

# Kobe Steel's Consolidated Financial Results for Fiscal 2015 (April 1, 2015 – March 31, 2016)

April 28, 2016

Company name: Kobe Steel, Ltd.  
 Code number: 5406  
 Stock exchanges where shares are listed: Tokyo and Nagoya, Japan  
 Website: <http://www.kobelco.co.jp/english/>  
 Chairman, President and CEO: Hiroya Kawasaki  
 General stockholders' meeting: June 22, 2016  
 "Yukashoken hokokusho"  
 (Annual Securities Report) issued: June 22, 2016  
 Dividend payments begin: ---  
 Supplemental information available: Yes  
 IR Briefing: Yes (in Japanese only)  
 Contact: Tel. +81 (0)3 5739-6010

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

## 1. FY2015 Consolidated financial results (April 1, 2015 – March 31, 2016)

### (1) Consolidated operating results

(In millions of yen)	FY 2014	% change	FY 2015	% change
Net sales	1,886,894	3.4%	1,822,805	(3.4%)
Operating income	119,460	4.3%	68,445	(42.7%)
Ordinary income	101,688	19.6%	28,927	(71.6%)
Net income (loss) attributable to owners of the parent	86,549	23.3%	(21,556)	---
Net income per share	23.81 yen		(5.93 yen)	
Diluted net income per share	---		---	
Return on equity (ROE)	12.0%		(2.9%)	
Ratio of ordinary income to total assets (ROA)	4.4%		1.3%	
Ratio of operating income to net sales (ROS)	6.3%		3.8%	
Comprehensive income in FY2014: 135,387 million yen			FY2015: (88,552 million yen)	
Equity in income of affiliates in FY2014: 69 million yen			FY2015: (7,770 million yen)	

### (2) Consolidated financial position

(In millions of yen)	FY2014	FY2015
Total assets	2,300,241	2,261,134
Net assets	851,785	745,492
Net worth ratio	33.8%	30.6%
Net assets per share	213.70 yen	190.38 yen
Stockholders' equity at the end of FY2014: 776,491 million yen		FY2015: 692,005 million yen

### (3) Consolidated cash flows

(In millions of yen)	FY2014	FY2015
Net cash provided by operating activities	153,078	97,933
Net cash used in investing activities	(73,674)	(104,618)
Net cash provided by (used in) financing activities	(156,027)	93,883
Cash & cash equivalents at the end of year	101,654	184,336

## 2. Dividends

Period	Dividends per share in yen					Total dividend amount*	Dividend Payout ratio	Dividend per net assets
	1Q	2Q	3Q	4Q	Year			
FY2014	---	2.00	---	2.00	4.00	14,554	16.8%	2.0%
FY2015	---	2.00	---	0.00	2.00	7,259	---	1.0%
FY2016 Forecast	Undetermined						Undetermined	

\* in millions of yen

### 3. Consolidated Forecast for fiscal year 2016 (ending March 31, 2017)

(In millions of yen)	1st half	Full year
Net sales	860,000	1,750,000
Operating income	25,000	65,000
Ordinary income	10,000	35,000
Net income attributable to owners of parent	5,000	20,000
Net income per share	1.37 yen	5.50 yen

Please refer to "Announcement on Earnings Forecast" dated April 28, 2016.

#### 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: No
  - Other changes: No
  - Changes in accounting estimates: No
  - Restatement: No

#### (3) Number of issued shares

	FY 2014	FY2015
Common stock (number of issued shares)	3,643,642,100	3,643,642,100
Treasury stock (number of shares)	10,082,049	8,779,337
Average number of shares	3,633,632,808	3,632,219,339

#### **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 5 to 7.

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.

# 1. Analysis of Operating Results and Financial Condition

## Fiscal 2015 Consolidated Operating Results

Japan's economy in fiscal 2015 (April 1, 2015-March 31, 2016) has continued to gradually recover. Although sluggish domestic and overseas demand led to a worsening in business sentiment, public investments remained at a high level while on a decreasing trend, and corporate capital investments remained firm. Overseas, the United States and Europe continued on a gradual recovery trend, but the economies of China and Southeast Asia continued to decelerate. The overall economic aspect has continued to face uncertain conditions.

