KOBELECO Group
Medium-Term Management Plan
(FY2021 – FY2023)
May 11, 2021
Kobe Steel, Ltd.
Contents

1. Introduction

2. New Medium-Term Management Plan
   Value Creation Area
   Establishing a stable earnings base
   The challenge of carbon neutrality
   Management Foundation Area

3. Reference Information
Introduction

The KOBELECO Group’s Collective Strengths

The KOBELECO Group’s Materiality

Steel & Aluminum
Advanced Materials
Welding
Machinery
Engineering
Construction Machinery
Electric Power

Six Pledges of KOBELECO

Contributing to a green society
Ensuring safety and security in community development and manufacturing
Providing solutions for a future that connects people and technology
Promoting active participation of diverse human resources
Pursuing governance that supports sustainable growth

Core Values of KOBELECO

Promoting active participation of diverse human resources
Solving social issues and creating new value by utilizing diverse technologies and human resources

KOBELECO’s View of the Future

KOBELECO’s Mission

Pursuing governance that supports sustainable growth

KOBELECO’s View of the Future
Introduction
Summary of the Fiscal 2016-2020 Medium-Term Management Plan

- Aiming to establish three core areas of business: materials, machinery and electric power, we pursued growth opportunities centering on automobile weight reduction strategies, while promoting measures to establish a stable earnings base through consolidation of upstream processes in the steel business and startup of new electric power projects.

- Although we have been actively investing in the automobile weight reduction strategies, it requires more time to produce earnings as originally expected due to changes in demand forecast and challenges in monozukuri capability. We have yet to reach our initial goal of establishing a business enterprise based on the three core areas centered on materials businesses.

KOBELCO VISION “G+”

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>1,695.8</td>
<td>1,881.1</td>
<td>1,971.8</td>
<td>1,869.8</td>
<td>1,705.5</td>
</tr>
<tr>
<td>Ordinary Income (Loss)</td>
<td>(19.1)</td>
<td>71.1</td>
<td>34.6</td>
<td>(8.0)</td>
<td>16.1</td>
</tr>
<tr>
<td>Net Income (Loss) Attributable to Owners of the Parent</td>
<td>(23.0)</td>
<td>63.1</td>
<td>35.9</td>
<td>(68.0)</td>
<td>23.2</td>
</tr>
</tbody>
</table>

Sustainability Management Based on the Group’s Corporate Philosophy

Establish a business enterprise based on three core business areas

Solid management foundation

Stable profitability

Electric power

Machinery

Materials

Impact of COVID-19

U.S.-China trade friction

Discover of the Quality Misconduct

Decreased profitability in materials businesses
The Environment Surrounding the KOBELCO Group

Recognized Business Environment

The KOBELCO Group

- Transition to carbon neutrality/social transformation
- Structural problems of the steel industry
- Accelerating the movement toward sustainability
- Changes in industrial structure triggered by COVID-19

Opportunities
- Reforming the business structure and gaining new revenue opportunities

Risk
- Weakening of earnings base
- Damage to corporate value

The two most important issues to be addressed in the new Medium-Term Management Plan

1. Establishing a stable earnings base
2. Taking on the challenge of realizing carbon neutrality
Introduction
Overview of the Medium-Term Management Plan

Solving social issues and creating economic value through business activities

FY2020
- Emergency profit improvement measures/cash creation
- Reorganization of materials businesses
- Introduction of ROIC management
- Framework for sustainability management
- Review of management structure
- Study of CO₂ strategy

FY2021
- Five key measures such as strengthening the earnings base of the steel business
- Strengthen the corporate financial structure

FY2022
- ROIC 5% or more
- Establishing a stable earnings base

FY2023
- Taking on the challenge of realizing carbon neutrality
- Strengthen the management foundation

After 2024

Vision of KOBELCO

Transforming KOBELCO into a corporate group with sustainable growth and maintaining an ROIC of 8% or more on a stable basis

Solving social issues and creating economic value through business activities
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Establishing a stable earnings base

Achieving profitability (ROIC) goals

Key measures for establishing a stable earnings base

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

Vision of KOBELCO

Transforming KOBELCO into a corporate group with sustainable growth and maintaining an ROIC of 8% or more on a stable basis

Solving social issues and creating economic value through business activities

Returning to a growth trajectory

FY2019 FY2020 FY2021 FY2022 FY2023

ROIC 0.9% ROIC 1.1% ROIC 2.6%

(Actual results) (Actual results) (Plan)
Establishing a stable earnings base
Strengthening the earnings base in 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 and maintain profitability even with 6.0 million tons.

Crude steel production, real income forecast
(Ordinary income (loss) excluding inventory valuation)

<table>
<thead>
<tr>
<th>(Based on the production at Kakogawa Works)</th>
<th>2019</th>
<th>2020</th>
<th>2021 2H</th>
<th>2021 (Plan)</th>
<th>2023 (Plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude steel production (million tons)</td>
<td>6.4</td>
<td>5.7</td>
<td>3.3</td>
<td>6.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Real income (billion yen)</td>
<td>(8.8)</td>
<td>(20.8)</td>
<td>11.1</td>
<td>14.0</td>
<td>23.0 or more</td>
</tr>
</tbody>
</table>

Changes in the product mix

❖ Considering the need to replace major upstream-process facilities (blast furnaces, coke ovens, etc.) in the future, we have started to study how to utilize upstream-process facilities in the efforts to achieve carbon neutrality.

