Summary of Q&A Session at Kobe Steel
Financial Results Briefing for the Third Quarter of Fiscal 2025
(February 6, 2026)

1. The materials businesses

➢ Steel & Aluminum (Steel)

Q1: What are assumptions on coking coal prices? My understanding is that a large portion of your material products is supplied under large contracts with regular customers and that price pass-through in these contracts may occur with a lag of about six months. Do you expect the situation to improve as you head into the next fiscal year?

A1: We have incorporated a coking coal price assumption for the fourth quarter that is in line with the third quarter level of 192 US dollars per ton. At present, prices are in an upward phase, and if this trend continues, it may have a negative impact on metal spreads in the fourth quarter. However, we expect this to be largely offset by inventory valuation effects and other factors, and we therefore do not foresee a major impact on overall earnings. With regard to pricing under large contracts with regular customers, our assumption is that, despite potential timing differences, price pass-through will progress as we implement formula-based pricing and other mechanisms. During the period when such timing differences arise, margins will be temporarily compressed. The key to securing margins in the new fiscal year will be how far we can negotiate price increases for individual contracts, including those not with our regular customers, as well as the timing of reaching the targeted price levels.

Q2: Your assumption is that coking coal prices will remain at the third quarter level, and it appears that this has not changed materially from the previous forecast. In that context, what accounts for the 6.0 billion yen decrease in the "selling prices and raw material prices" section of the fiscal 2025 forecast for steel products, compared to the previous forecast?

A2: The 6.0 billion yen decrease is mainly attributable to raw material prices. The primary factor is the impact of foreign exchange, in particular the weaker yen.

➢ Steel & Aluminum (Aluminum Rolled Products)

Q3: You mentioned that demand is weak for semiconductor-related applications and for beverage can stock. However, in terms of profit or loss, there does not appear to be a deterioration in the volume mix. Why is that? Also, what factors are driving the significant increase in sales volume from

61 thousand tons in the third quarter to 74 thousand tons in the fourth quarter?

A3: As for our volume outlook for aluminum rolled products, we already have good visibility on the fourth quarter by this point in February, based on actual orders received, and the figures reflect this order situation. Specifically, demand for can stock has been somewhat weak, partly due to system-related issues at customers. However, we are offsetting this by increasing volumes in non- can applications such as automotive. Although there is some weakness in certain semiconductor-related and beverage can applications, we do not see any major change in overall demand for aluminum rolled products as a whole.

Q4: The aluminum rolled product business still posted a loss of around 0.4 to 0.5 billion yen in the third quarter on an underlying basis excluding inventory valuation effects. While this is an improvement from the second quarter, how do you view this result, and what is your outlook for the next fiscal year?

A4: Demand conditions deteriorated compared to the assumptions at the time we formulated the plan, resulting in the business remaining in the red for the current fiscal year. Meanwhile, the various measures we have been implementing—such as cost reductions, yield improvements, and productivity enhancements—are steadily progressing, and we believe the direction toward returning the business to profitability is becoming visible.

However, from the perspective of increasing this business's earning power to the level we aim for, we recognize that the current profit level remains unsatisfactory and requires further improvements. We will continue our efforts and preparations for continuous improvement into fiscal 2026 as well.

➢ Advanced Materials

Q5: The profit for the advanced materials business in the fourth quarter is significantly higher than in the first three quarters. What factors are driving this increase?

A5: As with aluminum rolled products, we already have good visibility on the fourth quarter sales volumes for advanced materials, based on the orders currently on hand. The main factors behind the increase in profit from the third to the fourth quarter include retroactive adjustments to selling prices and shipments that were pushed back from the third quarter into the fourth quarter.

Q6: The full-year forecast for the advanced materials projects an ordinary profit of 6.0 billion yen. How much do you estimate temporary factors, such as retroactive price adjustments, contribute to this figure? And, what is your assessment of the current underlying earning power? In addition, could you provide any updates on KPEX (aluminum extrusions) and KAAP (aluminum suspensions) in the U.S.?

A6: Excluding temporary factors, we estimate that the underlying profit level for the second half of fiscal 2025 is around 4.5 billion yen. Based on that, the implied underlying level for fiscal 2026 would be roughly double, or around 9.0 billion yen.

As for KPEX and KAAP, KPEX continues to face a very challenging environment. Although we are pursuing cost reduction and other measures, demand conditions for orders are extremely weak, and the business remains in the red. On the other hand, KAAP is showing improvement as planned and is currently profitable. Overall, the business environment for aluminum extrusion-related operations remains severe, and the industry is struggling to recover.

2. The machinery businesses

- **Overall**

Q7: Could you elaborate on the factors behind the profit outperformance in the machinery businesses? Also, we have noticed some fluctuations in order intake. How should we interpret this in terms of the outlook for the next fiscal year? In addition, we understand that the market environment for construction machinery is not particularly favorable, yet your company appears to be performing relatively well. What factors are driving this?

A7: **[Machinery Business]**

In the current fiscal year, profit has been affected not only by cost fluctuations but also by changes in the standard machinery and service-related businesses. These factors have contributed both positively and negatively to overall profit.

