

Kobe Steel, Ltd. Summary of Q&A at FY2025 Second Quarter Financial Results Briefing (November 10, 2025)

➤ The materials businesses

Q1: Could you explain the factors behind the current weakness in the materials businesses overall and the measures planned for improvement heading into the next fiscal year?

A1: The materials businesses are facing a very challenging situation, and this trend may persist. We supply a substantial amount of material products to the automotive industry, one of our primary demand sectors. Current production levels of finished vehicles, particularly among Japanese OEMs, remain sluggish. This is a major factor affecting the current weak performance. With limited signs of improvement, this trend is likely to continue. Additionally, demand in the construction and civil engineering sector shows no signs of recovery. Along with the automotive sectors, these industries are also major contributors to the current weak demand. Looking ahead, if IT-related demand recovers, we could see an improvement in the performance of copper sheet products in the advanced materials business, but it is still too early to predict this will happen with certainty.

Q2: If the supply-demand balance in East Asia improves, overall market conditions could shift across sectors. However, we have yet to see significant changes in the Chinese market. While we remain hopeful, the situation is too uncertain to incorporate into our plans at this time.

A2: In the aluminum rolled products and advanced materials businesses, ordinary profit excluding inventory valuation has been revised downward. Please explain the background behind the first-half situation and the downward revision for the second half. In addition, what is the status of price increases for aluminum rolled products and the business environment for KAAP (aluminum suspension) and KPEX (aluminum extrusion)?

Q3: The situation is slightly different between aluminum rolled products and advanced materials. Sales volume decreased significantly in the aluminum casting and forging business, as well as in KPEX, among others. The copper sheet business faced production capacity bottlenecks in the first half due to the order mix. Although it is anticipated unfulfilled orders from the first half will be addressed in the second half, overall demand remains weak.

A3: In response to domestic price increases, we have adopted formula-based pricing for secondary raw materials and have made price improvements. However, we have not yet seen a significant improvement in profitability,

as we have been unable to pass on fixed costs to prices at a satisfactory level. Further efforts are needed in both cost reduction and cost pass-through, but the business environment has become more challenging, making it difficult to fully incorporate these measures into our plans.

➤ **Steel & Aluminum (Steel)**

Q4: There is a large gap between first-half and second-half profits. How can we estimate the current underlying profit level?

A4: The primary factor contributing to the gap is the deterioration of metal spreads. In the first half, timing differences in metal spreads results in gains; however, metal spreads have worsened in the second half due to declining prices of supplied materials and commodities. Excluding temporary factors such as concentrated demolition work, we estimate underlying ordinary profit for the second half at around ¥5 billion. Since there are no projections for timing differences in metal spreads or other special factors that may affect the second half, this figure closely reflects the actual underlying profit level. Given our recent performance, this estimation falls short of expectations, requiring the implementation of countermeasures.

Q5: For the second half, the estimated underlying profit is around ¥5 billion. Meanwhile, you previously mentioned that the underlying profit level for the steel business was about ¥12.5 billion per half-year. What factors contributed to this decline?

A5: We have been facing a challenging business environment, coupled with a deterioration in metal spreads for primary raw materials. These factors have made it difficult to pass on increased fixed costs worsening the quantity mix as well.

Q6: Raw material prices have recently stabilized; however, they could potentially rebound depending on supply-demand conditions in Asia. If prices do increase next fiscal year, can your company, which has a high proportion of large contracts with fixed domestic destinations, pass on these rising costs across the board? Is there concern that this situation could place additional burdens on the steel business and impact overall consolidated performance?

A6: Since cost pass-through generally takes three to six months, there would be a temporary loss during that period. Currently, sales volumes are at their lowest level. If raw material prices increase, it would coincide with better demand conditions, allowing us to offset timing delays in passing on costs through increased sales volumes. The overall impact will depend on the speed and magnitude of price increases and the degree of demand

recovery. With this in mind, we need to prepare for the potential effects of the rebound.

