

# Kobe Steel's Consolidated Financial Results for Fiscal 2014 (April 1, 2014 – March 31, 2015)

April 28, 2015

Company name: Kobe Steel, Ltd.  
 Code number: 5406  
 Stock exchanges where shares are listed: Tokyo and Nagoya, Japan  
 Website: www.kobelco.com  
 President and CEO: Hiroya Kawasaki  
 General stockholders' meeting: June 24, 2015  
 "Yukashoken hokokusho"  
 (Annual Securities Report) issued: June 24, 2015  
 Dividend payments begin: June 4, 2015  
 Supplemental information available: Yes  
 IR Briefing: Yes (in Japanese only)

(Sums of less than 1 million yen have been omitted.)

## 1. FY2014 Consolidated financial results (April 1, 2014 – March 31, 2015)

### (1) Consolidated operating results

(In millions of yen)	FY 2013	% change	FY 2014	% change
Net sales	1,824,698	8.3%	1,886,894	3.4%
Operating income	114,548	919.6%	119,460	4.3%
Ordinary income	85,044	---	101,688	19.6%
Net income	70,191	---	86,549	23.3%
Net income per share	22.62 yen		23.81 yen	
Diluted net income per share	---		---	
Return on equity (ROE)	11.9%		12.0%	
Ratio of ordinary income to total assets (ROA)	3.8%		4.4%	
Ratio of operating income to net sales (ROS)	6.3%		6.3%	

Comprehensive income in FY2013: 99,288 million yen FY2014: 135,387 million yen  
 Equity in income of affiliates in FY2013: (2,793 million yen) FY2014: 69 million yen

### (2) Consolidated financial position

(In millions of yen)	FY2013	FY2014
Total assets	2,288,636	2,300,241
Net assets	734,679	851,785
Net worth ratio	29.2%	33.8%
Net assets per share	184.11 yen	213.70 yen

Stockholders' equity at the end of FY2013: 668,997 million yen FY2014: 776,491 million yen

### (3) Consolidated cash flows

(In millions of yen)	FY2013	FY2014
Net cash provided by operating activities	194,294	153,078
Net cash used in investing activities	(62,105)	(73,674)
Net cash provided by (used in) financing activities	(138,501)	(156,027)
Cash & cash equivalents at the end of year	170,926	101,654

## 2. Dividends

Period	Dividends per share in yen					Total dividend amount*	Dividend Payout ratio	Dividend per net assets
	1Q	2Q	3Q	4Q	Year			
FY2013	---	0.00	---	4.00	4.00	14,554	17.7%	2.3%
FY2014	---	2.00	---	2.00	4.00	14,554	16.8%	2.0%
FY2015 Forecast	Undetermined						Undetermined	

\* in millions of yen

### 3. Consolidated Forecast for fiscal year 2015 (ending March 31, 2016)

(In millions of yen)	1st half	Full year
Net sales	980,000	1,990,000
Operating income	50,000	125,000
Ordinary income	40,000	95,000
Net income attributable to owners of parent	25,000	60,000
Net income per share	6.88 yen	16.51 yen

#### Notes

- (1) Changes in number of material subsidiaries in fiscal year  
(Changes in specified subsidiaries due to changes in scope of consolidation): No
- (2) Changes in accounting policies, estimates and restatement on the preparation of consolidated financial statements
- Changes in accounting policies due to revised accounting standards: Yes
  - Other changes: Yes
  - Changes in accounting estimates: No
  - Restatement: No

(3) Number of issued shares

	FY 2013	FY2013
Common stock (number of issued shares)	3,643,642,100	3,643,642,100
Treasury stock (number of shares)	9,975,426	10,082,049
Average number of shares	3,101,853,098	3,633,632,808

#### **Explanation on the Appropriate Use of the Forecast and Other Special Items**

The above forecast is based on currently available information as of today. Actual results may differ considerably due to various changeable conditions in the future. For preconditions on the forecast and other related factors, please refer to pages 4 to 5.

The basis for dividend payments is continuous and stable distribution. Factors taken into overall consideration are the company's financial condition, business performance, future and other issues. As the outlook for many of these factors is unclear at this time, Kobe Steel is unable to make a dividend forecast. When it is able to make a forecast, Kobe Steel will promptly do so.

#### **Investor Relations:**

Tel +81 (0)3 5739-6045  
Fax +81 (0)3 5739-5973

Kobe Steel, Ltd  
9-12 Kita-Shinagawa 5-chome  
Shinagawa-ku, Tokyo 141-8688  
JAPAN  
Website: [www.kobelco.com](http://www.kobelco.com)

#### **Media Contact:**

Publicity Group  
Tel +81 (0)3 5739-6010  
Fax +81 (0)3 5739-5971

## 1. Analysis of Operating Results and Financial Condition

### Fiscal year 2014 Consolidated Operating Results

Japan's economy in fiscal year 2014 (April 1, 2014 – March 31, 2015) was affected by the last-minute surge in demand prior to the rise in the consumption tax on April 1, 2014. However, on the back of various economic measures by the government, and the Bank of Japan's monetary easing measures, corporate earnings improved, capital expenditures went up and public investments continued at high levels. These factors enabled the economy on the whole to continue on a recovery track. In overseas markets, the U.S. economy gradually continued to improve, but Europe's economy remained weak, and the economies of China and Southeast Asia continued to decelerate.

In this economic environment, the Kobe Steel Group saw a decrease in the sales volume of steel products, in terms of tons sold, compared with the previous year. Steel demand in the automotive sector decreased in Japan due to a reaction to the last-minute surge in demand prior to the rise in the consumption tax on April 1, 2014. In overseas markets, demand was sluggish in emerging countries.

The sales volume of aluminum rolled products increased in fiscal year 2014, compared with the previous year, owing to efforts to expand export sales of mainly aluminum can stock for beverage containers and automotive materials. The sales volume of copper rolled products also increased, compared with the same period last year, owing to strong demand for copper sheets and strips used in automotive terminals and for copper tubes. Unit sales of hydraulic excavators decreased, compared with the previous year. Although unit sales increased in Europe and North America owing to steady sales expansion, unit sales in Japan, China and Southeast Asia went down.

As a result, consolidated sales in fiscal year 2014 increased 62.1 billion yen, compared with the previous year, to 1,886.8 billion yen. Operating income increased 4.9 billion yen, compared with the previous year, to 119.4 billion yen. Ordinary income\* (also known as "pretax recurring profit" or simply "pretax profit") increased 16.6 billion yen, compared with the previous year, to 101.6 billion yen. Net income increased 16.3 billion yen, compared with the previous year, to 86.5 billion yen.

Conditions in the business segments for fiscal year 2014 follow below.

### Iron & Steel Business

The sales volume of steel products decreased compared with the previous year. Automotive demand in Japan went down as a reaction to the last-minute surge in demand prior to the rise in the consumption tax on April 1, 2014. In overseas markets, demand was sluggish in emerging countries. On the other hand, sales prices increased, compared with the previous year, as export prices improved, owing to the weak yen.

Sales of steel castings and forgings increased, compared with the previous year, as demand from the shipbuilding industry was on a recovery track. Sales of titanium products also increased, compared with the previous year, owing to recovery in demand. The independent power producer (IPP) business, which supplies electricity from its power station with a capacity of 1.4-million kilowatts station, continued to operate stably.

As a result, consolidated segment sales in fiscal year 2014 were similar to the previous year at 797.8 billion yen. Ordinary income\* decreased 4.7 billion yen, compared with the previous year, to 28.7 billion yen due to a decrease in the impact of inventory valuation, which had previously pushed up profits.

### Welding Business

The sales volume of welding materials was similar to the previous year. Domestic demand from the shipbuilding industry was on a recovery track and demand from the construction sector was strong. However, in overseas markets, demand in Southeast Asia was affected by the economic slowdown. Sales of welding systems increased, compared with the same period last year, as demand from the construction sector was strong.

