

To whom it may concern

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### **Revision of the 2025 Mid-Term Management Plan**

Aiming to further increase our corporate value in the global high quality specialty steel market, Sanyo Special Steel has formulated and implemented the 2025 Mid-Term Management Plan, covering the period from FY2021 to FY2025.

In light of major changes in business environment that have arisen since the original plan was formulated, such as resource price inflation (decoupled from steel supply and demand cycle), intensifying human resource constraints and accelerated drive to EVs and carbon neutrality, as well as the fact that our current financial results are outperforming the original plan, we have decided to revise the 2025 Mid-Term Management Plan and hereby announce the followings;

#### **1. Basic Policies**

##### **(1) Further enhance corporate value and presence in the global high quality specialty steel market**

- Strengthen corporate foundation by securing human resources and accelerating capital investments.
- Continue to improve margins and sales mix amidst uncertainty about demand trends and expected continuous cost push for raw materials, fuel, and other items.
- Further strengthening our global business foundation, and simultaneously, explore growth opportunities globally that will contribute to enhance corporate value and presence.
- Further emphasis and cognizance on cost of capital and stock price, promoting initiatives to achieve 1X P/B ratio.

##### **(2) Reinforce profitability of all global operations**

- Sanyo (non-consolidated) will secure appropriate margins by strengthening marketing foundation in bearing steel and machine structural steel segments (Bearing Sales Dept, Automotive & Industrial Machinery Sales Dept and Overseas Sales Dept) and high-alloy steel segment (Special Products Sales Dept), reflecting different market structure, technical requirements and customers.
- OVAKO aims to maintain and fortify its stable profit structure by further leveraging its advantage in carbon-neutral initiatives and controlling fixed costs in a sustainable manner.
- SSMI will further enhance its presence in the Indian market by strengthening its cost competitiveness, technical excellence and marketing capabilities.
- Formed and fabricated materials business will further strengthen its profit structure by solidifying its competitiveness in the integrated global supply chain.
- Metal powder business aims to achieve further profit growth by expanding sales of highly differentiating items (3D printers, semiconductors, DX/carbon-neutral related materials) which demand is expected to increase in the future, and by newly developing products and exploring customer requirements.

##### **(3) Strengthen ESG initiatives**

- Reinforcing governance structure and ESG initiatives, proactively conducting appropriate disclosures.
- In addition to diversity and health management, further focusing on global initiatives that contribute to securing and developing human resources and improving employee engagement.
- Reflecting five ESG indicators (CDP climate change score, health management rating, safety index, ratio of female managers and evaluation of board performance by outside directors) in executive compensation, in addition to existing numeric indicators.

#### (4) Achieve carbon neutrality by 2050

- The entire group will promote “Eco Process (energy saving and high efficiency),” “Green Energy Utilization,” “Eco Products (long-life bearing steel: automobiles, wind power generation, railroads, 3D powder etc.),” and “Eco Solutions (OVAKO, SSMI: utilizing energy-saving technology and productivity improvement supported by Sanyo).”
- Gifted with its advantageous energy infrastructure and strong customer consent, OVAKO will accelerate its leadership in carbon neutral initiatives, including the start of green hydrogen production and utilization.
- Expanding development of new products (ECOMAX®series, TOUGHFIT™, etc.) and utilizing advantageous technology to meet the needs for even higher reliability in globally growing business areas of "EV (new drive train mechanisms, etc.)", "wind power generation (high quality materials for large-scale applications, etc.)", "railroad (global high-speed railroad bearings, etc.)" and "hydrogen society (hydrogen-related equipment, etc.)".
- Strengthening group-wide initiatives to encounter all significant carbon neutral issues, steered by the “Carbon Neutrality Promotion Committee”, chaired by the president.

#### (5) Promote DX

- Established “DX Promotion Project Team”, led by the president, to initiate improvements in two major areas of "business reform" and "factory reform", enhancing business and operational efficiency and process restructuring.
- Conducting “stocktaking” of daily operations and utilize DX to solve obstacles and problems.
- Building an integrated database to share necessary data among different corporate business systems.
- Utilizing latest digital technology to make information visible, and real-time and automate or rationalize operations.
- Promoting operational transformation through implementing DX, aiming to upgrade business structure and increase corporate value.

