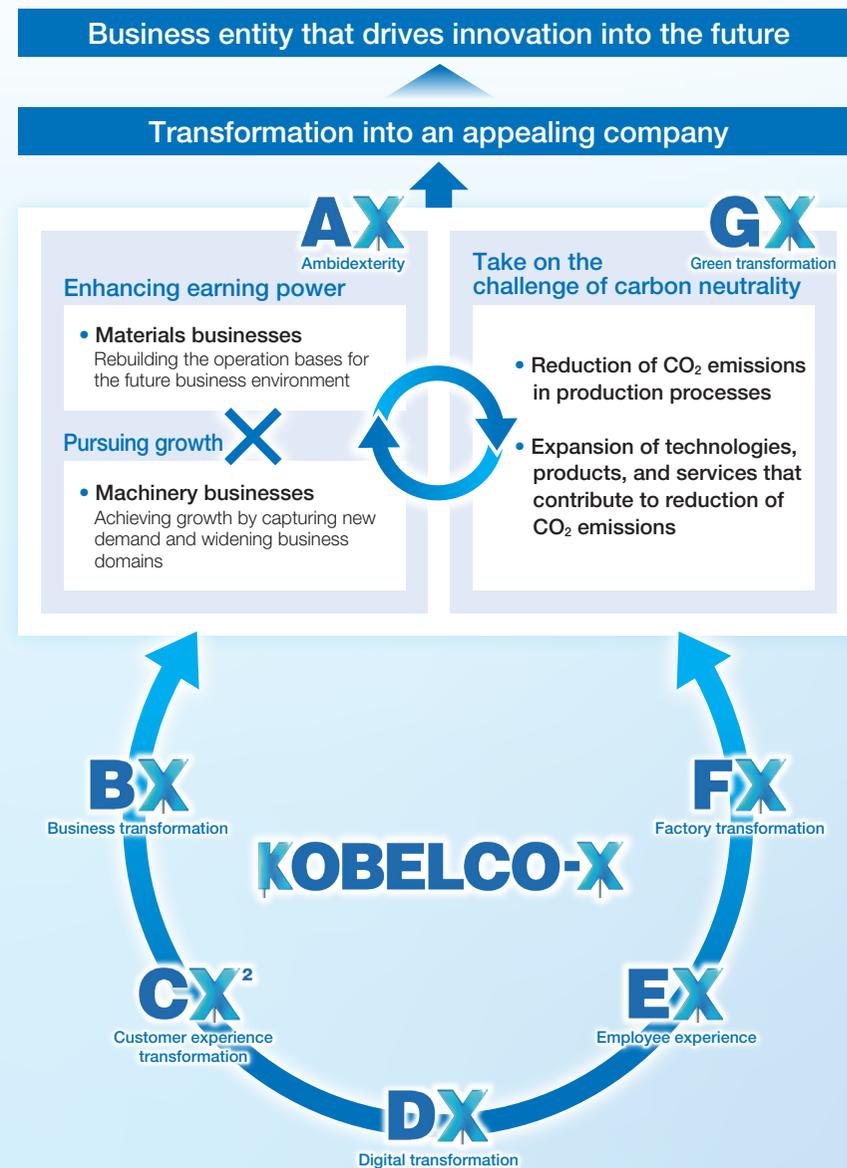
- ① Two Xs (AX and GX), focused on priority issues, are essential elements for formulating and promoting business strategies
- ② Four Xs (BX, CX<sup>2</sup>, EX, FX), the driving force for realizing business strategies, and DX to support them

Each X initiative is interrelated and designed to maximize synergy by fostering links among them. We will create new value not only by promoting collaborations across business domains, but also by transforming ourselves into an appealing company through the integration of various initiatives Groupwide.

### Concept behind

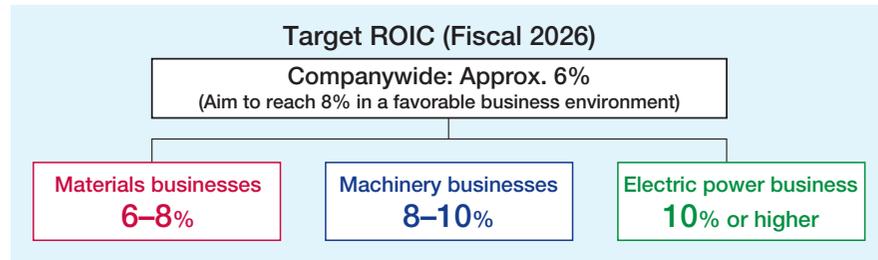


- 1. Transformation**
  - Each employee will engage in transformation initiatives through their respective duties.
- 2. “Intersection” of various activities**
  - Seven transformation initiatives are not individual efforts but have many intersecting points with one another.
  - Advance our transformation through collaboration
- 3. “Integration” unique to KOBELCO**
  - Achieve transformation by integrating Kobelco Group’s diverse assets across diverse businesses.



# AX Ambidexterity: Enhancing Earning Power and Pursuing Growth

## Business Portfolio Map

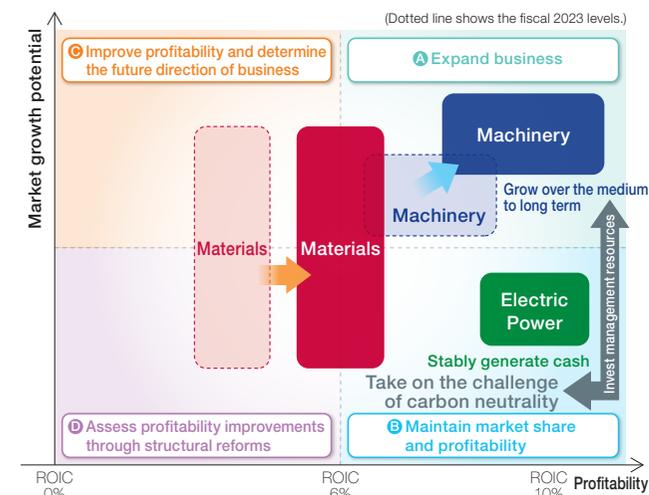


One of the two priority issues under the current Medium-Term Management Plan (Fiscal 2024–2026) is to enhance earning power while pursuing growth. In terms of KOBELCO-X, this corresponds to AX (Ambidexterity), which focuses on both enhancing existing businesses and exploring new business opportunities.

The Kobelco Group has a diverse array of business models in each of the three business areas: materials, machinery, and electric power. We are implementing transformation initiatives to attain our target ROIC and business portfolio set for each business area.

### The Focus of Each Business Area

- Materials businesses: Promote sales expansion of products that meet the needs of society with a focus on enhancing earning power**  
 Reorganize the business foundation in anticipation of future changes in the business environment and work to expand sales of products that meet the needs of society, such as Kobenable® Steel and Kobenable® Aluminum.
- Machinery businesses: Pursue growth by seizing business opportunities in the changing business environment**  
 Pursue growth by capturing new demand trends such as energy transition and widening business domains, while optimizing global production and sales structures to support this.
- Electric power business: Continue contribution to stable earnings**  
 Aim to achieve a target ROIC of 10% or higher to ensure consistent earnings while maintaining the stable operation of the Kobe and Moka Power Plants.



	Materials businesses	Machinery businesses
<b>Policy</b>	Enhance <b>earning power</b> and improve profitability globally.	<b>Pursuing growth</b> by seizing business opportunities in the changing business environment
<b>Enhancing earning power</b>	<ol style="list-style-type: none"> <li><b>Rebuilding the operation base for the future business environment</b> <ul style="list-style-type: none"> <li>Restructuring the aluminum rolled products and aluminum advanced materials businesses</li> <li>Maintaining global competitiveness (steel and welding)</li> </ul> </li> <li><b>Enhancing ROIC Management</b> <ul style="list-style-type: none"> <li>Enhancing ROIC management and KPI management to build the foundation for further profitability improvement</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li><b>Optimizing global production and sales structures</b> <ul style="list-style-type: none"> <li>Strengthening production, sales, and service structures for target areas where we take an offensive strategy while studying optimal structures for areas where we take a defensive strategy</li> </ul> </li> <li><b>Enhancing ROIC Management</b> <ul style="list-style-type: none"> <li>Enhancing ROIC management and KPI management to build the foundation for further profitability improvement</li> </ul> </li> </ol>
<b>Pursuing growth</b>	<ol style="list-style-type: none"> <li><b>Expanding sales of environmental and other products that meet the needs of society</b> <ul style="list-style-type: none"> <li>Expanding sales of Kobenable® Steel, green aluminum, etc.</li> </ul> </li> <li><b>Efforts to create new businesses</b> <ul style="list-style-type: none"> <li>Creating new business opportunities and making the most of our technological assets with a view to the next Medium-Term Management Plan (starting in fiscal 2027)</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li><b>Achieving growth by capturing new demand and widening business domains</b> <ul style="list-style-type: none"> <li>Acquiring new business opportunities, such as energy transition</li> <li>Developing customer experience-oriented business and solution business</li> </ul> </li> <li><b>Efforts to create new businesses</b> <ul style="list-style-type: none"> <li>Creating new business opportunities and making the most of our technological assets with a view to the next Medium-Term Management Plan (starting in fiscal 2027)</li> </ul> </li> </ol>

# AX Ambidexterity: Enhancing Earning Power and Pursuing Growth

## Progress until Fiscal 2024 (Materials Business)

- Enhancing earning power:** We are making generally steady progress on the initiatives planned under the Medium-Term Management Plan (Fiscal 2024-2026), despite changes in the business environment that affect our operations. We also have made good progress in the restructuring of the aluminum advanced materials business, with Kobelco Aluminum Automotive Products, LLC (KAAP), which manufactures aluminum forged suspensions, turning a profit in the second half of fiscal 2024. We will continue working to improve profitability. We will also steadily move forward with the projects that we have decided to implement so that they can contribute to future profitability.
- Pursuing growth:** We are working to expand sales of environmental and other products that meet the needs of society. Following the launch of the low-CO<sub>2</sub> blast furnace steel product Kobenable® Steel, we have launched the low-CO<sub>2</sub> aluminum product Kobenable® Aluminum.