As a result, consolidated segment sales in fiscal year 2014 increased 6.9 percent, compared with the previous year, to 94.4 billion yen. Ordinary income\* increased 3.0 billion yen, compared with the previous year, to 10.2 billion yen.

### **Aluminum & Copper Business**

The sales volume of aluminum rolled products increased compared with the previous year, owing to efforts to expand export sales of mainly aluminum can stock for beverage containers and automotive materials. Sales of aluminum castings and forgings also increased, compared with the previous year, due to strong demand from the overseas automotive market.

The sales volume of copper rolled products increased compared with the previous year. Demand was strong both in Japan and overseas for copper sheets and strips for automotive terminals. Although the sales volume of copper tubes for air conditioners was affected by lower domestic sales of air conditioners since last summer, demand has continued to be strong in overseas markets.

As a result, consolidated segment sales in fiscal year 2014 increased 11.9 percent, compared with the previous year, to 330.8 billion yen. Ordinary income\* was unchanged from the previous year at 15.1 billion yen due to higher energy costs.

### **Machinery Business**

Kobe Steel received large orders for compressors used in the petrochemical industry and for plastic processing machinery mainly in overseas markets, but as demand decreased primarily in the oil refining industry due to lower oil prices, consolidated orders decreased 7.5 percent, compared with the previous year, to 141.3 billion yen. The backlog of orders at the end of the fiscal year (March 31, 2015), stood at 133.3 billion yen.

Consolidated segment sales in fiscal year 2014 increased 6.2 percent, compared with the previous year, to 159.1 billion yen owing to the posting of sales concentrated on large orders of tire and rubber machinery and plastic processing machinery. Ordinary income\* increased 3.9 billion yen, compared with the same period in the previous year, to 10.4 billion yen.

### **Engineering Business**

Consolidated orders in fiscal year 2014 declined 49.2 percent, compared to the previous year, to 25.2 billion yen. Although domestic orders accumulated mainly on waste treatment work and maintenance work related to recovery from the Great East Japan Earthquake, overseas orders decreased compared with the previous year, which saw orders for large direct reduction plants in North America and Russia. The backlog of orders at the end of fiscal year 2014 (March 31, 2015) stood at 68.2 billion yen.

Consolidated segment sales increased 25.4 percent, compared with the same period last year, to 49.0 billion yen owing to progress in construction work on the above-mentioned direct reduction plants. Ordinary income\* increased 4.7 billion yen, compared with the previous year, to 0.7 billion yen.

### **Kobelco Eco-Solutions**

Consolidated orders decreased 2.7 percent, compared with the previous year, to 69.9 billion yen. Although orders increased in the water treatment-related business and in the chemical and food equipment-related business, orders decreased in the waste treatment-related business. The backlog of orders at the end of fiscal year 2014 (March 31, 2015) was 49.0 billion yen.

Consolidated segment sales were 68.1 billion yen, unchanged from the previous year. Similar to the situation for orders, sales increased in the water treatment-related business and in the chemical and food equipment-related business, but decreased in the waste treatment-related business. Ordinary income\* increased 0.3 billion yen, compared with the previous year, to 3.0 billion yen due to improved project costs and reduced expenses.

### **Kobelco Construction Machinery**

Unit sales of hydraulic excavators on the whole decreased compared with the previous year. Although unit sales increased in Europe and North America owing to steady progress in expanding sales, unit sales in Japan decreased due to stricter exhaust emission regulations and the reaction to the last-minute surge in demand prior to the rise in the consumption tax on April 1, 2014. Unit sales in China and Southeast Asia were also affected by continued economic deceleration in China and Southeast Asia.

As a result, consolidated segment sales decreased 2.3 percent, compared with the previous year, to 311.0 billion yen. Ordinary income\* increased 5.8 billion yen, compared with the previous year, to 21.0 billion yen, owing to changes in sales regions and the sales mix of machines.

### **Kobelco Cranes**

Unit sales of crawler cranes increased, compared with the previous year. Unit sales in Japan increased, owing to continued strong demand on the backdrop of higher public investments and other factors. In overseas markets, unit sales increased in North America, Asia and other regions owing to strong demand.

As a result, consolidated segment sales increased 25.6 percent, compared with the previous year, to 71.1 billion yen. Ordinary income\* increased 1.9 billion yen, compared with the previous year, to 5.1 billion yen.

### **Other Businesses**

At Shinko Real Estate Co., Ltd., both the property sales and leasing businesses were strong. In Kobelco Research Institute, Inc.'s testing and research businesses, demand remained strong mainly in the automotive sector.

Due to these conditions, consolidated segment sales increased 6.8 percent, compared with the previous year, to 76.0 billion yen. Ordinary income\* increased 0.2 billion yen, compared with the previous year, to 7.0 billion yen.

### **Definition of Ordinary Income (Loss)\***

Ordinary income under accounting principles generally accepted in Japan (Japanese GAAP) is a category of income (loss) that comes after operating income (expense) and non-operating income (expense), but before extraordinary income and loss. It is also called "pretax recurring profit" or simply "pretax profit."

## **Forecast for Fiscal Year 2015**

Japan's economy in fiscal year 2015 is anticipated to remain on a recovery track, with public investments continuing to be steady and capital investments anticipated to gradually increasing. In overseas markets on the other hand, there is concern over the prolonged economic deceleration in China and emerging countries, increasing uncertainty of the future, combined with geopolitical risks in various regions.

For the Kobe Steel Group, demand in the automotive sector in early fiscal year 2015 is anticipated to be soft due to inventory adjustments by customer companies. However, demand is anticipated to recover in the second half of fiscal year 2015 and demand from the shipbuilding and other industries is anticipated to generally remain strong. On the other hand, no change is anticipated in the oversupply situation of steel products in the Asian region. In addition, there is concern over stagnant energy-related demand due to low oil prices, in North America, Russia, and emerging countries, as well as economic sluggishness.

Under these conditions, making certain assumptions on the sales volume of steel, aluminum and copper rolled products and other products; sales prices; steel raw material prices; and other unconfirmed elements, Kobe Steel anticipates that consolidated sales will reach approximately 1,990.0 billion yen in fiscal year 2015. Operating income is forecast to be approximately 125.0 billion yen, and ordinary income is forecast to be approximately 95.0 billion yen with net income attributable to owners of parent of about 60.0 billion yen.

Forecasts for the business segments follow below.

### **Iron & Steel Business**

Although there is concern over decreasing energy-related demand due to lower oil prices, demand for steel products is anticipated to remain strong in the shipbuilding and other sectors. Domestic demand in early fiscal year 2015 in the automotive sector is anticipated to be soft due to inventory adjustments by customer companies. However, in the second half of the fiscal year, demand is anticipated to recovery and the sales volume of steel products is forecast to increase over fiscal year 2014. The sales prices of steel products are forecast to go down, compared to fiscal year 2014, due to lower raw material prices. Kobe Steel will continue to negotiate with its customers and gain their understanding to improve and maintain the margin between sales prices and raw material costs.

Sales of steel castings and forgings are anticipated to be higher than fiscal 2014 as demand from the shipbuilding sector is forecast to continue being strong. Sales of titanium products are also anticipated to be higher than in fiscal year 2014 due to continued strong demand.

Due to these factors, segment sales in fiscal year 2015 are anticipated to be similar to fiscal year 2014.

### **Welding Business**

There is concern that the prolonged economic deceleration in Southeast Asia and stagnant demand in energy-related sectors will affect demand for welding materials. As demand from the domestic shipbuilding industry and other sectors is anticipated to remain strong, sales volume in fiscal year 2015 is expected to increase. Demand for welding systems, too, is expected to be firm from the domestic construction and shipbuilding sectors.