In this economic environment, at the Kobe Steel Group the sales volume of steel products (in terms of tons sold) was at a similar level to the previous year, with demand remaining firm in the shipbuilding sector and demand declining in the automotive sector. The sales volume of aluminum rolled products increased, compared with the previous year, as demand for cans for beverage cans was firm. The sales volume of copper rolled products decreased, compared with the previous year, due to lower demand for copper strips used in semiconductors. Unit sales of hydraulic excavators decreased, compared with the previous year, due to the considerable drop in demand in China and Southeast Asia, both largely affected by economic deceleration.

As a result, consolidated sales in fiscal 2015 decreased 64.0 billion yen, compared with the previous year, to 1,822.8 billion yen, owing to a decline in steel sales price due to lower prices of primary raw materials. Operating income fell 51.0 billion yen, compared with the previous year, to 68.4 billion yen. Due to the above and the posting of allowance for doubtful accounts in the construction machinery business in China and other factors, ordinary income\* went down 72.7 billion yen, compared with the previous year, to 28.9 billion yen. In addition, mainly due to the rapid worsening of the business environment in the construction machinery sector in China, Kobe Steel posted extraordinary losses of 39.5 billion yen in business losses from affiliate companies with regard to loss on the valuation of investment securities of affiliate companies and on provision for loss on guarantees. As a result, net income attributable to owners of the parent decreased 108.1 billion yen, compared with the previous year, to net loss attributable to owners of the parent of 21.5 billion yen.

Conditions in the business segments follow below.

### Iron & Steel Business

The sales volume of steel products was at a similar level to the previous year, as demand was firm in the shipbuilding sector, but domestic new car sales continued to fall below the previous year. Sales prices declined, compared with the previous year, due to lower primary raw material prices and a stagnant overseas market.

Sales of steel castings and forgings increased, compared with the previous year, owing to firm demand in the shipbuilding sector. Sales of titanium products increased, compared with the previous year, due to higher volume of titanium products to the aircraft sector. As for wholesale power supply, the Kobe Power Plant, which has a generation capacity of 1.4 million kW, continued stable operation, supplying electric power.

As a result, consolidated segment sales in fiscal 2015 decreased 6.9 percent, compared with the previous year, to 742.5 billion yen. Ordinary income\* decreased 25.1 billion yen, compared with the previous year, to 3.6 billion yen, due to a change in the sales mix of products from lower automotive demand in Japan and overseas, a worsening in inventory valuation due to a large decline in primary raw material prices, and the posting of a valuation loss on raw material interests and investments.

### Welding Business

The sales volume of welding materials decreased compared with the previous year. Although domestic demand remained firm in the shipbuilding sector, demand recovery saw a delay in the construction sector. Overseas, demand in China, Southeast Asia and the United States decreased due to economic slowdown and low crude oil prices. Meanwhile, sales of welding systems increased, compared with the previous year, owing to continued firm demand.

As a result, consolidated segment sales in fiscal 2015 decreased 2.4 percent, compared with the previous year, to 92.2 billion yen. Ordinary income\* decreased 2.1 billion yen, compared with previous year, to 8.1 billion yen.

### **Aluminum & Copper Business**

The sales volume of aluminum rolled products increased, compared with the previous year, due to firm demand for can stock for beverage cans and efforts to expand sales, mainly exports, in the automotive sector. Sales of aluminum castings and forgings also increased, compared with previous year, owing to firm demand from the U.S. automotive sector.

The sales volume of copper rolled products decreased, compared with the previous year, due to lower demand for copper strips used in semiconductors.

As a result, consolidated segment sales in fiscal 2015 increased 4.4 percent, compared with the previous year, to 345.4 billion yen. Ordinary income\* was similar to the previous year at 15.1 billion yen, due to a worsening in inventory valuation.