**Materials businesses**

**Enhancing earning power**

Rebuilding the operation base for the future business environment

- 1 Aluminum flat-rolled products: Restructuring the automotive panel business**
  - Established a joint venture with Baowu Aluminum Technology Co., Ltd., focusing on switching base materials and expanding sales.
- 2 Aluminum advanced materials: Restructuring the North American operations**
  - Kobelco Aluminum Automotive Products, LLC (KAAP)'s aluminum suspension business achieved profitability in the second half of fiscal 2024.
  - Kobelco Aluminum Products & Extrusions Inc. (KPEX)'s aluminum extrusion business remained in the red in fiscal 2024 due to a worsening product mix, despite progress in price improvement.
    - KAAP continues stable production and price improvement, whereas KPEX focuses on increasing profitability through downsizing.
- 3 Maintaining global competitiveness**
  - The steel segment has decided to invest in KOBEMAG® to improve the product mix and strengthen the earnings base in Japan.
  - The welding segment received new orders for welding systems overseas, accelerating solutions business.

**Pursuing growth**

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

- 1 Expanding sales of Kobenable® Steel**
  - An increasing number of companies are adopting Kobenable® Steel, which satisfies customers' requirements.
- 2 Commercializing Kobenable® Aluminum**
  - Kobe Steel announced the brand launch of low-CO<sub>2</sub> aluminum product Kobenable® Aluminum in November 2024. Aluminum extrusions, suspensions, and machined products were added to the product lineup in June 2025, in addition to aluminum flat-rolled products.

**Establishment of joint venture for automotive aluminum panels in China**



On January 9, 2025, Kobe Steel established a joint venture with Baowu Aluminum Technology Co., Ltd., with the aim of expanding the automotive aluminum panel business and responding to automakers' CO<sub>2</sub> reduction needs in China.

With demand for aluminum panels expected to grow in China, we will continue to contribute to making automobiles lighter and realizing a decarbonized society.

**In-house production of KOBEMAG® at Kakogawa Works**



Kobe Steel decided to make capital investment to establish an integrated in-house production system for KOBEMAG®, which came onto the market in fiscal 2017. The start of integrated in-house production is scheduled for fiscal 2029.

KOBEMAG® is a steel sheet product with excellent corrosion resistance, scratch resistance, and formability, as well as a beautiful surface finish. With a wide range of applications, KOBEMAG® is expected to continue to be in constant demand for a long term.

**ARCMAN™ PORTABLE for structural steel expands into the North American market**



Kobe Steel is working to increase orders for welding systems in response to the growing demand for automating welding work in North America. This effort successfully resulted in orders for multiple ARCMAN™ PORTABLE units and specialized welding materials. The welding segment will continue to accelerate market expansion in North America.

Kobelco Group's Value Creation

Management Strategy for Value Creation

Promotion of Sustainability Management

Business Foundation

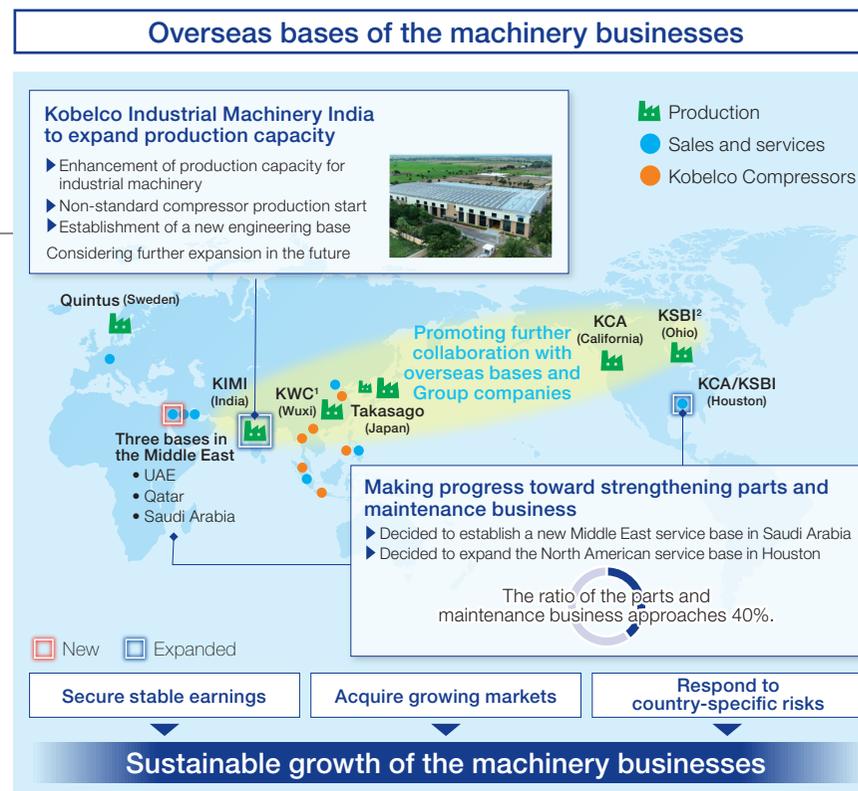
Operating Results by Segment

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# AX Ambidexterity: Enhancing Earning Power and Pursuing Growth

## Progress until Fiscal 2024 (Machinery Businesses)

- Enhancing earning power:** In the machinery businesses, we are moving ahead with the optimization of our global production and sales structures. With the increased capacity of Kobelco Industrial Machinery India (KIMI), we will further leverage the network of overseas bases and Group companies, while strengthening the parts and maintenance business through the expansion of the Houston service plant of Kobelco Compressors America (KCA), the North American base for Kobe Steel's non-standard compressors business.
- Pursuing growth:** Demand in the energy transition sector remains high for both the machinery and engineering businesses. Although it is becoming difficult to predict future demand due to delays in customer decision-making for investments in carbon neutrality, we will steadily capture demand based on the projection that the carbon neutrality trend will be maintained in the long term.



1. Kobelco Wuxi Compressors Co., Ltd. 2. Kobelco Stewart Bolling, Inc.

# GX Green Transformation: Taking on the Challenge of Realizing Carbon Neutrality

Taking on the challenge of realizing carbon neutrality is another priority issue, which is positioned as green transformation (GX) under KOBELCO-X. The Kobelco Group is working to achieve its targets for the reduction of CO<sub>2</sub> emissions in its own production processes and for the contribution to reduction of CO<sub>2</sub> emissions through its technologies, products, and services.

	2030 Target	2050 Vision
<b>Reduction of CO<sub>2</sub> emissions in production processes</b>	<b>30–40%</b> (compared to fiscal 2013) <sup>1</sup>	Taking on the challenge of realizing <b>carbon neutrality</b>
<b>Contribution to reduction of CO<sub>2</sub> emissions through technologies, products, and services<sup>2</sup></b>	<b>78 million tons</b> (Net sales: ¥550 billion)	<b>100 million tons or more</b>

<sup>1</sup> Most of the reduction targets are associated with iron and steelmaking processes.

<sup>2</sup> Our Group contributes to the reduction of CO<sub>2</sub> emissions in various areas of society through its distinctive technologies, products, and services.

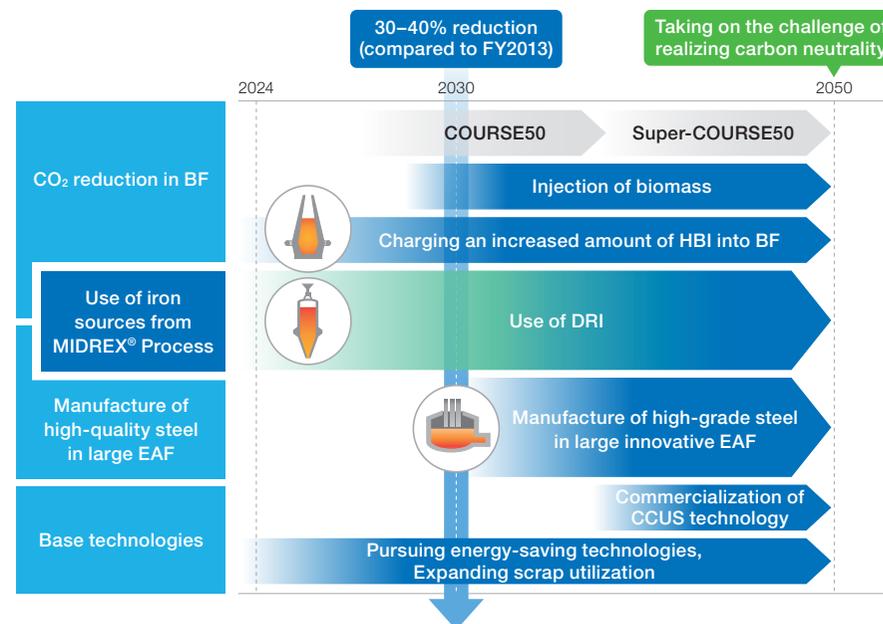
## Reducing CO<sub>2</sub> Emissions in the Ironmaking Process (Roadmap and Progress to Date)

To achieve our 2030 target, we have taken a multi-track approach, including 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 continue the study of the large-scale innovative electric arc furnace (EAF) capable of producing high-grade steel to enable early decision-making on future steelmaking facilities.

In light of the current circumstances, such as accelerating inflation and other factors, careful consideration is required when making investment decisions. While our roadmap for reducing CO<sub>2</sub> emissions in the ironmaking process remains unchanged, we will continue to explore optimal reduction measures, considering changes in the business environment.

We are studying a combination of multiple reduction measures to achieve the 2030 target. We will select appropriate reduction measures based on market trends prior to making investment decisions. In addition, it is imperative to establish a market for green steel on the demand side in order to attain the target. With an increasing number of customers adopting our low-CO<sub>2</sub> blast furnace steel Kobenable® Steel, we will work to expand sales to further boost demand.