FY2020→FY2023
Real income (Difference breakdown)

- Recovery from volume reduction due to COVID-19 + 31.0
- End of reduced production and rising costs + 6.0
- Cost reduction + 5.0
- Quantity mix, prices + 4.0
- Reduction in fixed costs + 5.0
- Major overseas businesses + 37.0
- Capital investment in high-strength steel facilities + 4.0
- Risks and others + 7.0

23.0 or more

FY2023 (Plan)
Establishing a stable earnings base
Smooth startup/stable operation of new electric power projects

❖ At Kobe Power Plant, commercial operation of No. 3 unit is scheduled to begin in the second half of FY2021 and No. 4 unit in the second half of FY2022.
❖ The start of operation of all power plants, including Kobe Power Plant’s No. 1 and No. 2 units and Moka Power Plant’s No. 1 and No. 2 units, will contribute 40.0 billion yen annually to earnings from FY2023 (The following section describes the challenge of carbon neutrality in the electric power business)

※Figures are actual results and forecasts of ordinary income in the Electric Power segment (in billions of yen).
Due to factors such as delays in demand rise for automotive lightweight materials and challenges in monozukuri capability, it requires more time to produce earnings as originally expected.

With continued strong demand for lighter vehicles and active inquiries, an early contribution to earnings is expected.
Establishing a stable earnings base
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 FY2019, as well as the crane business, which continues to suffer losses, for achieving profitability.

<table>
<thead>
<tr>
<th>Castings and forgings</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
<th>FY2022</th>
<th>FY2023</th>
<th>FY2024 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment of fixed assets</td>
<td>⚫</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decline in profitability</td>
<td></td>
<td></td>
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<tr>
<td>Fixed cost reduction</td>
<td></td>
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<tr>
<td>Downsizing (large-scale staff reduction)</td>
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<tr>
<td>Cost reduction and withdrawal from unprofitable products</td>
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<tr>
<td>Price improvement</td>
<td></td>
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<tr>
<td>Withdrawal from welded pipes</td>
<td></td>
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</tr>
<tr>
<td>Review of orders for large forgings (airframe and landing gear)</td>
<td></td>
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<tr>
<td>Staff reduction</td>
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<td></td>
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<tr>
<td>Review of R&amp;D</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Mass production of NC titanium (Nano-carbon composite coat titanium)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvement of order structure for large forgings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of upstream process operation system</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Price improvement of existing products</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Titanium</th>
<th>FY2020</th>
<th>FY2021</th>
<th>FY2022</th>
<th>FY2023</th>
<th>FY2024 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment of fixed assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Decline in profitability</td>
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<tr>
<td>Withdrawal from welded pipes</td>
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<tr>
<td>Review of orders for large forgings (airframe and landing gear)</td>
<td></td>
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<tr>
<td>Staff reduction</td>
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<tr>
<td>Review of R&amp;D</td>
<td></td>
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<tr>
<td>Mass production of NC titanium (Nano-carbon composite coat titanium)</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Improvement of order structure for large forgings</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Review of upstream process operation system</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price improvement of existing products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Crane</th>
<th>FY2020</th>
<th>FY2021</th>
<th>FY2022</th>
<th>FY2023</th>
<th>FY2024 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decline in profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of business scale, fixed cost reduction, area strategy</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
## Establishing a stable earnings foundation

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

<table>
<thead>
<tr>
<th>Machinery</th>
<th>Expand environmental contribution menus (including CO2 reduction)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>✓ Social infrastructure purposes (in the hydrogen and ammonia fields)</td>
</tr>
<tr>
<td></td>
<td>✓ Standard compressors: Through the capital and business alliance with Miura Co., Ltd., we will supply air compressors, heat pumps and boilers as a utility platformer. These systems provide customers with a comprehensive solution to saving energy and reducing CO2 emissions. (p. 23: Responding to Energy Conversion &amp; Growing Markets)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Engineering</th>
<th>Maximize earnings through environmental contribution menus (including CO2 reduction)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Respond to growing markets through intra-Group collaboration</td>
</tr>
<tr>
<td></td>
<td>✓ Expand the Midrex business (p. 24: Roadmap for CO2 reduction through Midrex®)</td>
</tr>
<tr>
<td></td>
<td>✓ Utilizing the Group’s collective strengths through collaboration with the steel business, the electric power business and Kobelco Eco-Solutions Co., Ltd. (p. 23: Responding to Energy Conversion &amp; Growing Markets)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Construction machinery</th>
<th>Departure from dependence on the Chinese market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Turning profits from a new value creation business through providing solutions for innovations such as workstyle reforms in the construction industry, etc.</td>
</tr>
<tr>
<td></td>
<td>Commercialization of peripheral businesses through providing know-how on the installation of new systems, etc.</td>
</tr>
<tr>
<td></td>
<td>✓ Commercialization of remote operation, autonomous driving technology, etc. (p.28: DX strategy management)</td>
</tr>
</tbody>
</table>
Establishing a stable earnings base

Business portfolio (Assumption for FY2023)

Quadrant C
Determine the direction and measures for profit improvement

Quadrant D
Determine the effectiveness of structural reforms on profitability improvement

Quadrant A
Expand business

Quadrant B
Maintain market share and profitability

Market growth potential

The size of each unit represents the amount of invested capital.

Steel products

ROIC

Electric power

Titanium

Welding

Construction machinery

Compressors

Copper coils

Aluminum extrusions

Industrial machinery

Electric power

Engineer ing

Copper rolled products

Steel Castings & Forgings

Aluminum Castings & Forgings

0%

5%
Establishing a stable earnings base
Strengthening financial structure

Basic policy of financial strategy

During the new medium-term period, we aim to keep investment cash flow within the scope of operating cash flow and achieve a D/E ratio of 0.7 times or less by the end of FY2023 by carefully selecting capital investments, other investments and loans.