Due to these factors, segment sales in fiscal year 2015 are anticipated to be higher than in fiscal year 2014.

### **Aluminum & Copper Business**

For aluminum rolled products, firm demand for aluminum can stock for beverage containers and efforts to expand sales of automotive materials is forecast to increase sales volume over fiscal year 2014. For copper rolled products, too, firm demand mainly in overseas markets from the automotive, semiconductor and air conditioner sectors is anticipated to increase sales volume over fiscal year 2014.

Due to these factors, segment sales in fiscal year 2015 are anticipated to be higher than in fiscal year 2014.

### **Machine Business**

There is concern that demand for compressors will decrease mainly in the oil refining sector, affected by low oil prices. Some large orders are anticipated for plastic processing machinery. As a result, orders in fiscal year 2015 are anticipated to be higher than in fiscal year 2014. However, there is increasing concern over the growing effect of the drop in oil prices, and Kobe Steel is keeping a close eye on market trends in Japan and overseas. Segment sales in fiscal year 2015 are anticipated to be higher than in fiscal year 2014.

### **Engineering Business**

In the ironmaking plant field, due to a worldwide easing in the supply and demand for steel products, poor conditions are expected to continue for large capital investments. However, in certain regions, promising projects may be realized. In the nuclear power field, demand for the treatment of contaminated material is expected to continue. Orders in fiscal year 2015 are expected to increase over fiscal year 2014. Segment sales in fiscal year 2015 are anticipated to be higher than in fiscal year 2014.

### **Kobelco Eco-Solutions**

Domestic public investments in the water treatment-related business are expected to continue being weak. Domestic public investments in the waste treatment-related business are expected to remain at the same level for the time being. Domestic private-sector capital investments in the water treatment-related business and chemical and food equipment businesses continue to remain unclear. Segment sales in fiscal year 2015 are anticipated to increase over fiscal year 2014, owing to substantial progress in the construction work of large projects in the waste treatment-related business.

### **Kobelco Construction Machinery**

Domestic demand is anticipated to remain firm on the back of a high level of public investments, but is expected to decline compared with fiscal year 2014. In overseas markets, Kobelco will strive to expand sales in Europe and North America, but anticipates that demand in China will continue to be sluggish.

Due to these factors, unit sales in fiscal year 2015 are anticipated to be lower than in fiscal year 2014. On the other hand, segment sales in fiscal year 2015 are expected to be similar to fiscal year 2014, owing to changes in sales areas and the sales mix of machines.

### **Kobelco Cranes**

Domestic demand is anticipated to remain firm on the back of a high level of public investment. Overseas demand is also expected to be firm mainly in North America and Asia. Owing to these factors, unit sales in fiscal year 2015 are expected to be higher than in fiscal year 2014, and as a result, segment sales are also expected to be higher in fiscal year 2015, compared with fiscal year 2014.

### **Other Businesses**

At Shinko Real Estate Co., Ltd., the property sales and leasing businesses are both anticipated to be firm. At Kobelco Research Institute, Inc., demand in the testing and research businesses is anticipated to remain strong. Due to these factors, segment sales in fiscal year 2015 are anticipated to increase over fiscal year 2014.

## Analysis of Financial Condition

Total assets at the end of fiscal year 2014 increased 11.6 billion yen, compared with the end of fiscal year 2013, to 2,300.2 billion yen due to the increase in inventory and tangible fixed assets, although cash and deposits decreased. Due to the posting of net income, net assets at the end of fiscal year 2014 increased 117.1 billion yen, compared with the end of fiscal year 2013, to 851.7 billion yen. As a result, the net worth ratio at the end of fiscal year 2014 was 33.8 percent, an increase of 4.6 points compared with the end of fiscal year 2013.

As for cash flows, net cash provided by operating activities amounted to 153.0 billion yen after posting income before income taxes of 104.3 billion yen and depreciation of 89.8 billion yen. Net cash used in investing activities came to 73.6 billion yen due to the purchase of fixed assets and other items. Net cash used in financing activities totaled 156.0 billion yen due to the proceeds of borrowings and other items.

At the end of fiscal year 2014, outside debt, which includes IPP project financing, decreased 109.7 billion yen, compared with the end of fiscal year 2013, to 677.4 billion yen.

Cash flow indicators are as follows:

### Consolidated cash flow Indicators

	FY2010	FY2011	FY2012	FY2013	FY2014
Net worth ratio	24.6%	23.9%	23.0%	29.2%	33.8%
Net worth ratio at market price	30.2%	19.3%	15.2%	21.8%	35.2%
Ratio of cash flow to interest-bearing debt (years)	4.8	20.5	21.1	4.1	4.4
Interest coverage ratio (times)	8.6	2.0	2.3	10.1	9.5

Notes:

- Net worth ratio = Stockholders' equity / total assets
- Stockholders' equity ratio at market price = Market capitalization / total assets  
(Market capitalization is calculated by multiplying the share price at term-end by the number of outstanding shares at term-end.)
- Ratio of cash flow to interest-bearing debt = outside debt / cash flows from operating activities
- Interest coverage ratio = Cash flows from operating activities / interest payments

## 2. Management Policy

### (1) Basic Management Policy

The Kobe Steel Group aims to continuously improve its corporate value by striving to fulfill its social responsibilities to its various stakeholders, including stockholders, investors, customers, business partners, employees and local communities, based on the following corporate philosophy:

#### Kobe Steel Group Corporate Philosophy

- |   |
|---|
| <ol style="list-style-type: none"><li>1. We provide reliable and advanced technologies, products and services that satisfy customers.</li><li>2. We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group.</li><li>3. Through continuous efforts for innovative change, we aim to enhance our corporate values.</li></ol> |
|---|

### (2) Medium- to Long-Term Management Strategy and Issues Facing the Company

Japan's economy in fiscal year 2015 is anticipated to remain on a recovery track, with public investments continuing to be steady and capital investments anticipated to gradually increasing. In overseas markets on the other hand, there is concern over the prolonged economic deceleration in China and emerging countries, increasing uncertainty of the future, combined with geopolitical risks in various regions.

In April 2010, the Kobe Steel Group undertook its Medium- to Long-Term Business Vision KOBELCO VISION "G" to create new value and further grow in the global market. Amid a changing business environment, including changes in overseas economies and sudden foreign exchange fluctuations, Kobe Steel realized that it must rebuild its business foundation and establish a foundation for stable profits and business growth. In May 2013, the Kobe Steel Group began its Medium-Term Business Plan and is proceeding with the following initiatives:

Rebuilding the Business Foundation	Establishing a Foundation for Stable Profits and Business Growth
<ul style="list-style-type: none"><li>● Strengthening the profitability of the steel business</li><li>● Securing sales volume in growth sectors and regions</li><li>● Improving the competitiveness of the company</li><li>● Improving financial performance</li></ul>	<ul style="list-style-type: none"><li>● Reforming the structure of the steel business</li><li>● Strategically expanding the machinery business</li><li>● Expanding the power supply business</li></ul>

Through these initiatives, Kobe Steel intends to build a stable profit base with the power supply business, along with its current two pillars consisting of the materials business and the machinery business, to strengthen the Group's diversified business operations, as it aims to achieve its medium- to long-term business vision.

#### Medium- to Long-Term Business Vision

The Medium- to Long-Term Business Vision KOBELCO VISION "G" integrates knowledge and technologies cultivated by the Kobe Steel Group in its diverse materials and machinery businesses to create a corporate group that:

- Has a presence in the global market
- Maintains a stable profit structure and a strong financial foundation
- Prospers together with its stockholders, business partners, employees and society

The three points above represent our image of the Kobe Steel Group in the next five to 10 years. The Kobe Steel Group aims to develop its business under the basic policies below, while thoroughly maintaining safety and meeting compliance regulations.