## Roadmap for Reducing CO<sub>2</sub> Emissions in the Ironmaking Process



### Study to achieve 2030 target

CO <sub>2</sub> reduction measures & elements		Reduction effects
Implemented	Upstream process consolidation, energy savings, etc.	Approx. 15%
Production volume	Compared to FY2013 (depending on the business environment)	Approx. 5%
+		
Multi-track approach	Increased use of steel scrap	Selection of appropriate reduction measures based on market trends Expected scale of investments ¥10–20 billion
	Charging an increased amount of HBI into BF	
	Use of biomass in BF	
	Use of renewable energy	
	Other additional energy savings, etc.	

Note: The reduction target is the combined total of Scope 1 and Scope 2 emissions. The target encompasses Kobe Steel and its major subsidiaries, which together account for approximately 95% of the Group's CO<sub>2</sub> emissions.

# Green Transformation: Taking on the Challenge of Realizing Carbon Neutrality

To explore the use of biomass in the blast furnace as a way to reduce CO<sub>2</sub> emissions, Kobe Steel and Mitsubishi UBE Cement Corporation (MUCC) have begun a joint feasibility study for the manufacture and sale of black pellets. We will continue to explore the use of black pellets as one of the effective means to reduce CO<sub>2</sub> emissions in the ironmaking process.

### Joint Feasibility Study for the Manufacture and Sale of Black Pellets\*

Kobe Steel has agreed with Mitsubishi UBE Cement Corporation (MUCC) to proceed with a joint venture feasibility study for the manufacture and sale of black pellets, which are attracting attention as a low-CO<sub>2</sub> raw material and fuel. This aims to contribute to our customers' decarbonization efforts in Japan, as well as decarbonization in our own production processes.

We plan to establish a joint venture company in 2026 based on the results of the preliminary study.






Application to steel production process



Kakogawa Works

- Blast furnace
- In-house power generation boiler

MUCC Torrefied Pellet®

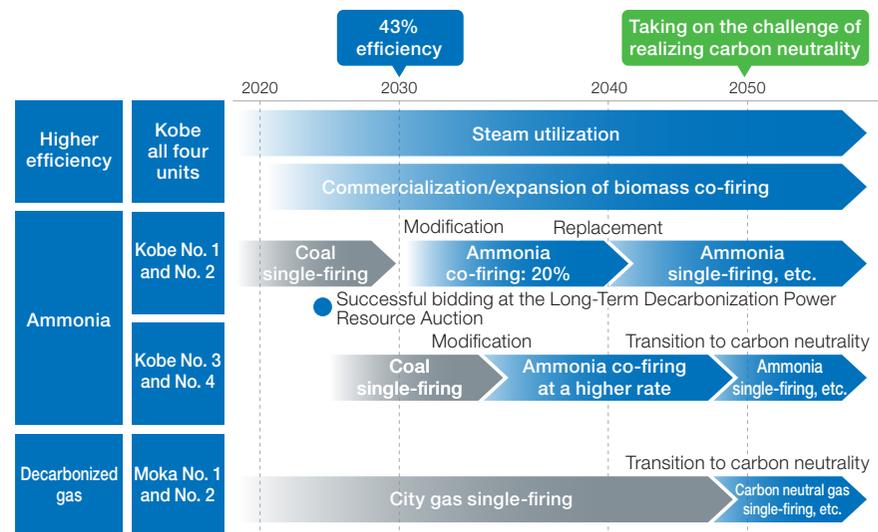
\* Black pellets, created through thermal treatment (torrefaction) of wood pellets under specific conditions, are a fuel that has the calorific value comparable to coal. Wood pellets, commonly known as white pellets, are popular biomass fuel used around the world.

## Reducing CO<sub>2</sub> Emissions in the Electric Power Business (Roadmap and Progress to Date)

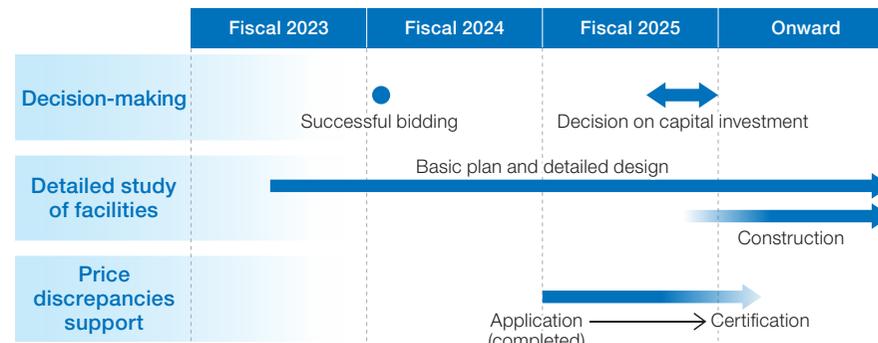
The Kobe Power Plant is assessing the feasibility of: 1) improving regional energy efficiency by utilizing steam from the power plant; 2) co-firing biomass fuels (sewage sludge and food waste); and 3) switching from ammonia co-firing to single-firing. Meanwhile, the Moka Power Plant is exploring the way to maximize the use of carbon neutral city gas, while ensuring the stable operation of low-CO<sub>2</sub> power generation facilities using highly efficient gas turbine combined cycle (GTCC).

With the successful bidding at the Long-Term Decarbonization Power Resource Auction in April 2024, we are examining capital investment for 20% ammonia co-firing. We will continue our research, aiming to start operation with 20% ammonia co-firing at the Kobe Power Plant No. 1 and No. 2 units in fiscal 2030.

## Roadmap for Reducing CO<sub>2</sub> Emissions in the Electric Power Business



Aiming for 20% ammonia co-firing



Aim to start operation with 20% ammonia co-firing at Kobe Power Plant No. 1 and No. 2 units in fiscal 2030

Kobelco Group's Value Creation  
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# Climate-Related Disclosures Based on TCFD Recommendations

For details, please see Response to Climate Change on pages 14–26 of ESG Data Book 2025.

## Basic Concept

Taking on the challenge of realizing carbon neutrality by 2050 is one of the key issues under the Kobelco Group Medium-Term Management Plan (Fiscal 2024–2026). We are working to achieve a 30–40% reduction of CO<sub>2</sub> emissions by 2030 (compared to fiscal 2013).

Going forward, the Kobelco Group will continue to pursue reduction of CO<sub>2</sub> emissions in order to contribute to the realization of a world in which people, now and in the future, can fulfill their hopes and dreams while enjoying safe, secure, and prosperous lives, as envisioned in KOBELCO's View of the Future.

## Governance and Risk Management

We have established the GX Strategy Committee (chaired by a director, executive officer) that specializes in dealing with issues related to the risks and opportunities associated with climate change, as an auxiliary body to the Executive Council. The committee, tasked with conducting strategic studies of climate change, examines and implements Companywide activities to address the risks and opportunities of climate change. Addressing climate-related issues requires knowledge from a wide range of perspectives, including business, management, legal, and technological development.

Therefore, the GX Strategy Committee is composed of directors and executive officers from the Head Office, as well as executive officers from business divisions, including the head of the Steel & Aluminum Business and the head of the Electric Power Business.

The activities of the GX Strategy Committee and its study outcomes are reported to the Board of Directors quarterly for supervision and guidance from the Board of Directors. In this manner, we have a system where the Board of Directors has direct governance over risks related to climate change.

In addition, the Sustainability Management Meetings considers carbon neutrality to be one of the key themes of discussion. As such, the monitoring of the status is enhanced by regularly sharing a wide range of updates and exchanging opinions with the executive team, including executives from business divisions.



<b>Board of Directors</b>	Monitors CO <sub>2</sub> reduction measures that may have a major impact on management	Quarterly
<b>Sustainability Management Meetings</b>	Strengthens monitoring by sharing updates and exchanging opinions	Quarterly
<b>Executive Council</b>	Deliberates and decides on important matters related to CO <sub>2</sub> reduction measures	At least once per year
<b>GX Strategy Committee</b>	Deliberates important matters related to CO <sub>2</sub> reduction measures	At least 4 times per year

**GX Strategy Committee Chair: Director, Executive Officer Kazuhiko Kimoto**

## Strategy

The Kobelco Group analyzes the medium- to long-term risks and opportunities associated with climate change considering various guidelines, including the social scenarios presented by the International Energy Agency (IEA); the long-term visions formulated and announced by the Japan Iron and Steel Federation (JISF), the Japan Aluminium Association, and other industry organizations; and the energy policies of Japan. Based on the analysis results, we evaluate the appropriateness of our Group's activities.

## Climate-Related Risks

As exemplified by the introduction of carbon pricing schemes, environmental regulations on climate change are becoming stricter and may have significant impact on our Group's business performance and financial position. In addition, given the increasing severity of damage from floods and typhoons, it is anticipated that the increase of natural disasters due to climate change may cause declines in production volumes and disruptions of supply chains.

## Climate-Related Opportunities

There is an increasing demand for low-CO<sub>2</sub> products and services, as global awareness of climate change-related issues continues to rise. In this trend, demand for our Group's low-CO<sub>2</sub> options, such as automotive weight-reduction materials/parts and the MIDREX® Process, is expected to increase over the medium to long term.

## Climate-Related Risks and Opportunities over the Short to Medium and Long Term

	Risks		Opportunities	
	Short to medium term (until FY2030)	Long term (until FY2050)	Short to medium term (until FY2030)	Long term (until FY2050)
<b>Policy and legal systems</b>	Higher costs due to regulatory tightening		Increased demand for technologies, products, and services that contribute to CO <sub>2</sub> reduction (automotive weight reduction, MIDREX® Process, etc.)	
<b>Market and technology transitions</b>	Rising capital investments, R&D expenses, and operating costs associated with low-carbon technologies		Differentiation from other companies by establishing a reputation as a front-runner in combating climate change	
<b>Reputation</b>	Deterioration of corporate reputation due to insufficient or delayed information disclosure		Increase in demand for products due to increased public and capital investments for disaster prevention	
<b>Physical risks (disasters, etc.)</b>	Reduction of production volumes and disruptions of supply chains due to increases in floods, typhoons, and other natural disasters	Rising sea levels and storm surges, leading to damage with higher restoration expenses and lower production rates at coastal factories		

## Climate-Related Disclosures Based on TCFD Recommendations

### Response to Risks and Opportunities in Research and Development

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

Kobe Steel is collaborating with other steelmakers in the development projects that are promoted by New Energy and Industrial Technology Development Organization (NEDO) in a bid to further reduce CO<sub>2</sub> emissions in the ironmaking process and to realize practical application of these developments. One of these projects is the Hydrogen Utilization Project in Iron and Steelmaking Processes, which was selected as a project under the Green Innovation Fund established by METI. We are promoting efforts aimed at realizing carbon neutrality by 2050.