FY2021-2023 cumulative cash (excluding project financing) (billions of yen)

Operating cash flow

Investment cash flow

Materials (180.0)
Machinery (110.0)
Other (30.0)

Free cash flow

Investment and loan (320.0)

Returns to shareholders, etc.

Continued cash creation, additional measures

Improvement of working capital by setting KPIs based on ROIC tree
Careful selection of investment projects by the Investment and Loan Committee
Sale or liquidation of business assets (land, etc.)
Sale of strategic holdings of listed companies’ shares

In preparation for downside risks in operating cash flow, we will strengthen monitoring systems and consider backup measures.

Debt

Equity

D/E ratio
0.7 times or less

Ratios

Establishing a stable earnings base
Strengthening financial structure

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Debt

Equity

D/E ratio
0.7 times or less

Ratios
Establishing a stable earnings base

Plan for capital investment and other asset-related expenditures

<table>
<thead>
<tr>
<th></th>
<th>FY2019 (Actual)</th>
<th>FY2020 (Actual)</th>
<th>FY2021</th>
<th>FY2022</th>
<th>FY2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital investment (decision base)</td>
<td>78.5</td>
<td>60.6</td>
<td>110.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Of which, IT strategy related</td>
<td>8.0</td>
<td>5.0</td>
<td>Approx. 15.0/year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>105.3</td>
<td>100.8</td>
<td>105.0</td>
<td>115.0</td>
<td>125.0</td>
</tr>
<tr>
<td>R &amp; D expenditure</td>
<td>35.9</td>
<td>31.0</td>
<td>Approx. 30.0/year</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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 in FY2021 – FY2022, but from FY2023 the dividend payout ratio shall be reviewed, including a raise of the ratio.

### Dividend Payout Ratio

<table>
<thead>
<tr>
<th></th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021 – 2022</th>
<th>FY2024 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend payout ratio</td>
<td>—</td>
<td>15.6% (10 yen/share)</td>
<td>15 – 25%</td>
<td>To be reviewed including a raise</td>
</tr>
</tbody>
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Vision of the KOBELCO Group for the Future

Toward carbon neutrality in 2050

- Take on the challenge of achieving carbon neutrality
- Aim to **improve corporate value** while moving toward carbon neutrality

<table>
<thead>
<tr>
<th>Internal environment</th>
<th>External environment</th>
<th>The Company’s action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Weakness</strong></td>
<td><strong>Threat</strong></td>
<td><strong>Minimize negative factors</strong></td>
</tr>
<tr>
<td>Risks (negative factors)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Operates blast furnaces and coal-fired thermal power plants with high CO2 emissions</td>
<td>• Higher costs to reduce the Company's CO2 emissions</td>
<td>• Disclose a roadmap toward carbon neutrality in 2050</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Promote medium- to long-term technical development based on the roadmap</td>
</tr>
<tr>
<td><strong>Strengths</strong></td>
<td><strong>Opportunity</strong></td>
<td><strong>Maximize positive factors</strong></td>
</tr>
<tr>
<td>Opportunities (positive factors)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Contributions to CO2 emission reduction</td>
<td>• Rising demand for solutions that contribute to CO2 reduction</td>
<td>• Develop technologies that contribute to CO2 reduction and promote new businesses</td>
</tr>
<tr>
<td>• Fusion of numerous businesses and technologies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The KOBELCO Group contributes to CO2 emission reduction through its original technologies, products and services, as well as reducing CO2 emissions in its production processes. It has set targets and vision for these two aspects for FY2030 and FY2050, respectively.

<table>
<thead>
<tr>
<th>Reduction of CO2 emissions in production processes</th>
<th>FY2030 targets</th>
<th>FY2050 vision</th>
<th>Ref.</th>
</tr>
</thead>
<tbody>
<tr>
<td>30% to 40% (vs. FY2013) (※1)</td>
<td>Take on the challenge of achieving carbon neutrality</td>
<td>p.21</td>
<td></td>
</tr>
</tbody>
</table>

| Contribution to reduction of CO2 emissions through technologies, products, and services (※2) | 61 Mt (including 45 Mt through MIDREX® Process) (※3) | 100 Mt or more | p.22-24 |

(*1) Much of the scope of the reduction targets consists of CO2 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 CO2 emissions in various areas of society through its distinctive technologies, products, and services.

(*3) Reviewed calculation formula announced in September 2020
The challenge of carbon neutrality
Ironmaking Process: Roadmap toward Carbon Neutrality

Pursue energy-saving technologies, increase scrap utilization

Maximize efficiency by utilizing AI blast furnace heat prediction system & Al furnace operation
Increasing the use of KOBELEC Group’s original solutions to reduce BF CO2 emissions
Beginning commercialization
Further technology improvement and expansion to spread its use
Growing customer needs for low CO2 steel products
Establishing and commercializing CCUS/inexpensive, large-volume zero-emission hydrogen technology

CO2 reduction in blast furnaces (BF)
CO2 reduction of about 20% verified

Innovation & super innovative technologies

Double-track approach

Development, demonstration & practical application of COURSE50 & ferrocoke
Super COURSE50 Hydrogen reduction ironmaking
Development, demonstration, practical application
Spreading use of zero-emission electric power

