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KOBELCO
KOBELCO GROUP

Financial Results for Third Quarter of FY2014 (October 1- December 31) Investor meeting

February 3, 2015

KOBE STEEL, LTD.



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—CONTENTS—

1. Financial Results for Third Quarter of FY2014
2. Forecast for FY2014
3. Cash Flow and Debt



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1. Financial Results for Third Quarter of FY2014



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Financial Results for Third Quarter of FY2014

(billion yen)

	FY2013			FY2014			change ②-①
	1H	3Q	1~3Q ①	1H	3Q	1~3Q ②	
Net sales	889.3	435.9	1,325.2	916.0	457.7	1,373.7	+48.4
Operating income	54.4	31.0	85.5	57.1	30.8	88.0	+2.5
Ordinary income	43.1	24.2	67.3	46.1	31.5	77.7	+10.3
Extraordinary income(loss)	7.3	6.1	13.4	—	—	—	△13.4
Net income	44.1	19.6	63.8	42.1	22.0	64.1	+0.3



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Segment sales

(billion yen)

	FY2013			FY2014			change
	1H	3Q	1~3Q ①	1H	3Q	1~3Q ②	
Iron & Steel	389.9	201.3	591.3	386.6	200.3	587.0	△4.3
Welding	41.9	22.2	64.1	45.6	24.3	70.0	+5.8
Aluminum & Copper	148.1	72.1	220.2	161.5	82.9	244.4	+24.1
Machinery	71.3	30.5	101.8	73.0	37.4	110.5	+8.6
Engineering	20.8	7.0	27.8	19.0	11.1	30.1	+2.3
Kobelco Eco-Solutions	30.9	15.0	45.9	27.1	16.3	43.5	△2.4
Kobelco Construction Machinery	162.9	72.8	235.8	169.7	70.0	239.7	+3.9
Kobelco Cranes	25.5	14.3	39.8	35.8	15.8	51.7	+11.8
Other Businesses	32.1	16.7	48.8	30.4	17.2	47.7	△1.1
Adjustment	△34.5	△16.3	△50.8	△33.1	△18.0	△51.2	△0.3
Total	889.3	435.9	1,325.2	916.0	457.7	1,373.7	+48.4



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Segment Ordinary income (loss)

(billion yen)

	FY2013			FY2014			change ②-①
	1H	3Q	1~3Q ①	1H	3Q	1~3Q ②	
Iron & Steel	15.5	13.0	28.5	10.4	9.9	20.3	△8.1
Welding	2.8	2.0	4.8	4.6	2.8	7.4	+2.5
Aluminum & Copper	8.0	3.6	11.6	6.0	4.6	10.7	△0.9
Machinery	2.1	2.3	4.4	3.2	4.4	7.7	+3.3
Engineering	△0.1	△1.5	△1.7	△0.5	△0.2	△0.7	+0.9
Kobelco Eco-Solutions	1.0	0.4	1.4	0.3	0.9	1.3	△0.1
Kobelco Construction Machinery	10.1	1.8	12.0	16.1	4.4	20.5	+8.5
Kobelco Cranes	1.7	0.7	2.5	3.1	1.3	4.5	+1.9
Other Businesses	2.4	1.7	4.1	1.9	1.8	3.7	△0.3
Adjustment	△0.7	0.0	△0.7	0.5	1.3	1.9	+2.6
Total	43.1	24.2	67.3	46.1	31.5	77.7	+10.3



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2. Forecast for FY2014



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Forecast for FY2014

(billion yen)

	FY2013	FY2014						change	
	①	Previous Forecast (Oct. 31)			Forecast			③-①	③-②
		1H	2H	②	1H	2H	③		
Net sales	1,824.6	916.0	994.0	1,910.0	916.0	994.0	1,910.0	+85.4	—
Operating income (except inventory valuation)	114.5 (96.5)	57.1 (60.6)	52.9 (59.9)	110.0 (120.5)	57.1 (60.6)	57.9 (61.4)	115.0 (122.0)	+0.5 (25.5)	+5.0 (1.5)
Ordinary income (except inventory valuation)	85.0 (67.0)	46.1 (49.6)	38.9 (45.9)	85.0 (95.5)	46.1 (49.6)	43.9 (47.4)	90.0 (97.0)	+5.0 (30.0)	+5.0 (1.5)
Extraordinary income(loss)	3.1	—	—	—	—	—	—	△3.1	—
Net income	70.1	42.1	17.9	60.0	42.1	27.9	70.0	△0.1	+10.0



