



< IR Meeting Material >

# KOBELCO

## Financial Results for the First Quarter of Fiscal 2018 and Forecast for the Full Fiscal Year

August 1, 2018  
KOBELCO, LTD.





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# **1. Financial Results for the First Quarter of Fiscal 2018**



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# Financial Results for the First Quarter of Fiscal 2018

(Billions of yen)

	FY2017	FY2018	Change
	1Q	1Q	FY17→18
<b>Net Sales</b>	435.0	<b>478.3</b>	43.3
<b>Operating Income</b>	30.3	<b>13.8</b>	(16.4)
<b>Ordinary Income</b>	28.2	<b>12.7</b>	(15.5)
Excluding Inventory Valuation	18.2	<b>9.2</b>	(9.0)
<b>Extraordinary Income</b>	※1 6.7	※2 <b>3.9</b>	(2.8)
<b>Net Income Attributable to Owners of the Parent</b>	25.0	<b>12.6</b>	(12.3)

※1 Gain on sale of investment securities: 6.7 billion yen

※2 Gain on acquisition of subsidiary: 3.9 billion yen  
 (Turning Shinko Wire Company, Ltd. into a subsidiary)



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# Net Sales & Ordinary Income (Loss) by Segment

(Billions of yen)

Net Sales	FY2017	FY2018	Change	Ordinary Income (Loss)	FY2017	FY2018	Change
	1Q	<b>1Q</b>	FY17→18		1Q	<b>1Q</b>	FY17→18
Iron & Steel	174.4	<b>179.1</b>	4.6	Iron & Steel	13.0	<b>0.8</b>	(12.2)
Welding	19.4	<b>19.7</b>	0.2	Welding	1.1	<b>0.5</b>	(0.6)
Aluminum & Copper	88.9	<b>93.1</b>	4.2	Aluminum & Copper	6.1	<b>2.4</b>	(3.7)
Machinery	30.3	<b>44.2</b>	13.9	Machinery	0.2	<b>1.0</b>	0.7
Engineering	19.0	<b>25.0</b>	5.9	Engineering	0.3	<b>0.4</b>	0.1
Construction Machinery	87.5	<b>101.3</b>	13.8	Construction Machinery	3.9	<b>7.5</b>	3.5
Electric Power	13.9	<b>14.0</b>	0.0	Electric Power	2.4	<b>(0.0)</b>	(2.5)
Other Businesses	13.3	<b>14.5</b>	1.1	Other Businesses	1.0	<b>0.6</b>	(0.4)
Adjustment	(12.0)	<b>(12.9)</b>	(0.9)	Adjustment	(0.3)	<b>(0.6)</b>	(0.2)
<b>Total</b>	435.0	<b>478.3</b>	43.3	<b>Total</b>	28.2	<b>12.7</b>	(15.5)



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## **2. Forecast for Fiscal 2018**



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# Forecast for FY2018

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
<b>Net Sales</b>	1,881.1	960.0	1,030.0	1,990.0	<b>1,000.0</b>	<b>1,030.0</b>	<b>2,030.0</b>	40.0
<b>Operating Income</b>	88.9	15.0	40.0	55.0	<b>20.0</b>	<b>35.0</b>	<b>55.0</b>	-
<b>Ordinary Income</b>	71.1	5.0	30.0	35.0	<b>10.0</b>	<b>25.0</b>	<b>35.0</b>	-
Excluding Inventory Valuation	56.1	4.0	29.0	33.0	<b>7.5</b>	<b>24.5</b>	<b>32.0</b>	(1.0)
<b>Extraordinary Income</b>	2.0	30.0	-	30.0	※ <b>33.9</b>	-	※ <b>33.9</b>	3.9
<b>Net Income Attributable to Owners of the Parent</b>	63.1	25.0	20.0	45.0	<b>30.0</b>	<b>15.0</b>	<b>45.0</b>	-

※ Gain on acquisition of subsidiary: 3.9 billion yen  
 (Turning Shinko Wire Company, Ltd. into a subsidiary)  
 Gain on sale of investment securities: 30.0 billion yen  
 (Partial sale of shares of Shinko Real Estate Co., Ltd.)



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# Net Sales by Segment

(Billions of yen)

Net Sales	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Iron & Steel	715.5	370.0	380.0	750.0	<b>365.0</b>	<b>375.0</b>	<b>740.0</b>	(10.0)
Welding	80.5	40.0	42.0	82.0	<b>40.0</b>	<b>42.0</b>	<b>82.0</b>	-
Aluminum & Copper	349.5	190.0	195.0	385.0	<b>190.0</b>	<b>195.0</b>	<b>385.0</b>	-
Machinery	161.3	88.0	99.0	187.0	<b>89.0</b>	<b>95.0</b>	<b>184.0</b>	(3.0)
Engineering	122.8	56.0	91.0	147.0	<b>58.0</b>	<b>92.0</b>	<b>150.0</b>	3.0
Construction Machinery	364.5	190.0	195.0	385.0	<b>215.0</b>	<b>195.0</b>	<b>410.0</b>	25.0
Electric Power	72.1	36.0	37.0	73.0	<b>35.0</b>	<b>36.0</b>	<b>71.0</b>	(2.0)
Other Businesses	68.8	19.0	25.0	44.0	<b>24.0</b>	<b>20.0</b>	<b>44.0</b>	-
Adjustment	(54.3)	(29.0)	(34.0)	(63.0)	<b>(16.0)</b>	<b>(20.0)</b>	<b>(36.0)</b>	27.0
<b>Total</b>	<b>1,881.1</b>	<b>960.0</b>	<b>1,030.0</b>	<b>1,990.0</b>	<b>1,000.0</b>	<b>1,030.0</b>	<b>2,030.0</b>	<b>40.0</b>





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# Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income (Loss)	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Iron & Steel	17.3	3.0	10.0	13.0	<b>0.0</b>	<b>3.0</b>	<b>3.0</b>	(10.0)
Welding	4.9	1.5	3.0	4.5	<b>1.5</b>	<b>2.5</b>	<b>4.0</b>	(0.5)
Aluminum & Copper	11.8	0.0	2.0	2.0	<b>0.5</b>	<b>1.5</b>	<b>2.0</b>	-
Machinery	2.3	2.5	5.0	7.5	<b>1.5</b>	<b>4.0</b>	<b>5.5</b>	(2.0)
Engineering	6.9	(0.5)	5.0	4.5	<b>0.5</b>	<b>4.0</b>	<b>4.5</b>	-
Construction Machinery	21.9	12.5	8.5	21.0	<b>14.0</b>	<b>10.0</b>	<b>24.0</b>	3.0
Electric Power	7.9	(5.0)	3.0	(2.0)	<b>(5.0)</b>	<b>3.0</b>	<b>(2.0)</b>	-
Other Businesses	5.4	(1.0)	4.0	3.0	<b>0.5</b>	<b>3.5</b>	<b>4.0</b>	1.0
Adjustment	(7.5)	(8.0)	(10.5)	(18.5)	<b>(3.5)</b>	<b>(6.5)</b>	<b>(10.0)</b>	8.5
<b>Total</b>	<b>71.1</b>	<b>5.0</b>	<b>30.0</b>	<b>35.0</b>	<b>10.0</b>	<b>25.0</b>	<b>35.0</b>	-



# Dividend

## ■ Dividend Policy

Kobe Steel aims to pay dividends on a continuous and stable basis. Dividends are decided after taking into full account the Company's financial condition, business performance, future capital needs and other factors.