Growing need for decarbonized steel products

CO2 reduction targets for 2030
Reduction of 30%-40%

CO2 reduction vision for 2050
The challenge of carbon neutrality

Social changes
Changes in policies and external environment
Social innovation
KOBELCO Group-led activities
Development, demonstration, practical application

CO2 emission

Growing customer needs for low CO2 steel products

Ironmaking Process: Roadmap toward Carbon Neutrality

CO2 reduction of about 20% verified

Innovation & super innovative technologies

Double-track approach

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Super COURSE50 Hydrogen reduction ironmaking
Development, demonstration, practical application
Spreading use of zero-emission electric power

Making high-grade steel in electric arc furnace: Study, develop, demonstrate & adopt

Speeding up practical application & commercialization

Speeding up decarbonization

Social changes
Changes in policies and external environment
Social innovation
KOBELCO Group-led activities
Development, demonstration, practical application

CO2 reduction targets for 2030
Reduction of 30%-40%

CO2 reduction vision for 2050
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Ironmaking Process: Roadmap toward Carbon Neutrality

CO2 reduction of about 20% verified

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CO2 reduction of about 20% verified

Innovation & super innovative technologies

Double-track approach

Development, demonstration & practical application of COURSE50 & ferrocoke
Super COURSE50 Hydrogen reduction ironmaking
Development, demonstration, practical application
Spreading use of zero-emission electric power

Making high-grade steel in electric arc furnace: Study, develop, demonstrate & adopt

Speeding up practical application & commercialization

Speeding up decarbonization

Social changes
Changes in policies and external environment
Social innovation
KOBELCO Group-led activities
Development, demonstration, practical application

CO2 reduction targets for 2030
Reduction of 30%-40%

CO2 reduction vision for 2050
The challenge of carbon neutrality

Growing customer needs for low CO2 steel products

Ironmaking Process: Roadmap toward Carbon Neutrality

CO2 reduction of about 20% verified

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CO2 reduction vision for 2050
The challenge of carbon neutrality

Growing customer needs for low CO2 steel products
Many countries have set goals for electrification as an initiative for carbon neutrality. Automakers' initiatives for electrification will further accelerate in the future.

Automotive weight reduction is not only about improving the fuel economy of gasoline cars, but it 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 lighter materials, the KOBELCO Group contributes to accelerating electrification.

We contribute to automakers' initiatives for carbon neutrality with a variety of products for electric cars, including wire rods/bars (bearing steel, special steel, pure iron soft magnetic steel), magnetic steel powder, titanium for fuel cell stacks.

### KOBELCO Group's materials: Contributing to vehicle electrification

<table>
<thead>
<tr>
<th>KOBELCO’S products</th>
<th>Main applications (target parts)</th>
<th>Anticipated effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel: High strength steel</td>
<td>Body frame, bumper, door impact beam</td>
<td>Improved characteristics from lightweighting (Easing weight increase in electrification)</td>
</tr>
<tr>
<td>Aluminum: Extrusions</td>
<td>Body frame, bumper, door impact beam</td>
<td>• Improved fuel economy for hybrid cars</td>
</tr>
<tr>
<td>Aluminum: Panel material</td>
<td>Body frame, bumper, door impact beam</td>
<td>• Longer driving range of electric cars</td>
</tr>
<tr>
<td>Aluminum: Forged suspensions</td>
<td>Hood, door, roof, fender</td>
<td>• Improved collision safety (Easing increased braking distance)</td>
</tr>
<tr>
<td>Steel: Bearing steel, Special steel wire rod</td>
<td>Suspension</td>
<td></td>
</tr>
<tr>
<td>Steel: Pure iron soft magnetic material (wire rod)</td>
<td>Electromagnetic parts (motor, etc.) Cold-forged parts (gears, shafts, etc.)</td>
<td></td>
</tr>
<tr>
<td>Steel powder: Magnetic steel powder</td>
<td>Fuel cell stack</td>
<td>Improved characteristics of electric cars</td>
</tr>
<tr>
<td>Titanium: NC titanium</td>
<td>Fuel cell stack</td>
<td>Improved characteristics of fuel cell cars</td>
</tr>
</tbody>
</table>

ICEV (Internal Combustion Engine Vehicle), HEV (Hybrid Electric Vehicle), PHEV (Plug-in Hybrid Vehicle), BEV (Battery Electric Vehicle), FCEV (Fuel Cell Electric Vehicle)
The challenge of carbon neutrality
Responding to Energy Conversion & Growing Markets

- Machinery Business: High dependence on the fossil fuel fields will be shifted to the hydrogen and ammonia fields
- Engineering Business: Extensive lineup of environmental contribution menus
- Demonstrating Group's collective strengths and creating value unique to our Group by promoting the mutual use of the management resources of the Machinery business and the Engineering business as well as collaboration among the Steel business, the Electric Power business and Kobelco Eco-Solutions Co., Ltd (called SKS below).

Environment:
Demand for direct reduction iron is expected to increase from the viewpoint of CO2 reduction.

Industrial field:
Market expansion trend in the medium to long term

- Compressor business: Capital and business alliance with Miura Co., Ltd.

Fossil fuel & nuclear power:
Although the market size is large, business will be flat and gradually shrink due to environmental regulations.

It is unclear when nuclear power will expand.

Around 3% per year

Environment: Demand for direct reduction iron is expected to increase from the viewpoint of CO2 reduction.