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Segment sales

(billion yen)

	FY2013 ①	FY2014							
		Previous Forecast (Oct. 31)			Forecast			③-①	③-②
		1H	2H	②	1H	2H	③		
Iron & Steel	808.5	386.6	403.4	790.0	386.6	408.4	795.0	△13.5	+5.0
Welding	88.3	45.6	47.4	93.0	45.6	49.4	95.0	+6.7	+2.0
Aluminum & Copper	295.6	161.5	168.5	330.0	161.5	168.5	330.0	+34.4	—
Machinery	149.8	73.0	100.0	173.0	73.0	96.0	169.0	+19.2	△4.0
Engineering	39.1	19.0	30.0	49.0	19.0	34.0	53.0	+13.9	+4.0
Kobelco Eco-Solutions	68.1	27.1	43.4	70.5	27.1	43.4	70.5	+2.4	—
Kobelco Construction Machinery	318.2	169.7	155.3	325.0	169.7	145.3	315.0	△3.2	△10.0
Kobelco Cranes	56.6	35.8	37.2	73.0	35.8	35.2	71.0	+14.4	△2.0
Other Businesses	71.2	30.4	44.6	75.0	30.4	44.6	75.0	+3.8	—
Adjustment	△71.0	△33.1	△35.4	△68.5	△33.1	△30.4	△63.5	+7.5	+5.0
Total	1,824.6	916.0	994.0	1,910.0	916.0	994.0	1,910.0	+85.4	—



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Segment Ordinary income (loss)

(billion yen)

	FY2013 ①	FY2014							③-①	③-②
		Previous Forecast (Oct. 31)			Forecast					
		1H	2H	②	1H	2H	③			
Iron & Steel	33.5	10.4	12.6	23.0	10.4	15.6	26.0	△7.5	+3.0	
Welding	7.2	4.6	3.4	8.0	4.6	4.9	9.5	+2.3	+1.5	
Aluminum & Copper	15.1	6.0	6.0	12.0	6.0	8.0	14.0	△1.1	+2.0	
Machinery	6.4	3.2	5.3	8.5	3.2	5.8	9.0	+2.6	+0.5	
Engineering	△ 3.9	△ 0.5	0.5	0.0	△ 0.5	0.5	0.0	+3.9	—	
Kobelco Eco-Solutions	2.6	0.3	2.4	2.7	0.3	2.4	2.7	+0.1	—	
Kobelco Construction Machinery	15.1	16.1	5.9	22.0	16.1	5.9	22.0	+6.9	—	
Kobelco Cranes	3.2	3.1	0.9	4.0	3.1	1.9	5.0	+1.8	+1.0	
Other Businesses	6.8	1.9	4.6	6.5	1.9	4.6	6.5	△0.3	—	
Adjustment	△ 1.2	0.5	△ 2.2	△ 1.7	0.5	△ 5.2	△ 4.7	△3.5	△3.0	
Total	85.0	46.1	38.9	85.0	46.1	43.9	90.0	+5.0	+5.0	



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【Iron & Steel】

	FY2013		FY2014			(billion yen)
		Previous Forecast①	Forecast		②	change ②-①
			1H	2H		
Net sales	808.5	790.0	386.6	408.4	795.0	+5.0
Ordinary income	33.5	23.0	10.4	15.6	26.0	+3.0
(inventory valuation)	(17.0)	(△11.0)	(△3.5)	(△4.5)	(△8.0)	(+3.0)

<FY2014>

- Demand for steel products declined in the automotive and construction sectors.



