

[Supplementary material for IR briefing]

Looking to the Next Medium-Term Management Plan

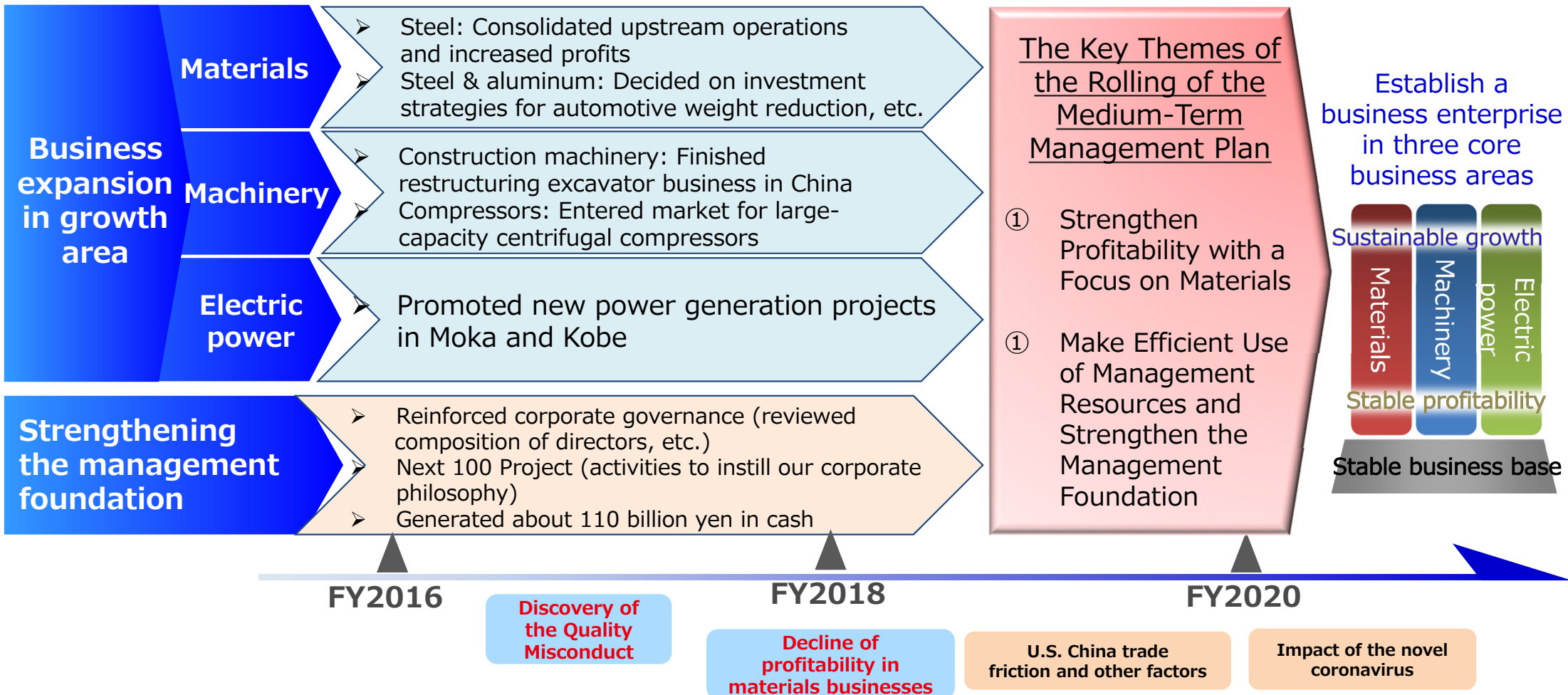
May 11, 2020
KOBELCO STEEL, LTD.