#### Basic Policies of KOBELCO VISION "G"

1. Thorough pursuit of high-end "Only One" products
2. Further improvement of *monozukuri-ryoku* (manufacturing strengths)
3. Advancing into growth markets
4. Demonstrating the comprehensive capabilities of the Group
5. Contributions to society



Outlined below are steps to rebuild the business foundation and establish the foundation for stable profits and business growth.

## **Rebuilding the Business Foundation**

### **Strengthening the Profitability of the Steel Business**

Building a stable profit structure for the Iron & Steel Business is the biggest issue for the Kobe Steel Group. Kobe Steel is carrying out numerous profit improvement measures to strengthen its competitiveness. Activities include improving the product mix and expanding sales centered on capital investment effectiveness and cost reductions at the shop floor level.

#### **Current Initiatives and Results**

- Optimize steelmaking process by operating new hot metal treatment plant at Kakogawa Works
- Improve power generation efficiency by operating second high-efficiency in-house gas-fired power generation facility at Kakogawa Works
- Reduce costs on the scale of 10 billion yen at shop floor level.

### **Securing Sales Volume in Growth Sectors and Regions**

Kobe Steel will continue efforts to expand its overseas locations as well as maximize its various locations in Japan and overseas covering the automotive, resource and environment, energy, infrastructure and other growth sectors, as well as regions that are anticipated to grow in these fields. Kobe Steel aims to maximize sales volumes based mainly on “Only One” products, technologies and services in the materials businesses such as iron and steel, welding, aluminum, and the machinery businesses such as industrial machinery, engineering and construction machinery.

#### **Current Initiatives and Results**

- Established the joint venture Kobelco Angang Auto Steel Co., Ltd. to produce and sell automotive high strength steel sheet in China.
- Constructing a plant to produce and sell aluminum sheet for automotive body panels in China
- Increased production capacity at a unit that produces and sells aluminum forgings for automotive suspensions in the United States

### **Improving Financial Performance**

In addition to reducing inventory and selling accounts receivable and assets to create cash, Kobe Steel is proceeding with the selection of investments in order to continuously improve its financial performance. Kobe Steel plans to optimize companywide fixed costs and procurement costs; reduce the defect rate by thorough verification of manufacturing processes and technologies; and implement other measures to continuously reduce quality failure costs and improve its financial performance over the medium to long term.

#### **Current Initiatives and Results**

- Create cash on the scale of 50 billion yen mainly by selling its shareholdings
- Improve the Debt/Equity ratio, which shows financial soundness  
(1.11 times at the end of FY2013 versus 0.88 times at the end of FY2014)

## **Establishing a Foundation for Stable Profits and Business Growth**

### **Reforming the Structure of the Steel Business**

Due to the decline in domestic demand brought about by the overseas shift of manufacturing and with new steel plants anticipated to go into operation in East Asia, competition is anticipated to further heat up. Under these conditions, Kobe steel plans to strengthen competitiveness one step higher in the steel business..

In concrete terms, around fiscal year 2017 Kobe Steel plans to transfer blast furnace and other upstream operations from Kobe Works to Kakogawa Works. This move will improve the operating rate of upstream operations and reduce fixed costs, resulting in considerable cost reductions.

In addition, at Kakogawa Works, Kobe Steel will newly construct a state-of-the-art continuous bloom caster, add new secondary refining equipment, and increase the capacity of the blooming mill. These investments will strengthen the competitiveness of special steel wire rods and bars, two major products of the company.

#### **State of Progress**

- Equipment orders, field work and other work on the whole are progressing as planned.
- Due to the upcoming change in upstream operations, Kobe Steel is working on receiving the necessary re-approval from its customers.
- To smoothly consolidate upstream operations, Kobe Steel will streamline the organizational structure.

#### **Strategically Expanding the Machinery Business**

In its compressor business and construction equipment business, Kobe Steel intends to develop bases in Japan and overseas and strengthen its global growth strategies. In addition, it will utilize the strengths of the Group, which possesses numerous technologies. It will integrate the technologies through projects that cross the Group. By developing products for hydrogen stations and more, the Group intends to expand its array of new products and businesses.

#### **Current Initiatives and Results**

- Reentering North America, Kobelco Construction Machinery Co., Ltd. has decided to construct a plant in the United States to increase its share of that market.
- Kobe Steel aims to gain orders for packages consisting of high-pressure hydrogen compressors and cooling equipment for hydrogen stations, contributing to lower costs and space savings.

#### **Expanding the Power Supply Business**

Utilizing the know-how acquired from its power supply business and the high-efficiency in-house gas-fired power generation plants at its steelworks, Kobe steel will proceed with the expansion of its power supply business as a stable profit base into the future.

One project is the construction of a gas-fired power station in Moka, Tochigi Prefecture. The other is the construction of a coal-fired power station on land to be made available after shutting down the blast furnace at Kobe Works. At both power stations, plans call for the installation of high-efficiency power generation equipment that meets the standards of Japan. Kobe Steel will also implement environmental measures of high standards that take site conditions into consideration.

#### **State of Progress**

- Moka: Kobe Steel entered into a power delivery contract with Tokyo Gas Co., Ltd. An environmental impact assessment is underway. (Operations are to begin in 2019. Total power generation capacity: 1.2 million kW)
- Kobe: The Kansai Electric Power Co., Inc. accepted Kobe Steel's bid for the thermal power generation tender. The two companies entered into a power delivery contract. An environmental impact assessment is underway. (Operations are to begin in 2021. Total power generation capacity: 1.3 million kW)

In addition to these priority areas, Kobe Steel continues to strengthen its *monozukuri-ryoku* (manufacturing strengths), a basic policy of the Medium- to Long-term Business Vision, and bolster human resources development and technology development.

At Kobe Steel, improving safety and compliance is a major premise in realizing its medium- to long-term business vision. To date, Kobe Steel and its group companies have created annual plans to determine risks, monitor and improve risk parameters. Through implementing risk management activities in and outside Japan, Kobe Steel has been carrying out the dissemination of risk management activities and undertaking risk prevention. Kobe steel will undertake activities to further heighten sensitivity to safety and compliance awareness.

### **3. Basic Approach to the Selection of Accounting Standards**

The Kobe Steel Group has decided to apply Japanese accounting standards for the time being. With regard to International Financial Reporting Standards (IFRS), the Kobe Steel Group will continue to keep a close watch on developments in accounting standards.

## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Balance Sheets

(In millions of yen)

#### ASSETS

	<b>FY2013</b>	<b>FY2014</b>
	Ended Mar. 31, 2014	Ended Mar. 31, 2015
<b>Current Assets</b>		
Cash and deposits	151,930	103,181
Notes and accounts receivable	363,514	355,579
Lease receivables and investment assets	29,627	34,789
Merchandise and finished goods	149,830	185,077
Work-in-process	112,697	119,436
Raw materials and supplies	138,210	138,161
Deferred tax assets	26,726	30,388
Other	100,055	95,041
Allowance for doubtful accounts	(4,995)	(8,648)
Total current assets	<u>1,067,597</u>	<u>1,053,006</u>
<b>Tangible fixed assets</b>		
Buildings and structures	288,590	288,175
Machinery and equipment	372,827	401,505
Tools, furniture and fixtures	13,313	13,839
Land	198,712	195,837
Construction in progress	39,571	27,636
Total tangible fixed assets	<u>913,016</u>	<u>926,994</u>
<b>Intangible fixed assets</b>		
Software	13,939	13,368
Other	6,012	6,670
Total intangible fixed assets	<u>19,952</u>	<u>20,038</u>
<b>Investments and other assets</b>		
Investments in securities	179,620	207,931
Long-term loans receivable	8,188	7,468
Deferred tax assets	18,993	18,327
Net defined benefit asset	42,528	20,036
Other	41,438	48,667
Allowance for doubtful accounts	(2,700)	(2,230)
Total investment and other assets	<u>288,070</u>	<u>300,201</u>
Total fixed assets, investments and other assets	<u>1,221,039</u>	<u>1,247,234</u>
<b>Total assets</b>	<u>2,288,636</u>	<u>2,300,241</u>