### **Machinery Business**

Consolidated orders in fiscal 2015 were similar to the previous year at 140.4 billion yen. Although orders for compressors for the petroleum refining industry declined, in industrial machinery, orders were received for large plastic processing machinery used in the petrochemical field. The consolidated backlog of orders at the end of fiscal 2015 stood at 133.8 billion yen.

Consolidated segment sales in fiscal 2015 were similar to the previous year at 159.0 billion yen, but ordinary income\* decreased 3.6 billion yen, compared with the previous year, to 6.7 billion yen, due to decreased profits from intensified competition.

### **Engineering Business**

Consolidated orders in fiscal 2015 increased 100.2 percent, compared with the previous year, to 50.6 billion yen, owing to an order for a large direct reduction plant in Algeria. The consolidated backlog of orders at the end of fiscal 2015 stood at 76.8 billion yen.

Consolidated segment sales in fiscal 2015 were similar to the previous year at 48.7 billion yen. Ordinary income\* increased 0.2 billion yen, compared with the previous year, to ordinary income\* of 1.0 billion yen.

### **Kobelco Eco-Solutions**

Consolidated orders in fiscal 2015 increased 12.4 percent, compared with the previous year, to 78.5 billion yen, due to several large orders in the waste treatment-related business. The consolidated backlog of orders at the end of fiscal 2015 was 44.5 billion yen.

Consolidated segment sales in fiscal 2015 increased 21.8 percent, compared with the previous year, to 83.0 billion yen, as construction work progressed on previously ordered large projects in the waste treatment-related business. Ordinary income\* increased 0.6 billion yen, compared with previous year, to 3.6 billion yen.

### **Kobelco Construction Machinery**

Unit sales of hydraulic excavators in fiscal 2015 decreased compared with the previous year. In addition to saturation of replacement demand in Japan, demand declined significantly in China and Southeast Asia, which were greatly impacted by the economic slowdown.

As a result, consolidated segment sales in fiscal 2015 decreased 12.6 percent, compared with the previous year, to 271.7 billion yen. In addition to a decrease in unit sales due to reduced demand, Kobelco Construction Machinery posted a large allowance for doubtful accounts for accounts receivable in China, against the backdrop of a rapid worsening in the business environment. Consequently, ordinary income\* decreased 35.5 billion yen, compared with the previous year, to ordinary loss\* of 14.4 billion yen.

### **Kobelco Cranes**

Unit sales of crawler cranes decreased, compared with the previous year. Although domestic demand was firm, demand declined in Southeast Asia, which was largely affected by the economic slowdown.

As a result, consolidated segment sales in fiscal 2015 increased 2.4 percent, compared with the previous year, to 72.7 billion yen. However, due to higher expenses for the quality maintenance and improvement of products, ordinary income\* decreased 2.7 billion yen, compared with the previous year, to 2.4 billion yen.

## **Other Businesses**

At Shinko Real Estate Co., Ltd., the leasing business remained firm, while the residential property sales business saw a decrease in the number of handovers, At Kobelco Research Institute, Inc.'s testing and research businesses, automotive-related demand remained firm.

Due to these conditions, consolidated segment sales in fiscal 2015 decreased 2.0 percent, compared with the previous year, to 74.5 billion yen. Ordinary income\* increased 0.2 billion yen, compared with the previous year, to 7.3 billion yen.

## **Forecast for Fiscal 2016**

Although the slowdown in the economies of China, and emerging countries is a concern, domestic corporate capital investments and public investments are expected to continue being firm. Underlying these conditions, Japan's economy in fiscal 2016 is anticipated to continue to gradually recover. Overseas, economic recovery is anticipated to continue centered on domestic demand in the United States and Europe. However, the prolonged deceleration of economic growth in China and other emerging countries is a concern.