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Production & Sales data

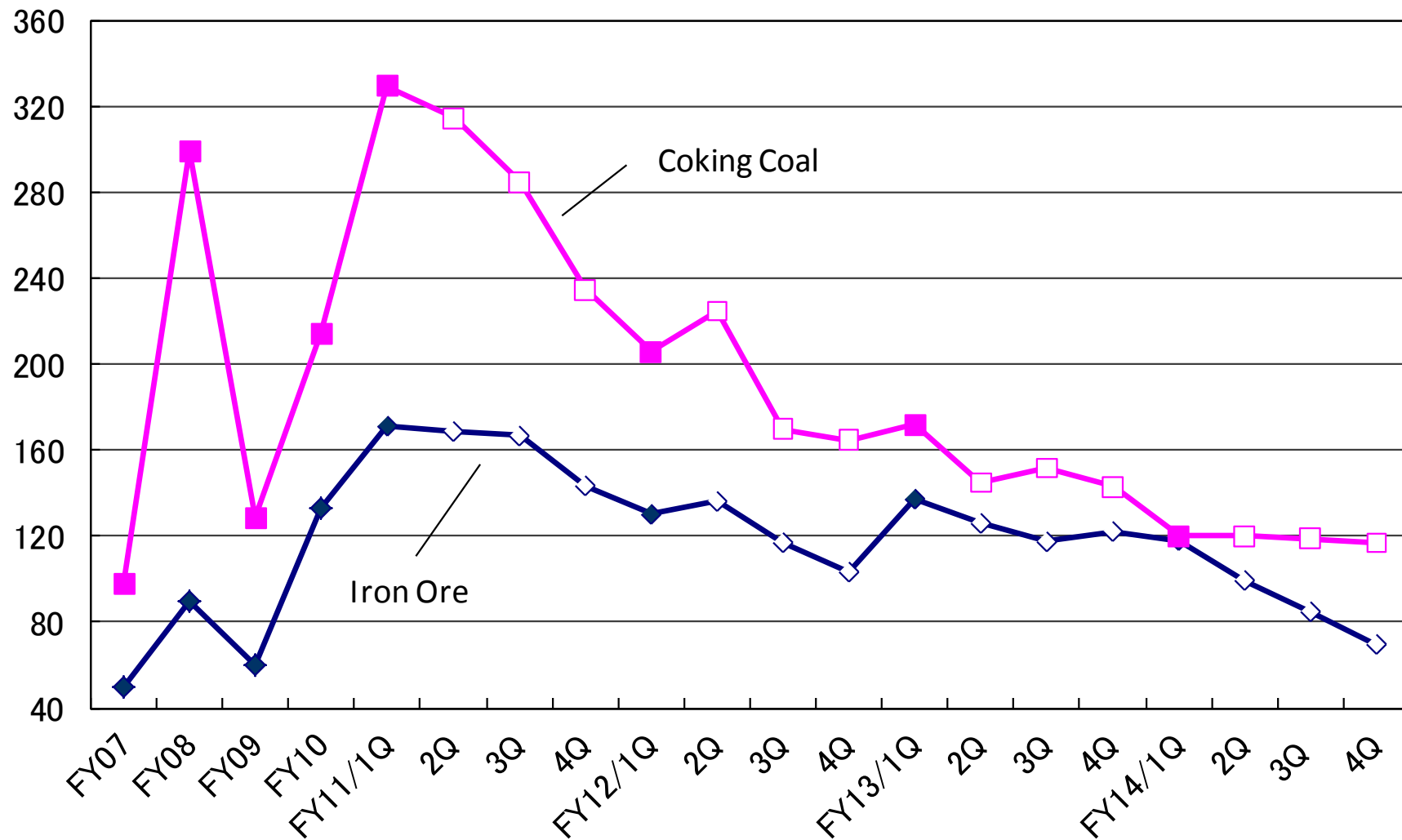
	FY2013				FY2014		
	1H	3Q	2H	FY	1H	3Q	
<Domestic crude steel production trend(million tons)>	55.8	28.1	55.7	111.5	55.6	27.5	
<Domestic steel inventory trend(million tons)>							
Ordinary steel products	5.5	5.7	5.7	--	5.9	5.9 <i>end of Nov</i>	
Rolled sheets	3.9	3.9	4.1	--	4.3	4.3 <i>end of Nov</i>	
<Key indicators of Demand(million cars)>							
Finished Auto Production	4.7	1.7	5.2	9.9	4.8	1.6 <i>Oct - Nov</i>	
<KSL>							
Crude Steel Production	(million tons)	3.8	1.9	3.8	7.6	3.7	1.9
Sales volume	(million tons)	3.1	1.6	3.2	6.3	2.9	1.5
(Domestic)	(million tons)	(2.1)	(1.1)	(2.2)	(4.3)	(2.1)	(1.1)
(Export)	(million tons)	(1.0)	(0.5)	(1.0)	(2.0)	(0.9)	(0.5)
Average Steel Selling Price	(thousand yen/ton)	78.8	80.8	81.5	80.2	82.4	82.2
Export ratio (value basis)		31.9%	29.4%	30.8%	31.3%	30.6%	32.2%