On this basis, Kobe Steel had decided on a policy to pay an interim dividend of 10 yen per share for the first half of fiscal 2018.

## ■ Dividend Payout Ratio (Target)

15% - 25% of net income attributable to owners of the parent

## ■ Dividend Results

	FY2014			FY2015			FY2016			FY2017			FY2017		
	Interim	Year-end	Year	Interim	Year-end	Year	Interim	Year-end	Year	Interim	Year-end	Year	Interim	Year-end	Year
Dividends per share in yen	2.0	2.0	4.0	2.0	-	2.0	-	-	-	-	30.0	30.0	10.0	Undetermined	-
Dividend per net assets			16.8%			-			-			17.2%			

※Kobe Steel carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016.



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# 【Iron & Steel】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	715.5	370.0	380.0	750.0	<b>365.0</b>	<b>375.0</b>	<b>740.0</b>	(10.0)
Ordinary Income	17.3	3.0	10.1	13.0	<b>0.0</b>	<b>3.0</b>	<b>3.0</b>	(10.0)
Inventory Valuation	9.0	0.0	1.0	1.0	<b>0.0</b>	<b>0.5</b>	<b>0.5</b>	(0.5)

## FY2018

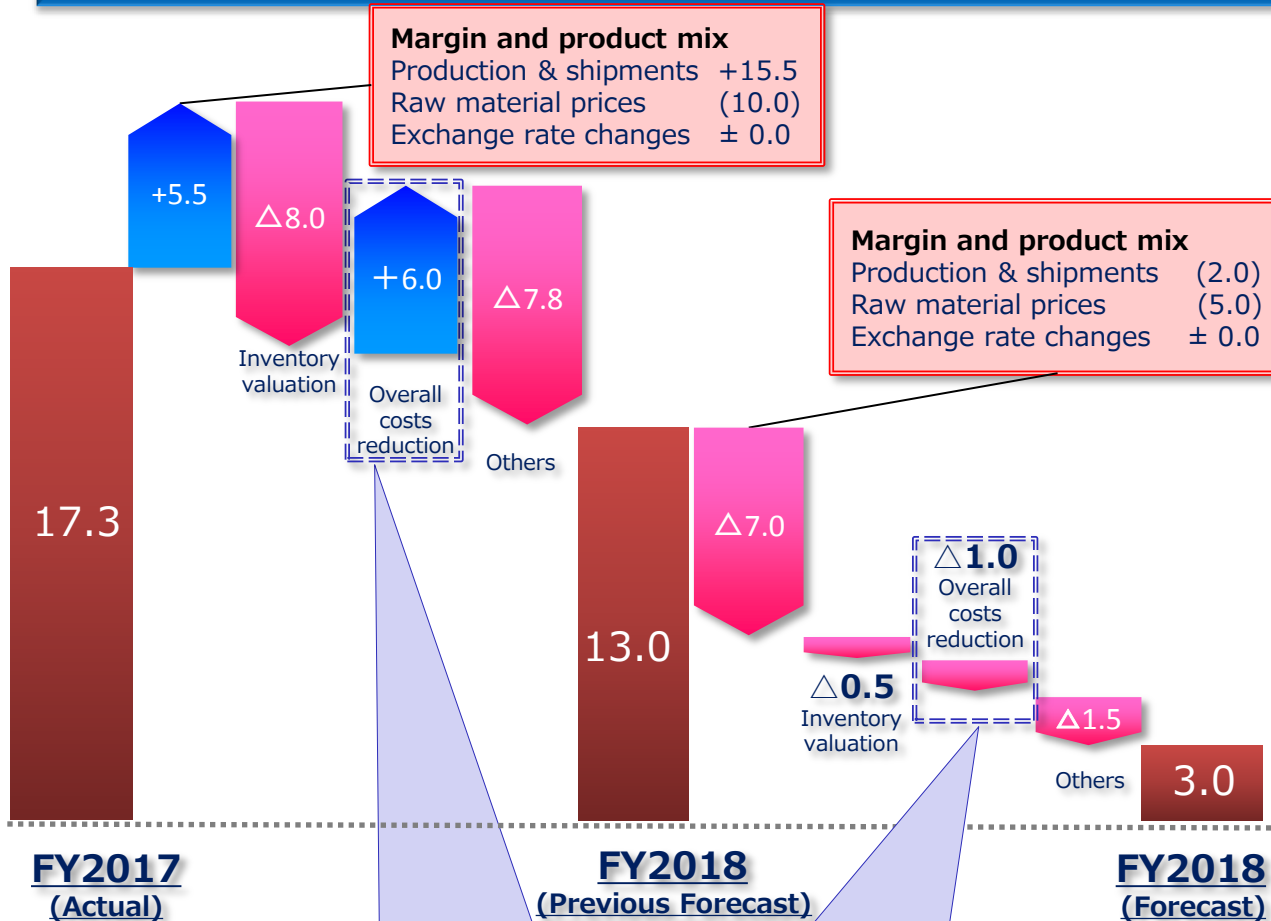
- Measures for profit improvement, including consolidation of upstream operations at Kakogawa Works, are steadily being carried out.
- On the other hand, ordinary income is anticipated to decrease, impacted by higher costs for auxiliary raw materials and distribution, in addition to lower sales volume of steel products from temporary trouble with the production equipment for sintered ore in mid-July.
- As an initiative under its Medium-Term Management Plan, Kobe Steel has started the construction of a new continuous annealing line for steel sheet at Kakogawa Works to meet the growing demand for automotive ultra high-strength steel.  
(For more details, see page 35.)



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# 【Iron & Steel】 Strengthening Profitability

(Billions of yen)



## Consolidation of upstream operations

(Impact from improved profitability + 15 billion yen/year)

Start-up of related equipment has progressed as planned. Consolidated operations started in Nov. 2017.

FY2017	+ 6.5	(actual)	+8.5
FY2018	+ 15.0	(forecast)	

## Additional measures to improve profitability

(Impact from improved profitability + 30 billion yen/ cumulative 5 years)

Profitability is steadily improving owing to capital investment, cost cuts at the production level, and lower raw material costs.

FY16	+ 8.5	(actual)	+8.0
FY17	+ 18.0	(actual)	
FY18	+ 26.0	(forecast)	
FY19	.	.	+30.0
FY20	+ 30.0	(plan)	

**FY2017**  
(Actual)

**FY2018**  
(Previous Forecast)

**FY2018**  
(Forecast)

### FY17 ⇒ FY18: Main factors of cost changes

Consolidation of upstream operations	+8.5
Additional measures to improve profitability	+8.5
Other factors of cost changes	(11.0)

**Total +6.0**

### FY18 previous forecast ⇒ FY18 forecast: Main factors of cost changes

Consolidation of upstream operations	± 0.0
Additional measures to improve profitability	(5.0)
Other factors of cost changes	(5.0)

**Total (1.0)**



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# 【Iron & Steel】 Production & Sales

		FY2017				FY2018	FY2018	
		1Q	1H	2H	Full Year	Full Year (Previous Forecast)	1Q	Full Year (Current Forecast)
<b>Japan's domestic crude steel production</b>	(Millions of tons)	26.1	52.0	52.8	104.8		26.6	

<Domestic steel inventory trend>

<b>Ordinary steel products</b>	(Millions of tons)	5.6	5.7	5.8	--		5.8	
<b>Rolled sheets</b>	(Millions of tons)	4.1	4.2	4.2	--		4.3	