The Kobe Steel Group forecasts that automotive demand is recovering and demand in shipbuilding and other sectors will generally be firm. However, it will take time to resolve the oversupply of steel in the Asian region. In addition, the slowdown of China's economy, sluggish energy-related demand in emerging countries and resource-rich countries against the backdrop of low crude oil prices, and economic stagnation are a concern.

Under this outlook, taking uncertain factors into consideration including the sales volume of steel products, aluminum rolled products and copper rolled products; sales prices; and primary raw material prices for steel; Kobe Steel makes certain assumptions for its business performance. In fiscal 2016, Kobe Steel forecasts net sales of about 1,750.0 billion yen, operating income of about 65.0 billion yen, ordinary income\* of about 35.0 billion yen, and net income attributable to owners of the parent of about 20.0 billion yen.

The Kobe Steel Group formulated the Fiscal 2016-2020 Group Medium-Term Management Plan, KOBELCO VISION "G+" (pronounced "G plus"). Under the Plan, the Kobe Steel Group aims to establish three core business areas with a stable profit base consisting of the materials businesses (steel, welding, aluminum and copper); the machinery businesses (machinery, engineering and construction machinery); and the electric power supply business. The Kobe Steel Group has subsequently started the new vision. Accordingly, Kobe Steel established a new business segment called the Electric Power Business on April 1, 2016. To strengthen its business base and accelerate global expansion, Kobe Steel merged Kobelco Construction Machinery Co., Ltd. and Kobelco Cranes Co., Ltd. It also included Kobelco Eco-Solutions Co., Ltd. in its Engineering Business to further cooperation and strengthen profitability.

Due to these changes, in fiscal 2016 the seven reporting business segments will be Iron & Steel, Welding, Aluminum & Copper, Machinery, Engineering, Construction Machinery and Electric Power.

For fiscal 2016, Kobe Steel's forecast for its business segments follow below.

### **Iron & Steel**

For steel products, automotive demand is anticipated to recover trend and demand in the shipbuilding and other sectors is expected to generally remain firm. Accordingly, the sales volume of steel products is anticipated to be similar to fiscal 2015. With the sales prices of steel products expected to be lower than in fiscal 2015, due to low raw material prices, Kobe Steel will continue efforts to negotiate sales prices, gaining the understanding of its users to maintain and improve profit margins (the difference between the sales price and raw material costs).

Sales of steel castings and forgings are anticipated to increase over fiscal 2015 as domestic shipbuilding demand is anticipated to continue being firm. Sales of titanium products are also expected to increase over fiscal 2015 as demand is expected to continue being firm.

Owing to these factors, segment sales in fiscal 2016 are forecast to decrease, compared with fiscal 2015, largely affected by low sales prices of steel products.

## **Welding**

Domestic demand for welding materials is anticipated to be firm in the shipbuilding sector and is expected to recover in the construction sector, leading to an increase in sales volume over fiscal 2015. However, overseas demand is anticipated to continue being sluggish in Southeast Asia, China and South Korea, leading to concern over the continued stiff competition and the effect of foreign exchange rate against this backdrop. For welding systems, construction demand is anticipated to remain firm.

As a result, segment sales in fiscal 2016 are anticipated to decrease over fiscal 2015, affected by the decline in sales prices decline overseas.

## **Aluminum & Copper**

For aluminum rolled products, in addition to efforts to expand sales of automotive aluminum materials and other products, firm demand for can stock for beverage cans is anticipated to increase sales volume over fiscal 2015. For copper rolled products, although, demand for automotive terminals, semiconductors and air conditioners is anticipated to generally remain flat, Kobe Steel will make efforts to expand sales in Japan and overseas. As a result, sales volume is anticipated to increase over fiscal 2015.

Due to the impact of low aluminum ingot prices, segment sales in fiscal 2016 are anticipated to decrease over fiscal 2015.