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Iron Ore & Coking Coal Prices Trends

(\$/ton)

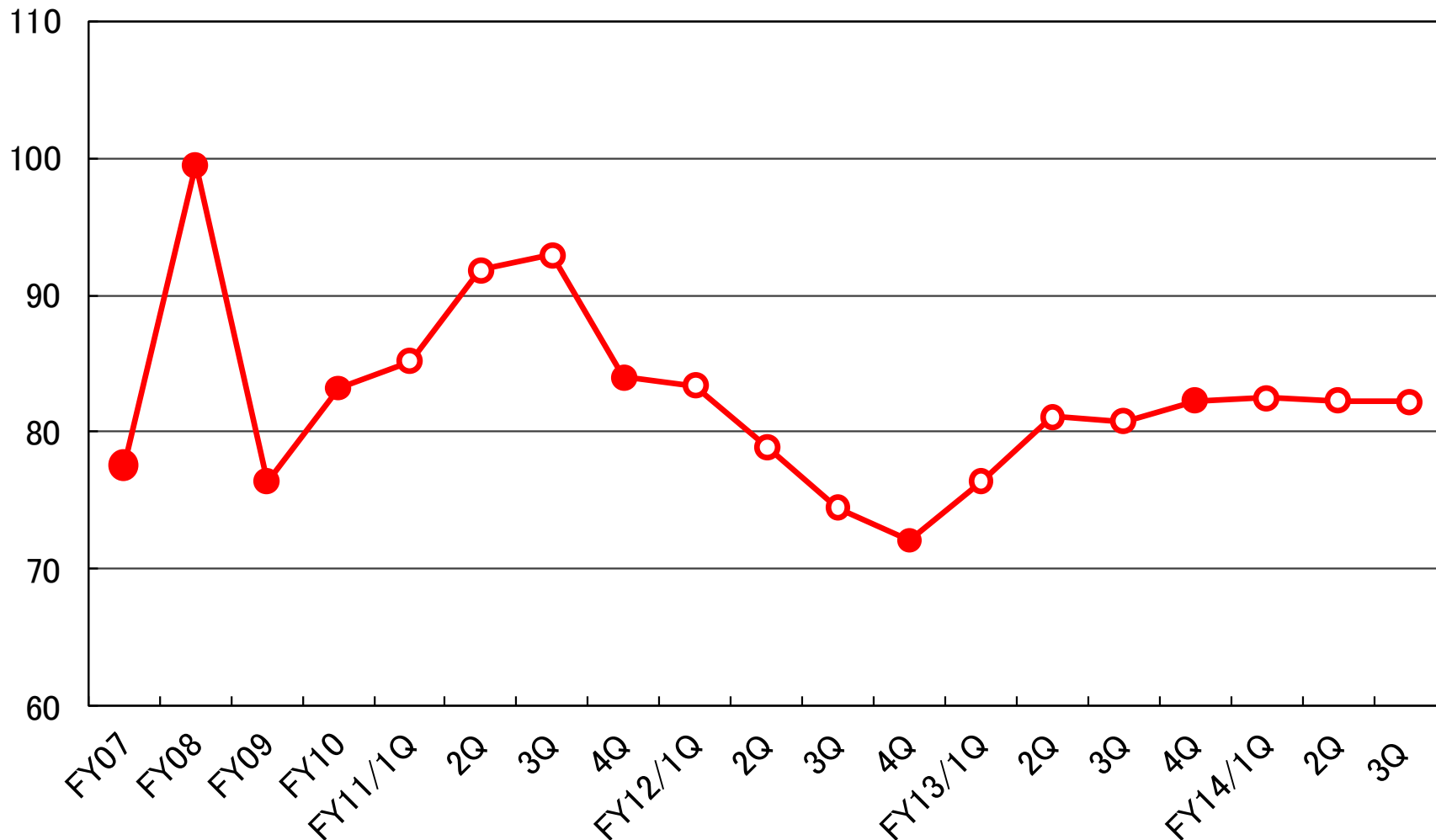




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KSL Steel Products Prices Trends

(thousand yen /ton)





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【Welding】

	FY2013		FY2014			(billion yen) change
		Previous Forecast①	Forecast		②	②-①
			1H	2H		
Net sales	88.3	93.0	45.6	49.4	95.0	+2.0
Ordinary income	7.2	8.0	4.6	4.9	9.5	+1.5

<FY2014>

- Domestic demand in the shipbuilding and construction sectors is anticipated to be strong, while in oversea markets, demand is affected by deceleration of China and Southeast Asia's economy.



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Shipments and sales

(billion yen)

	FY2013				FY2014	
	1H	3Q	2H	FY	1H	3Q
<Domestic Welding material shipments (thousand tons) > (except export)	103	56	113	216	113	57
<Welding material sales volume of KSL Group (thousand tons) >						
Domestic	60	33	66	126	67	33
Export	96	48	96	192	95	47
	155	81	163	318	162	80



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【Aluminum & Copper】

	FY2013		FY2014			(billion yen)
		Previous Forecast①	Forecast		②	change ②-①
			1H	2H		
Net sales	295.6	330.0	161.5	168.5	330.0	—
Ordinary income (inventory valuation)	15.1 (1.0)	12.0 (0.5)	6.0 (0.0)	8.0 (1.0)	14.0 (1.0)	+2.0 (+0.5)

<FY2014>

- Demand in the automotive sectors is strong in spite of decrease in domestic car production.
- Demand of aluminum disk blanks is strong in IT sector.



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Shipments & Sales data

(thousand tons)

	FY2013				FY2014	
	1H	3Q	2H	FY	1H	3Q