<b>LIABILITIES</b>	<b>FY2013</b>	<b>FY2014</b>
	<b>Ended Mar. 31, 2014</b>	<b>Ended Mar. 31, 2015</b>
<b>Current liabilities</b>		
Notes and accounts payable	410,895	424,269
Short-term borrowings	249,835	221,371
Lease obligations	13,341	5,433
Bonds due within one year	26,000	20,000
Accounts payable - other	39,709	36,687
Income and enterprise taxes payable	10,683	14,010
Deferred tax liabilities	1,090	609
Provision for bonuses	18,838	20,719
Provision for product warranties	11,558	11,377
Provision for loss on construction contracts	8,344	6,467
Other	100,959	102,507
Total current liabilities	891,257	863,455
<b>Long-term liabilities</b>		
Bonds and notes	151,000	131,000
Long-term borrowings	360,411	304,974
Lease obligations	18,947	27,077
Deferred tax liabilities	18,847	14,222
Deferred tax liabilities on land revaluation	4,109	3,435
Net defined benefit liability	72,653	59,573
Provision for environmental measures	1,454	1,195
Provision for structural reform related expenses	5,632	4,944
Provision for dismantlement related expenses	---	9,556
Other	29,644	29,020
Total long-term liabilities	662,700	585,001
<b>Total liabilities</b>	1,553,957	1,448,456
<b>NET ASSETS</b>		
<b>Stockholders' equity</b>		
Common stock	250,930	250,930
Capital surplus	100,742	100,782
Retained earnings	322,347	392,652
Treasury stock, at cost	(2,983)	(2,996)
Total stockholders' equity	671,035	741,368
<b>Accumulated other comprehensive income</b>		
Unrealized gains on securities, net of taxes	13,266	27,097
Unrealized losses on hedging derivatives, net of taxes	(1,814)	(2,415)
Land revaluation differences, net of taxes	(3,368)	(3,560)
Foreign currency translation adjustments	3,062	22,892
Remeasurements of defined benefit plans, net of taxes	(13,183)	(8,891)
Total other comprehensive income	(2,037)	35,122
<b>Minority interests</b>	65,681	75,293
<b>Total net assets</b>	734,679	851,785
<b>Total liabilities and net assets</b>	2,288,636	2,300,241

## Consolidated Statements of Income

(In millions of yen)

	FY2013 Ended Mar. 31, 2014	FY2014 Ended Mar. 31, 2015
<b>Net sales</b>	1,824,698	1,886,894
<b>Cost of sales</b>	1,537,249	1,581,527
Gross profit	287,448	305,366
Selling, general and administrative expenses	172,900	185,906
<b>Operating income</b>	114,548	119,460
Non-operating income		
Interest income	3,624	4,181
Dividend income	2,495	2,726
Reimbursement of seconded employees' salaries	5,168	5,398
Equity in income of equity method companies	---	69
Subsidy income	3,155	4,665
Currency exchange gain	2,851	3,813
Other	10,390	13,137
Total non-operating income	27,686	33,993
Non-operating expenses		
Interest expense	18,572	15,845
Seconded employees' salaries	12,042	12,865
Equity in loss of equity method companies	2,793	---
Other	23,780	23,054
Total non-operating expenses	57,190	51,765
<b>Ordinary income</b>	85,044	101,688
<b>Extraordinary income</b>		
Gain on return of assets from retirement benefits trust	---	15,684
Gain on sale of investments in securities	25,185	---
Gain on negative goodwill	3,838	---
Gain on transfer of distribution rights	3,218	---
Transfer related subsidy income	2,029	---
Total extraordinary income	34,272	15,684
<b>Extraordinary loss</b>		
Dismantlement related expenses	---	10,457
Loss on write-down of investment securities	---	2,588
Impairment loss	21,931	---
Structural reform related expenses	5,725	---
Loss on write-down of investments in capital	3,450	---
Total extraordinary loss	31,108	13,046
<b>Income before income taxes</b>	88,208	104,325
<b>Income taxes</b>		
Current	14,783	24,135
Deferred	(245)	(11,788)
Total income taxes	14,538	12,347
<b>Income before minority interests</b>	73,670	91,978
<b>Minority interests in income of subsidiaries</b>	3,478	5,428
<b>Net income</b>	70,191	86,549

## Consolidated Statements of Comprehensive Income

(In millions of yen)

	<b>FY2013</b>	<b>FY2014</b>
	Ended Mar. 31, 2014	Ended Mar. 31, 2015
<b>Income before minority interests</b>	73,670	91,978
<b>Other comprehensive income</b>		
Unrealized gains or losses on securities, net of taxes	(8,361)	12,875
Unrealized losses on hedging derivatives, net of taxes	(281)	(301)
Land revaluation differences, net of taxes	(6)	356
Foreign currency translation adjustments	31,920	23,312
Remeasurements of defined benefit plans, net of taxes	---	4,348
Share of other comprehensive income related to affiliates	2,347	2,817
Total other comprehensive income	25,618	43,408
<b>Comprehensive Income</b>	99,288	135,387
Breakdown of total comprehensive income attributed to:		
Stockholders of the parent	87,323	124,251
Minority interests	11,965	11,135

**Consolidated Statements of Changes in Net Assets** (In millions of yen)  
 FY2013 (April 1, 2013 – March 31, 2014)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance at the beginning of fiscal year	233,313	83,125	253,199	(51,615)	518,022
Cumulative effect amount of changing accounting policies					
Balance at the beginning of fiscal year (adjusted)	233,313	83,125	253,199	(51,615)	518,022
Amount of change					
Issuance of new shares	17,616	17,616			35,233
Dividends of surplus					
Net income			70,191		70,191
Share exchanges			(168)	219	51
Purchase of treasury stock				(24)	(24)
Disposal of treasury stock			(2)	48,436	48,434
Changes in stockholders interest due to transaction with minority interests					
Decrease due to changes in scope of consolidation			(888)		(888)
Reversal of land revaluation			15		15
Net changes other than stockholders' equity					
Total changes	17,616	17,616	69,147	48,631	153,013
Balance at the end of fiscal year	250,930	100,742	322,347	(2,983)	671,035

	Accumulated other comprehensive income						Minority interests	Total net assets
	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total other comprehensive income		
Balance at the beginning of fiscal year	21,147	(1,685)	(3,346)	(22,086)	---	(5,971)	57,871	569,922
Cumulative effect amount of changing accounting policies								
Balance at the beginning of fiscal year (adjusted)	21,147	(1,685)	(3,346)	(22,086)	---	(5,971)	57,871	569,922
Amount of change								
Issuance of new shares								35,233
Dividends of surplus								
Net income								70,191
Share exchanges								51
Purchase of treasury stock								(24)
Disposal of treasury stock								48,434
Changes in stockholders interest due to transaction with minority interests								
Decrease due to changes in scope of consolidation								(888)
Reversal of land revaluation								15
Net changes other than stockholders' equity	(7,881)	(128)	(22)	25,148	(13,183)	3,933	7,809	11,743
Total changes	(7,881)	(128)	(22)	25,148	(13,183)	3,933	7,809	164,756
Balance at the end of fiscal year	13,266	(1,814)	(3,368)	3,062	(13,183)	(2,037)	65,681	734,679



