

Company name:	February 2, 2017 Kobe Steel, Ltd.
Representative:	Hiroya Kawasaki Chairman, President, CEO and Representative Director
Code number:	5406
Contact:	Tel. +81 (0)3 5739-6010

## **Announcement on the Posting of an Operating Loss and Business Restructuring of the Construction Machinery Business in China**

Kobe Steel, Ltd. announces it has posted an operating loss in the first nine months of fiscal 2016 (April 1 – December 12, 2016). Kobe Steel plans to dissolve its joint ventures with Chinese partners to rebuild its construction machinery business in China. Kobe Steel will take the lead in business operations. Details follow below.

### **1. Details of the Operating Loss**

#### **(1) Reason for Posting of Loss**

In the Construction Machinery segment's China business, Kobe Steel judged that the uncertainty of receivables collection is increasingly growing. Looking at the actual situation that collection would be difficult and prolonged, a repayment plan with a high degree of certainty was not achieved for existing retained receivables. As a result, for retained receivables, Kobe Steel posted a provision of allowance for doubtful accounts and a provision for loss on debt guarantees for loan guarantees.

#### **(2) Amount of Loss**

In the third quarter of fiscal 2016, Kobe Steel posted provision of allowance for doubtful accounts amounting to 27.6 billion yen and provision for loss of debt guarantees amounting to 3.4 billion yen.

#### **(3) Future Outlook**

Please refer to the "Announcement on Revision to Earnings Forecast and Dividend Forecast for Fiscal 2016, ending March 31, 2017" announced today, which includes this item.

### **2. Rebuilding the China Business**

#### **(1) Outline**

Kobe Steel had been holding discussions with its Chinese investment partners in response to business issues including credit management. As differences of opinion concerning the production systems and marketing systems became apparent, Kobe Steel agreed today to dissolve the joint ventures with the Chinese partners. Japanese investors including Kobe Steel will acquire the minority interests held by Chinese investors in the excavator businesses.

The minority interests in the wheel loader business held by Japanese investors will be entirely transferred to Chinese investors.

In this way, Kobe Steel will be able to lead the rebuilding of the China business and achieve higher profitability in the Construction Machinery business under its medium-term plan.

**(2) Main Terms of the Agreement**

- ① Equity transfer from Chinese partners to Japanese partners
  - i) All of the equity held by Sichuan Chenggong in CKCL (49%)
  - ii) All of the equity held by Chinese investors in CKCMG (43.682%)
  - iii) All of the equity held by Chinese investors in CKCM (11.256%)
  - iv) All of the equity held by Chinese investors in HKCM (22.05%)
- ② Equity transfer from Japanese partners to Chinese partners
  - i) All of the equity held by CKCMG in Sichuan Chenggong (48.35%)

**Abbreviations**

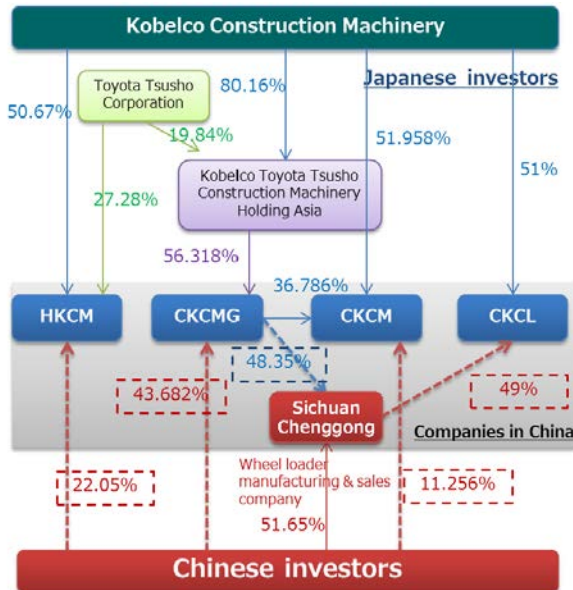
CKCMG:	Chengdu Kobelco Construction Machinery (Group) Co., Ltd.	Sale of excavators (Chengdu)
CKCM:	Chengdu Kobelco Construction Machinery Co., Ltd.	Manufacture of excavators (Chengdu)
HKCM:	Hangzhou Kobelco Construction Machinery Co., Ltd.	Manufacture of excavators (Hangzhou)
CKCL:	Chengdu Kobelco Cranes Co., Ltd.	Manufacture and sale of cranes (Chengdu)
Sichuan Chenggong:	Sichuan Chengdu Chenggong Construction Machinery Co., Ltd.	Manufacture and sale of wheel loaders (Chengdu)

**About the Chinese Investors**

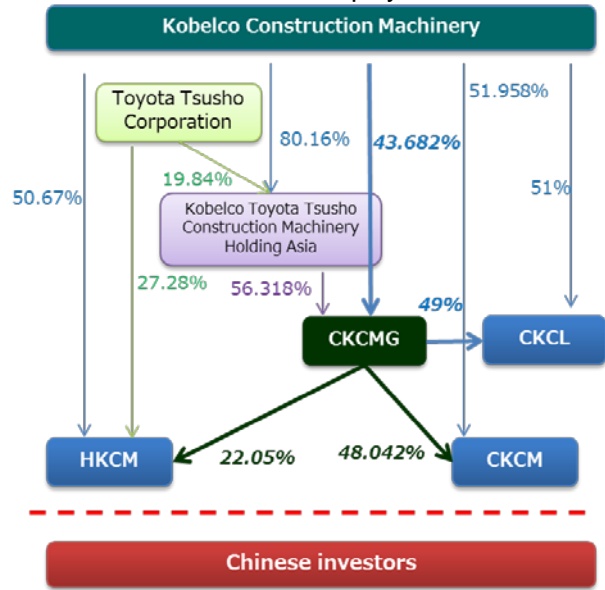
Chengdu Zhongchuang Industrial Development Co., Ltd., others  
 Representative (Chairman): Bai Xu  
 Location: Chengdu, Sichuan, China

**(3) Equity Structure**

Current investment structure



Investment structure after equity transfer



**(4) Schedule**

By the end of March 2017: Conclusion of final agreement  
 Around October 2017: Equity transfer, acquisition

**(5) Impact on Business Performance**

Kobe Steel anticipates that the impact on consolidated business performance will be immaterial. In the future, if a careful examination determines an effect that should be disclosed, Kobe Steel will promptly make an announcement.

**For Reference:**

**Future Initiatives**

**Review of Marketing Systems**

Review of sales policies: Thorough emphasis on debt collection and dealer profits  
Change in dealer policies: Reduce the number of current dealers and promote consolidation.  
Strengthen dealer structure.  
Thorough credit management: Strengthen dealer management  
Newly establish the Credit Management Division (provisional name)  
in Kobelco Construction Machinery

**Review of Manufacturing Systems**

Chengdu (CKCM): Becoming mainly a manufacturing base within China  
Hangzhou (HKCM): Export of complete machines and becoming mainly a supply base for fabricated components