## **Machinery**

The effects of low crude oil prices and the slowdown in the economies of emerging countries are a concern. However, owing to steady demand for both compressors and industrial machinery, segment sales in fiscal 2016 are anticipated to increase over fiscal 2015. However, foreign exchange fluctuations and other factors are a concern.

Segment sales in fiscal 2016 are anticipated to be similar to fiscal 2015.

## **Engineering**

In the nuclear power-related field, demand is anticipated to remain firm for pollutant treatment projects, but in the ironmaking plant-related field, the severe business environment is anticipated to continue in the future due to an easing in supply and demand for steel products.

Domestic public investments in the water treatment-related field and waste treatment-related field are generally anticipated to remain at current levels. Private-sector capital investments in the water treatment-field and chemical and food machinery-related fields are recovering, but the outlook remains unclear.

Due to the above, orders in fiscal 2016 are anticipated to be lower than in fiscal 2015. Segment sales in fiscal 2016 are also anticipated to decline, compared with fiscal 2015.

## **Construction Machinery**

For hydraulic excavators, demand in China is anticipated to remain sluggish, but in developed countries, including Japan, North America and Europe, demand is expected to remain at a certain level and in Southeast Asia, demand is anticipated to recover. As a result, unit sales of excavators in fiscal 2016 are anticipated to be higher than fiscal 2015.

For crawler cranes, domestic demand is expected to be firm on the backdrop of the high level of public investments and other factors. Overseas, as demand is anticipated to continue declining in Southeast Asia, unit sales of cranes in fiscal 2016 are anticipated to decrease over fiscal 2015.

Segment sales in fiscal 2016 are anticipated to be lower than in fiscal 2015, largely affected by changes in the sales model mix of hydraulic excavators.

## **Electric Power**

The Kobe Power Plant is currently supplying electricity from power generation equipment with a power generation capacity of 1.4 million kW. Along with continuing the stable operation of this facility, Kobe Steel is proceeding with the construction of new power plants to expand its electric power supply business.

Segment sales in fiscal 2016 are anticipated to decline over fiscal 2015, due to low coal prices, which in turn will be passed on as lower electricity unit prices.

## Other Businesses

At Shinko Real Estate Co., Ltd., both the property sales and leasing businesses are anticipated to remain firm. At Kobelco Research Institute, Inc., demand is anticipated to remain firm mainly in the testing and research businesses.

Due to the above, segment sales in fiscal 2016 are anticipated to increase over fiscal 2015.

## Analysis of Financial Condition

Total assets at the end of fiscal year 2015 decreased 39.1 billion yen, compared with the end of fiscal year 2014, to 2,261.1 billion yen due to the decrease in securities and the increase in allowance for doubtful accounts, although cash and deposits increased. Due to the posting of net loss attributable to owners of the parent and other factors, net assets at the end of fiscal year 2015 decreased 106.2 billion yen, compared with the end of fiscal year 2014, to 745.4 billion yen. As a result, the net worth ratio at the end of fiscal year 2015 was 30.6 percent, a decrease of 3.2 points compared with the end of fiscal year 2014.

As for cash flows, net cash provided by operating activities amounted to 97.9 billion yen after posting loss before income taxes and non-controlling interests of 10.6 billion yen and depreciation of 94.8 billion yen. Net cash used in investing activities came to (104.6 billion yen) due to the purchase of fixed assets and other items. Net cash provided by financing activities totaled 93.8 billion yen due to the increase of borrowings and other items.

At the end of fiscal year 2015, outside debt, that includes IPP project financing, increased 112.0 billion yen, compared with the end of fiscal year 2014, to 789.4 billion yen.

Cash flow indicators are as follows:

### Consolidated cash flow Indicators

	FY2011	FY2012	FY2013	FY2014	FY2015
Net worth ratio	23.9%	23.0%	29.2%	33.8%	30.6%
Net worth ratio at market price	19.3%	15.2%	21.8%	35.2%	16.0%
Ratio of cash flow to interest-bearing debt (years)	20.5	21.1	4.1	4.4	8.1
Interest coverage ratio (times)	2.0	2.3	10.1	9.5	6.2

Notes:

- Each indicator were calculated from consolidated financial date
- Net worth ratio = Stockholders' equity / total assets
- Stockholders' equity ratio at market price = Market capitalization / total assets  
(Market capitalization was 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

1. We provide reliable and advanced technologies, products and services that satisfy customers.
2. We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group.
3. Through continuous efforts for innovative change, we aim to enhance our corporate values.