- Under the current Medium-Term Management Plan (from FY2016), we implemented the following measures by FY2018 with the aim of establishing three core areas of business: materials, machinery, and electric power, which are our vision for the future.
- In the Rolling of the Medium-Term Management Plan, announced last May, the Company has been promoting initiatives on the following priority themes: ① strengthening profitability centered on materials, and ② enhancing the efficiency of management resources and strengthening the management foundation, both of which are to be completed in the two-year period from FY2019 to FY2020.

Current Medium-Term Management Plan (FY2016-2020)

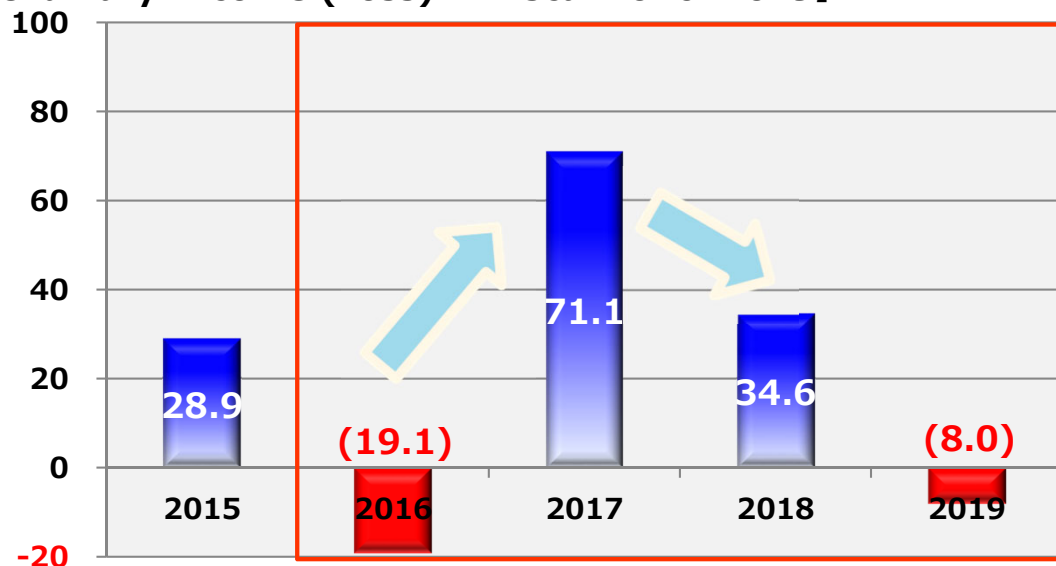
Next Plan (from 2021)

(Major progress and results up to FY2018)



- In FY2019, we made progress in improving the efficiency of management resources at a pace exceeding our original plan. In strengthening the profitability of materials, there has been a delay in achieving profitability of strategic investments due to the still insufficient improvement in *monozukuri* capabilities and sales prices, despite the positive impact of consolidating upstream processes at the steelworks.
- The materials businesses face an increasingly challenging business environment. In order for us to survive and achieve sustainable growth, we must face reality seriously and carry out reforms without fear of change.

【Ordinary Income (Loss) in Fiscal 2016–2019】



【Ordinary Income (Loss) by Segment & Net Income Attributable to Owners of the Parent】

(Billions of yen)		2016	2017	2018	2019
Materials	Iron & Steel	(29.5)	17.3	4.7	(21.3)
	Welding	6.8	4.9	3.6	2.9
	Aluminum & Copper	12.0	11.8	(1.5)	(20.4)
	Subtotal	(10.7)	34.0	6.8	(38.8)
Machinery	Machinery	5.8	2.3	1.2	9.6
	Engineering	2.8	6.9	6.5	5.7
	Construction Machinery	(31.3)	21.9	25.5	7.5
	Subtotal	(22.7)	31.1	33.2	22.8
Electric power		13.0	7.9	(0.3)	8.9
Other Businesses		7.6	5.4	2.3	3.3
Adjustment		(6.4)	(7.5)	(7.5)	(4.4)
Total		(19.1)	71.1	34.6	(8.0)
Net Income Attributable to Owners of the Parent		(23.0)	63.1	35.9	(68.0)

