

# **KOBELCO Group Medium-Term Management Plan (FY2021–FY2023)**

## **—Establishing a Stable Earnings Base and Taking on the Challenge of Realizing Carbon Neutrality—**

### **【 1 】 Introduction**

In the Fiscal 2016-2020 Group Medium-Term Management Plan started from April 2016, the Kobe Steel Group (also known as the KOBELCO Group) has been working to establish a business enterprise focused on three core business areas in the materials, machinery and electric power businesses. The Company has pursued growth opportunities centering on automotive weight reduction strategies while promoting measures to establish a stable earnings base such as consolidating upstream processes in the steel business and starting up new electric power projects. However, the Company has not reached its initial goal of establishing a business enterprise based on three core business areas due to changes in the demand forecast of the automotive weight reduction strategies in which the Company made active investments, as well as due to challenges in *monozukuri* capability and profitability issues mainly in the materials business.

As for the business environment, there is a growing global trend of social transformation to move toward achieving carbon neutrality, along with challenges we are facing such as structural problems in the steel industry and changes in the industrial structure triggered by the COVID-19 pandemic.

Under these circumstances, the Company formulated the KOBELCO Group Medium-Term Management Plan (FY 2021 to FY 2023) giving top priorities to (1) Establishing a stable earnings base and (2) Taking on the challenge of realizing carbon neutrality. We consider these goals as new business opportunities for our Group to contribute to society by leveraging its strengths as a company engaged in multifaceted business operations with its diverse technologies and human resources.

We will continue to respond to social demands and changes in the industrial structure while delivering improved solutions with a combination of technologies

that contribute to solving problems in an effort to become a corporate group indispensable to our customers and society. With this firm resolve, we will work to realize a world in which people, now and in the future, can fulfill their hopes and dreams while enjoying safe, secure, and prosperous lives.

## **【2】 Value Creation Area**

### **1. Establishing a Stable Earnings Base**

We aim to achieve a return on invested capital (ROIC) of 5% or higher in fiscal 2023 and 8% or higher in the future in order to achieve sustainable growth of the Group. To this end, we will steadily implement the following five key measures.

#### **(1) Key Measures**

##### **■ Strengthening the earnings base of the steel business**

- Under the assumption that demand will decrease over the long term, we will establish a structure to secure stable earnings with crude steel production of 6.3 million tons per year.

##### **■ Smooth startup / stable operation of new electric power projects**

- We will secure earnings of 40.0 billion yen/year from 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 and the planned commercial operation of Kobe Power Plant's No. 3 and No. 4 units.

##### **■ Strategic investment in the materials businesses leading to earnings contribution**

- We will promote strategic investment for automotive weight reduction to realize early earnings contribution by responding to the continuously growing need for lighter vehicles, despite adverse factors such as delays in demand rise and challenges in monozukuri capability.

##### **■ Restructuring unprofitable businesses**

- Amid changes in the demand environment and industrial structure, we are streamlining the steel casting and forging business and the titanium business, which incurred impairment of fixed assets in fiscal 2019, as well as the crane business, which continues to suffer losses, with the aim of turning profits from fiscal 2021 to 2022.

##### **■ Stabilizing earnings in the machinery business and responding to growing markets**

- In the machinery and engineering businesses, we will expand environmental contribution menu and respond to the growing markets while promoting intra-Group collaboration.
- In the construction machinery business, we will work to depart from dependence on the Chinese market, turn profits from a new value creation business through providing solutions for innovations such as workstyle reforms in the construction industry, and promote

commercialization of peripheral businesses through providing know-how on the installation of new systems, etc.

## (2) Strengthening Financial Structure

- During the new medium-term period, we aim to keep investment cash flow within the scope of operating cash flow and plan to reduce capital investment on a decision-making basis to the level of 100 billion yen per year by carefully selecting capital investments and other investments/loans. By the end of fiscal 2023, we aim to achieve a D/E ratio of 0.7 times or less.

## (3) Return to Shareholders

- Kobe Steel aims to pay dividends on a continuous and stable basis. Dividends are decided after taking into full account the Company's financial condition, business performance, future capital needs and other factors.
- We will maintain the current dividend payout ratio of 15–25% in fiscal 2021–2022, but from fiscal 2023 the dividend payout ratio shall be reviewed, including a raise of the ratio.

## 2. The Challenge of Carbon Neutrality

### (1) Vision of the KOBELCO Group for the Future

Our Group's vision for the future is to take on the challenge of achieving carbon neutrality by 2050 with an aim of increasing corporate value through this transition. Toward the goal of carbon neutrality by 2050, we will make bold efforts to reduce CO<sub>2</sub> emissions by promoting the development of our original technologies and utilizing external innovative technologies. Taking advantage of our strengths that enable the fusion of diverse technologies and diverse menus that contribute to CO<sub>2</sub> emissions reduction, such as MIDREX® and the supply of materials for lightweighting and vehicle electrification, we will respond to growing demand for these menus as new business opportunities for our Group.