<Domestic steel inventory trend>

<b>Finished auto production</b>	(Millions of cars)	2.3	2.4	4.7	9.7		1.5	
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April and May

<KOBELCO STEEL, LTD.>

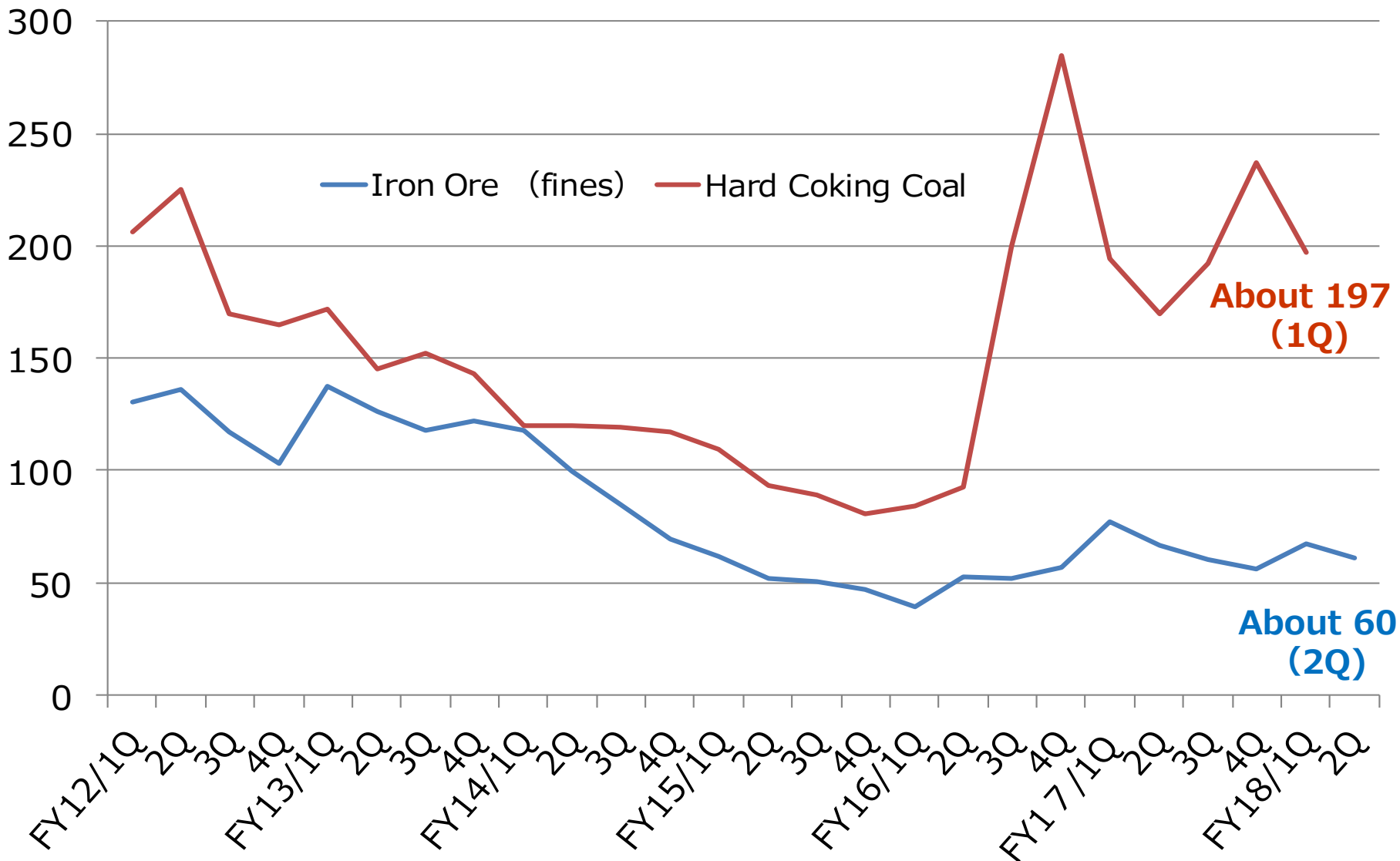
<b>Crude steel production</b>	(Millions of tons)	1.9	3.9	3.5	7.5	<b>about 7.0</b>	1.7	<b>about 6.9</b>
<b>Sales volume</b>	(Millions of tons)	1.5	3.0	2.9	6.0	<b>about 5.9</b>	1.4	<b>about 5.7</b>
<b>(Domestic)</b>		(1.1)	(2.2)	(2.1)	(4.4)		(1.0)	
<b>(Exports)</b>		(0.4)	(0.8)	(0.8)	(1.6)		(0.4)	
<b>Average steel selling price</b>	(Thousands of yen/ton)	80.8	81.5	81.5	81.5		83.5	
<b>Export ratio (value basis)</b>		27.1%	26.4%	28.0%	27.2%		25.9%	



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# Iron Ore & Coking Coal Price Trends

( \$/ton )