<Shipments of Aluminum rolled products>						
Aluminum sheet	574	289	575	1,149	625	304
Aluminum extrusion	405	220	430	835	405	206
(can stock)	(217)	(97)	(194)	(411)	(221)	(98)
	979	509	1,005	1,984	1,030	510
<Shipments of Processed copper products>						
Copper Sheet and Strip	197	104	209	406	209	110
Copper Tube	55	29	59	114	59	28
	252	133	268	520	268	138
<Sales volume of KSL>						
Aluminum rolled products						
Domestic	113	53	109	222	125	64
Export	22	12	23	45	29	17
Copper Sheet and Strip	24	12	24	48	27	14
Copper Tube	44	20	41	85	45	20



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【Machinery】

	FY2013		FY2014			(billion yen)
		Previous Forecast①	Forecast		②	change ②-①
			1H	2H		
Net sales	149.8	173.0	73.0	96.0	169.0	△4.0
Ordinary income	6.4	8.5	3.2	5.8	9.0	+0.5
Orders	152.8	160.0	73.7	86.3	160.0	—

<FY2014>

- Orders progress steadily due to demand for energy mainly in emerging countries.



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【Engineering】

	FY2013		FY2014			(billion yen)
		Previous Forecast①	Forecast		②	change ②-①
			1H	2H		
Net sales	39.1	49.0	19.0	34.0	53.0	+4.0
Ordinary income	△3.9	0.0	△0.5	0.5	0.0	—
Orders	49.8	46.0	14.5	16.5	31.0	△15.0

<FY2014>

- Iron direct reduction plant sector is anticipated to continue being weak due to low price iron source.



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【Kobelco Eco-Solutions】

	FY2013		FY2014			(billion yen)
		Previous Forecast①	Forecast		②	change ②-①
			1H	2H		
Net sales	68.1	70.5	27.1	43.4	70.5	—
Ordinary income	2.6	2.7	0.3	2.4	2.7	—

<FY2014>

- The water treatment business is anticipated to continue being weak, although there are signs of an upswing in the waste treatment business.