#### Summary of targets and vision

	FY2030 targets	FY2050 vision
Reduction of CO <sub>2</sub> emissions in production processes	30% to 40% (vs. FY2013) <sup>*1)</sup>	Take on the challenge of achieving carbon neutrality
Contribution to reduction of CO <sub>2</sub> emissions through technologies, products, and services <sup>*2)</sup>	61 Mt (including 45 Mt MIDREX® Process) <sup>*3)</sup>	100 Mt or more

\*1) Much of the scope of the reduction targets consists of CO<sub>2</sub> reduction in the ironmaking process. We reviewed the targets announced in September 2020 (included the increased use of original solutions in addition to the change from BAU to total amount basis).

\*2) The KOBELCO Group contributes to the reduction of CO<sub>2</sub> emissions in various areas of society through its distinctive technologies, products, and services.

\*3) Reviewed calculation formula announced in September 2020

## **(2) Initiatives by Operating Segments**

### **■ Ironmaking process**

- We will strive to lead the industry in the field of CO<sub>2</sub> emission reduction and differentiate ourselves from other companies by utilizing our Company's original MIDREX<sup>®</sup> technologies for blast furnaces as announced in February 2021, while promoting the development of existing technologies (energy-saving technologies, increased use of scrap, AI furnace operation, etc.) as well as innovative technologies (COURSE50, ferrocoke, etc.). We are also considering the introduction of high-grade steel production using electric arc furnaces.

### **■ Initiatives in the automotive field**

- Automakers are accelerating their initiatives for electrification. Automotive weight reduction is not only about improving the fuel economy of gasoline cars, but also plays an important role in improving the fuel economy of hybrid cars and extends the driving range of electric cars. Responding to the need for weight reduction with multiple materials such as steel, aluminum, steel powder, and titanium, we will contribute to reduction of CO<sub>2</sub> emissions from automobiles.

### **■ Responding to Energy Conversion & Growing Markets**

- We aim to demonstrate the comprehensive strengths and create value unique to the KOBELCO Group by shifting the machinery business to the hydrogen and ammonia fields, facilitating mutual use of management resources of the Machinery business and the Engineering business, and promoting collaboration of the Steel & Aluminum business, the Electric Power business, and KOBELCO Eco-Solutions Co., Ltd.

### **■ MIDREX<sup>®</sup>**

- Our Group's original technology MIDREX<sup>®</sup> Process is a direct reduction ironmaking method using natural gas, which produces 60% of the direct reduced iron in the world. We aim to increase earnings by providing CO<sub>2</sub> reduction solutions through MIDREX<sup>®</sup>, such as expanding demand for electric arc furnaces, providing CO<sub>2</sub> reduction solutions for blast furnaces, and developing a new hydrogen direct reduction ironmaking process.

### **■ Electric Power Business**

- In the coal-fired power generation at Kobe Power Plant, we will supply heat and

hydrogen to surrounding areas using steam from the power plant and increase the efficiency of region-wide energy use. We will promote the collaboration of the Electric Power Business and the Engineering Business divisions to strengthen CO<sub>2</sub> reduction initiatives such as co-firing of biomass fuel (sewage sludge and food residue) and ammonia, aiming to achieve the world's most advanced urban coal-fired power plant. In the gas-fired power generation at Moka Power Plant, we will continue stable operation of low-CO<sub>2</sub> power generation using high-efficiency GTCC.

- In addition, at Kobe Power Plant, we will increase the rate of co-firing of ammonia, and ultimately we will take on the challenge of single-fuel firing. At Moka Power Plant, we are also considering the maximum use of carbon neutral city gas, and through these measures, we aim to achieve carbon neutrality by 2050.

## **【2】 Management Foundation Area**

In order to establish a stable earnings base and take on the challenge of realizing carbon neutrality, we will continue to take measures to strengthen our management foundation, such as reviewing our management structure and promoting active participation of diverse human resources.

### **■ Changes in management structure**

- In order to steadily advance the initiatives under the Medium-Term Management Plan, we will review our management structure, further strengthen the monitoring function of the Board of Directors, and strengthen the structure on the execution side.

### **■ DX strategy management**

- In April 2021, we newly established the Digital Innovation Technology Center to strengthen and accelerate technology development and business application in the fields of ICT and AI. In addition, we set up the DX Strategy Committee to plan and implement the overall DX strategy of the KOBELCO Group.
- Our basic policy is to provide solutions for customers and society by transforming our Group's value chain with digital technology and creating new value from the customer's perspective. Based on this policy, we will promote our DX strategies.
- We plan to make capital investment of 45 billion yen for IT infrastructure over 3 years from fiscal 2021.

### **■ Promoting active participation of diverse human resources**

- Our Group's unique strength lies in having diverse human resources and technologies in a wide range of business areas, from materials and machinery to electric power.

In implementing the new Medium-Term Management Plan, we will further strengthen this strength and promote active participation of diverse human resources by focusing on reforming the personnel system, strengthening personnel development, diversity and inclusion, and work style reforms.

■ **Trust Improvement Project**

- We have been making steady progress in the implementation of measures to prevent recurrence of the quality misconduct, which was made public in 2017. We will promote the Trust Improvement Project under the continued leadership of the President aiming to restore and further improve customer trust and prevent the quality misconduct from being forgotten.