## 2. Financial Targets and Investment of Resources (Consolidated)

### (1) Financial targets

- Net Sales                    Approx. 420 billion yen (original plan: approx. 280 billion yen)
- Ordinary income        Approx. 22 billion yen (original plan: approx. 14 billion yen)
- ROE                            Approx. 7% (original plan: approx. 5%)
- ROE (excluding goodwill amortization): Approx. 8% (original plan: approx. 6%)

Targeting to further increase profits compared to consolidated ordinary income of 19.3 billion yen excluding the one-offs of OVAKO in FY2022, and forecasted consolidated ordinary income of 20.0 billion yen for FY2023.

(Unit: billion yen)

|                         | FY2022    | Plan for FY2025 |             |
|-------------------------|-----------|-----------------|-------------|
|                         |           | Original        | Revision    |
| Sales volume (kt/month) | 133.9     | 148.5           | 148.0       |
| Sanyo                   | 74.5      | 75.0            | 80.0        |
| OVAKO                   | 50.7      | 60.0            | 55.0        |
| SSMI                    | 8.8       | 13.5            | 13.0        |
| Net sales               | 393.8     | 280.0           | 420.0       |
| Ordinary income         | (*1) 28.9 | 14.0 [16.3]     | 22.0 [25.0] |
| Sanyo                   | 10.2      | 9.0             | 14.0        |
| OVAKO                   | 21.1      | 6.0             | 11.0        |
| SSMI                    | -0.2      | 0.4             | 2.0         |
| ROE                     | 10% [12%] | 5% [6%]         | 7% [8%]     |

Figures [in parentheses] exclude goodwill amortization.

(\*1) 19.3billion yen, excluding one-offs.

### (2) Investment of resources

- CAPEX (FY2023-2025): Approx. 16 billion yen/year (original plan: approx. 12 billion yen/year)

Implement various measures including cost reduction, labor saving, and renewal of obsolete facilities, with focus on carbon neutrality (energy saving) and DX.

- Number of employees (end of FY2025): Approx. 6,500 (original plan: approx. 6,400)

Secure human resources globally.

### 3. Initiatives to achieve 1x P/B ratio

#### (1) Analysis of Current Situation

- Corporate earnings advanced and stabilized due to OVAKO's improved profitability and globally expanded application of surcharges, however ROE excl. one-offs in FY2022 was approx.6%, (excl. one-offs and goodwill amort. approx. 8%), slightly lower than the cost of capital (estimated approx.8%), due to significant impact of Goodwill amortization of approx. 3.0 billion yen.
- Share price has recovered with improved performance and PER relatively high within the industry segment, nevertheless PBR still remains at approx. 0.7x.

#### (2) Improvement Initiatives

- Improving profitability and ROE through implementation of various measures in the revised medium-term plan
- Reducing the cost of capital by improving the tradable share ratio through mutual sale of cross-shareholdings
- Gaining an appropriate evaluation of our Carbon Neutral and ESG efforts through continuous dialogue with investors (which we aspire to be properly reflected to our stock price)
- Revision of Dividend policy  
(Comprehensively considering dividend payout ratio, dividend per share level and necessary funds for future investment, etc. Consolidated dividend payout ratio:(Standard) approx. 35%, (Excluding goodwill amortization) approx.30%)

#### (Reference) Status of dialogue with shareholders and investors

##### (1) Dialogue Policy

- From the perspective of achieving sustainable growth and enhancing corporate value over the medium to long term, we will engage in various measures to promote constructive dialogue with shareholders and investors.
- Directors and executives, in collaboration with Finance Dept., General Affairs Dept. and other related departments, will be responsible for and will aim to enhance overall dialogue with shareholders and investors.

##### (2) Dialogue results for FY2022

- Actual numeric results  
Briefing on the day of announcement of quarterly or year-end financial results (\*1) ; 4 times  
Individual interviews (\*2) ; 64 times  
Plant tours, etc. for institutional investors; 2 times  
(\*1) The President participated in the second quarter and year-end closing of accounts.  
IR materials disclosed simultaneously in Japanese and English. Briefing meeting minutes posted on our website.  
(\*2) A total of 108 shareholders and investors were interviewed individually, including 25 overseas shareholders and investors.
- Main agendas of the dialogue  
Financial results of the consolidated company  
Trends of major customer industries and segments  
Countermeasures to offset rising raw material and fuel prices  
Effect of semiconductor shortages and Russia's invasion into Ukraine  
Impact of accelerated drive of EV's, transition to governance by audit & supervisory committee  
Outlook of carbon neutral initiatives, etc.

END

Please note that the official text of this document has been prepared in Japanese. To the extent there is any discrepancy between the English translation and original Japanese version, please refer to the Japanese version.