

Hagane Company

We are a resource circulation company that produces specialty steel, an important material with diverse characteristics that supports society, from steel scrap. By leveraging our accumulated technical capabilities and strength in integrated forging with steel making processes, we are helping to realize a decarbonized and recycling-oriented society, particularly in the automotive industry.



Managing Executive Officer
Hagane Company President
Toshio Ito



Business Strengths

- High-function material development capability due to the integrated forging with steel making processes we have cultivated since our founding as a leading manufacturer of specialty steel
- Strong partnerships with key customers, automobile manufacturers, and parts manufacturers
- Specialty steel manufacturing technology using an electric furnace method, which cuts CO₂ emissions during manufacturing to about 1/4 that of the blast furnace method



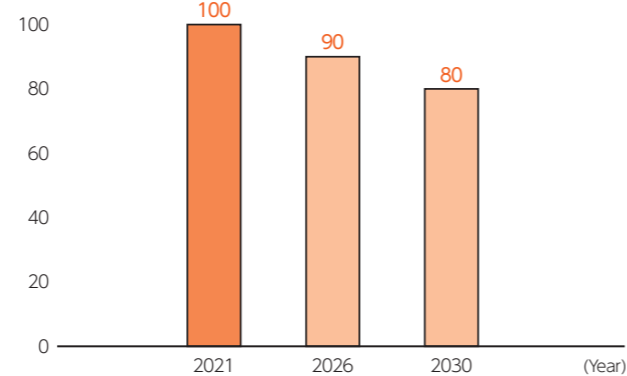
Specialty steel materials

Business Environment

Domestic demand for specialty steel is expected to fall in the medium to long term due to continued electrification of automobiles and fewer internal combustion engines. Demand overseas, on the other hand, is projected to increase steadily, especially in emerging economies. It is also essential that we respond not only to soaring raw material and energy prices and labor shortages, but also to recent trends toward environmentally valuable products.

We are addressing these issues by (1) building a business structure that is resilient to changes in the business environment, (2) expanding our operations in the growing market of India, and (3) increasing sales of high value-added products through the development of steel materials for electric vehicle parts, a growth area.

◆ Domestic demand for specialty steel (Aichi Steel's predictions)



*Index taking FY2021 demand as 100

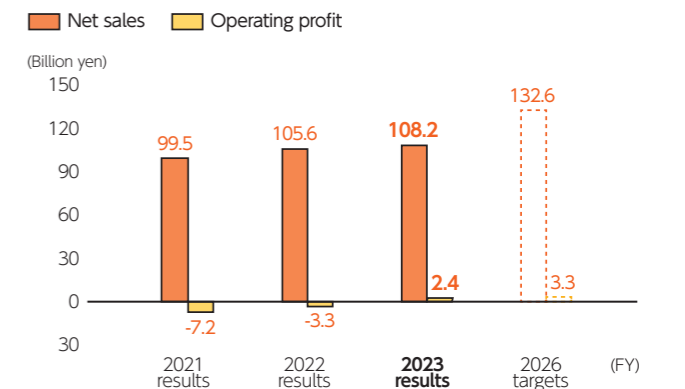
Opportunities and Risks

Opportunities	Risks
<ul style="list-style-type: none"> • Rising demand for high value-added products such as development steel for electric vehicles • Growth of overseas markets, especially India • Increased need for green products (Higher demand for electric furnace specialty steel) 	<ul style="list-style-type: none"> • Decrease in domestic demand for specialty steel due to electrification of automobiles • Rapid fluctuations in cost of raw materials, energy, etc.

FY2023 Results

While our sales volume was lower than initially forecast, we managed to stay in the black by implementing aggressive profit improvement activities in all aspects of procurement, manufacturing, and sales. These included reducing basic unit costs, which are not affected by production volume, reducing material costs by devising ways to use steel scrap and alloys, and reducing fixed expenses by a full review of maintenance costs and capital investment.

◆ Net sales, operating profit



Initiatives for the new Medium-term Management Plan

Strengthening earning power

Anticipating a fall in demand for specialty steel in the medium to long term, we will strengthen our earnings base as our core business by promoting structural reforms, such as consolidating or eliminating production lines and improving production efficiency.

Specifically, we will endeavor to stabilize earnings and maximize earning potential, by optimizing our production capacity with a cost-minimizing production system that generates profits from limited production volume, and by responding flexibly to demand fluctuations in order to significantly lower our break-even point.

Promoting global strategy for steel materials

We have held a stake in Vardhman Special Steel, a specialty steel manufacturer in India, since 2019. We are mutually cooperating with each other as business partners in the Indian specialty steel market, and both our companies' business and earnings have grown steadily. In 2023, our steel material became the first Indian material to be certified by a Japanese automobile manufacturer for making gears. In our Medium-term Management Plan, we aim to boost sales volume



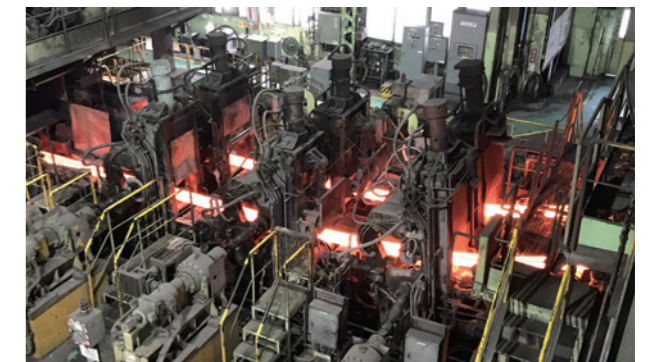
Technical guidance at Vardhman Special Steel

through further certification of our steel materials, and will step up activities to develop sales channels, especially with Japanese customers. To this end, we have been installing new equipment to improve quality and increase production potential. To expand our overseas steel materials business, we aim to take additional steps to secure a strong foothold in growing markets.

Carbon neutral initiatives

We are working to decarbonize our production processes through our accumulated manufacturing technologies and operational know-how and the development of new proprietary technologies. As part of this, we are developing small-section continuous casting technology for automotive steel, targeting mass production by 2025. This will cut our CO₂ emissions during manufacturing and ensure upward elasticity in production potential, enabling us to meet customer needs more flexibly.

We will also conduct specific studies for the introduction of new energy-efficient electric furnaces. By utilizing Toyota Motor Corporation's technologies such as engine heat management, we aim to achieve industry-leading efficiency and CO₂ reduction.



Small-section continuous casting machine under development to reduce CO₂ emissions and ensure upward elasticity in production potential