Around 50%

Shifting from fossil fuel to hydrogen and ammonia fields in the rotating machinery menus
The challenge of carbon neutrality
Roadmap for CO₂ reduction through MIDREX®

- Providing CO₂ reduction solutions for various steelmaking processes through MIDREX® and increasing earnings

Expanding EAF business / Responding to shortage of iron

MIDREX NG™ (Natural gas-based direct reduction)

CO₂ reduction targets for 2030

Increasing production of MIDREX NG™ (natural gas-based direct reduction), which produces 60% of the direct reduced iron in the world

Stricter CO₂-related restrictions

Switch from BFs to EAFs: Increasing demand for DRI

Shortage of high-grade iron ore suited for making DRI

Development, demonstration and practical application of technology to utilize low-grade iron ore

Increasing demand for HBI for BFs

CO₂ reduction vision for 2050

Contribution to reduction of CO₂ emissions

Contribution to CO₂ reduction: 45 million tons or more/year

Establishment and commercialization of low-cost, high-volume zero-emission hydrogen technology worldwide

Approx. 20% CO₂ reduction

Gradual expansion from countries and regions with developed infrastructures

Beginning to provide solutions Further technological improvement

Expanding solutions

Completion and demonstration

Development, demonstration and commercialization

The global steel industry’s contribution to CO₂ emissions reduction

Providing CO₂ reduction solutions for ironmaking process

MIDREX H₂™ (100% hydrogen direct reduction)

Development, demonstration and commercialization

Changes in policies and external environment

KOBELCO Group-led activities

2013 2020 2030 2050

Contribution to CO₂ reduction: 100 million tons or more/year

CO₂ reduction

Solutions for ironmaking process

CO₂ reduction targets for 2030

Approx. 20% CO₂ reduction

Contribution to reduction of CO₂ emissions

Contribution to CO₂ reduction: 45 million tons or more/year

Establishment and commercialization of low-cost, high-volume zero-emission hydrogen technology worldwide

Gradual expansion from countries and regions with developed infrastructures

Beginning to provide solutions Further technological improvement

Expanding solutions

Completion and demonstration

Development, demonstration and commercialization
The challenge of carbon neutrality

Electric Power Business: Roadmap toward carbon neutrality

- **CO₂ emissions**
  - High-efficiency coal-fired thermal power generation
    - Higher than USC power plants

- **Development and demonstration of urban/regional biomass co-firing**
  - Gradual application in line with commercialization
  - Establishment and commercialization of the technology for producing low-cost, high-volume zero-emission ammonia

- **Study ammonia co-firing**
  - Increasing the rate of ammonia in co-firing fuel

- **Commercialization**
  - Further consideration and promotion of the use of applicable biomass
  - Taking on the challenge of single-fuel firing

- **Continuing low-CO₂ power generation through high-efficiency GTCC**

- **CO₂ reduction targets for 2030**
  - Increase the efficiency of urban/regional areas by supplying heat and hydrogen from steam utilization

- **CO₂ reduction vision for 2050**
  - Widespread use and commercialization of carbon-neutral city gas
  - Maximize the utilization of carbon-neutral city gas

- **KOBELCO Group-led activities**

- **Social changes**
  - Social innovation

- **Kobe Steel’s electric power business**
  - Coal-fired
  - Ammonia
  - Decarbonization
  - Gas-fired
  - Gas utilization

- **Roadmap toward carbon neutrality**
  - 2013
  - 2020
  - 2030
  - 2050

- **Electric Power Business**:
  - Development, demonstration, and commercialization

- **Social changes**
  - Social innovation

- **Gas-fired**
  - Gas utilization
Contents

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2. New Medium-Term Management Plan
   Value Creation Area
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   Management Foundation Area

3. Reference Information
Management foundation area
Changes in management structure

Further strengthening the monitoring function of the Board of Directors

1. Revised drastically the criteria for matters to be discussed at the Board of Directors meetings: Delegate most of the decision-making of specific matters to executive officers.
2. Internal directors are limited to those overseeing companywide functions. Executive officers in charge of businesses focus on business execution. Number of directors: Decreased from 16 to 13 (six of which are independent directors)
3. Established the Corporate Governance Committee to continuously study the structure of an ideal management system.

Executive Council

Auxiliary bodies

- New: Business Portfolio Management Committee
- New: Investment and Loan Committee
- Renamed, enhanced: Sustainability Management Committee
- New: Risk Management Committee
- New: DX Strategy Committee
- R&D Committee
- Pension Asset Management Committee

Board of Directors

Audit & Supervisory Committee

Meetings of Independent Directors

Advisory bodies

- Compliance Committee
- Nomination & Compensation Committee
- Quality Management Committee
- New: Corporate Governance Committee

Strengthening the execution side

4. Review the structure of committees, which serve as auxiliary bodies to the Executive Council, in order to steadily advance important issues under the new Medium-Term Management Plan.
5. Review the organizational structure to realize business strategies, including the establishment of specialized departments for new business planning.
6. Implement organizational changes to improve operational effectiveness in the head office division (streamlining of operations, reorganization of businesses that have contact with business divisions, integration of headquarters-shared service companies) and strengthen companywide strategic functions.
7. Abolish the positions of Senior Managing Executive Officer and Managing Executive Officer in order to more flexibly appoint the right executive officers in the right places. Revise the executive compensation system to further enhance the link between roles and demonstrated results.
Management foundation area
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. We plan to make capital investment of 45 billion yen for IT infrastructure over 3 years from FY 2021.

**Basic Policy**
Providing solutions for customers and society by transforming our Group's value chain with digital technology and creating new value from the customer's perspective.

- Example of initiative in hydraulic excavator

**Remote operation technology:**
K-DIVE Concept
Telework system for construction sites, focused on the individual worker.
Management foundation area
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.