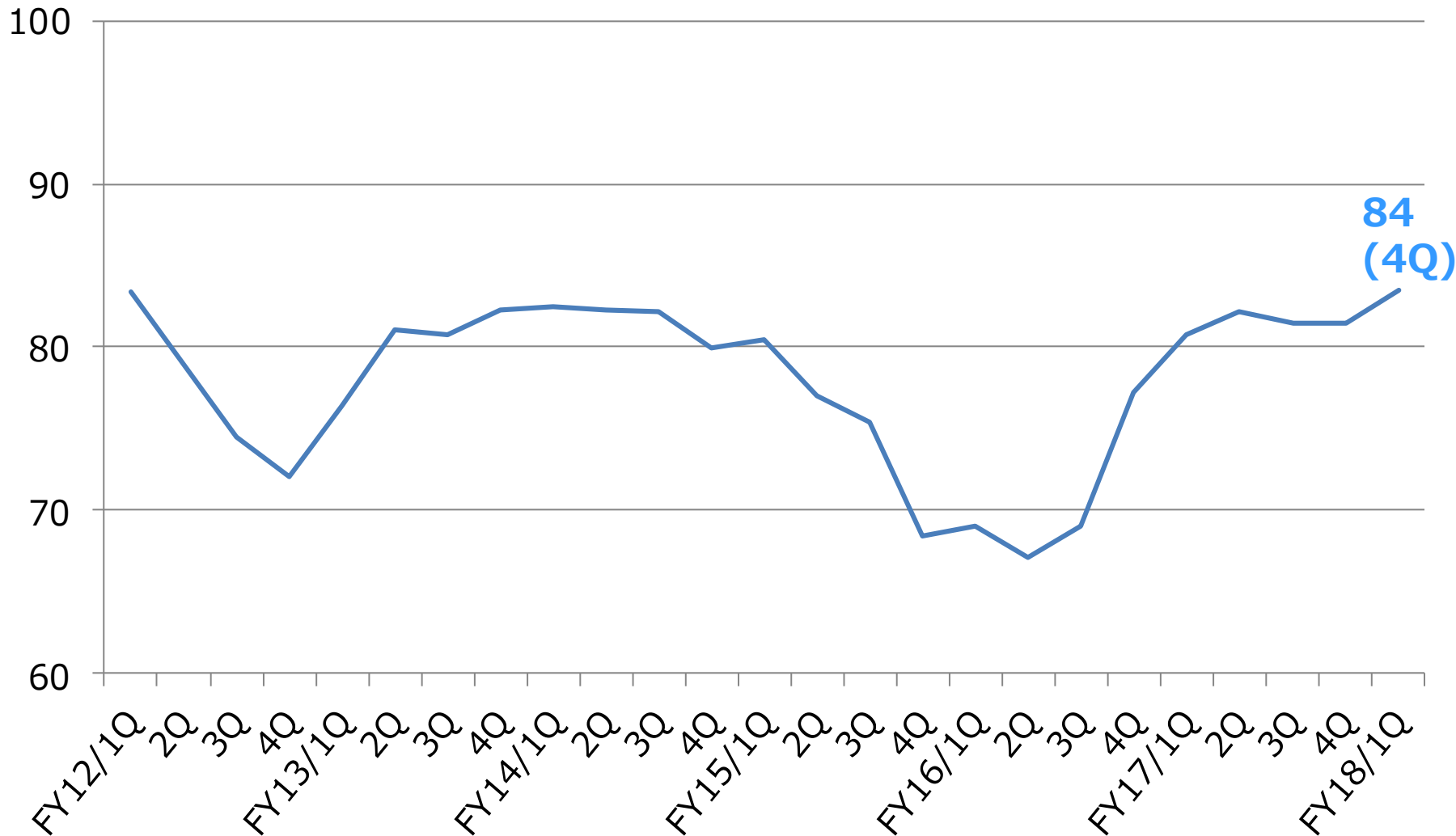




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# Steel Product Price Trends at Kobe Steel

(Thousands of yen/ton)





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# 【Welding】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	80.5	40.0	42.0	82.0	40.0	42.0	82.0	-
Ordinary Income	4.9	1.5	3.0	4.5	1.5	2.5	4.0	(0.5)

## <Sales volume of KSL Group>

(Thousands of tons)

	FY2017				FY2018	FY2018	
	1Q	1H	2H	Full Year	Full Year (Previous Forecast)	1Q	Full Year (Current Forecast)
Domestic	33	65	63	128	/	29	/
Overseas	40	79	83	162		42	
Total	73	144	146	291		about 295	

## FY2018

- The sales volume of welding materials is expected to be as previously forecast owing to higher demand in the energy sector in China and expanded sales in developing countries of Southeast Asia.
- Ordinary income is anticipated to decrease owing to the higher cost of raw materials and other factors.





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# 【Aluminum & Copper】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	349.5	190.0	195.0	385.0	190.0	195.0	385.0	-
Ordinary Income	11.8	0.0	2.0	2.0	0.5	1.5	2.0	-
Inventory Valuation	6.0	1.0	0.0	1.0	2.5	0.0	2.5	1.5

## <Sales volume of KSL>

(Thousands of tons)

	FY2017				FY2018	FY2017	
	1Q	1H	2H	Full Year	Full year (Previous Forecast)	1Q	Full Year (Current Forecast)
Aluminum Rolled Products ( Domestic )	78	153	132	285	about285	72	about285
( Exports )	22	40	38	78	about80	20	about80
Copper Rolled Products	37	71	70	142	about145	38	about145

## FY2018

- The sales volume of aluminum roll products and copper rolled products is anticipated to be similar to the previous forecast as demand is expected to remain firm in the automotive and semiconductor sectors.
- As the impact of the misconduct, which affected a portion of the products, has been taken into account to a certain extent, ordinary income is expected to remain similar to the previous forecast.



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# 【Machinery】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	161.3	88.0	99.0	187.0	<b>89.0</b>	<b>95.0</b>	<b>184.0</b>	(3.0)
Ordinary Income	2.3	2.5	5.0	7.5	<b>1.5</b>	<b>4.0</b>	<b>5.5</b>	(2.0)
Orders	151.1	-	-	about 165	-	-	about 165	-

## FY2018

- Orders are expected to be similar to the previous forecast owing to recovery in demand for compressors in the oil refining sector in China and expansion of the after-sales business in Asia and the Middle East.
- Ordinary income is expected to decline owing to the type of orders.



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# 【Engineering】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	122.8	56.0	91.0	147.0	<b>58.0</b>	<b>92.0</b>	<b>150.0</b>	3.0
Ordinary Income (Loss)	6.9	(0.5)	5.0	4.5	<b>0.5</b>	<b>4.0</b>	<b>4.5</b>	-
Orders	119.2	-	-	about 120	-	-	about 120	-

## FY2018

- Orders are expected to be similar to the previous forecast centered on waste treatment and water treatment facilities.
- Ordinary income is expected to be similar to the previous forecast owing to steadily fulfilling existing orders.



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# 【Construction Machinery】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	364.5	190.0	195.0	385.0	<b>215.0</b>	<b>195.0</b>	<b>410.0</b>	25.0
Ordinary Income	21.9	12.5	8.5	21.0	<b>14.0</b>	<b>10.0</b>	<b>24.0</b>	3.0

## FY2018

- Demand for hydraulic excavators is expected to continue being firm in China and the type of models is expected to improve. As a result, ordinary income is expected to increase.
- Restructuring of the China business has been completed for the most part. Manufacturing and sales have been consolidated into one business, and joint ventures with Chinese partners have been dissolved.  
(For more details, see page 36.)



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# 【Electric Power】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	72.1	36.0	37.0	73.0	<b>35.0</b>	<b>36.0</b>	<b>71.0</b>	(2.0)
Ordinary Income (Loss)	7.9	(5.0)	3.0	(2.0)	<b>(5.0)</b>	<b>3.0</b>	<b>(2.0)</b>	-

## FY2018

- Loss is expected to be as previously forecast owing to temporary expenses associated with fund procurement for a new project.
- Environmental assessment for a new power generation project at Kobe Works had been completed following inspection of the evaluation report on June 25, 2018. (For related information, see page 37.)



## **3. Financial Strategy**



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# Financial Strategy

## Basic Policy

➤ In principle, business cash flows are used to finance large strategic investments to grow the materials and machinery businesses, as well as for regular investments that support the business foundation.

➤ **D/E ratio 1 time or less**

## Cash Generation Measures

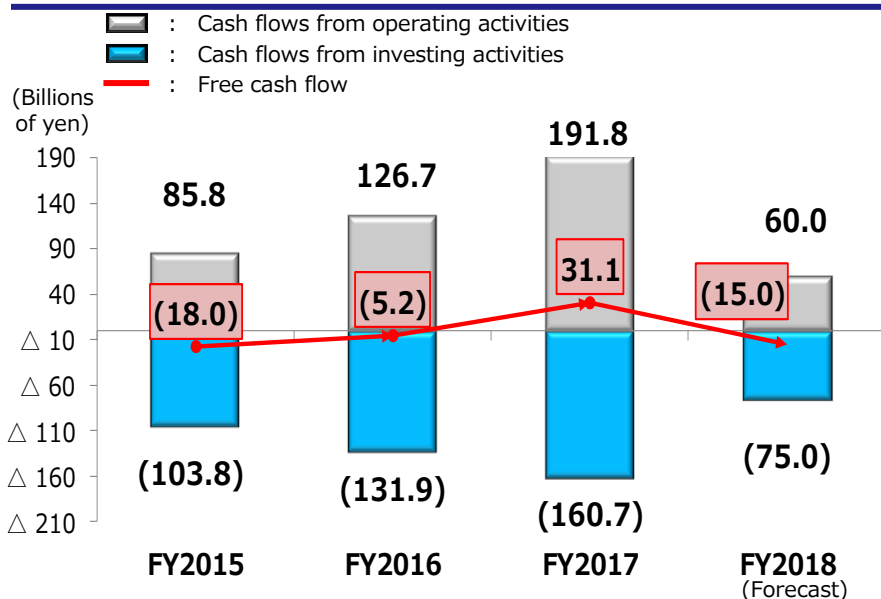
➤ Consider and implement **cash generation measures on a scale of 100.0 billion yen** to steadily implement growth investments, while maintaining financial discipline.