**Consolidated Statements of Changes in Net Assets** (In millions of yen)  
 FY2014 (April 1, 2014 – March 31, 2015)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance at the beginning of fiscal year	250,930	100,742	322,347	(2,983)	671,035
Cumulative effect amount of changing accounting policies			5,066		5,066
Balance at the beginning of fiscal year (adjusted)	250,930	100,742	327,413	(2,983)	676,102
Amount of change					
Issuance of new shares					
Dividends of surplus			(21,832)		(21,832)
Net income			86,549		86,549
Share exchanges					
Purchase of treasury stock				(26)	(26)
Disposal of treasury stock			(8)	14	5
Changes in stockholders interest due to transaction with minority interests		40			40
Decrease due to changes in scope of consolidation			(11)		(11)
Reversal of land revaluation			540		540
Net changes other than stockholders' equity					
Total changes	---	40	65,238	(12)	65,266
Balance at the end of fiscal year	250,930	100,782	392,652	(2,996)	741,368

	Accumulated other comprehensive income						Minority interests	Total net assets
	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total other comprehensive income		
Balance at the beginning of fiscal year	13,266	(1,814)	(3,368)	3,062	(13,183)	(2,037)	65,681	734,679
Cumulative effect amount of changing accounting policies							366	5,433
Balance at the beginning of fiscal year (adjusted)	13,266	(1,814)	(3,368)	3,062	(13,183)	(2,037)	66,047	740,112
Amount of change								
Issuance of new shares								
Dividends of surplus								(21,832)
Net income								86,549
Share exchanges								
Purchase of treasury stock								(26)
Disposal of treasury stock								5
Changes in stockholders interest due to transaction with minority interests								40
Decrease due to changes in scope of consolidation								(11)
Reversal of land revaluation								540
Net changes other than stockholders' equity	13,831	(600)	(191)	19,829	4,292	37,160	9,245	46,406
Total changes	13,831	(600)	(191)	19,829	4,292	37,160	9,245	111,672
Balance at the end of fiscal year	27,097	(2,415)	(3,560)	22,892	(8,891)	35,122	75,293	851,785

## Consolidated Statements of Cash Flows

(In millions of yen)

	FY2013 Ended Mar. 31, 2014	FY2014 Ended Mar. 31, 2015
<b>Cash flows from operating activities</b>		
Income before income taxes	88,208	104,325
Depreciation	82,936	89,881
Interest and dividend income	(6,119)	(6,908)
Interest expense	18,572	15,845
Loss (income) on sale of securities	(25,261)	290
Loss on write-down of investments in securities	326	2,588
Equity in loss (income) of equity method companies	2,793	(69)
Loss on sale of plant and equipment	(1,239)	(1,881)
Loss on disposal of plant and equipment	1,904	2,060
Gain on return of assets from retirement benefits trust	---	(15,684)
Dismantlement related expenses	---	10,457
Gain on negative goodwill	(3,838)	---
Gain on transfer of distribution rights	(3,218)	---
Transfer related subsidy income	(2,029)	---
Impairment loss	21,931	---
Structural reform related expenses	5,725	---
Loss on write-down of investments in capital	3,450	---
Decrease (Increase) in trade receivables from customers	(5,328)	27,340
Net decrease (increase) in lease receivables and investment assets	1,954	(1,778)
Decrease (Increase) in inventories	19,067	(29,812)
Increase (Decrease) in trade payables to customers	898	(6,253)
Other	15,098	(13,400)
Subtotal	<u>215,833</u>	<u>177,001</u>
Cash received for interest and dividends	7,085	8,347
Cash paid for interest	(19,155)	(16,180)
Cash paid for income taxes	(9,469)	(16,089)
Net cash provided by operating activities	<u>194,294</u>	<u>153,078</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and other assets	(95,424)	(95,353)
Proceeds from sale of property, plant and equipment and other assets	3,207	5,013
Purchase of investments in securities	(398)	(391)
Proceeds from sale of investments in securities	32,055	23,634
Payment for investments in capital	(2,063)	(6,285)
Proceeds from sales of investment in subsidiaries resulting in change in scope of consolidation	---	790
Decrease (Increase) in short-term loans receivable	86	(346)
Payments for long-term loans receivable	(124)	(401)
Proceeds from collection of long-term loans receivable	457	468
Other	98	(802)
Net cash used in investing activities	<u>(62,105)</u>	<u>(73,674)</u>
<b>Cash flows from financing activities</b>		
Increase (Decrease) in short-term borrowings	(39,126)	(50,994)
Proceeds from issuance of long-term borrowings	33,858	17,138
Repayment of long-term borrowings	(176,353)	(59,860)
Repayment of bonds	(20,000)	(26,000)
Repayment of finance lease obligations	(18,964)	(14,333)
Proceeds from issuance of common stock	69,920	---
Payment of dividends	(7)	(21,709)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	---	(67)
Other	12,171	(199)
Net cash provided by (used in) financing activities	<u>(138,501)</u>	<u>(156,027)</u>
Effect of exchange rate changes on cash and cash equivalents	15,112	7,097
Increase (Decrease) in cash and cash equivalents	<u>8,799</u>	<u>(69,526)</u>
Cash and cash equivalents at the beginning of fiscal year	162,037	170,926
Increase (Decrease) in cash and cash equivalents resulting in change in scope of consolidation	89	253
Cash and cash equivalents at the end of fiscal year	<u>170,926</u>	<u>101,654</u>

## Notes

### (Notes on premise of a going concern)

None

### (Changes in accounting policies)

(Application of Accounting Standard for Retirement Benefits)

In the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan Statement No. 26, May 17, 2012, hereinafter the "Accounting Standard for Retirement Benefits") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015, hereinafter the "Guidance on Retirement Benefits"), the Kobe Steel Group adopted the provisions set forth in Article 35 of the Accounting Standard for Retirement Benefits and in Article 67 of the Guidance on Retirement Benefits since fiscal year 2014. The Group revised its calculation method of the retirement benefit obligation and service costs. In addition, the Group changed its attribution method of the projected retirement benefit from the straight-line basis to the benefit formula basis and changed the calculation method of the discount rate.

Following Article 37 in the Accounting Standard for Retirement Benefits, which stipulates transitional treatment of the new standard, at the beginning of fiscal year 2014, the effect of the changed calculation method for the retirement benefit obligation and service costs is adjusted in the retained earnings.

As a result, at the beginning of fiscal year 2014, retained earnings increased by 5,066 million yen. The application of the new accounting standard does not have material effect on profit or loss in fiscal year 2014.

(Application of the Accounting Standard for Business Combinations)

The "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on September 13, 2013), and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, revised on September 13, 2013) could be applied from the beginning of the consolidated accounting period of fiscal year 2014. Accordingly, Kobe Steel applied these accounting standards (excluding Article 39 of ASBJ Statement No. 22, revised on September 13, 2013) from the first quarter of the consolidated accounting period of fiscal year 2014.

Under these accounting standards, Kobe Steel recorded the differences caused by changes in Kobe Steel's equity shares in subsidiaries in which Kobe Steel continues to control as capital surplus. In addition, Kobe Steel recorded acquisition-related costs as expenses in the fiscal periods in which the costs are incurred.

Regarding business combinations, from the beginning of the first quarter of fiscal year 2014, Kobe Steel changed the method to reflect changes in the allocation of the acquisition costs arising from confirmation of the provisional accounting treatment on the consolidated financial statements of the quarter that includes the acquisition date.

Kobe Steel has adopted these accounting standards from the beginning of the first quarter of fiscal year 2014, following transitional treatment based on Article 58-2(4) of "Accounting Standard for Business Combinations," Article 44-5(4) of "Accounting Standard for Consolidated Financial Statements," and Article 57-4(4) of "Accounting Standard for Business Divestitures".

Adoption of these accounting standards does not have material effect on profit or loss in fiscal year 2014 and capital surplus at the end of fiscal year 2014.