【Cash Flows & D/E Ratio in Fiscal 2016–2019】

(Billions of yen)	2016	2017	2018	2019
Operating cash flow	126.7	191.8	72.3	21.4
Investing cash flow	(131.9)	(160.7)	(10.9)	(133.4)
Free cash flow*	(5.2)	31.1	61.4	(112.0)

*Excludes project financing

D/E ratio	2016	2017	2018	2019
(Excludes early procurement of borrowings)	1.17	0.98	0.98	1.19
	1.00	-	0.85	1.10

※Actual ordinary income/loss of Steel & Aluminum flat-rolled products (excluding inventory valuation & special factors):
 Of the (21.3) in Iron & Steel, about (9.5) for steel products and about (9.0) for advanced materials
 Of the (20.4) in Aluminum & Copper, about (3.0) for aluminum flat-rolled products and about (5.0) for advanced materials

- Steel: Strengthened cost competitiveness by consolidating upstream processes at steelworks, but profits deteriorated due to high raw material prices and low product prices and demand decreasing at a faster pace than expected, despite persistently high fixed costs.
- Aluminum Flat Rolled Products: The company had to revise downward its forecasts for market demand because of delays in the application of aluminum and the slump in sales of automobiles in China, not foreseen when the decision on investments for automotive materials was made. A significant delay is also anticipated in achieving profitability of investments.

[Steel]
Deterioration in earnings due to changes in the industrial structure

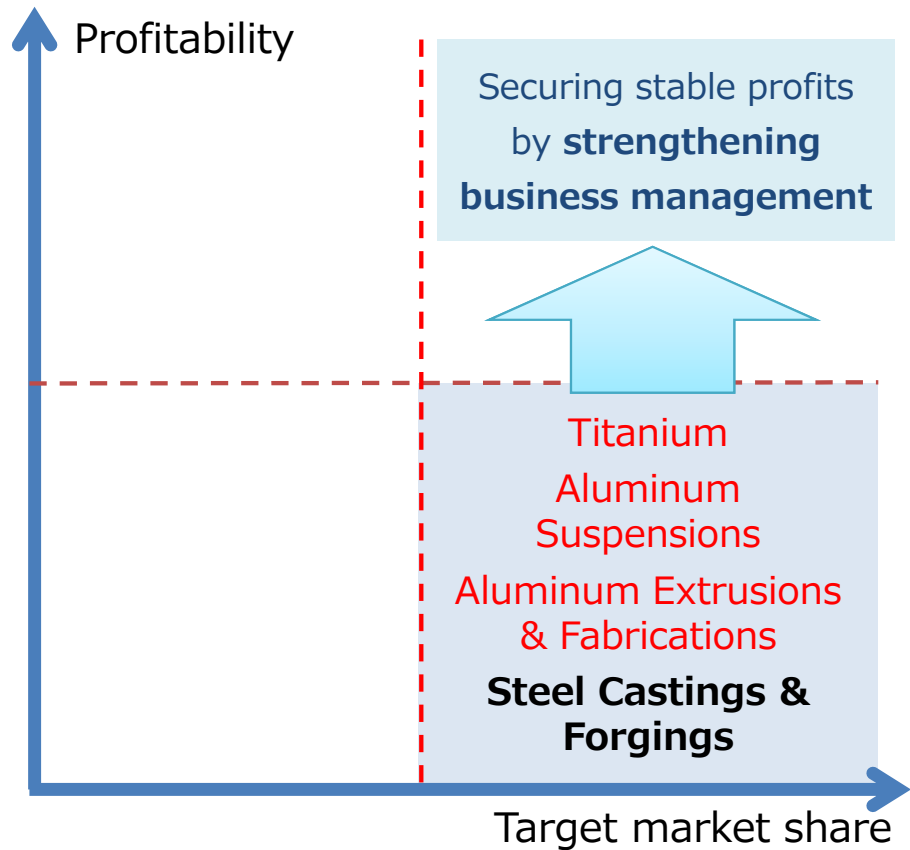
- Fixed costs remained high, raw material and product prices were low, and demand was shrinking.
- Special steel wire rods and ultra-high tensile steel are competitive
- The actual profit of steel materials in FY2019 is about (9.5) billion yen.