#### Scenario Analysis

We carried out short- to medium-term (2030) and long-term (2050) scenario analyses in order to identify future climate-related risks and opportunities for the planning and formulation of strategies. Our scenario analyses are based on the IEA's 2-degree scenario (SDS: Sustainable Development Scenario) and 1.5-degree scenario (Net Zero by 2050) as well as the 4-degree scenario presented by the Intergovernmental Panel on Climate Change (IPCC) in its Sixth Assessment Report. For our analyses and evaluations, we also refer to long-term visions published by industry organizations to which we belong, such as the JISF and the Japan Aluminium Association. For the electric power business, which is closely related to Japan's energy policy, we conduct scenario analysis based on the energy policy of the national government. We also regularly review our analysis and evaluation of risks and opportunities based on changes in the business environment.

#### Impact on Business

Since more than 90% of the Group's CO<sub>2</sub> emissions originate from the steelmaking process, medium- to long-term trends in the steel industry will have the greatest impact on the Group's business. According to the JISF Long-Term Vision for Climate Change Mitigation—A Challenge towards Zero-Carbon Steel, there is a certain correlation between economic growth and the amount of steel stock per capita, and the total amount of steel stock increases as the population increases. Therefore, the demand for steel is expected to continue to increase along with the world's economic growth and population growth. Steel production can be broadly divided into two categories: (1) production with natural resources, such as iron ore that is mainly used in combination with blast furnaces (BF) and direct reduced iron (DRI), and (2) production with reused scrap, which is often used in electric arc furnaces (EAF). According to JISF predictions, the reuse of scrap is expected to increase significantly due to the increase in the total amount of steel stock.

On the other hand, demand for steel cannot be met with reused scrap alone. Accordingly, production using natural resources (iron ore) will continue to require the same level of production as at present. Amid growing interest in the response to climate change and the disclosure of relevant information, the importance of CO<sub>2</sub> reduction efforts in the steel industry is expected to continue

#### Contribution to Reduction of CO<sub>2</sub> Emissions through Technologies, Products, and Services

Our current lineup of products that help reduce CO<sub>2</sub> emissions includes automotive weight-reduction materials/parts and heat pumps. We will continue developing technologies to further contribute to CO<sub>2</sub> reduction with these solutions. We are also striving to develop new technologies, products, and services that help reduce CO<sub>2</sub> emissions, including the development aimed at maintaining and strengthening the competitiveness of MIDREX-H<sub>2</sub>™ (100% hydrogen-based direct reduction) and the demonstration test of hydrogen utilization systems.

increasing. For this reason, we anticipate that our stakeholders, including national and local governments, investors, and customers, will pay greater attention to our efforts to reduce CO<sub>2</sub> emissions from our own facilities and expand the sale of our low-CO<sub>2</sub> options.

#### Risks and Opportunities

One of our Group's core businesses is the manufacture and sale of steel products, which falls under the industry category of energy-intensive basic materials. Our Group's CO<sub>2</sub> emissions from energy use in fiscal 2024 totaled 15.0 million tons (total of Scope 1 and Scope 2), which ranks high even in Japan's manufacturing industry. Accordingly, we recognize that the trends of future national climate change policies, laws, and regulations, including carbon pricing, are transition risks that may have a significant impact on our business operations.

As for physical risks, the Japan Meteorological Agency and various research institutes have reported that, as global warming progresses, the amount of precipitation tends to rise due to the increase of water vapor in the atmosphere, and damage caused by heavy rain and typhoons tends to become more severe. The risk of production halts and supply chain disruptions stemming from severe typhoons and heavy rains in recent years is also becoming more and more evident. Our Company recognizes that further intensification of typhoons, floods, and other natural disasters caused by climate change poses a risk that could have a significant impact on its operations and lead to suspension of production activities.

In terms of Companywide risk management, our Group has defined "climate-related regulations" and "natural disaster preparation and recovery" as Top Risks that are expected to have a particularly severe impact when an event occurs, and is working to strengthen its risk management. On the other hand, business opportunities may arise, as demand for low-CO<sub>2</sub> products and services increase along with growing international interest in climate-related issues. This is expected to lead to an increase in demand for our Group's products that contribute to the reduction of CO<sub>2</sub> emissions, such as automotive weight-reduction materials/parts and the MIDREX® Process, over the medium to long term.

## Climate-Related Disclosures Based on TCFD Recommendations

### Scenario Analysis Results

Scenario / Important factors	Social changes	Impacts (opportunity/risk)		Strategies for opportunities and measures against risks	Financial impacts	
					Factor	Degree of Impact
1.5 or 2-degree scenario	Shift to low-carbon materials	Decreasing demand for BF steel products	Risk	Development of CO <sub>2</sub> reduction technologies <ul style="list-style-type: none"> <li>• Energy savings through AI-based furnace heat management</li> <li>• Use of DRI and biomass</li> <li>• Increase in the volume of scrap use</li> </ul>	Increased purchasing cost of cold iron sources	Major
		Increasing demand for EAF steel products	Risk	Study of process transition <ul style="list-style-type: none"> <li>• Studying the shift of production facilities from carbon intensive BF to low-CO<sub>2</sub> DRI or EAF without sticking to the conventional two BF unit system</li> </ul>	GX-related investment	Major
		Decarbonization of aluminum materials	Risk	Procurement of green aluminum material <ul style="list-style-type: none"> <li>• Expanding procurement of green aluminum produced using renewable energy</li> </ul>	Increased procurement cost of green aluminum	Moderate
		Increasing demand for low-CO <sub>2</sub> materials	Opportunity	Study of low-CO <sub>2</sub> BF steel products <ul style="list-style-type: none"> <li>• Low-CO<sub>2</sub> blast furnace steel product Kobenable® Steel was newly developed with proprietary CO<sub>2</sub> reduction technology</li> </ul> Study of low-CO <sub>2</sub> aluminum products <ul style="list-style-type: none"> <li>• Announcement of the low-CO<sub>2</sub> aluminum product Kobenable® Aluminum, produced from green aluminum material</li> </ul>	Increased sales volume	Major
		Increasing demand for ironmaking processes that contribute to decarbonization	Opportunity	Supply of cold iron source production process <ul style="list-style-type: none"> <li>• Capturing growing demand for the MIDREX® Process, etc.</li> </ul>	Increased sales volume	Major
	Stricter regulations on fossil fuel use	Higher costs due to carbon pricing	Risk	Utilization of ammonia <ul style="list-style-type: none"> <li>• Decarbonization of thermal power generation through ammonia co-firing</li> <li>• Successful bidding in the Decarbonization Power Resource Auction</li> <li>• Building of ammonia supply chain</li> </ul>	GX-related investment	Major
	Transition to non-fossil energy	Increasing demand for hydrogen, etc.	Opportunity	Sales expansion of hydrogen production equipment <ul style="list-style-type: none"> <li>• Carrying out new projects, such as the hybrid-type hydrogen gas supply system, low-CO<sub>2</sub> iron metalics project, etc.</li> <li>• Promoting sales of compressors and vaporizers</li> </ul> Expanding existing businesses <ul style="list-style-type: none"> <li>• Strengthening sales of environmental options, such as digestion gas power generation using sewage sludge and food waste and chemical recycling of waste plastics</li> </ul>	Increased sales volume	Major
	Economic growth and electrification	Increasing electricity demand driven by AI and data centers	Opportunity	Stable power supply <ul style="list-style-type: none"> <li>• Stable operation of thermal power plants ensures a steady supply of electricity by mitigating the output fluctuations caused by renewable energy sources.</li> </ul>	Increased sales volume	Moderate
	Advancements in EVs	Increasing need for weight reduction	Opportunity	Development of lightweight materials <ul style="list-style-type: none"> <li>• Increasing high-tensile strength steel production capacity</li> <li>• Developing lightweight materials (including aluminum)</li> </ul>	Increased sales volume	Minor
	4-degree scenario	Intensifying weather disasters due to rising temperatures	Supply chain disruptions due to flooding	Risk	Increasing the number of suppliers and ensuring a constant stock of raw materials	Decreased sales volume
Flooding and storm surge damage at production bases			Risk	Implementing physical measures against floods and storm surges, and continued BCP improvement	Decreased sales volume	Minor

Kobelco Group's Value Creation

Management Strategy for Value Creation

Promotion of Sustainability Management

Business Foundation

Operating Results by Segment

Data Section

# Climate-Related Disclosures Based on TCFD Recommendations

## Metric A Reduction of CO<sub>2</sub> Emissions in Production Processes

### Target

Our Group is taking on the challenge of realizing carbon neutrality by 2050, with a medium-term target for 2030.

**2050 Vision**

Taking on the challenge of realizing carbon neutrality

**2030 Target**

30% to 40% reduction (compared to fiscal 2013)<sup>1, 2</sup>  
in the reduction of CO<sub>2</sub> emissions from our Group's production processes

**Fiscal 2024 Result**

22% reduction (compared to fiscal 2013)<sup>1, 2</sup>

1. The reduction target is the combined total of Scope 1 and Scope 2 emissions.  
 2. The target encompasses Kobe Steel and its major subsidiaries, which together account for approximately 95% of the Group's CO<sub>2</sub> emissions, based on fiscal 2024 results.  
 CO<sub>2</sub> emissions in the covered range: 18.4 million tons in fiscal 2013 and 14.3 million tons in fiscal 2024

### Trends in CO<sub>2</sub> Emissions

In the wake of the oil crisis, which spanned from the 1970s to the 1990s, Japan's steel industry moved to utilize energy more effectively by installing waste heat recovery systems and conserving energy while switching to continuous process flows and streamlined processes. From the 1990s, the steel industry took steps to effectively use waste materials, focused on upgrading waste heat recovery systems and increasing the efficiency of equipment. In recent years, industry players have introduced highly efficient gas turbine power plants.