❖ The following initiatives are being implemented to ensure the active participation of diverse human resources under the framework for sustainability management.

<table>
<thead>
<tr>
<th>Previous Plan</th>
<th>FY2021-2023 Medium-Term Management Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reforming the personnel system</strong></td>
<td><strong>Build a new personnel system to heighten awareness for &quot;Change, Challenge and Achievement&quot;</strong></td>
</tr>
<tr>
<td>• Clarification of evaluation standards</td>
<td>• Clarify expected roles and abilities</td>
</tr>
<tr>
<td>• Retirement age extension</td>
<td>• Review the seniority-based personnel system (with focus on roles and results)</td>
</tr>
<tr>
<td>• Promoting feedback</td>
<td>• Make careful selections of management positions and promote the appointment of professional human resources</td>
</tr>
<tr>
<td><strong>Strengthening personnel development</strong></td>
<td><strong>Encourage the growth of future generations and develop a spirit of taking on new challenges</strong></td>
</tr>
<tr>
<td>• Leader training</td>
<td>• Early development and systematic placement of management personnel</td>
</tr>
<tr>
<td>• (strengthening selected training, promoting executive training)</td>
<td>• Introduction and establishment of selective and independent education</td>
</tr>
<tr>
<td></td>
<td>• Enhanced education to strengthen monozukuri capabilities</td>
</tr>
<tr>
<td><strong>Diversity and inclusion</strong></td>
<td><strong>Utilize the diversity of individuals to create new value</strong></td>
</tr>
<tr>
<td>• Supporting women’s active participation</td>
<td>• Strengthen support for diverse work styles and active participation of minorities</td>
</tr>
<tr>
<td>• Improving work-life balance of all employees</td>
<td>• Improve internal communication and build a diversity network* (Cross-organizational platform to acquire knowledge of diversity promotion and to exchange ideas)</td>
</tr>
<tr>
<td><strong>Work style reforms</strong></td>
<td><strong>Further promote work style reforms</strong></td>
</tr>
<tr>
<td>• Promoting telecommuting</td>
<td>• Establishment and penetration of business improvement and standardization</td>
</tr>
<tr>
<td>• Increasing the number of paid days off taken</td>
<td>• Improvement of the office work environment</td>
</tr>
<tr>
<td>• Improving meetings and email efficiency</td>
<td>• Development of flexible working styles and employment systems</td>
</tr>
</tbody>
</table>
KOBELCO TQM Promotion Meeting: Aims to promote the “quality” in a broad sense covering the quality of work, organization, and management, etc., in addition to products and services.

Customer Trust Improvement Meeting: Aims to monitor customer satisfaction survey results, follow up on activities to strengthen customer contacts, and promote the understanding of the significance of activities to improve trust at work sites.

*KOBELCO TQM: TQM stands for Total Quality Management. As the next step after the completion of measures to prevent recurrence, KOBELCO TQM aims to strengthen the management of each business, while identifying issues that serve the needs of customers and society and addressing them with the participation of all employees.
In order to promote sustainability management more effectively, the KOBELCO Group has identified among various key issues the priority areas in which management resources should be invested.

### Materiality of the KOBELCO Group

<table>
<thead>
<tr>
<th>Value Creation Area</th>
<th>Relevance to SDGs</th>
</tr>
</thead>
</table>
| **Contributing to a green society**<sup>*</sup> | Response to climate change  
Response to resource recycling |
| **Ensuring safety and security in community development and manufacturing** | Supplying energy focused on energy security, economic efficiency, environment, and safety (3E plus S) *<sup>2</sup>  
Providing materials and machinery that meet needs  
Improving safety and productivity |
| **Providing solutions for the future connecting people and technology** | Reforms in manufacturing and operations through digital transformation  
Fusion and innovation of diverse intellectual assets |
| **Promoting active participation of diverse human resources** | Diversity and inclusion  
Work style reforms  
Human resources development |
| **Pursuing governance that supports sustainable growth** | Compliance and risk management  
Respect for human rights  
Safety and health  
Quality assurance  
Corporate governance |

*<sup>1</sup> A green society is not limited to the narrow meaning of a society merely using natural energy, but is defined as a society that deals with climate change issues and resource recycling.

*<sup>2</sup> 3E+S=Energy Security, Economic Efficiency, Environment + Safety
Promoting sustainability management based on the Group Corporate Philosophy under the framework as provided below.

Achieving sustainable growth and pursuing the medium- to long-term improvement of corporate value by fulfilling KOBELECO’s Mission toward the realization of KOBELECO’s View of the Future.

### Conclusion

**Sustainability Management Framework**

- **Group Corporate Philosophy**
  - **KOBELECO’s View of the Future**
    - 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.
  - **KOBELECO’s Mission**
    - Our mission is to provide solutions to the needs of society, by making the best use of the talents of our employees and our technologies.
  - **Core Values of KOBELECO**
  - **Six Pledges of KOBELECO**

- **Key Issues to Address**
  - **Solving social issues through our core businesses**
    - Creating new value by providing products and services through R&D and manufacturing

- **Promotion Tools**
  - **Prerequisites for continued existence**
    - Conveying the lessons learned from the quality misconduct
    - In addition to legal compliance and corporate ethics, various new social responsibilities must be fulfilled.
  - **Promotion of business with an awareness of SDGs**
  - **Identification of materiality**
  - **Use of assessments**
  - **Disclosure**
  - **SDGs**
    - 17 global goals
    - 169 targets
    - Objective evaluation of Group activities