[Aluminum Flat Rolled Products]
Deterioration in earnings due to a significant delay in the period of expanding demand

- Delayed application of automotive materials and production capacity and fixed costs that are not in line with demand
- Have strengths in terms of market share and technological superiority
- The actual profit of aluminum sheet in FY2019 is about (3.0)billion yen.

- To improve prices for reproduction, assess profitability and volume
- Early implementation of fixed cost reductions
- Consider reviewing production system in response to shrinking crude steel production in Japan

- Establishment of the Solution Technology Center to further strengthen solution proposals to customers
- Expanding sales in all fields, centered on beverage can stock
- Implemented fixed cost reductions, including emergency measures for profitability



[Titanium, Aluminum Suspensions, Aluminum Extrusions & Fabrications]
Deterioration in profitability due to issues related to *monozukuri* capabilities

- We aim to expand business, secure market share, and actively gain orders in growing markets and in our businesses that hold a high market share. We later discovered problems in our *monozukuri* capabilities (productivity and cost), resulting in a significant deterioration in profitability.
- Large-scale materials businesses, such as the steel business in the Iron & Steel Business and the aluminum flat-rolled products business in the Aluminum & Copper Business, were affected by delays in the development of management in line with the expansion of the parts business, which differs in market and commercial practices

Strengthening manufacturing collaboration and planning management functions through organizational reform

- Reorganized the materials businesses according to materials (Steel & Aluminum) and parts (Advanced Materials)
 - ➔ Promote sector-specific strategies centered on parts and improve manufacturing capabilities
 - ➔ Strengthen planning and management functions, including the monitoring of order decisions

Securing stable profits through business operations that emphasize profitability (including reducing product menus)

[Steel Castings & Forgings]
Deterioration in earnings due to changes in the industrial structure

Secure stable profits by reducing fixed costs to meet demand and improving reproducible prices

- Businesses impacted by the recent impairment loss on fixed assets have a high market share and high market growth potential, except for steel castings and forgings.
- In particular, the titanium and aluminum suspension businesses have actively made investments in management resources, as priority businesses in the medium-to long-term management vision.

- As the concepts and frameworks for the next medium-term management plan, the Company will proceed with examinations focusing on ① specializing in truly competitive products and services, ② tackling future growth fields and new fields, and ③ making management and organizational structures that support our businesses.

Promoting Sustainability Management Based on the Group's Corporate Philosophy

KOBELCO VISION "G+"

FY2023~

All new power projects will be in operation

Current Medium-Term Management Plan (2016~2020)

Next Medium-Term Management Plan (FY2021~)

the Rolling of the Medium-Term Management Plan

Consider restructuring business portfolio

- <Approach and Framework for the Next Medium-Term>
- ① **Specializing in truly competitive products and services**
 - ② **Tackling future growth fields and new fields**
 - ③ **Making management and organizational structures that support our businesses**