Our Group has also maintained a consistent approach in advancing various energy conservation and CO<sub>2</sub> reduction measures through proactive capital investments. For example, we installed highly efficient gas turbine power generation facilities that use gas from blast furnaces at Kakogawa Works over the period of fiscal 2009–2014, resulting in a substantial reduction of CO<sub>2</sub> emissions. CO<sub>2</sub> emissions in fiscal 2024 remained at a similar level to fiscal 2023, resulting in a 22% reduction compared to fiscal 2013.

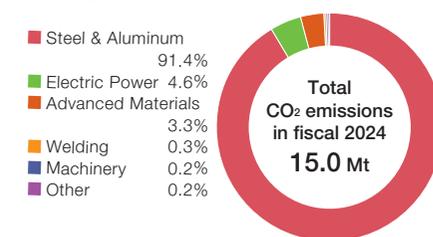
In the ironmaking process, we have completed a technical test and verified that CO<sub>2</sub> emissions in the blast furnace process can be reduced by approximately 25% by charging a large quantity of DRI in the form of HBI, manufactured with the MIDREX® Process, into the blast furnace. To achieve our 2030 target, we will work to reduce CO<sub>2</sub> emissions through the HBI charging technology, as well as the use of biomass and renewable energy. In addition, we will accelerate the study of optimal production systems including the use of EAFs as we move toward our 2050 vision to achieve carbon neutrality.

### Energy-Derived CO<sub>2</sub> Emissions

In fiscal 2024, the Group's energy-derived CO<sub>2</sub> emissions totaled 15.0 million tons. Of this amount, about 91% was emitted from the steel & aluminum business, about 5% from the electric power businesses, and about 3% from the advanced materials business.

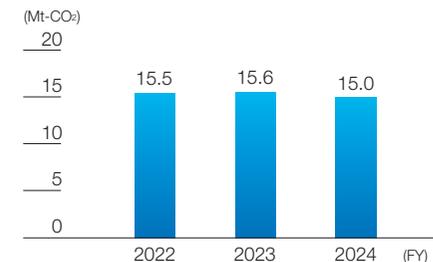
### Energy-Derived CO<sub>2</sub> Emissions

Total of Scope 1 and Scope 2, excluding some areas\* (including domestic and overseas Group companies)



### Energy-Derived CO<sub>2</sub> Emissions by Year

Total of Scope 1 and Scope 2, excluding some areas\* (including domestic and overseas Group companies)



3. Energy-derived CO<sub>2</sub> emissions do not include CO<sub>2</sub> emissions associated with the generation of electricity sold externally by the three subsidiaries of the Electric Power Business and the steelworks of Kobe Steel (14.0 million t-CO<sub>2</sub>).

# Climate-Related Disclosures Based on TCFD Recommendations

## Metric B Contribution to Reduction of CO<sub>2</sub> Emissions through Technologies, Products, and Services

### Target

Our Group contributes to the reduction of CO<sub>2</sub> emissions in various areas of society through its distinctive technologies, products, and services. We have set our 2030 target and 2050 vision in terms of contribution to reduction of CO<sub>2</sub> emissions, as well as a 2030 target for net sales of related products.

Regarding the contribution to reduction of CO<sub>2</sub> emissions through technologies, products, and services, the Group has an internal accreditation system in place. For the formulas used in accreditations, we receive advice from Kiyotaka Tahara, the Director of the Research Laboratory for IDEA at the Research Institute of Science for Safety and Sustainability, Department of Energy and Environment, the National Institute of Advanced Industrial Science and Technologies (AIST).

**Calculation method for the MIDREX® process's contribution to reduction of emissions:** The calculation was made by comparing the CO<sub>2</sub> emissions from the steel products manufactured with the MIDREX® process in the Middle East, where the process is most widely used, with the CO<sub>2</sub> emissions from the steel products manufactured in Asia and exported to the Middle East.

#### 2050 Vision

Contribution to CO<sub>2</sub> reduction: **100 million tons or more**

#### 2030 Target

Contribution to CO<sub>2</sub> reduction: **78.0 million tons\***  
Net sales of related products: **550 billion yen**

#### Fiscal 2024 Result

Contribution to CO<sub>2</sub> reduction: **62.35 million tons**  
Net sales of related products: **394.5 billion yen**

\* The 2030 target for contribution to CO<sub>2</sub> reduction has been revised upward from 61.0 million tons.

### Accreditation Flow



### Contribution to Reduction of CO<sub>2</sub> Emissions

The Group's contribution to reduction of CO<sub>2</sub> emissions through its technologies, products, and services in fiscal 2024 was 62.35 million tons, as approved by the GX Strategy Committee. Net sales of related products was 394.5 billion yen.

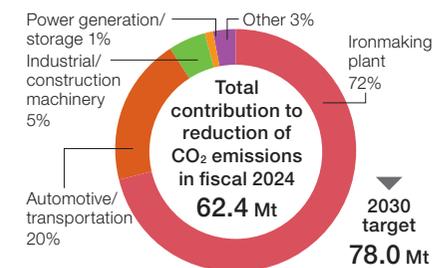
Technologies, products, and services		Contribution to reduction (10,000 tons/year)	CO <sub>2</sub> reduction concept
Ironmaking plant	MIDREX® Process	4,490	Direct reduction ironmaking process with low CO <sub>2</sub> emissions
	Ultra-high-tensile strength steel for automobiles, welding consumables for ultra-high-tensile strength steel	1,066	Improvements in fuel economy by using high-strength, lightweight materials for automobiles and transportation equipment
Automotive/transportation	Wire rods for suspension springs	31	
	Wire rods for automotive valve springs	91	
	High-tensile strength steel for ships	22	
	Aluminum materials for automobiles	34	
Industrial/construction machinery	Aluminum materials for rolling stock	8	
	Heat pumps, standard compressors, SteamStar, Eco-Centri	252	Energy conservation by achieving higher efficiency and utilizing unused energy
Power generation/storage	Fuel-efficient construction machinery	55	Improvements in fuel economy by using fuel-efficient construction machinery
	Wood biomass power generation, waste-to-energy (WtE)	24	Reducing fossil resource use through the use of resources that contribute to carbon neutrality
Other	Blast furnace cement, wire rods and steel bars with no need for heat treatment process	162	Energy-reduction effect in customers' manufacturing process through the use of recycled raw materials and products with no need for heat treatment process

Note: The calculation uses some of the data from "IDEA Ver. 3.3, AIST."

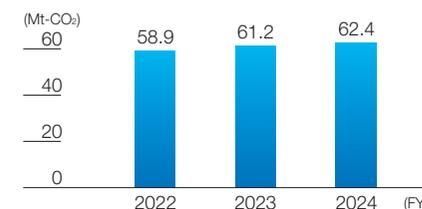
### Other Main Technologies, Products, and Services That Contribute to CO<sub>2</sub> Reductions

Technologies, products, and services		CO <sub>2</sub> reduction concept
Automotive/transportation	Fuel-cell bipolar plates materials, titanium for aircraft components	Improvement of fuel economy by reducing weight of automobiles and transportation equipment, effects of replacing gasoline-powered automobiles with next-generation vehicles
Hydrogen utilization	High-purity Hydrogen Oxygen Generator (HHOG)	Effects of reducing fossil resource use through hydrogen utilization
Power generation	Conversion of sludge to fuel and its utilization at coal-fired thermal power plants (planned)	Reducing fossil resource use through the use of resources that contribute to carbon neutrality

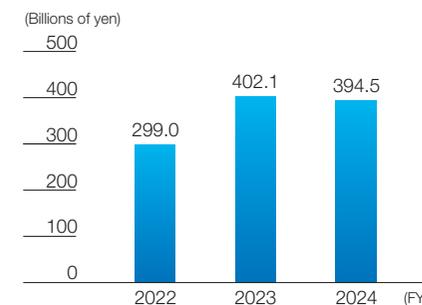
### Total Contribution to Reduction of CO<sub>2</sub> Emissions



### Contribution to Reduction of CO<sub>2</sub> Emissions by Year



### Net Sales of Related Products



Kobelco Group's Value Creation  
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# Five Transformation Initiatives to Achieve AX and GX

In order to achieve AX and GX, two priority issues set out in the Medium-Term Management Plan (Fiscal 2024-2026), we need to transform various elements of our internal business activities. These elements have been defined as BX, CX<sup>2</sup>, DX, EX, and FX—the five transformations (Xs) under KOBELCO-X, all of which are propelled by the Group’s management capital.

These transformations will not only contribute to AX and GX, but also significantly increase our Group’s corporate value, with each element achieving lower cost of capital, higher growth rates, and greater profitability. By promoting transformation efforts through KOBELCO-X, our Group will strive to enhance its corporate value.



Relevant items are marked with a blue dot (●).