**Value Creation Area**

**Management Foundation Area**

**Disclosure**

**ESG**

**External Evaluation**

**Objective evaluation of Group activities**
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### Initiatives by operating segments

<table>
<thead>
<tr>
<th>Steel</th>
</tr>
</thead>
<tbody>
<tr>
<td>• See p.9.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Aluminum flat-rolled products</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strengthen the earnings base of current core businesses (can stock, disk materials, plate, etc.)</td>
</tr>
<tr>
<td>• Quickly increase revenue from automotive aluminum panel material (responding to expanding demand for aluminum panel material)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Advanced materials</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Steel castings and forgings</strong> Review of business structure (Large-Scale reduction of personnel and withdrawal from unprofitable products)</td>
</tr>
<tr>
<td><strong>Aluminum castings and forgings</strong> Expanding sales in IT and high-speed rail fields. Rebuilding the sand-casting business.</td>
</tr>
<tr>
<td><strong>Titanium</strong> Review of the strategy for the aircraft business. Mass production of titanium foil for automotive fuel cells for increasing earnings</td>
</tr>
<tr>
<td><strong>Suspensions</strong> Responding to demand by maximizing production at the three bases of Japan, the U.S. and China (strengthen manufacturing capabilities)</td>
</tr>
<tr>
<td><strong>Aluminum extrusions</strong> Expand sales through product differentiation (automotive parts). Securing stable base cargo by promoting expansion of sales (railways, spot sales)</td>
</tr>
<tr>
<td><strong>Copper rolled products</strong> Responding to growing demand for automotive terminals and semiconductors and securing stable earnings</td>
</tr>
<tr>
<td><strong>Steel powder</strong> Responding to vehicle electrification</td>
</tr>
<tr>
<td><strong>Copper tube</strong> Promoting differentiation from Chinese competitors' products by expanding high-value-added product menu</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Welding</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strengthening earnings base through structural reforms</td>
</tr>
<tr>
<td>• Increase earnings through practical application of welding solutions (proposing technical solutions and providing higher added value by combining materials, systems and processes)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>• See p.13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Electric Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Securing and maximizing earnings through stable operation of three power plants (Kobe Power Plant’s No. 1 &amp; 2 units, Moka Power Plant’s No. 1 &amp; 2 units, and Kobe Power Plant’s No. 3 &amp; 4 units)</td>
</tr>
<tr>
<td>• Promoting low carbonization toward 2030 (biomass co-firing, ammonia co-firing etc.)</td>
</tr>
</tbody>
</table>
Providing CO2 reduction solutions for various steelmaking processes (for EAFs, BFs, and hydrogen direct reduction ironmaking processes) through MIDREX® and increasing earnings

Global crude steel production forecast

Blast furnace: Market forecast
Expected to maintain a certain level of production until the spread of hydrogen ironmaking, although it will remain flat or gradually decrease due to the expansion of electric arc furnaces.

Electric arc furnace: Market forecast
Expanding over the medium to long term in response to the trend toward the use of scrap and CO2 reduction. MIDREX® products are used as clean iron sources.

Hydrogen direct reduction ironmaking: Market forecast
This technology is essential for carbon neutrality and realizing a CO2-free steel industry. However, it is uncertain when it will be achieved as it requires a supply of a large amount of CO2-free hydrogen at a low cost.

KOBELCO/Midrex initiatives

Providing solutions to reduce CO2 from blast furnaces
Reducing CO2 from blast furnaces using MIDREX® products (HBI)
The challenge: Reducing costs, partnering with other companies for commercialization

Expanding the EAF business/Responding to future risks
Responding to a growing demand for MIDREX® Plants as EAF production expands
The challenge: Responding to future shortage of high-grade iron ore

MIDREX®’s current market

Taking on the challenge of achieving direct reduction ironmaking using hydrogen (MIDREX H2™)
A demonstration plant of MIDREX H2™, which is one of the iron making methods by hydrogen reduction, is under construction in cooperation with Arcelor Mittal.
The challenge: Market expansion depends on the spread of CO2-free hydrogen

Improving profit by offering CO2-reduction solutions in the steelmaking process through the MIDREX® Process

Note: Created by Kobe Steel using scenarios of the International Energy Agency and other sources as references
Reference information
Chronology of changes pertaining to the Board of Directors and governance

To FY2020
FY2016-FY2020 Medium-Term Management Plan

Rolling of the Plan

Established the Meetings of Independent Directors (FY2015)
Transitioned to a company with an Audit & Supervisory Committee (FY2016)
Revised executive remuneration system/Introduced stock-type remuneration system (2016)
Introduced evaluation system for the Board of Directors (FY2016)
Changed the structure of the Board of Directors/Independent directors to make up one-third or more of the Board of Directors (FY2018)
Appointed the Company’s first female director (FY2019)

Established the Compliance Committee (FY2003)
Established the Nomination & Compensation Committee (FY2018)
The Independent Quality Supervision Committee (FY2018)
Established Quality Management Committee (FY2019)

Established CSR Committee (FY2006)
Established Information Security Committee (FY2017)
Established IT Strategy Committee (FY2019)

R&D Committee
Pension Asset Management Committee

Reorganization of the Materials businesses
Established the Quality Management Department
Established the Compliance Management Department (Made independent from the Legal Department)

FY2021 and beyond
New Medium-Term Management Plan

Changed the executive compensation system (FY2021)
Changed the structure of the Board of Directors/Strengthened monitoring functions (FY2021)

Established the Corporate Governance Committee
Established:
- Sustainability Management Committee
- Risk Management Committee
- Business Portfolio Management Committee
- Investment and Loan Committee
- DX Strategy Committee