✓ Cash generation measures already implemented from FY2016 to FY2018

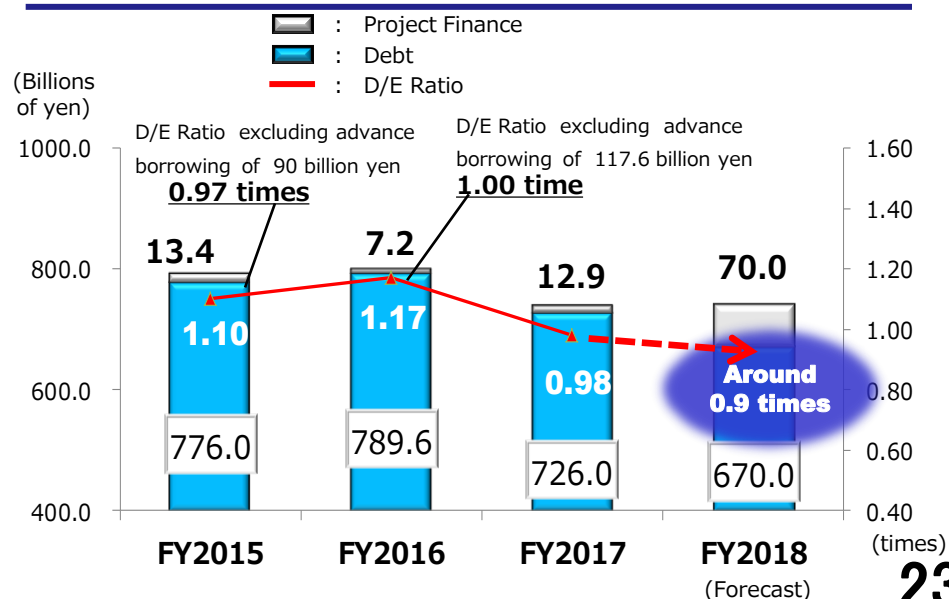
Improve working capital 19 billion yen  
Asset sales 91 billion yen, etc.

Total: about 110 billion yen

### 《Free cash flow》



### 《Debt · D/E ratio》





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# 4. Reference Information





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# Cash Flows

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)	FY2018 (Current Forecast)			Change ② - ①
	Full year	Full year ①	1H	2H	Full year ②	
<b>Cash Flows from Operating Activities</b>	191.8	60.0	15.0	45.0	60.0	-
<b>Cash Flows from Investing Activities</b>	(160.7)	(70.0)	(5.0)	(70.0)	(75.0)	(5.0)
<b>Free Cash Flow</b> (Excluding Project Financing)	31.1	(10.0)	10.0	(25.0)	(15.0)	(5.0)
<b>Free Cash Flow</b>	29.2	(25.0)	0.0	(30.0)	(30.0)	(5.0)
<b>Cash and Deposits</b> (Excluding Project Financing)	158.2	95.0	150.0	95.0		-



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# Capital Investment

(Billions of yen)

	FY2015	FY2016	FY2017	FY2018 Forecast
<b>Capital Investment (Accrual Basis)</b>	109.9	160.2	128.6	<b>145.0</b>
Ratio of Depreciation	116%	167%	126%	<b>145%</b>
<b>Capital Investment (Payment Basis)</b>	99.1	138.9	136.6	<b>155.0</b>
Ratio of Depreciation	105%	144%	134%	<b>155%</b>
<b>Depreciation</b>	94.8	96.2	102.0	<b>100.0</b>



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# Financial Indices

	FY2015	FY2016	FY2017	FY2018 Forecast
<b>ROS (※1)</b>	1.6%	(1.1%)	3.8%	1.7%
<b>Net Income (Loss) per Share (※2)</b>	(59.34 yen)	(63.54 yen)	174.43 yen	124.22 yen
<b>D/E ratio (※3)</b>	(※4) 1.10	(※5) 1.17	about 0.98	about 0.9
<b>ROA (※6)</b>	1.3%	(0.8%)	3.1%	1.5%
<b>ROE (※7)</b>	(2.9%)	(3.4%)	8.9%	5.9%

※1 : ROS=Ordinary Income / Net Sales

※2 : Kobe Steel carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016.

Therefore, net income per share takes into account this share consolidation.

※3 : D/E ratio: Debt (excluding IPP project finance)/stockholders' equity (FY2015 shareholders' equity)

※4 : Includes early procurement of borrowings for FY2016 (90 billion yen)

D/E ratio 0.97 times (excluding early procurement of borrowings)

※5 : Includes early procurement of borrowings for FY2017 (117.6 billion yen)

D/E ratio 1.00 time (excluding early procurement of borrowings)

※6 : ROA=Ordinary Income / Total Assets

※7 : ROE=Net Income / Equity



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# Analysis of Ordinary Income in Iron & Steel Segment

**【 FY2017/1Q ⇒ FY2018/1Q 】**

(Billions of yen)

	FY2017			FY2018		
	1Q	2Q	1H	1Q	2Q	1H
Ordinary Income (Loss)	13.0	(5.3)	18.4	0.8	(0.8)	0.0

**(12.2)**

Positive Factors			Negative Factors	
Overall cost reduction	+	<b>0.5</b>	Production and shipments	<b>(3.0)</b>
Exchange rate changes	+	<b>1.0</b>	Raw material prices	<b>(2.0)</b>
			Inventory valuation	<b>(5.5)</b>
			Subsidiaries & affiliates	<b>(1.5)</b>
			Other	<b>(1.7)</b>
Total	+	<b>1.5</b>	Total	<b>(13.7)</b>

※Analysis of consolidated ordinary income covering the entire company is omitted from this fiscal year.



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# Analysis of Ordinary Income in Iron & Steel Segment

**【 FY2017 ⇒ FY2018 】**

(Billions of yen)

	FY2017			FY2018		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	18.4	(1.0)	<b>17.3</b>	0.0	3.0	<b>3.0</b>

**(14.3)**

Positive Factors			Negative Factors	
Production and shipments	+	<b>13.5</b>	Raw material prices	<b>(15.0)</b>
Overall cost reduction	+	<b>5.0</b>	Inventory valuation	<b>(8.5)</b>
Exchange rate changes	±	<b>0.0</b>	Subsidiaries & affiliates	<b>(0.5)</b>
			Other	<b>(8.8)</b>
Total	+	<b>18.5</b>	Total	<b>(32.8)</b>



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# Analysis of Ordinary Income in Iron & Steel Segment

**【 FY2018 Previous Forecast ⇒ FY2018 Current Forecast 】**

(Billions of yen)

	FY2018 Previous Forecast			FY2018 Current Forecast		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income	3.0	10.0	<b>13.0</b>	0.0	3.0	<b>3.0</b>

(10.0)

