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Notice Concerning Investment in the New Electric Furnace and Long-Term Targets to Realize the Long-Term Vision of Nakayama Steel Works Group

NAKAYAMA STEEL WORKS, LTD. (the "Company") announces that at the Board of Directors meeting held May 9, 2025, the Company resolved to formulate a long-term plan to realize the long-term vision and to invest in the new electric furnace (hereinafter, "the Investment"), which will be the core of this long-term plan. Details are as follows.

Notice

1. Management Plan

The Company celebrated 100 years since the foundation in 2019. Aiming to be a group that will continue to thrive 100 years in the future. The Company announced in May 2022 the "Nakayama Steel Works Group 2030 Long-Term Vision" as the Group's ideal image and corporate vision for 2030. In order to enhance the group-wide efforts to increase added value and realize a carbon-neutral, recycling-oriented society. In this long-term vision, the Company has considered the Investment as a drastic measure to increase electric furnace production capacity, in addition to expanding the application of electric furnace steel and promoting the processing strategy.

In recent years, the reduction of CO₂ emissions in the steel industry has become an urgent issue in response to growing global environmental awareness. In this business environment, demand for electric furnace steel, which emits about 1/4 of the CO₂ emissions of blast furnace steel, is expected to increase further in the future.

The group is one of the limited manufacturers capable of producing electric furnace steel with blast furnace and converter technology. The blast furnace and converter businesses were discontinued in 2002, and currently the Company produces and sells steel and the processed products using iron sources produced in existing electric furnace and those procured from outside sources. The decommissioning of ageing existing electric furnace, construction of a new electric furnace, production capacity will be significantly increased, and by substituting in-house iron sources for external procurement, not only will CO₂ emissions be significantly reduced, but profitability will also be improved.

Based on this recognition, the Company has decided to make the Investment to realize the "Nakayama Steel Works Group 2030 Long-Term Vision," which is the foundation of the Group that will continue to thrive 100 years in the future and has formulated a long-term plan centered on this vision.

As stated in "Notice Regarding the Establishment of a Joint Venture with NIPPON STEEL CORPORATION and the Conclusion of a Memorandum of Understanding for a Business Alliance," announced on the same day, the Investment will involve the establishment of a joint venture with investment by NIPPON STEEL CORPORATION (hereinafter, "Nippon Steel") and the Company to construct a new electric furnace facility at the Company's Funamachi Plant. And the Company plans to lease the electric furnace facility to operate the electric furnace.

(1) Priority policies in the Long-Term Management Plan

- ① Contributing to the realization of a carbon-neutral, recycling-oriented society
 - The new electric furnace, which will be completed through the Investment, will come into operation to reduce CO₂ emissions by 46% in fiscal 2030 compared to fiscal 2013 and achieve carbon neutrality in fiscal 2050.
- ② Improving profit structure and reforming product portfolio
 - The Investment aims to strengthen cost competitiveness by improving the ratio of in-house iron sources, saving energy and improving yield, and to improve profitability and stabilize the supply of electric furnace steel slabs and hot-rolled electric furnace products through the business alliance with Nippon Steel.
 - The Company will promote the expansion of the application of electric furnace steel and create new customer value by expanding our product lineup through product development, etc. and consider initiatives for green steel. In addition, the Company will further strengthen the processing strategy, improve added value and reform product portfolio.
 - In the period until the start of operation of the new electric furnace, the Company will establish the electric furnace production system with a monthly capacity of 50,000 tons at the existing electric furnace, increase the ratio of electric furnace steel, and focus on expanding sales of electric furnace steel.
- ③ Strengthening business collaboration
 - The Company will continue to discuss the conclusion of a joint venture agreement with Nippon Steel and work to realize a business alliance between the two companies.
 - Based on the business alliance agreement with Chubu Steel Plate, the Company will promote the supply of slabs from Chubu Steel Plate and the outsourcing of plate production to Chubu Steel Plate.
 - In order to further promote the processing strategy, the Company will also consider the outsourcing of processing and cooperation on product development with business partners.
- ④ Establishment of operation system for the new electric furnace
 - The new electric furnace will be installed on the site of the blast furnace and coke at the Company's Funamachi Plant. It will be located close to the hot strip and plate mill heating furnace in the lower process. It is expected to streamline on-site logistics and improve costs by directly transporting electric furnace steel slabs to the hot strip and plate mill heating furnace. Along with the construction of the new electric furnace, the Company will also work on safe and efficient operations.
 - The production volume of the new electric furnace is expected to be 1.2 million tons per year, more than double that of the existing electric furnace. Therefore, the procurement of iron scrap will be an issue, but the Company will take measures such as ocean transportation by group companies utilizing the quays of the main company base and reducing the ratio of processed scrap used by the new electric furnace.
- ⑤ Strengthening the management foundation
 - On the basis of establishing the new operation system of electric furnace④, the Company will improve the efficiency of work through DX to improve labor efficiency. At the same time the Company will promote the shift to high value-added businesses, such as the visualization and real-time sharing of production information, the visualization of supply chain information, and the advancement of management.
 - In terms of human resource management, the Company aims to create a working environment that encourages employee motivation and motivation by implementing a future human resources strategy to acquire excellent human resources, reduce the turnover rate, restructure the human resources development system and "DE&I" promote activities.