Changed the executive officer system/Abolished the positions of senior managing executive officer and managing executive officer (FY2021)

Consolidated Head Office departments

New changes
## Reference information

### Changes in management structure

<table>
<thead>
<tr>
<th>Key issues of the new plan</th>
<th>Implementation measures</th>
<th>Description</th>
</tr>
</thead>
</table>
| Business portfolio reform  | Newly established the Business Portfolio Management Committee | • Formulation of optimal capital structure and cash allocation policies based on financial plan  
  • Planning of companywide business portfolio strategy  
  • Performance management by business units and Group companies  
  • Determining business direction based on monitoring of unprofitable businesses  
  • Determining management resources to be invested in new businesses |
| Strategic investment leading to earnings contribution | Newly established the Investment and Loan Committee | • Analysis of investment risks, evaluation of businesses targeted for investment  
  • Determining investment timing and feasibility in cooperation with the Business Portfolio Management Committee  
  • Strengthening the follow-up of ongoing investments and determining direction of plans that have not been achieved |
| New business creation | Organizational changes in head office: Finance and Accounting Department Business Development Department | • Strengthening and centralizing management operations of calculation of figures  
  • Strengthening functions related to new business planning across the Company |
| Strengthening of financial governance | Sustainability Management Committee (former CSR Committee renamed with enhanced functions) | • Planning and monitoring of action plans for sustainability management (including the challenge of carbon neutrality) |
| | Organizational change in head office: General Administration and CSR Department | • Strengthening and centralizing functions for stakeholders |
| Sustainability management | Newly established the Risk Management Committee | • Formulating basic policies on overall risk management  
  • Accelerating companywide deployment through centralizing information |
| Promoting active participation of diverse human resources | Organizational change in head office: Internal Control and Audit Department | • Unification of operations related to the development/operation and evaluation/auditing of internal controls, including risk management and compliance |
| Improving the effectiveness of risk management | Newly established the Corporate Governance Department | • Formulation of basic policies on corporate governance  
  • Examination of optimal management structure |
| Corporate governance enhancement | DX Strategy Committee (former IT Strategy Committee with enhanced functions) | • Planning and implementation of companywide DX strategy  
  • Visualization of companywide initiatives, progress management, and determining priority areas |
On April 1, 2021, Kobe Steel established the Business Development Department in its head office division. The department has the function and authority to plan* new products and new businesses across the Company. *Combining the various intellectual assets (technology/ business assets) in the Group.

Taking the shift to a hydrogen-based society as a growth opportunity, the KOBELCO Group established a hydrogen business study working Group to plan and promote social implementation and new businesses of systems that combine our Group's machinery and engineering technologies (equipment and infrastructure).

Key points in the commercialization plan (Phase 0 to Phase 1)

(1) The size of the social value to be created by the theme
(2) The possibility of value creation unique to the Company
(3) The assessment of whether it can generate profits
(4) The precision of technical assessment and the degree to which it can combine intellectual assets
(5) The prospect of business continuation and the potential of its development

- The size of social value
- Value creation and advantage unique to the KOBELCO Group
The KOBELCO Group supports the initiatives to realize a sustainable society.
## KOBELCO Group's Corporate Philosophy

<table>
<thead>
<tr>
<th>KOBELCO’s View of the Future</th>
<th>Our view of a society and future to be attained as we carry out KOBELCO’s mission</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>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.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KOBELCO’s Mission</th>
<th>Our mission and the social significance of the KOBELCO Group that we must fulfill</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Our mission is to provide solutions to the needs of society, by making the best use of the talents of our employees and our technologies.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Core Values of KOBELCO</th>
<th>The commitments of the KOBELCO Group to society and the values shared by the entire KOBELCO Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. We provide technologies, products and services that win the trust and confidence of our customers we serve and the society in which we live.</td>
</tr>
<tr>
<td></td>
<td>2. We value, and support the growth of, each employee on an individual basis, while creating a cooperative and harmonious environment.</td>
</tr>
<tr>
<td></td>
<td>3. Through continuous and innovative changes, we create new values for the society of which we are a member.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Six Pledges of KOBELCO</th>
<th>Code of Conduct for all Group employees to follow to fulfill the Core Values of KOBELCO and the Quality Charter</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Uphold the Highest Sense of Ethics and Professionalism</td>
</tr>
<tr>
<td></td>
<td>2. Contribute to the Society by Providing Superior Products and Services</td>
</tr>
<tr>
<td></td>
<td>3. Establish a Comfortable but Challenging Work Environment</td>
</tr>
<tr>
<td></td>
<td>4. Live in Harmony with the Local Community</td>
</tr>
<tr>
<td></td>
<td>5. Contribute to a Sustainable Environment</td>
</tr>
<tr>
<td></td>
<td>6. Respect Each Stakeholder</td>
</tr>
</tbody>
</table>
Cautionary Statement

Certain statements in this presentation contain forward-looking statements concerning forecasts, assertions, prospects, intentions and strategies. The decisions and assumptions leading to these statements were based on information currently available to Kobe Steel. Due to possible changes in decisions and assumptions, future business operation, and internal and external conditions, actual results may differ materially from the projected forward-looking statements. Kobe Steel is not obligated to revise the forward-looking contents of this presentation.

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- Political situation and trade and other regulations
- Changes in currency exchange rates
- Availability and market conditions of raw materials
- Products and services of competing companies, pricing policy, alliances, and business development including M&As
- Strategy changes of alliance partners