Positive Factors			Negative Factors	
Exchange rate changes	±	<b>0.0</b>	Production and shipments	<b>(2.0)</b>
Subsidiaries & affiliates	±	<b>0.0</b>	Raw material prices	<b>(5.0)</b>
			Overall cost reduction	<b>(1.0)</b>
			Inventory valuation	<b>(0.5)</b>
			Other	<b>(1.5)</b>
Total	±	<b>0.0</b>	Total	<b>(10.0)</b>



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# Analysis of Ordinary Income in Iron & Steel Segment

**【 FY2018/1H ⇒ FY2018/2H 】**

(Billions of yen)

	FY2017			FY2018		
	1H	2H	Full Year	1H	2H	Full Year
<b>Ordinary Income (Loss)</b>	18.4	(1.0)	17.3	<b>0.0</b>	<b>3.0</b>	3.0

**+3.0**

Positive Factors			Negative Factors	
Production and shipments	+	<b>1.0</b>	Subsidiaries & affiliates	<b>(1.0)</b>
Raw material prices	+	<b>1.0</b>		
Overall cost reduction	+	<b>1.0</b>		
Inventory valuation	+	<b>0.5</b>		
Exchange rate changes	±	<b>0.0</b>		
Other	+	<b>0.5</b>		
<b>Total</b>	<b>+</b>	<b>4.0</b>	<b>Total</b>	<b>(1.0)</b>



## Thorough implementation of measures to prevent the recurrence of misconduct concerning some of the products

The Kobe Steel Group would again like to express its sincerest apologies to its customers, business partners, shareholders and other stakeholders for having caused substantial trouble due to the misconduct of Kobe Steel and its group.

To fulfill our responsibility on the quality issue and once again earn your confidence, we will go back to the basics of *monozukuri*. We will renew our awareness that solid quality is at the heart of confidence and strive to prevent recurrence with an unwavering resolution.

### Overview of measures to prevent recurrence

**I. Governance:**  
Building a quality governance system

\*See the next page for details.

**II. Management:**  
Ensuring quality control

**III. Process:**  
Strengthening the quality control process

The administrative offices at headquarters play a leading role in implementing the measures

Independent Quality Supervision Committee

Regular progress reports to the Board of Directors

※Please refer to the following URL for the progress of measures to prevent a recurrence.

<http://www.kobelco.co.jp/english/progress/relapse-prevention/index.html>







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## Growth Strategies for the Three Core Business Areas

### Materials

#### I Initiatives for weight savings in transportation

- Overview of automotive weight savings strategy

(Please refer to Investor Meeting material released in May 2017)

[http://www.kobelco.co.jp/english/ir/library/fncl\\_results/2017/\\_icsFiles/afieldfile/2017/06/20/170526\\_1.pdf](http://www.kobelco.co.jp/english/ir/library/fncl_results/2017/_icsFiles/afieldfile/2017/06/20/170526_1.pdf)

#### II Strengthening profitability in the steel business

- Consolidation of upstream operations at Kakogawa Works has been completed
- Additional measures to improve profitability are being implemented as planned

### Machinery

#### I Initiatives in the fields of energy and infrastructure

- Promoting the smooth expansion of the Machinery Business

#### II Strengthening profitability in the construction machinery business

- Rebuilding of the excavator business in China has been completed for the most part

<https://www.kobelcocm-global.com/news/2018/180625/index.html>

### Electric Power

#### Initiatives for stable profitability in the electric power supply business

- Overview of all (new/existing) projects

(Please refer to the investor Meeting material released in January 2017)

[http://www.kobelco.co.jp/english/ir/library/fncl\\_results/2016/\\_icsFiles/afieldfile/2017/02/15/170111\\_e.pdf](http://www.kobelco.co.jp/english/ir/library/fncl_results/2016/_icsFiles/afieldfile/2017/02/15/170111_e.pdf)



## Capital Investments for Automotive High-Strength Steel at Kakogawa Works

- To meet stricter regulations for fuel efficiency and collision safety, automakers have been promoting lighter car bodies with higher strength. Kobe Steel has decided to make capital investments and has commenced construction centered on a new continuous annealing line in response to the growing demand for automotive ultra high-strength steel.

### ➤ Outline of capital investment

(Announced on April 4, 2018)

- ✓ Equipment: [New] Continuous annealing line, recoiler and other associated equipment  
[Expansion] Pickling and tandem cold mill (PTCM) and material handling equipment
- ✓ Production capacity: 240,000 tons per year
- ✓ Investment cost: Approx. 50 billion yen
- ✓ Start of operation: February 2021
- ✓ Main products: Automotive ultra high-strength steel (cold-rolled and hot dip galvanized/galvannealed)
  - ※ Ultra high-strength steel: Tensile strength (TS)  $\geq$  780MPa
- ✓ Purposes of investment:
  - Increase production capacity and productivity in anticipation of higher demand for automotive high strength steel
  - Readiness to meet future needs of higher strength and higher formability



### ➤ Characteristics and significance of capital investment

- ✓ Continuous annealing line with leading-edge heat treatment functions
- ✓ Production of high formability, ultra high-strength steel that meets customer needs for cold-rolled steel and hot-dipped galvanized/galvannealed steel.

**Paving the way for the simultaneous production of high-formability, ultra high-strength steel in Japan and the U.S. (at PRO-TEC Coating Company)**



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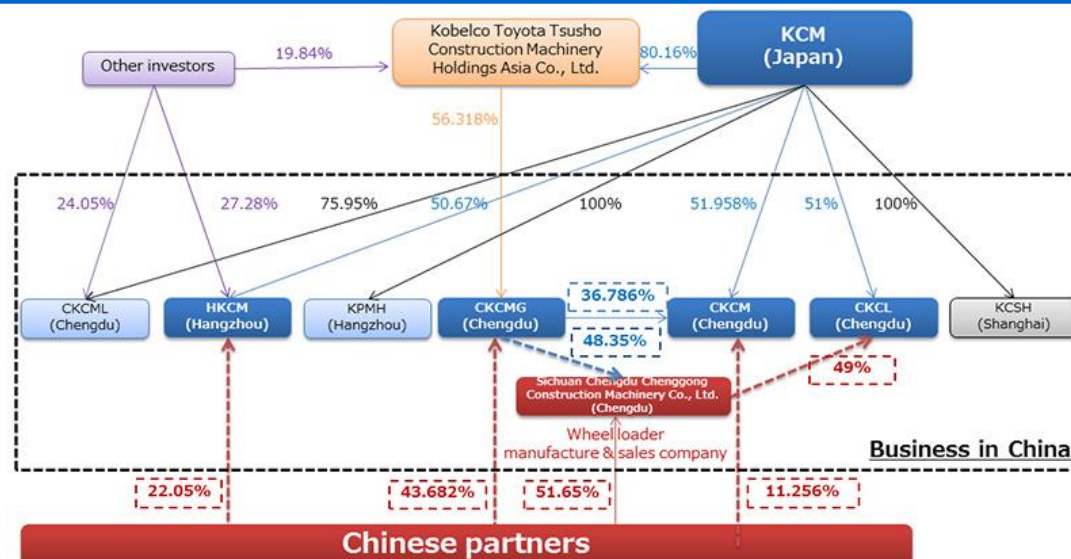
## Restructuring of the Business in China

(Announced June 26, 2018)

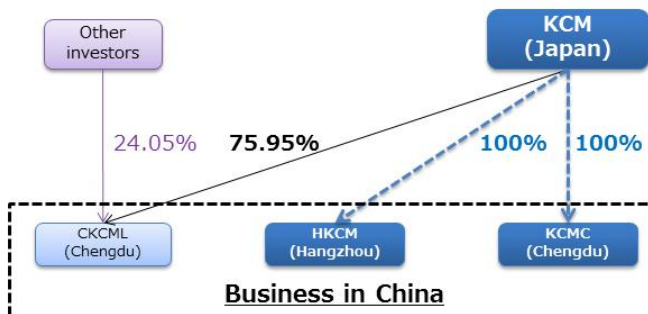
➤ We have completed the dissolution of the joint ventures with the Chinese partners in October 2017 and the restructuring of the business for the most part under our initiative. Under a business entity with integrated manufacturing and sales, we aim to implement business operations swiftly and efficiently as well as build a solid local sales network.