(2) Numerical targets for important management indicators

	FY 2024 Result	FY 2030 Target	FY 2033 Target *
Ordinary profit	8.1 billion yen	10 billion yen or more	13 billion yen or more
EBITDA	11.3 billion yen	22 billion yen or more	26 billion yen or more
ROE	5.4%	5% or more	6% or more

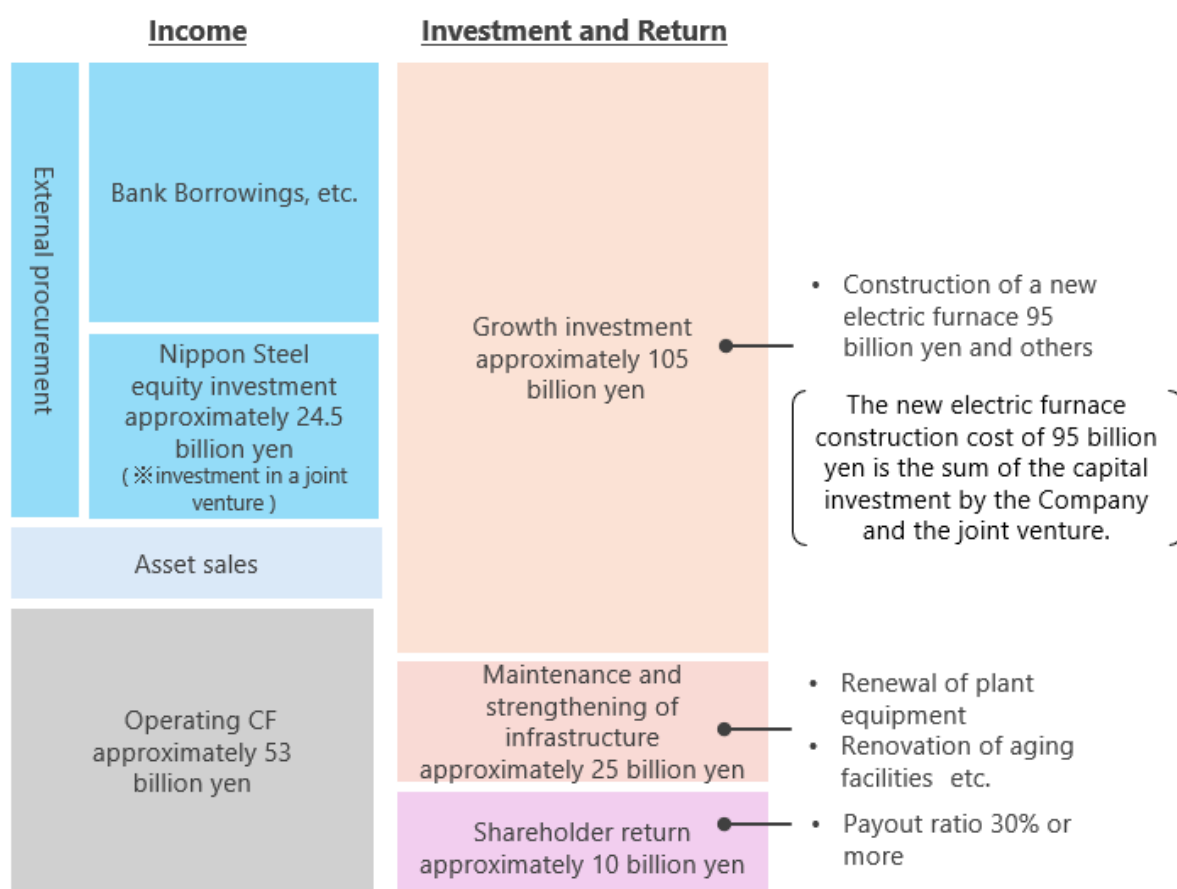
* The full-scale operation of the new electric furnace is expected to begin in fiscal 2030. The numerical target of the long-term plan is fiscal 2033, when the effects of the new electric furnace are generally expected.