## Segment Information

(In millions of yen)

		<b>FY2013</b>	<b>FY2014</b>
		Ended Mar. 31, 2014	Ended Mar. 31, 2015
Sales to outside customers:	Iron & Steel	775,232	761,883
	Welding	87,388	93,588
	Aluminum & Copper	294,280	329,803
	Machinery	140,122	150,218
	Engineering	38,160	48,161
	Kobelco Eco-Solutions	65,769	67,031
	Kobelco Construction Machinery	317,473	310,107
	Kobelco Cranes	47,415	64,733
	Other Businesses	56,394	59,073
	Adjustment	2,460	2,292
	Total	1,824,698	1,886,894
Intersegment sales:	Iron & Steel	33,312	35,930
	Welding	957	895
	Aluminum & Copper	1,404	1,034
	Machinery	9,683	8,917
	Engineering	952	901
	Kobelco Eco-Solutions	2,391	1,102
	Kobelco Construction Machinery	743	901
	Kobelco Cranes	9,223	6,386
	Other Businesses	14,825	16,989
	Adjustment	(73,495)	(73,058)
	Total	---	---
Total sales:	Iron & Steel	808,544	797,814
	Welding	88,345	94,483
	Aluminum & Copper	295,685	330,838
	Machinery	149,806	159,136
	Engineering	39,113	49,063
	Kobelco Eco-Solutions	68,160	68,133
	Kobelco Construction Machinery	318,217	311,008
	Kobelco Cranes	56,639	71,120
	Other Businesses	71,220	76,062
	Adjustment	(71,034)	(70,766)
	Total	1,824,698	1,886,894
Ordinary income (loss):	Iron & Steel	33,593	28,797
	Welding	7,201	10,266
	Aluminum & Copper	15,164	15,183
	Machinery	6,486	10,400
	Engineering	(3,935)	785
	Kobelco Eco-Solutions	2,607	3,004
	Kobelco Construction Machinery	15,119	21,012
	Kobelco Cranes	3,200	5,168
	Other Businesses	6,844	7,075
	Adjustment	(1,236)	(7)
	Total	85,044	101,688

## SUPPLEMENTAL INFORMATION

(April 1, 2014 – March 31, 2015)

### 1. Consolidated Operating Results (In billions of yen)

	FY2013	FY2014	% change
Net sales	1,824.6	1,886.8	3.4%
Operating income	114.5	119.4	4.3%
Ordinary income	85.0	101.6	19.6%
Extraordinary income	3.1	2.6*	(16.6%)
Net income	70.1	86.5	23.3%

\* Gain on return of assets from retirement benefits trust: 15.6 billion yen, Dismantlement related expenses: 10.4 billion yen, and Loss on write-down of investments in securities: 2.5 billion yen

Year-end Dividend for fiscal 2014: 2 yen (a total of 4 yen for the entire fiscal year 2014)

### 2. Forecast for Fiscal 2015 (in billions of yen)

	FY2014	FY2015 Forecast			% change
		1st half	2nd half	Full year	
Net sales	1,886.8	980.0	1,010.0	1,990.0	5.5%
Operating income	119.4	50.0	75.0	125.0	4.6%
Ordinary income	101.6	40.0	55.0	95.0	(6.6%)
Extraordinary income	2.6	---	---	---	---
Net income attributable to owners of parent	86.5	25.0	35.0	60.0	(30.7%)

### 3. Consolidated Sales & Ordinary Income (loss) by Segment (In billions of yen)

		FY2013	FY2014
Iron & Steel	Sales	808.5	797.8
	Ordinary income	33.5	28.7
Welding	Sales	88.3	94.4
	Ordinary income	7.2	10.2
Aluminum & Copper	Sales	295.6	330.8
	Ordinary income	15.1	15.1
Machinery	Sales	149.8	159.1
	Ordinary income	6.4	10.4
Engineering	Sales	39.1	49.0
	Ordinary income (loss)	(3.9)	0.7
Kobelco Eco-Solutions	Sales	68.1	68.1
	Ordinary income	2.6	3.0
Kobelco Construction Machinery	Sales	318.2	311.0
	Ordinary income	15.1	21.0
Kobelco Cranes	Sales	56.6	71.1
	Ordinary income	3.2	5.1
Other Businesses	Sales	71.2	76.0
	Ordinary income	6.8	7.0
Adjustment	Sales	(71.0)	(70.7)
	Ordinary loss	(1.2)	(0.0)
Total	Sales	1,824.6	1,886.8
	Ordinary income	85.0	101.6

## 4. Production, Sales & Orders

### (1) Steel Products (Nonconsolidated)

**Production & Sales Volume** (In millions of metric tons unless otherwise indicated)

	FY2013	FY2014
Crude steel	7.62	7.48
Sales volume	6.27	6.05
Export ratio (value base)	31.3%	32.1%

**Unit Sales Price of Steel Products** (In yen per metric ton)

	FY2013	FY2014
Domestic & Export average	80,200	81,700

### (2) Aluminum & Copper Rolled Products

**Sales Volume** (Nonconsolidated, in thousands of metric tons)

	FY2013	FY2014
Aluminum rolled products	267	316
Copper sheet and strip	48	54
Copper tube*	85	85

\*Consolidated

### (3) Machinery Business Orders (Consolidated, in billions of yen)

#### Orders

	FY2013	FY2014
Domestic	58.0	45.6
Overseas	94.7	95.7
Total orders	152.8	141.3

**Backlog of Orders** (as of the end of each period)

	FY2013	FY2014
Domestic	43.7	33.3
Overseas	78.5	100.0
Total backlog	122.2	133.3

### (4) Engineering Business Orders (Consolidated, in billions of yen)

#### Orders

	FY2013	FY2014
Domestic	14.5	18.9
Overseas	35.2	6.3
Total orders	49.8	25.2

**Backlog of Orders** (as of the end of each period)

	FY2013	FY2014
Domestic	44.1	46.5
Overseas	39.2	21.6
Total backlog	83.3	68.2

**(5) Kobelco Eco-Solutions Orders** (Consolidated, in billions of yen)

**Orders**

	FY2013	FY2014
Domestic & Overseas total orders	71.8	69.9

**Backlog of Orders** (as of the end of each period)

	FY2013	FY2014
Domestic & Overseas total backlog	47.2	49.0

**5. Factors Affecting Ordinary Income** (Consolidated, in billions of yen)

	FY2013	FY2014	Amount of increase
Ordinary income	85.0	101.6	16.6

<b>Factors Increasing Profits</b>		<b>Factors Decreasing Profits</b>	
Raw material prices	50.0	Production & shipments	(7.5)
Effect of aluminum & copper inventory valuation*	0.5	Overall cost	(5.0)
Consolidated subsidiaries & equity-valued affiliates	19.0	Effect of steel inventory valuation*	(25.0)
		Effect of changes in foreign exchange rates on steel business	(12.0)
		Other	(3.4)
<b>Total</b>	<b>69.5</b>	<b>Total</b>	<b>(52.9)</b>

\*Effect of inventory valuation includes effect from the average method and the lower-of-cost-or-market method.