### ➤ Before restructuring

(as of the end of March 2017)



### ➤ After restructuring



Company Name	Location	Business
Kobelco Construction Machinery (China) Co., Ltd. (KCMC)	Chengdu	Manufacture, sales, and service operations of hydraulic excavators
Hangzhou Kobelco Construction Machinery Co., Ltd. (HKCM)	Hangzhou	Manufacture of hydraulic excavators and component parts
Chengdu Kolbelco Construction Machinery Financial Leasing Ltd. (CKCML)	Chengdu	Construction machinery leasing

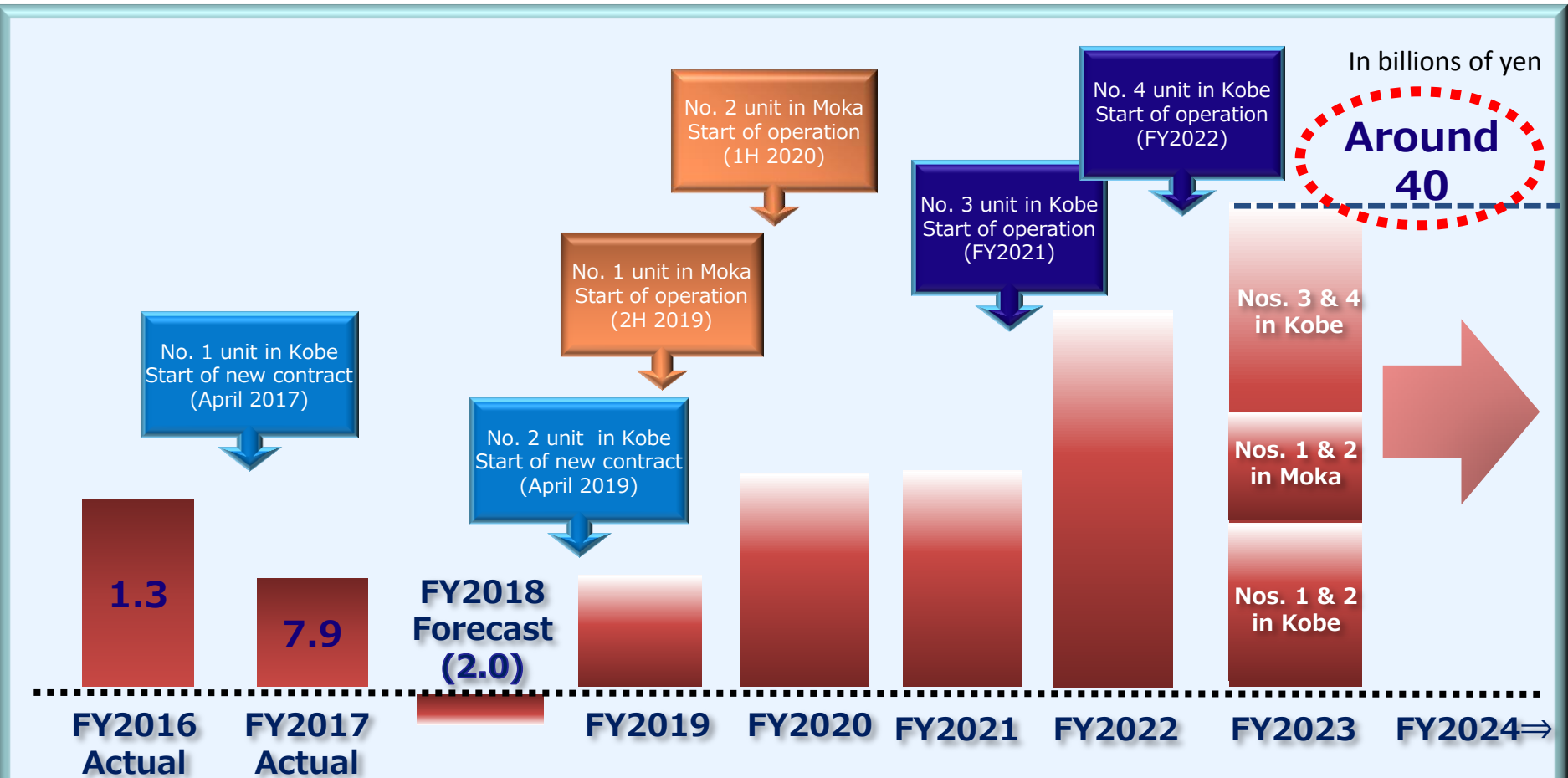
- With HKCM in Hangzhou as a surviving company, we absorbed and merged KPMH (May 1, 2018).
- With KCMC as a surviving company, we will absorb and merge CKCM and CKCL. (Scheduled for July 1, 2018.)
- Manufacture of cranes in China discontinued. (March 31, 2016).
- We will liquidate KCSH in Shanghai. (Scheduled to be completed by the end of fiscal year 2018.)
- Sales and service operations of cranes in China will be handled directly by KCM through the utilization of dealers.



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# Initiatives Aimed at Stable Profitability in the Electric Power Supply Business

➤ Environmental assessment for Nos. 3 & 4 in Kobe were completed on June 25, 2018.



- ※ The above is a image of profitability in the electric power business.
- ※ Image of profitability includes head office expenses of about 2-3 billion yen. Anticipatory and other one-time expenses are expected until new projects are completed.



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## [Materials] Initiatives for Weight Savings in Transportation