➤ **Advanced Materials**

Q7: The forecast for the advanced materials business indicates a sharp recovery in the second half. How confident are you in achieving this?

A7: We expect improvements in both sales volume and selling/procurement prices. While we are seeing noticeable price improvements, sales volume requires close monitoring. Our forecast reflects an expected increase in production during the second half and has partially factored in the recovery in demand for copper sheet products in the semiconductor sector, based on customer feedback.

➤ **Machinery**

Q8: What caused the decline in ordinary profit from Q1 to Q2? Will this affect the outlook for the second half?

A8: This decline was due to temporary differences in project composition and does not indicate a change in overall business profitability or the business environment.

Q9: Orders remain strong at ¥270 billion, with the full-year forecast unchanged. What are the components of the current order mix, particularly regarding isostatic pressing (IP) equipment? And, what trends are expected for the next fiscal year?

A9: While some project owners have become more cautious about investment, overall order trends remain stable, and inquiries are at a high level. The general-purpose machinery sector is facing intense competition and is sensitive to market conditions. Despite these challenges, we do not see any signs of a significant decline in overall orders. IP equipment is one of our flagship products in high demand, demonstrating strong competitiveness and maintaining good performance. In future IR promotions, we will focus on enhancing the understanding of our long-established machinery business, rather than introducing new items.

➤ **Engineering**

Q10: Last month, Kobe Steel announced that it received an order for a MIDREX® Flex direct reduction iron (DRI) plant in Kazakhstan. Can you provide an update on the current status of orders and outlook, including any projects under consideration?

A10: Inquiries remain strong, and multiple projects are under negotiation. Some projects have slowed due to changes in carbon neutrality trends,

particularly uncertainty over subsidies; however, there has been no major change in the long term. We need to closely monitor the timing of contracts and decision-making to determine whether they will occur this fiscal year or the next. DRI is recognized as an essential raw material for steel, especially in Europe, which leads this sector, and discussions with customers are progressing.

➤ **Construction Machinery**

Q11: What is the reason the full-year forecast remains unchanged, despite the upward revision for the first-half ordinary profit?

A11: The construction machinery business is facing challenges in its operating environment. Unfavorable factors include a deteriorating sales mix, rising fixed costs, and competitive pressure on selling prices. Although these issues are not overly concerning, we have taken a cautious approach for the second half.

➤ **Electric Power**

Q12: What is the reason the full-year forecast remains unchanged, despite the upward revision for the first-half ordinary profit?

A12: For the second half, we anticipate a reduction in the positive effects from coal-related gains, coupled with a notable rise in maintenance costs during this period.

➤ **Consolidated Financial Results and Dividends Forecast**

Q13: Your forecast projects an ordinary profit of ¥110 billion for this fiscal year. What is the underlying profit level? For the next fiscal year, do you intend to maintain or increase this profit level? The market is beginning to look at the outlook. Can you share your perspective, even if it's just an expression of management's intentions?

A13: For fiscal 2025, we estimate our underlying ordinary profit to be around ¥120 billion for the full year, and around ¥110 billion for the second half, excluding temporary factors and without factoring in any additional improvement efforts. The key will be how much we can increase profitability in the machinery segment, while navigating the challenging business environment faced by the materials businesses, which could significantly impact the company's overall performance. Management aims to achieve more than ¥130 billion in the next fiscal year, although this will largely depend on business conditions.

Q14: If there are no special gains anticipated in the next fiscal year from the sale of strategically-held shares recorded in this fiscal year, will it be

difficult to maintain the current level of dividends?

A14: It is too early to comment on next year's detailed earnings outlook. We are urgently implementing various cost improvement measures in the materials businesses, while aiming for further profitability in the machinery and electric power businesses. The business environment for machinery remains favorable, and there is potential for improvement in both costs and sales in the construction machinery business. Our priority is to pursue these efforts diligently.

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