Emergency profits and improve cash flow
COVID-19 impact response

FY2018

FY2019

FY2020

FY2021

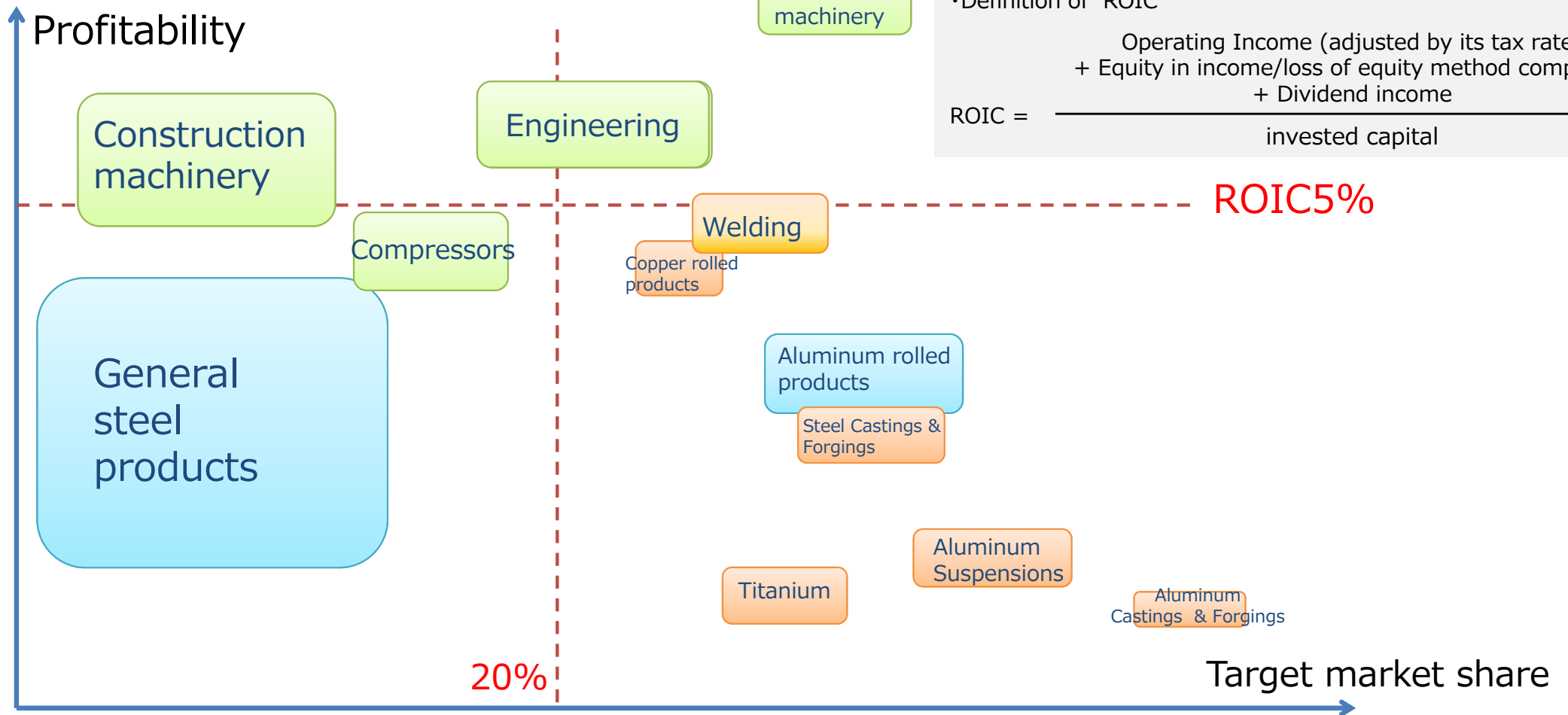
FY2022

FY2023

FY2030

- Taking the impairment loss of fixed assets seriously, we will **introduce ROIC governance at the level of each business unit** to clarify their current position with an awareness of the capital cost. We will also consider the future direction of each business unit based on the business and financial perspectives as well as globally shared goals and growth potential such as SDGs.
- Responding to the serious impact of the novel coronavirus on each business, the Company will **set an early direction for restructuring the optimal business portfolio from a company-wide perspective that extends to each business unit**, with an eye to the next medium-term management plan.