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【Kobelco Construction Machinery】

(billion yen)

	FY2013		FY2014			change ②-①
		Previous Forecast①	Forecast		②	
			1H	2H		
Net sales	318.2	325.0	169.7	145.3	315.0	△10.0
Ordinary income	15.1	22.0	16.1	5.9	22.0	—

<FY2014>

- Demand in China and Southeast Asia is anticipated to remain weak.
- Kobelco Construction Machinery has decided to construct a production factory in North America to manage sales increase.



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【Kobelco Cranes】

	FY2013		FY2014			(billion yen)
		Previous Forecast①	Forecast		②	change ②-①
			1H	2H		
Net sales	56.6	73.0	35.8	35.2	71.0	Δ2.0
Ordinary income	3.2	4.0	3.1	1.9	5.0	+1.0

<FY2014>

▪ Demand in Japan, North America and Southeast Asia is anticipated to be strong.



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3. Cash Flow and Debt



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Cash Flow

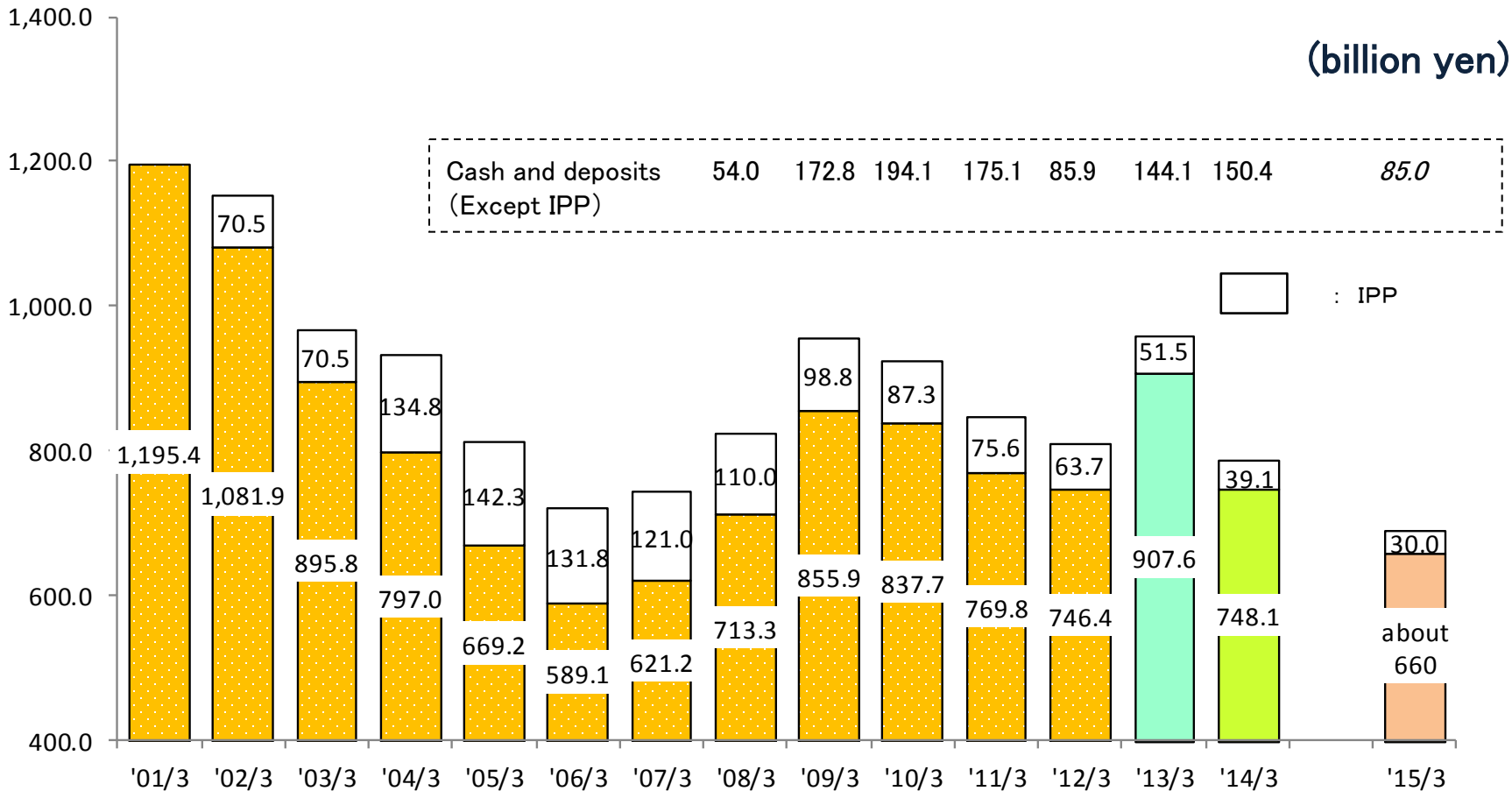
(billion yen)