[Engineering Business]

In the direct reduced iron (DRI)-related business, we had anticipated a potential order for one project, but it has been postponed until the next fiscal year or later. We are seeing an increase in uncertainties surrounding capital investment trends and government subsidy schemes, which has resulted in delays in some projects, even though there was previously a strong level of inquiries. However, this does not indicate a significant decline in underlying demand; we see it primarily as a matter of timing. At present, we do not believe the situation warrants a pessimistic outlook.

[Construction Machinery Business]

We do not see any major changes in overall demand trends for construction machinery. However, we have selectively declined certain orders by applying stricter price discipline, and this has resulted in a modest decrease in unit sales. At the same time, we are rigorously implementing measures to improve profitability on the cost side and strengthening our cost structure, which has enabled us to accumulate profit.

In summary, for the machinery businesses as a whole, we do not foresee any substantial changes in the external environment heading into the next fiscal year. We recognize the need to formulate our plans with close attention to costs, including labor expenses.

Q8: The full-year forecast for the machinery, engineering, and construction machinery segments projects an ordinary profit of close to 70 billion yen in total. To achieve your longer-term goal of exceeding 100 billion yen, do you consider that mergers and acquisitions (M&A) are essential as reported in the Japanese media? Or, is it possible to reach that level by combining multiple initiatives within the existing framework?

A8: Broadly speaking, our direction aligns with your understanding. We intend to continue increasing both the scale and profitability of our machinery businesses over the medium to long term. It is true that we are considering M&A as one of several strategic options. However, the feasibility of M&A depends on the circumstances of potential partners and various conditions. Therefore, we are not in a position to comment on any specific targets or deal sizes at this time.

- **Machinery**

Q9: Have there been any notable shifts in order volumes by machine product category? Given the possibility that the impact of low crude oil prices could be prolonged, have you seen any changes in order intake momentum for compressors and isostatic pressing (IP) equipment, or other products?

A9: In responding to your question, which I understand pertains to any changes in the overall demand environment, it may be helpful to first outline the structure of our machinery segment. It can broadly be divided into three areas: service-related business for machine units delivered to customers; standard machine products; and large, non-standard machine products.

The service-related business accounts for roughly 30 percent of the total. Since it involves maintenance and other services for existing equipment, it tends to be relatively stable and has shown solid performance. It is also less susceptible to market fluctuations, and we expect that it will continue to be a reliable source of earnings.

The standard machinery business is an extremely competitive arena and is constantly exposed to severe price competition. Even so, a favorable foreign exchange environment has provided some support, allowing us to maintain a certain level of sales volume and profit margins.

Our mainstay is large, non-standard machine products. In the petrochemical sector, it is difficult to rule out the possibility that demand may peak over the long term. However, based on the current order trends,, while there is some turnover in individual projects, we do not observe clear signs that overall project momentum is weakening. Since this is a project-based business, individual orders appear volatile; however, considering this factor, we do not see any major changes in overall order intake.

From the standpoint of preparing for potential future fluctuations in orders, we are strengthening new business areas, such as IP equipment, in addition to our mainstay compressor products. At this point, we do not perceive any weakening in order momentum. On the contrary, we believe that a certain level of demand will continue. Nevertheless, we consider it important to broaden our business portfolio to be well-prepared for potential future changes in demand.

Q10: As you increase orders, it will likely be necessary to enhance your capabilities in areas such as project execution and production capacity. Looking ahead to the next fiscal year and beyond, what are the key points in your growth story that investors should focus on?

A10: Our Takasago Works is currently operating at close to full production capacity. With future growth in mind, we are exploring several options, including expanding our production footprint overseas, pursuing M&A to increase production capacity and broaden our business domains, and strengthening and expanding our service network and offerings.
These initiatives aim to optimize our business portfolio in line with the growth and contraction of individual market segments, while also strengthening both our production capacity and global business capabilities. We plan to further develop and solidify these initiatives in the next fiscal year and as part of our next medium-term management plan.

- **Construction Machinery**

Q11: The industry environment does not appear to be particularly favorable, yet you have revised up your earnings forecast this time. Could you provide your evaluation of the market environment and how your company is responding to it?

A11: The current demand environment cannot be characterized as strong. However, we believe that activity levels have bottomed out recently, and we are seeing signs that the decline has come to a halt. At the same time, in some regions, price competition has intensified in the face of weak demand, leading some companies to attempt to gain market share by lowering prices.

Taking this situation into account, we adopted a sales strategy for some projects not to engage in such price competition, prioritizing the securing of profit margins instead. As a result, while unit order volumes decreased, we increased our focus on higher-margin business opportunities that offer better pricing and profitability. This strategic shift has been a key factor behind the current upward revision of our forecast.

Looking ahead, we are seeing some positive signs, such as indications of improvement in the United States and European markets. Therefore, rather than focusing solely on the absolute size of demand, we believe that the key will be our ability to develop a product lineup and regional mix that enables us to maintain pricing discipline and secure adequate margins amid the prevailing competitive environment.