FY2019 Business Portfolio



- The size of each unit is based on the amount of invested capital
- Definition of ROIC

$$ROIC = \frac{\text{Operating Income (adjusted by its tax rate)} + \text{Equity in income/loss of equity method companies} + \text{Dividend income}}{\text{invested capital}}$$

- Promoting sustainability management based on the Group's Corporate Philosophy is an ongoing theme that also looks ahead to the next medium-term plan, and we will continue to create new value by taking on the challenge of solving social issues so that we grow into a company irreplaceable to our customers and society.
- Within the framework of sustainability management, we will pursue contributions to the environment and society as well as to sustainable growth through our businesses, and aim for an early recovery in profitability by restructuring our business portfolio and strengthening business management.

[Sustainability Management Framework]

※ Systematized and newly established in May 2020

Group's Corporate Philosophy※

KOBELCO'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.

KOBELCO'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 KOBELCO

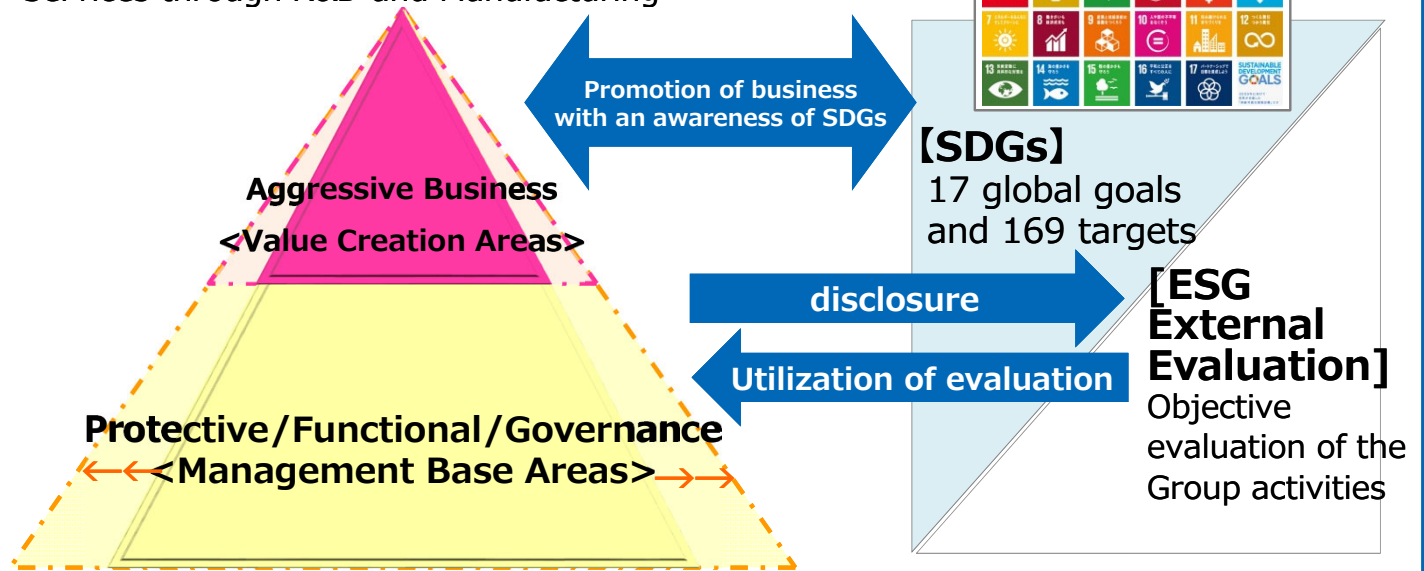
Six Pledges of KOBELCO Men and Women

Important issues to be dealt with

■ Social issues to be solved through our core businesses

- ▶ Creating New Value by Providing Products and Services through R&D and Manufacturing

Promotion tool



■ Prerequisites for corporate survival

- ▶ Conveying the lessons learned from the quality misconduct
- ▶ In addition to legal compliance and corporate ethics, various **new social responsibilities** are required.

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.**
- **Uncertain and variable factors include, but are not limited to:**
 - Changes in economic outlook, demand and market conditions
 - 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