	FY2013		FY2014			change	
	①	Previous Forecast②	Forecast		③	③-①	③-②
			1H	2H			
Cash flows from operating activities	194.2	150.0	79.7	80.3	160.0	△34.2	+10.0
Cash flows from investing activities	△ 62.1	△ 110.0	△ 39.2	△ 40.8	△ 80.0	△17.9	+30.0
Free cash flow	132.1	40.0	40.5	39.5	80.0	△52.1	+40.0
Repayment source for project financing	15.0	10.0	7.3	2.7	10.0	△ 5.0	—
Free cash flow (except project financing)	117.1	30.0	33.2	36.8	70.0	△ 47.1	40.0



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Debt



	FY2013	FY2014
D/E ratio (times)	1.11	1.0 or less



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< Reference >



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Capital investment

(billion yen)

	FY2011	FY2012	FY2013 ①	FY2014 ②	change ② - ①
Capital investment (accrual basis)	96.0	114.9	101.4	125.0	+23.6
Capital investment (cash basis)	83.2	109.5	95.4	105.0	+9.6
Depreciation	118.0	106.7	82.9	90.0	+7.1



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Consolidated Ordinary income Analysis

[FY2013 1Q~3Q ⇒ FY2014 1Q~3Q]

(billion yen)

	FY2013			FY2014		
	1H	3Q	1~3Q	1H	3Q	1~3Q
Ordinary income	43.1	24.2	67.3	46.1	31.5	77.7
						+10.3

Positive		Negative	
Raw material prices	+32.0	Sales volume and prices	△ 0.5
Inventory valuation (ALU)	± 0.0	Reducing overall costs	△ 4.0
Subsidiaries	+15.0	Inventory valuation (STE)	△22.5
		Foreign exchange (STE)	△ 8.5
		Other	△ 1.2
T o t a l	+47.0	T o t a l	△ 36.7



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Iron & Steel Ordinary income Analysis

[FY2013 1Q~3Q ⇒ FY2014 1Q~3Q]

(billion yen)

	FY2013			FY2014		
	1H	3Q	1~3Q	1H	3Q	1~3Q
Ordinary income	15.5	13.0	28.5	10.4	9.9	20.3
						△8.1

Positive		Negative	
Raw material prices	+ 32.0	Sales volume and prices	△ 2.0
		Reducing overall costs	△ 0.5
		Inventory valuation	△ 22.5
		Foreign exchange	△ 8.5
		Other	△ 6.6
T o t a l	+ 32.0	T o t a l	△ 40.1



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Consolidated Ordinary income Analysis

[FY2014 Previous Forecast ⇒ Forecast]

(billion yen)

	FY14 Previous forecast (Oct,31)			FY14 Forecast		
	1H	2H	FY	1H	2H	FY
Ordinary income	46.1	38.9	85.0	46.1	43.9	90.0
						+ 5.0

Positive		Negative	
Sales volume and prices	+ 2.0	Reducing overall costs	△ 3.0
Raw material prices	+ 8.5	Foreign exchange (STE)	△ 4.5
Inventory valuation (STE)	+ 3.0	Other	△ 3.5
Inventory valuation (ALU)	+ 0.5		
Subsidiaries	+ 2.0		
T o t a l	+ 16.0	T o t a l	△ 11.0