Category	Description of initiatives	Relation with management capital						Relation with corporate value improvement		
		Financial capital	Human capital	Manufactured capital	Intellectual capital	Social and relationship capital	Natural capital	Reduce the cost of capital	Improve the growth rate	Improve profitability
<b>BX</b> Business transformation <a href="#">Page 67</a>	<ul style="list-style-type: none"> <li>Business transformation (BX) leads to all other transformations. It aims to not only improve operational efficiency but also transform various aspects of business activities by thoroughly examining conventional business processes (ways of performing work).</li> </ul>		●						●	●
<b>CX<sup>2</sup></b> Customer experience transformation <a href="#">Page 68</a>	<ul style="list-style-type: none"> <li>CX<sup>2</sup> considers all customers as "Kobelco Group's customers" and promotes efforts that utilize the entire Group's resources. It aims to transform customer experience by strengthening (1) our marketing capabilities, (2) our ability to propose solutions, and (3) information sharing between business divisions, in order to provide optimal proposals and new value.</li> </ul>	●			●	●			●	●
<b>DX</b> Digital transformation <a href="#">Page 65</a>	<ul style="list-style-type: none"> <li>DX is a powerful tool for achieving other transformations. Advances in digital technology are enabling us to undertake transformations that were previously impossible. By developing human resources who can effectively utilize digital technology (DX personnel), it aims to advance digital transformation that contributes to the realization of other transformations.</li> </ul>	●	●	●	●	●		●	●	●
<b>EX</b> Employee experience <a href="#">Page 69</a>	<ul style="list-style-type: none"> <li>Improving the experience of each employee is essential for the Groupwide transformation. EX aims to create an employee-friendly and highly productive work environment by fostering the creation of a physically and psychologically safe and healthy workplace, while promoting work style reform, D&amp;I development, and human resources development.</li> </ul>		●						●	●
<b>FX</b> Factory transformation <a href="#">Page 75</a>	<ul style="list-style-type: none"> <li>Factory transformation could have a significant impact on the business activities of our Group with its primary function as a manufacturer. FX contributes to CX<sup>2</sup> through enabling quality improvement, yield and productivity improvement, and stable mass production of new products and new technologies, while also contributing to EX through improvement of work environment, workload and safety.</li> </ul>	●		●	●		●	●		●



**Kazuhiko Kimoto**  
Director, Executive Officer

## Message from the CFO

**We will make greater strides by leveraging Kobelco Group's steadily improving financial position and its distinctiveness of operating diverse businesses.**

### Using ROIC as a management indicator to guide employee activities, ensuring the success of the first year of the Medium-Term Management Plan

One year has passed since my appointment as CFO, overseeing the finance operations of the Kobelco Group. Many aspects of finance operations are difficult to observe from other departments, which has made me keenly aware of the necessity to effectively communicate the role of finance both internally and externally on a daily basis.

Last year, we announced the Medium-Term Management Plan (Fiscal 2024–2026). Since then, the business environment has changed significantly, and the situation remains unstable. Nevertheless, we achieved record-high profits in fiscal 2024, thanks to the efforts of every employee and the support of all stakeholders.

In fiscal 2024, demand in the materials businesses did not recover as expected, and the challenging business conditions continued. However, the machinery businesses, which include machinery and engineering, managed to achieve a high level of profits. The electric power business

## Message from the CFO

also made a steady contribution to earnings. As a result, the Group achieved record-high profits, demonstrating the uniqueness of the Kobelco Group, which operates three core businesses of materials, machinery, and electric power.

We have also been working to strengthen our financial position in preparation for future investments in carbon neutrality and business growth. We are taking steps to steadily improve our financial position, including selling off assets to increase capital efficiency. In fiscal 2024, our net asset ratio and debt-to-equity (D/E) ratio were 42.8% and 0.76, respectively. We expect further improvements in these financial stability indicators in fiscal 2025. Although we have made progress in improving our financial metrics, it is essential to further strengthen our financial base to effectively address the future challenges of carbon neutrality and to make investments for realizing sustainable growth, regardless of the operating environment.

In terms of the profitability indicator, we have set our target for ROIC at approximately 6% (8% in a favorable business environment) in the current Medium-Term Management Plan. In fiscal 2024, we achieved an ROIC of 6.9%. Although reaching 8% will be challenging, the accomplishment of 6.9% has fostered a positive atmosphere within the company, sparking discussions on the necessary steps to meet the ROIC target.

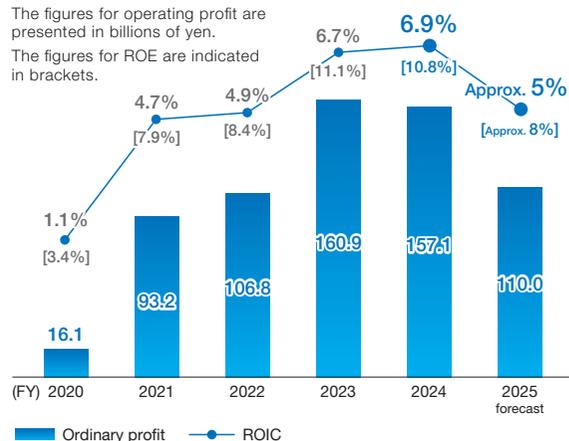
We anticipate an ROIC of approximately 5% for fiscal 2025, but we will persist in our efforts to strengthen our earning power and achieve growth in pursuit of our numerical targets.

Our Group has adopted ROIC as a profitability indicator since the previous Medium-Term Management Plan, and an increasing number of employees understand the importance of using ROIC as a key indicator to measure the performance of our activities across the Group. To enhance our KPI management, we are introducing ROIC into our operational guidelines at the sales, manufacturing, and other functional unit levels so that each employee can take ownership of their own actions.

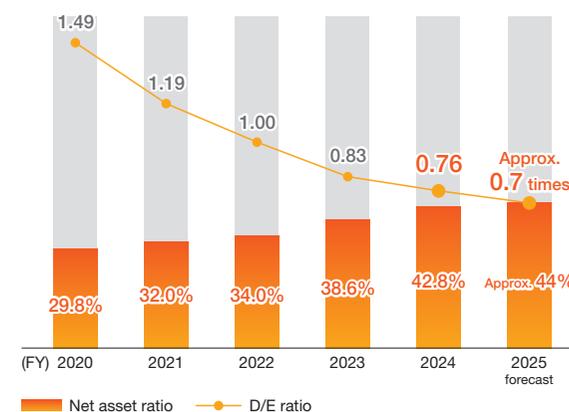
However, we still have a long way to go before establishing ROIC as a standard practice throughout the organization. To increase its awareness, we have selected model business divisions and are working to thoroughly implement ROIC management as a standard practice. For example, sales departments often focus on actions aimed at increasing sales and sales volume; however, lowering prices to achieve this may lead to a decrease in profitability, making the effort counterproductive. To ensure that this understanding is shared among all employees, we are assisting them in redefining their priorities with a focus on ROIC. These efforts will require time, but through

### Ordinary Profit and ROIC

The figures for operating profit are presented in billions of yen.  
The figures for ROE are indicated in brackets.



### Net Asset Ratio and D/E Ratio



## Message from the CFO

consistent efforts, I believe that ROIC will take root as a standard for business activities across the Group.

### Assessing the timing of investments according to the business environment, while maintaining a long-term perspective on the P/B ratio and cost of capital

Having completed the first year of the current Medium-Term Management Plan, we have decided to revise our investment projections downward from 950 billion yen to approximately 750 billion yen. This adjustment stems from our decision to postpone

decisions on specific investments, including those concerning carbon neutrality, until fiscal 2027 or later, aiming to pursue economic rationality in light of the increasing uncertainty in the business environment. We have decided to reduce our investments in carbon neutrality, for which we originally planned to make decisions by fiscal 2026, from 300 to 150 billion yen. Since we have sufficient time to examine the investments, considering the timing of our transition from blast furnaces (BFs) to electric arc furnaces (EAFs), we will determine the best timing for decisions while taking into account the state of the green steel market, the required equipment specifications, and other relevant factors.

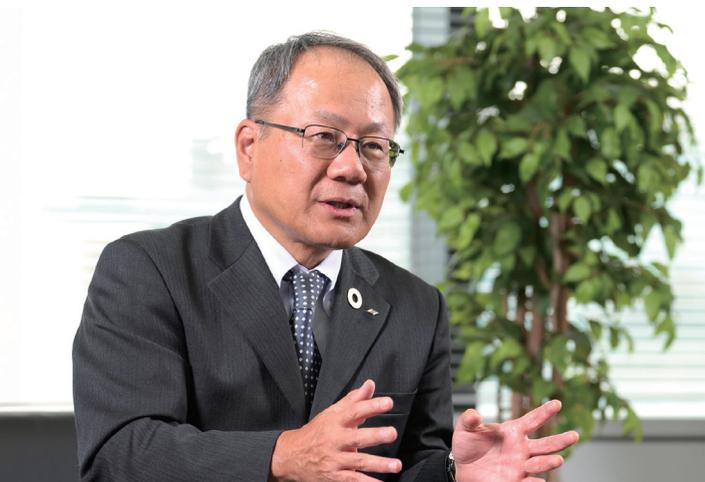
A certain level of growth investment is essential for increasing profitability. We aim to implement these measures appropriately when the time is right, while ensuring that our investments do not undermine the foundations of the Company. With the business environment remaining uncertain, we cannot foresee when opportunities will arise. Therefore, we are working to build a strong financial base to avoid a situation where we are unable to invest in growth opportunities due to financial constraints when the time comes.

Regarding shareholder returns, we will maintain a dividend payout ratio of approximately 30% for the time being as we prioritize strengthening our financial base. By sustainably increasing our

corporate value through growth investments, we aim to serve the interests of our shareholders. Once we have established a financial base that allows to do so, we will review our shareholder return policy.

In recent years, the Tokyo Stock Exchange has strongly urged listed companies to manage their businesses with a focus on their cost of capital and stock price. Our Group has also been working to improve its price-to-book (P/B) ratio. Meanwhile, the steel industry is facing structural issues, such as shrinking domestic demand and growing crude steel production in China. Leveraging our strength beyond the steel sector, we have developed the “Kobelco model,” which encompasses steel and other materials, as well as machinery and electric power. We strive to gain recognition by demonstrating the advantages of this model to the capital markets. To achieve this, we need to strengthen the profitability of each business, sustain and stabilize that profitability, and pursue and achieve growth.

In addition, I believe it is important to foster understanding of our efforts and progress through dialogue with the capital markets. We have been actively working on this for years. Since the previous president and CEO’s tenure, we have expanded opportunities for dialogue, which include briefings on each business’s initiatives and our focus areas, as well as plant tours. Through these information disclosure opportunities, we ensure transparency in



## Message from the CFO

our operations. Our efforts have garnered praise from investors and analysts, and we plan to continue this dialogue proactively in the future.