## 6. Forecast for FY2015 by Segment (Consolidated, in billions of yen)

		FY2014	FY2015 Forecast		
			1st half	2nd half	Full year
Iron & Steel	Sales	797.8	385.0	405.0	790.0
	Ordinary income	28.7	13.0	22.0	35.0
Welding	Sales	94.4	48.0	50.0	98.0
	Ordinary income	10.2	4.0	5.0	9.0
Aluminum & Copper	Sales	330.8	190.0	190.0	380.0
	Ordinary income	15.1	8.0	8.0	16.0
Machinery	Sales	159.1	86.0	92.0	178.0
	Ordinary income	10.4	2.5	5.5	8.0
Engineering	Sales	49.0	26.0	27.0	53.0
	Ordinary income (loss)	0.7	0.5	(0.5)	-
Kobelco Eco-Solutions	Sales	68.1	34.0	49.0	83.0
	Ordinary income	3.0	0.2	3.3	3.5
Kobelco Construction Machinery	Sales	311.0	165.0	150.0	315.0
	Ordinary income	21.0	11.0	9.0	20.0
Kobelco Cranes	Sales	71.1	40.0	41.0	81.0
	Ordinary income	5.1	2.0	3.0	5.0
Other Businesses	Sales	76.0	36.0	42.0	78.0
	Ordinary income	7.0	2.0	5.5	7.5
Adjustment	Sales	(70.7)	(30.0)	(36.0)	(66.0)
	Ordinary income (loss)	(0.0)	(3.2)	(5.8)	(9.0)
Total	Sales	1,886.8	980.0	1,010.0	1,990.0
	Ordinary income	101.6	40.0	55.0	95.0

## 7. Factors Affecting Ordinary Income (Consolidated, in billions of yen)

	FY2014	FY2015	Amount of Decrease
Ordinary income	101.6	95.0	(6.6)

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	46.5	Production & shipments	(30.0)
Overall cost reductions	3.5	Effect of steel changes in foreign exchange rates	(10.5)
Effect of steel inventory valuation*	2.0	Other	(20.1)
Consolidated subsidiaries & equity-valued affiliates	2.0		
Total	54.0	Total	(60.6)

\* Effect of inventory valuation includes effect from the average method and the lower-of-cost-or-market method.

## 8. Other

### (1) Cash Flow and Outside Debt (Consolidated, in billions of yen)

#### Cash Flow

	FY2013	FY2014	FY2015 Forecast
Free cash flow	117.1	69.6	30.0

(Excludes cash flow from IPP project financing)

#### Outside Debt (As of the end of each period)

	FY2013	FY2014	FY2015 Forecast
Outside debt *	748.1	650.9	635.0
D/E ratio (times) **	1.11	0.88	1 or less

\* Excludes debt from IPP project financing

\*\* D/E ratio: Debt (excluding IPP project financing)/stockholders' equity

**(2) Exchange Rate**

	FY2013	FY2014	FY2015 Forecast
1 U.S. dollar to yen	100 yen	110 yen	120 yen
1 Chinese yuan to yen	16.4 yen	17.7 yen	19 yen

**(3) Capital Investment** (Consolidated, in billions of yen)

	FY2013	FY2014	FY2015 Forecast
Capital investment (accrual basis)	101.4	103.5	120.0
Depreciation	82.9	89.8	110.0

## FOR REFERENCE

### (1) Quarterly Information by Segment (Consolidated, in billions of yen)

		FY2013							FY2014						
		1st Half			2nd Half			Total	1st Half			2nd Half			Total
		1Q	2Q	Subtotal	3Q	4Q	Subtotal		1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Iron & Steel	Sales	185.7	204.2	389.9	201.3	217.1	418.5	808.5	186.7	199.8	386.6	200.3	210.7	411.1	797.8
	Ordinary income	5.3	10.2	15.5	13.0	5.0	18.0	33.5	3.1	7.2	10.4	9.9	8.4	18.3	28.7
Welding	Sales	20.4	21.5	41.9	22.2	24.1	46.3	88.3	22.7	22.9	45.6	24.3	24.4	48.8	94.4
	Ordinary income	1.2	1.6	2.8	2.0	2.3	4.3	7.2	2.1	2.5	4.6	2.8	2.7	5.6	10.2
Aluminum & Copper	Sales	72.3	75.7	148.1	72.1	75.3	147.5	295.6	81.8	79.6	161.5	82.9	86.3	169.3	330.8
	Ordinary income	5.3	2.7	8.0	3.6	3.4	7.0	15.1	3.6	2.4	6.0	4.6	4.4	9.1	15.1
Machinery	Sales	31.5	39.7	71.3	30.5	47.9	78.4	149.8	36.9	36.0	73.0	37.4	48.6	86.1	159.1
	Ordinary income	1.0	1.0	2.1	2.3	2.0	4.3	6.4	1.9	1.2	3.2	4.4	2.6	7.1	10.4
Engineering	Sales	10.6	10.1	20.8	7.0	11.2	18.2	39.1	8.6	10.4	19.0	11.1	18.8	29.9	49.0
	Ordinary income (loss)	0.2	(0.3)	(0.1)	(1.5)	(2.2)	(3.7)	(3.9)	(0.4)	(0.1)	(0.5)	(0.2)	1.5	1.3	0.7
Kobelco Eco-Solutions	Sales	13.9	16.9	30.9	15.0	22.1	37.2	68.1	12.0	15.1	27.1	16.3	24.5	40.9	68.1
	Ordinary income (loss)	(0.1)	1.2	1.0	0.4	1.1	1.5	2.6	0.0	0.3	0.3	0.9	1.7	2.6	3.0
Kobelco Construction Machinery	Sales	74.6	88.3	162.9	72.8	82.3	155.2	318.2	81.2	88.4	169.7	70.0	71.2	141.2	311.0
	Ordinary income	2.8	7.3	10.1	1.8	3.0	4.9	15.1	7.5	8.6	16.1	4.4	0.4	4.8	21.0
Kobelco Cranes	Sales	11.5	13.9	25.5	14.3	16.7	31.1	56.6	16.9	18.9	35.8	15.8	19.3	35.2	71.1
	Ordinary income	0.8	0.9	1.7	0.7	0.6	1.4	3.2	1.7	1.4	3.1	1.3	0.6	1.9	5.1
Other Businesses	Sales	14.4	17.6	32.1	16.7	22.3	39.0	71.2	14.3	16.0	30.4	17.2	28.3	45.5	76.0
	Ordinary income	0.8	1.5	2.4	1.7	2.7	4.4	6.8	0.9	0.9	1.9	1.8	3.2	5.1	7.0
Adjustment	Sales	(16.7)	(17.7)	(34.5)	(16.3)	(20.1)	(36.5)	(71.0)	(16.7)	(16.4)	(33.1)	(18.0)	(19.5)	(37.6)	(70.7)
	Ordinary income (loss)	(0.4)	(0.2)	(0.7)	0.0	(0.5)	(0.5)	(1.2)	0.7	(0.2)	0.5	1.3	(1.9)	(0.5)	(0.0)
Total	Sales	418.6	470.7	889.3	435.9	499.4	935.3	1,824.6	444.7	471.2	916.0	457.7	513.1	970.8	1,886.8
	Ordinary income	17.1	26.0	43.1	24.2	17.6	41.8	85.0	21.5	24.5	46.1	31.5	23.9	55.5	101.6
Net income		18.7	25.4	44.1	19.6	6.3	26.0	70.1	22.9	19.1	42.1	22.0	22.4	44.4	86.5

## (2) Quarterly Production and Sales of Steel Products (Nonconsolidated)

### Production and Sales Volume (in millions of metric tons)

	FY2013						
	1st Half			2nd Half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Crude steel	1.88	1.91	3.79	1.91	1.92	3.83	7.62
Sales volume	1.53	1.54	3.07	1.56	1.64	3.20	6.27
Export ratio (value basis)	34.0%	29.9%	31.9%	29.4%	32.0%	30.7%	31.3%

	FY2014						
	1st Half			2nd Half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Crude steel	1.77	1.90	3.67	1.92	1.89	3.81	7.48
Sales volume	1.44	1.50	2.94	1.53	1.58	3.11	6.05
Export ratio (value basis)	30.5%	30.8%	30.6%	32.2%	34.9%	33.6%	32.1%

### Unit Sales Prices (in yen per metric ton)

	FY2013						
	1st Half			2nd Half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Domestic & Export average	76,400	81,100	78,800	80,800	82,300	81,500	80,200

	FY2014						
	1st Half			2nd Half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Domestic & Export average	82,500	82,300	82,400	82,200	79,900	81,000	81,700

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