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Iron & Steel Ordinary income Analysis

[FY2014 Previous Forecast ⇒ Forecast]

(billion yen)

	FY14 Previous forecast (Oct,31)			FY14 Forecast		
	1H	2H	FY	1H	2H	FY
Ordinary income	10.4	12.6	23.0	10.4	15.6	26.0
						+ 3.0

Positive		Negative	
Sales volume and prices	+ 1.5	Reducing overall costs	△ 2.0
Raw material prices	+ 8.5	Foreign exchange	△ 4.5
Inventory valuation	+ 3.0	Other	△ 3.5
T o t a l	+ 13.0	T o t a l	△ 10.0



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Consolidated Ordinary income Analysis [FY2014 1H ⇒ 2H]

(billion yen)

	FY2013			FY2014		
	1H	2H	FY	1H	2H	FY
Ordinary income	43.1	41.8	85.0	46.1	43.9	90.0
				△2.2		

Positive		Negative	
Raw material prices	+ 21.5	Sales volume and prices	△ 9.5
Inventory valuation (ALU)	+ 1.0	Reducing overall costs	△ 1.0
		Inventory valuation (STE)	△ 1.0
		Subsidiaries	△ 7.0
		Foreign exchange (STE)	△ 4.5
		Other	△ 1.7
T o t a l	+ 22.5	T o t a l	△ 24.7



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Iron & Steel Ordinary income Analysis [FY2014 1H ⇒ 2H]

(billion yen)

	FY2013			FY2014		
	1H	2H	FY	1H	2H	FY
Ordinary income	15.5	18.0	33.5	10.4	15.6	26.0

Positive		Negative	
Raw material prices	+ 21.5	Sales volume and prices	△ 11.0
Reducing overall costs	+ 1.5	Inventory valuation	△ 1.0
		Foreign exchange	△ 4.5
		Other	△ 1.3
T o t a l	+ 2 3 . 0	T o t a l	△ 1 7 . 8



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Consolidated Ordinary income Analysis [FY2013 ⇒ FY2014]

(billion yen)

	FY2013			FY2014		
	1H	2H	FY	1H	2H	FY
Ordinary income	43.1	41.8	85.0	46.1	43.9	90.0
						+5.0

Positive		Negative	
Raw material prices	+ 50.0	Sales volume and prices	△ 10.0
Inventory valuation (ALU)	± 0.0	Reducing overall costs	△ 5.5
Subsidiaries	+ 16.5	Inventory valuation (STE)	△ 25.0
		Foreign exchange (STE)	△ 12.0
		Other	△ 9.0
T o t a l	+ 6 6 . 5	T o t a l	△ 6 1 . 5



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Iron & Steel Ordinary income Analysis [FY2013⇒FY2014]

(billion yen)

	FY2013			FY2014		
	1H	2H	FY	1H	2H	FY
Ordinary income	15.5	18.0	33.5	10.4	15.6	26.0
						Δ7.5

Positive		Negative	
Raw material prices	+ 50.0	Sales volume and prices	Δ 13.5
		Reducing overall costs	Δ 1.0
		Inventory valuation	Δ 25.0
		Foreign exchange	Δ 12.0
		Other	Δ 6.0
T o t a l	+ 5 0 . 0	T o t a l	Δ 5 7 . 5



Cautionary Statement

- **Certain statements in this presentation contain forward-looking statements concerning forecasts, assertions, prospects, intentions and strategies. The decisions and assumptions leading to these statements were based on information currently available to Kobe Steel. Due to possible changes in decisions and assumptions, future business operation, and internal and external conditions, actual results may differ materially from the projected forward-looking statements. Kobe Steel is not obligated to revise the forward-looking contents of this presentation.**
- **Uncertain and variable factors include, but are not limited to:**
 - Changes in economic outlook, demand and market conditions
 - Political situation and trade and other regulations
 - Changes in currency exchange rates
 - Availability and market conditions of raw materials
 - Products and services of competing companies, pricing policy, alliances, and business development including M&As
 - Strategy changes of alliance partners