Field	Project	Country	Description	Schedule
Automotive	Joint venture to make and sell steel wire rods (Kobelco Millcon Steel Co., LTD)	Thailand	First overseas location for wire rod production. Helps meet growing auto demand in Southeast Asia.	Sep. 2015 Production of ordinary steel wire rod began May 2017 Equipment to make special steel installed
	Joint venture to make and sell CH steel wire (Kobelco CH Wire Mexicana, S.A. de C.V.)	Mexico	Quickly supply products of outstanding quality to local auto parts makers	Jan. 2016 Production began
	Joint venture to make and sell automotive high strength steel sheet (Kobelco Angang Auto Steel Co., Ltd.)	China	Strengthens environmental response in China. Established global supply network for high strength steel in Japan, the U.S., Europe and China.	Feb. 2016 Production began
	Production and sale of aluminum sheet for automotive closure panels	China	First production base in China for a Japanese aluminum maker to make aluminum sheet for closure panels.	Apr. 2016 Production began
	Production and sale of automotive aluminum extrusions (Kobelco Aluminum Products & Extrusions Inc.)	USA	Strengthens response to stricter fuel consumption regulations in the U.S.. Establishes supply network for aluminum extrusions and fabricated products in Japan and the U.S.	Aug. 2016 Construction began Dec. 2017 Production began
	Mass producing high-productivity, hot stamping steel sheet	-	Developed a hot stamping steel sheet with outstanding productivity during press operations. The sheet was ordered and adopted for a structural body part of the Prius, which is produced by Toyota Motor Corporation.	2016 Mass production began
	Establishment of Automotive Solution Center	-	The Automotive Solution Center was newly organized in the Technical Development Group. We aim to promote rapid decision-making and strengthen original solution proposal capabilities.	Apr. 2017 Established the center
	Expansion of facilities for aluminum forged suspension products (Kobe Aluminum Automotive Products, LLC)	USA	This expansion plan is to meet the rising demand in North America for aluminum forged suspension products. Kobe Steel anticipates that automakers in the U.S. will use aluminum forged suspension products in a wider range of vehicles.	2018 Autumn Additional facilities start
	Establishment of a joint venture with Novelis Korea (Ulsan Aluminum Ltd.)	South Korea	This plan is in response to the growing demand for automotive aluminum panel materials in Asia, including Japan and China. It aims to secure stable production and supply capacity in upstream operations.	Sep. 2017 Joint venture established
	Expansion of facilities for aluminum sheet for automotive closure panels at the Moka Plant	Japan	The expansion plan is in response to the growing demand for aluminum closure panels in Asia, including Japan and China. Kobe Steel aims to build a stable supply structure for high quality aluminum sheets for closure panels.	FY2017 Construction begins Jan. 2020 Production to begin
	Increase of production capacity to make hot-dipped galvanized ultra high-strength steel for automotive use in the U.S. (PRO-TEC Coating Company)	USA	This plan is in response to growing demand for automotive high-strength steel sheet in the United States. The new continuous galvanizing line will have the capability to produce high-formability, ultra high-strength steel.	Jul. 2017 Production began
	Investment in production equipment for automotive high strength steel at Kakogawa Works	Japan	This capital investment aims to meet growing demand for automotive ultra high-strength steel and the need for higher strength and higher formability. It will enable Kobe Steel to produce the same ultra high-strength steels in both Japan and the U.S.	Feb. 2021 Production to start
Joint development of a robot system for joining dissimilar metals	-	Developing a robot system incorporating element arc spot welding (EASW), a dissimilar metals joining method devised by Kobe Steel to join ultra high-strength steel to aluminum, and FANUC's robot engineering and sensor technologies with a view to commercialization		



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## [Machinery] Initiatives in the Fields of Energy and Infrastructure

Field	Project	Country	Description	Schedule
Compressors	Sales begin for new oil-free standard air compressors	—	World's highest class of energy efficiency; low-noise operation	Oct. 2016 Sales began
	HyAC mini-A all-in-one, compact compressor package for hydrogen refueling stations in the U.S.	USA	We have started marketing the HyAC mini-A, an all-in-one, compact compressor package for stationary hydrogen refueling stations designed for use in the U. S.. It consists of a high-pressure hydrogen compressor and a refrigerator sold together with a high-pressure storage tank unit and a dispenser as a set. We are the first in Japan to sell hydrogen compressors for hydrogen refueling stations overseas.	Feb. 2017 Sales began
	Binary power generation system for Lake Toya Hot Spring in Hokkaido	Japan	Our binary power generation system, a high-efficiency and compact package, is used in a project for geothermal energy utilization in Toyako-cho in Hokkaido.	Mar. 2017 Order received
	Large-capacity compressor test facility opens	Japan	One of the largest in the world, this test facility is capable of conducting performance tests on nonstandard compressors with variable-speed motors of 40 MW. It enables Kobe Steel to satisfy conditions to enter the large-capacity compressor market. We are focusing on the Asian market, where Kobe Steel has an edge.	Apr. 2017 Facility opened
	Establishment of a compressor service company in the Philippines (Kobelco Machinery Philippines Inc.)	Philippines	Kobe Steel established a company in the Philippines to dispatch supervisors and provide engineering services for its nonstandard compressor business to expand its services in the region. It aims to further grow its global non-standard compressor business and set down roots in areas of demand.	Feb 2017 Established Apr.2017 Sales began
Industrial Machinery	Acquisition of Swedish isostatic press manufacturer Quintus Technologies	Sweden	Kobe Steel acquired Swedish company Quintus Technologies AB, the world leader in isostatic presses, which are widely applicable in the manufacture of high-performance products, such as aircraft parts, power generation turbine and semiconductor materials. It aims to increase the profitability of Industrial Machinery Division.	Apr. 2017 Acquisition completed
Construction Machinery	Sales begin of ultra-large crawler cranes in Japan (lifting capacity of 1,250t)	—	One of Japan's largest crawler cranes	May 2016 Sales began
Engineering	Operation of energy-recovery waste treatment plant	Japan	Utilizes fluidized bed gasification and combustion furnace. Next-generation incineration furnace contributes to a more compact facility, maximizes power generation and reduces environmental burden.	Jun. 2016 Order received 2016-2019 Construction of facility 2019-2039 Facility in operation
	Received order to construction and operate a wide-area waste treatment plant	Japan	To handle a wide variety of waste, a stoker-type incineration furnace will be used for safe, stable incineration. Low excess air combustion and high-efficiency power generation contribute to lowering the environmental burden.	Dec. 2016 Order received 2016-2022 Construction of facility 2022-2042 Facility in operation





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## 【Electric Power】 Initiatives for Stable Profitability in the Electric Power Supply Business

Field	Project	Country	Description	Schedule
Electric Power	Nos. 1 & 2 units in Kobe (Kobelco Power Kobe, Inc.)	Japan	Pulverized coal-fired, supercritical pressure power generation equipment, started from 2002. New contracts were formed to replace current contracts as they expire. Capacity: 1.4 mil. kW (700,000 kW × 2)	Apr. 2002 No. 1 unit starts up Apr. 2004 No. 2 unit starts up [Start of new contracts] No.1 unit: from Apr. 2017 No.2 unit: from Apr. 2019
	Nos. 1 & 2 units in Moka (Kobelco Power Moka, Inc.)	Japan	Japan's first full-scale inland power plant. Will have one of Japan's highest levels of generation efficiency. Method is gas turbine combined cycle, using city gas as fuel. Capacity: 1.248 mil. kW (624,000 kW X 2)	Jun. 2016 Construction began 2H 2019 No. 1 Unit starts up 1H 2020 No. 2 Unit starts up
	Nos. 3 & 4 units in Kobe (provisional name: Kobe Works Thermal Power Plant)	Japan	To feature cutting-edge coal-fired, ultra-supercritical generation equipment Capacity: 1.3 mil. kW (650,000 kW × 2)	FY2021 No. 3 unit to start up FY2022 No. 4 unit to start up





## **Core Values of KOBELCO**

- 1. We provide technologies, products and services that win the trust and confidence of our customers we serve and the society in which we live.**
- 2. We value each employee and support his and her growth on an individual basis, while creating a cooperative and harmonious environment.**
- 3. Through continuous and innovative changes, we create new values for the society of which we are a member.**

## **Six Pledges of KOBELCO Men and Women**

- 1. Heightened Sense of Ethics and Professionalism**
- 2. Contribution to the Society by Providing Superior Products and Services**

### **Quality Charter**

**Guided by our "Quality Charter," we provide safe, sound, and innovative products and services to our customers, and thereby ensure customer satisfaction and contribute to the advancement of the society.**

- 3. Establishing a Comfortable but Challenging Work Environment**
- 4. Living in Harmony with Local Community**
- 5. Contribution to a Sustainable Environment**
- 6. Respect for Each Stakeholder**