3. Electric Power

Q12: Regarding the impact of the ordinary loss of 5.0 billion yen associated with the Kobe Power Plant No. 3 unit, is it reasonable to view this as a temporary factor? Can we expect that from the next fiscal year onward, this 5.0 billion yen loss will be recovered, allowing the electric power business to add this amount to its base earnings of around 30.0 billion yen?

A12: The issue with the power plant facility this time arose from a large nut that could not be removed during a statutory inspection. Since it will take time to obtain a replacement part, we currently expect that the plant will not resume operation until around the middle of May.

The forecast for fiscal 2025 reflects only the impact on operations up to the end of March. We anticipate some effects from the suspension of operations in the next fiscal year as well. However, we have already arranged for the procurement of the replacement part and do not assume that the resumption of operations will be delayed beyond May. The key will be how far we can bring the schedule forward and minimize the impact.

4. Market Demands

Q13: You have revised down your outlook for semiconductor-related demands. This appears to contrast with the generally positive sentiment surrounding the semiconductor sector. What indicators would you identify as signs that semiconductor-related demand has recovered?

A13: For the semiconductor field, we have a variety of applications, including aluminum plates and aluminum casting/forging products for semiconductor manufacturing equipment, aluminum rolled products for hard disk drives, and semiconductor test equipment.

The demand for aluminum rolled products used in hard disk drives once declined but has since recovered and is currently stable at a high level. Meanwhile, although we have heard the semiconductor manufacturing equipment sector is brisk with the recovery of the front-end market and increased memory production, as widely reported, we cannot yet confirm that this is directly translating into increased demand for our materials.

We believe that we will be able to clearly state that demand has recovered only once we have confirmed that inquiries for materials have actually returned. At present, market information and our order trends are not fully aligned. While we remain hopeful, we need to take a cautious view of the situation.

Q14: There appears to be growing activity in areas such as defense, shipbuilding and aircraft. Since your advanced materials business handles titanium, could these favorable trends have a notable impact on your outlook for the next fiscal year, or will the impact be limited?

A14: The growth strategies announced by the Japanese government encompass various areas where we can make contributions. Our particular focus is on the shipbuilding and defense sectors. Within the defense industry, we have opportunities to supply our products, including titanium and aluminum extrusions. If more concrete figures and outlooks are presented in the future, these could create a positive momentum for our business, and we are hopeful about that possibility. However, at this stage, the details are not yet clear.

In contrast, we are already more deeply involved in the shipbuilding industry. We supply steel plates and welding consumables, but our most significant contribution lies in cast/forged steel crankshafts for marine engines. We hold around an 80 percent share of Japanese market. Given the government's policy to expand Japan's global share in shipbuilding, we believe that achieving this would not be possible without our steel casting and forging products.

We are receiving many inquiries from the government and the shipbuilding industry, and concrete discussions are progressing. We therefore view shipbuilding as a relatively realistic area of opportunity.

5. Consolidated Financial Results, Shareholder Returns, etc.

Q15: On page 17 of the presentation materials, the amount of adjustment for ordinary profit has been revised down by 3.5 billion yen compared to the previous forecast. Looking at the Group's underlying performance excluding inventory valuation effects, the downward revision is 6.0 billion yen. Should we regard this decline in the the amount of adjustment as part of the underlying performance?

A15: In the previous financial results announcement, we included an increase of around 4.5 billion yen in the adjustment section as a company-wide upward adjustment to the forecast for the second half, based on the fact that the first half results had exceeded our initial expectations. This time, since each business segment has factored in its own profit increase, mainly on the cost side, we have reversed this company-wide adjustment. When assessing the Group's underlying performance, it is important to look at the total of the business segment figures and the adjustment amount combined.

Q16: You have revised up your free cash flow forecast to 110.0 billion yen compared to the previous forecast. Could you reiterate your thoughts on shareholder returns?

A16: Over the past several years, we have strengthened our financial base, and we now expect to achieve our medium-term targets ahead of schedule. Reinforcing our financial base is important in order to prepare for carbon-neutral-related investments and growth investments, and we intend to maintain and further improve our financial position. We plan to explain our approach to shareholder returns and overall capital allocation for fiscal 2027 and beyond at an appropriate time in the future.

Q17: What underlying profit level do you expect for the next fiscal year? Is there room for profit growth compared to this fiscal year?

A17: We estimate that the underlying profit for the second half of fiscal 2025 is around 60.0 billion yen, excluding temporary factors. Annualizing this figure would result in an underlying profit level of around 120.0 billion yen, which we believe is close to our current earning power.
However, timing differences in the impact of raw material price fluctuations and the timing of passing higher raw material costs to selling prices will affect the forecast for the next fiscal year. We need to take a cautious approach with regard to these timing aspects.

On the other hand, we believe that there is still room for profit growth in the machinery businesses. We also consider it reasonable to expect a positive contribution from the advanced materials business in the next fiscal year. Overall, however, the most critical factor for next year’ s profit will be the extent to which we can implement price increases in the steel business.