### Aiming for even greater heights by strengthening sustainability management, with a focus on Kobelco Group's competitive advantage in operating diverse businesses

We have identified “strengthening sustainability management” as one of our priority issues under the current medium-term management plan. Enhancing non-financial capital is also essential for the sustainable growth of our Group. We will invest adequately in non-financial capital, including human capital, to reinforce our business foundation and foster the creation of future corporate value. Strengthening sustainability management necessitates not only capital investment but also a comprehensive transformation across the Company to implement it effectively. The Medium-Term Management Plan outlines various transformation initiatives aimed at increasing our corporate value, collectively referred to as KOBELCO-X. These transformations (Xs) are not entirely new to us; rather, they are the collection of ideas and practices that we have inherited since our founding. We have visualized them as a common language with the aim of stimulating transformations through the

sharing of experiences and information across business divisions. Over the past year, we have held dialogue across organizational boundaries, such as among supervisors and their team members, among business divisions, and between the head office and production sites. These sessions have increased awareness of the need for transformation. The sharing of best practices has also fostered new insights throughout the Group.

Our Group has three core businesses: materials, machinery, and electric power. While we are known as a conglomerate, the synergies generated by our diverse business operations represent our greatest advantage and distinguish the Kobelco Group from its competitors. No other corporate entity has unique capabilities like ours to harness the synergistic



effects arising from the relationships among business divisions within the group. In today's world, societal challenges are becoming increasingly complex and difficult for a single company to address independently. Our Group's ability to tackle these issues from various business areas is a distinctive strength. I believe KOBELCO-X will boost such initiatives and enhance the sustainability management of our Group.

There was a time when the steel business was the primary driver of our Company, while the machinery businesses struggled to produce sufficient profits. Now, we have moved past those times and reach where we are today. To gain recognition in the capital markets as a company with unique and diverse growth potential, we focus first on the priority issues set out in our Medium-Term Management Plan and aim to deliver tangible results by achieving numerical targets.

In fiscal 2024, Yoshihiko Katsukawa's first year as President and CEO, the Group achieved the record-high profits in its history. This year, his second year in office, marks the milestone of Kobe Steel's 120th anniversary. I believe this is the right moment to take on ambitious challenges. Through our business activities, we will continue to foster understanding among our stakeholders, both within and outside the Company, to create long-standing value and contribute to a better society.

# Enhancement of Corporate Value

The Kobelco Group's corporate value comes from the diverse technologies, products, and services developed over its 120-year history, as well as the human resources and intellectual property that have supported and advanced them, and the trust-based relationships built with our stakeholders. While recognizing that all initiatives contribute to enhancing corporate value, we will advance the transformation into an appealing company with a focus on improving profitability and growth rates, as well as reducing the cost of capital, with the aim of improving our corporate value over the medium to long term.

## Financial Targets and Fiscal 2024 Results

In fiscal 2024, we made steady progress toward the financial indicator targets set forth in the Medium-Term Management Plan (Fiscal 2024–2026), achieving a certain level of success. We believe that our various initiatives aimed at enhancing corporate value contributed to this achievement. Although the business environment remains challenging and uncertain, we will continue to respond flexibly and promptly to changes, while striving to further increase our corporate value in both financial and non-financial aspects.

Financial Indicator Targets and Fiscal 2024 Results	
Profitability indicator	<b>ROIC</b> Approx. 6% <span style="color: blue;">▶</span> Actual 6.9%
	<b>Net asset ratio</b> Low 40% range <span style="color: green;">▶</span> Actual 42.8%
Financial stability indicators	<b>D/E ratio</b> Mid 0.7 times range <span style="color: green;">▶</span> Actual 0.76 times

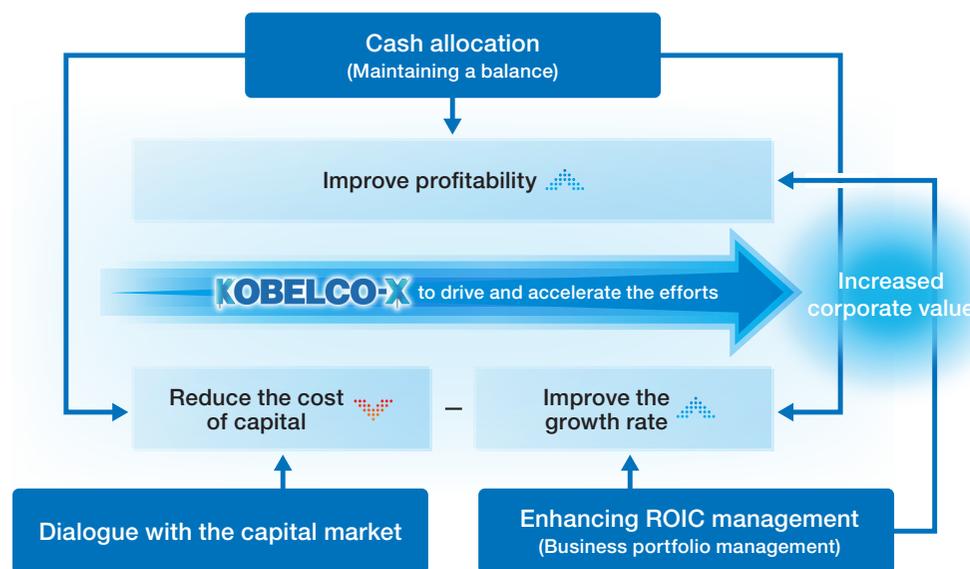
## Initiatives Aimed at Enhancing Corporate Value

In the subsequent pages, we will explain our efforts to address the priority issues set out in the Medium-Term Management Plan from the three perspectives, as outlined below.

- ### Priority Issues
- Enhancing earning power & pursuing growth
  - Taking on the challenge of realizing carbon neutrality
  - Strengthening sustainability management

- ### Three Perspectives
- 1 Enhancing ROIC management
  - 2 Cash allocation
  - 3 Dialogue with the capital market

## Mechanism for Increasing Corporate Value



## Enhancement of Corporate Value

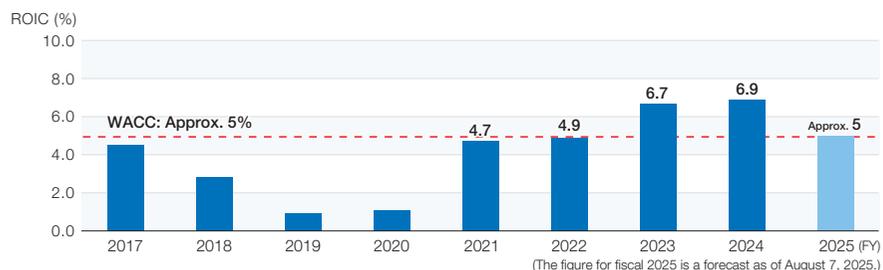
### Enhancing ROIC Management

ROIC management, which was introduced during the previous Medium-Term Management Plan (Fiscal 2021–2023), is becoming more widespread across the Group each year. We will further enhance the effectiveness of ROIC management through the following two approaches with the aim of improving profitability and growth rates.

- 1 Companywide: Business portfolio management (optimal allocation of management resources)
- 2 Business divisions/units: Strengthening KPI management to achieve ROIC targets

### Securing Returns that Exceed the Cost of Capital

In fiscal 2024, we achieved an ROIC of 6.9%, exceeding the weighted average cost of capital (WACC), which was approximately 5%. In fiscal 2025, we anticipate that ROIC will decline to roughly the same level as WACC due to the increasingly challenging business environment; however, we will continue to commit to increasing our corporate value over the medium to long term while responding flexibly to changes in the business environment.



We use ROIC as an indicator for the profitability of invested capital. We set ROIC targets for respective segments and monitor and manage performance with a focus on 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 the WACC is calculated by taking a weighted average of the cost of debt.

### Cash Allocation

To achieve sustainable growth in corporate value, we believe it is important to strike a balance among business investments, strengthening our financial base, and shareholder returns.

#### 1 Business investments—Making steady investments to improve profitability and growth rate—

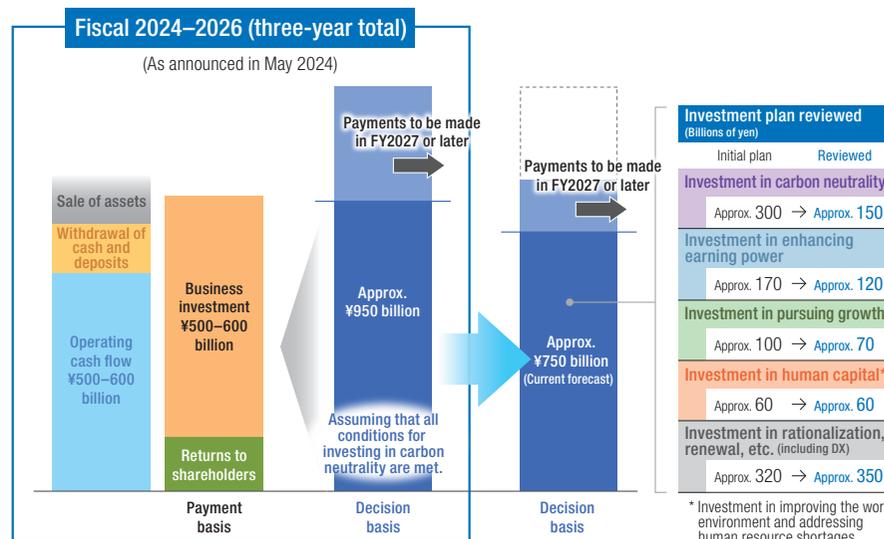
Due to growing uncertainty stemming from shifts in carbon neutrality trends and the rise of protectionism, we have postponed some of the approximately ¥950 billion investments planned in the Medium-Term Management Plan to pursue economic rationality. We will closely monitor changes in the business environment and examine these investments in a flexible and prompt manner.