(3) Capital allocation until new electric furnace completion

While prioritizing investments related to safety, the Company will maximize operating cash flow by investing in growth investments, including the Investment, as well as investments necessary for portfolio reforms and initiatives for value-added products. As a result, the Company will also strengthen shareholder returns. The Company will also make appropriate use of financial leverage, such as borrowing, while maintaining financial discipline toward growth investments such as the construction of the new electric furnace.

Regarding shareholder returns, the Company will consider strengthening shareholder returns based on the status of earnings and cash flows after the completion of the new electric furnace, with a consolidated dividend payout ratio of 30% or more as a standard and maintaining stable dividends as a basis.

(Reference) Image of Capital Allocation for FY 2025 to FY 2029



2. Overview of the Investment

(1) Description

The electric furnace and the ladle refining equipment will be newly constructed on the premises of the Company's Funamachi Plant (location: 1-1-66 Funamachi Taisho-ku, Osaka Japan).

(2) Estimated production

1.2 million tons/year (electric furnace crude steel)

(3) Time of operation

Construction starts in August 2026 (scheduled) and operation begins in 2030 onward (scheduled)

(4) Investment (estimated)

Total amount of approximately 95 billion yen

(5) Funding

Of the investment in the joint venture, the amount of investment excluding the investment in Nippon Steel, which is approximately 50 billion yen (NAKAYAMA STEEL WORKS, LTD.: 51%, NIPPON STEEL CORPORATION: 49%), is scheduled to be handled through our company treasury funds, asset sales, bank borrowings, etc. The details will be discussed in detail in the future.

(6) Investment effects

The Investment will significantly reduce CO₂ emissions through recycling-oriented production (resource recycling) by using steel scrap as raw materials and contribute to the realization of a carbon-neutral, recycling-oriented society. The introduction of the new electric furnace, which has more than twice the production capacity of the existing electric furnace, will enhance cost competitiveness by switching from external iron sources to in-house iron sources, saving energy, improving productivity, expanding the use of middle and lower grade scrap, and optimizing plant layout. It is also expected to have the effect of stable supply of steel slabs and steel materials to Nippon Steel, and will create an efficient and sustainable business model.

(7) Outlook for the future

In order to implement the Investment after the conclusion of the joint venture agreement, discussions are under way to conclude a joint venture agreement with Nippon Steel, and it is difficult to calculate the impact on business results for the current fiscal year at this time. Therefore, the Company will promptly disclose the figures when appropriate and reasonable figures can be calculated.