#### 2 Strengthening our financial base—Establishing a financial base that allows us to invest confidently under any circumstances—

In addition to maintaining solid performance, we are steadily improving our financial base by selling assets and optimizing working capital to enhance capital efficiency.

#### 3 Shareholder returns—Aiming for continuous and stable dividends based on our dividend policy (dividend payout ratio of approximately 30%)—

We have achieved the highest ever annual dividend of 100 yen per share for fiscal 2024. While there are calls from the capital markets for increased shareholder returns, we will continue to carefully evaluate this based on the progress of 1 and 2 above, as well as the overall business environment.



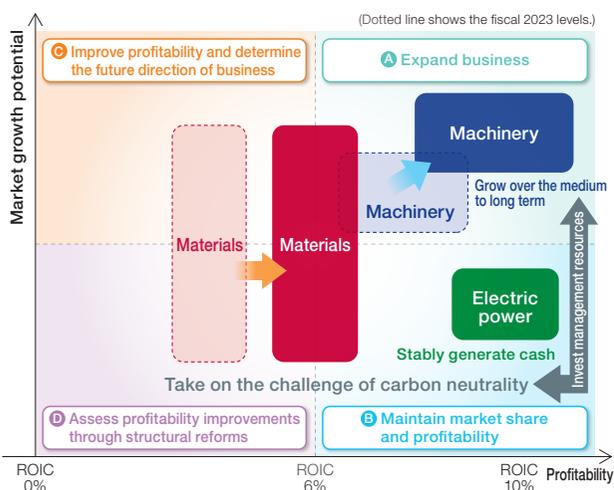
## Enhancement of Corporate Value

### Enhancing ROIC Management Business Portfolio Management

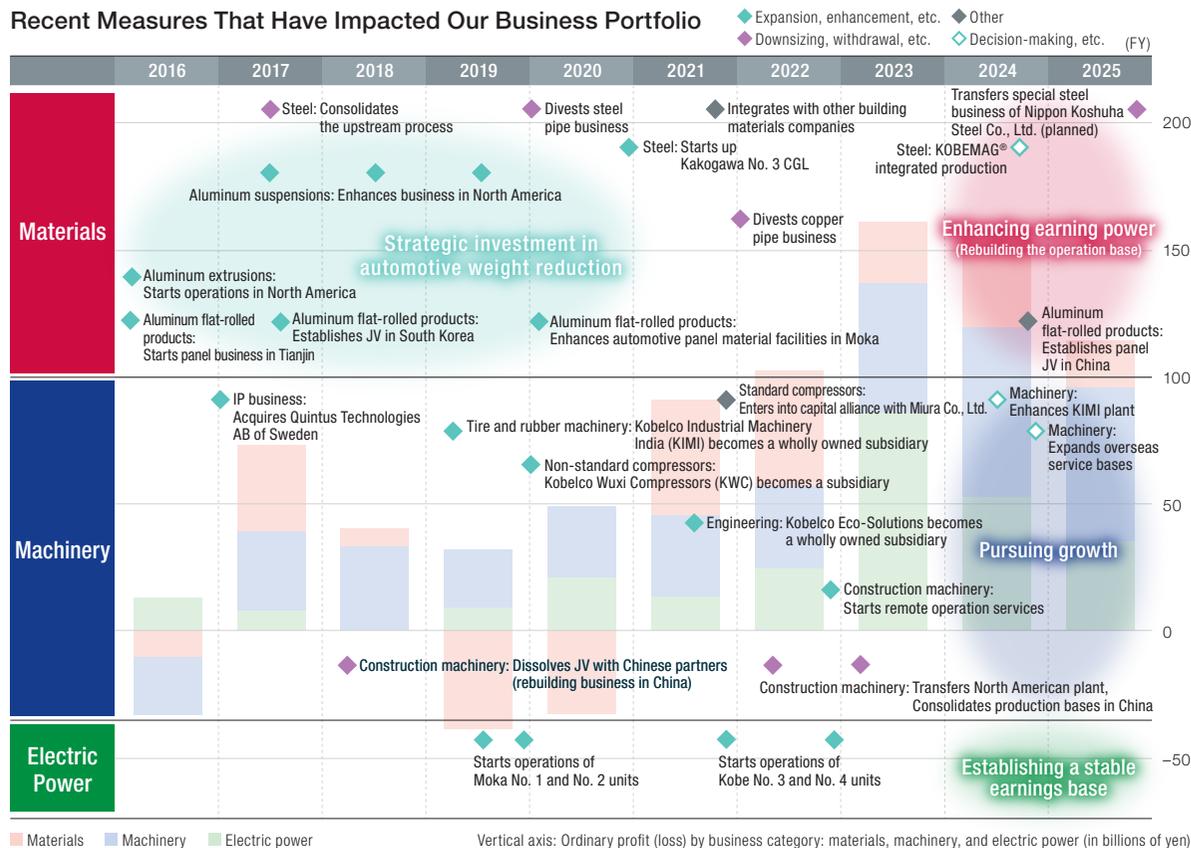
In our current Medium-Term Management Plan, we have set out a specific focus for each of three business categories: “enhancing earning power” for the materials businesses, “pursuing growth” for the machinery businesses, and “establishing a stable earnings base” for the electric power business. The Business Portfolio Management Committee leads the formulation of strategies and monitoring of business units.

We have implemented a variety of measures that have impacted our business portfolio over the past decade as shown on the right. We will continue to explore ways to optimize our business portfolio with a focus on both profitability (ROIC) and market growth potential, while closely monitoring changes in the business environment.

#### Future Business Model (As of May 2025)



### Recent Measures That Have Impacted Our Business Portfolio



### Business Portfolio Management

#### Structure

The Business Portfolio Management Committee, an auxiliary body to the Executive Council, plays a central role in formulating our Group's business portfolio strategies. It addresses medium- to long-term changes in the business environment and optimizes the allocation of management resources.

#### Operation

In our business portfolio management, we classify our business units into four quadrants based on profitability (ROIC) and market growth potential. This approach allows us to examine measures suited to each quadrant and implement them while allocating management resources according to the appropriate strategy.

Kobelco Group's Value Creation  
Management Strategy for Value Creation  
Promotion of Sustainability Management  
Business Foundation  
Operating Results by Segment  
Data Section

## Enhancement of Corporate Value

### Dialogue with the Capital Market

#### Discrepancy with Market Evaluation— Market Concerns

Despite the recent improvement in profitability (ROE), our P/B ratio remains below 1. This situation arises from the discrepancy between the cost of shareholders' equity recognized by the capital market and that recognized by the Company. The main factors behind this discrepancy are the following two points:

- Factor ①:** Concerns about the instability of the earnings base and finances based on past performance
- Factor ②:** Concerns about future uncertainties, including carbon neutrality and global economic trends, etc.

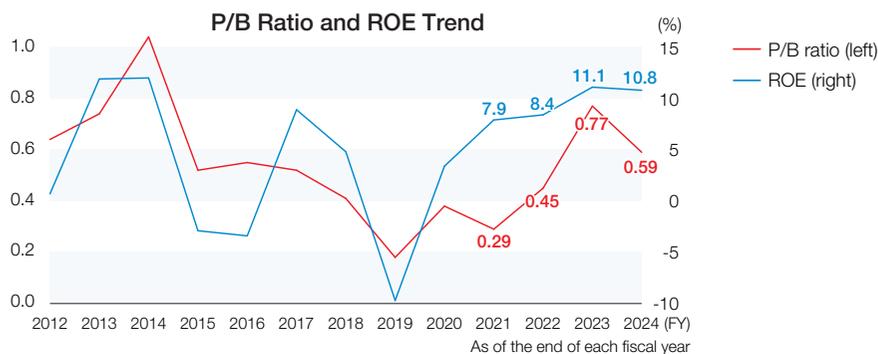
#### Efforts to Resolve the Discrepancy

##### 1 Improving Profitability and the Growth Rate

We will continue to enhance earning power and pursue growth, which are the priority issues in the Medium-Term Management Plan, while striving to become a business entity that consistently achieves an ROIC of 8%.

##### 2 Reducing the Cost of Capital

We will work to reduce the cost of capital by strengthening our sustainability management, including addressing carbon neutrality and reinforcing our financial base, while ensuring continuous and stable returns for our shareholders.



#### Dialogue with the Capital Market—Proactive Dialogue and Enhanced Information Disclosure

We believe that timely and appropriate information disclosure to our shareholders and investors, along with constructive dialogue, will help reduce information asymmetry in relation to the capital market and foster trust in our management, contributing to lowering our cost of capital. Under the policy of disseminating information strategically and systematically, we ensure the active participation of our executives in dialogues with the capital market. We regularly share feedback from these dialogues with our management team, including members of the Board of Directors, to reflect the feedback from market players in our management decisions.

Kobe Steel was ranked third in the steel and non-ferrous metal category of the 2024 Award for Excellence in Corporate Disclosure by the Securities Analysts Association of Japan. This achievement follows the previous year's top evaluation, which resulted in our first-place ranking.

#### Evaluation of Our Distinctive Business Structure

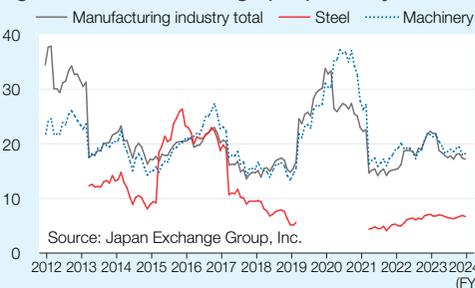
Our Group's distinctive feature is its well-balanced business portfolio across three business categories: materials, machinery, and electric power (see Figure 1). On the other hand, its stock market valuation (PER) remains at the same level as that of other steel companies, which have relatively low valuations (see Figure 2).

While striving to eliminate the market concerns listed on the left, we will work to improve the evaluation of our Group's uniqueness through dialogue with capital markets.

Figure 1. Consolidated ordinary profit by business category



Figure 2. Price-to-earnings (P/E) ratio by sector



Note: A negative PER is not indicated in the line graph.