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

#### (2).1. Looking back at the Fiscal 2013-2015 Medium-Term Business Plan

Formulating the medium- to long-term business vision, KOBELCO VISION “G,” in April 2010, Kobe Steel, Ltd. has been actively expanding overseas and working to create products and services that only the Kobe Steel Group can offer.

Formulating the second phase of KOBELCO VISION “G,” the Fiscal 2013-2015 Medium-Term Business Plan, launched in May 2013, served to start the rebuilding of the company’s business base. The plan focused on strengthening profitability primarily in the steel business and improving the financial performance of the Group. To establish a foundation for stable profits and business growth, Kobe Steel has been promoting reforms to the structure of its steel business, strategic expansion of the machinery businesses, and the growth of the electric power supply business.

<b>Rebuilding the Business Base</b>	
Strengthening the profitability of the steel business	Improve profitability by 42.0 billion yen in fiscal 2015 (compared with fiscal 2012) through capital investments, cost cuts at the production site level in raw material costs, etc.
Improving financial performance	Create cash generation measures of 180.0 billion yen (cumulative total of fiscal 2013-2015) by promoting asset sales, reducing inventories, and securitizing receivables, etc.
<b>Establishing a Foundation for Stable Profits and Business Growth</b>	
Structural reform of the steel business	Consolidate upstream operations to Kakogawa Works to further strengthen competitiveness in the steel business. Plans are proceeding on schedule.
New investments in growth fields and regions in the materials businesses	<ul style="list-style-type: none"> <li>●Establish a joint venture in China to produce and sell automotive cold-rolled high strength steel sheet</li> <li>●Establish a joint venture in Thailand to produce and sell special steel wire rod</li> <li>●Establish a company in China to produce and sell aluminum sheet for automotive aluminum panels</li> <li>●Increase production capacity of aluminum forgings for automotive suspensions in the United States</li> </ul>
Strategic expansion of the machinery businesses	<ul style="list-style-type: none"> <li>●Build a construction machinery factory to make hydraulic excavators in North America</li> <li>●Decide and promote expansion of rotating machinery facilities (construct a test facility for large-sized centrifugal compressors)</li> <li>●Build a comprehensive test center for hydrogen stations</li> <li>●Expand overseas sales locations for compressors (Brazil, India, Thailand)</li> </ul>
Growing the electric power supply business	Promote the construction of new power plants in Moka, Tochigi Prefecture and on the site of the blast furnace to be shutdown at Kobe Works

As for financial performance, Kobe Steel’s achieved ordinary income of 85.0 billion yen in fiscal 2013 and

101.6 billion yen in fiscal 2014, increasing more than originally planned. The D/E ratio, a measure of financial discipline, was 1.75 times at the end of fiscal 2012. It improved to 0.88 times at the end of fiscal 2014. However, in fiscal 2015, the final year of the fiscal 2013-2015 plan, the economies of China and other emerging countries slowed down more than expected, leading to a sharp decrease in profits. Kobe Steel realizes that it is necessary to further strengthen profitability.

## **(2).2. Fiscal 2016-2020 Group Medium-Term Management Plan**

Looking at the business environment surrounding the Kobe Steel Group, the economy of Japan is anticipated to recover gradually, but in countries overseas, there is concern over the prolonged deceleration of the economies of China and other emerging countries, and the future outlook remains uncertain.

Against this backdrop, Kobe Steel Group formulated the Fiscal 2016-2020 Group Medium-Term Management Plan and has started initiatives for a new medium-term management plan, KOBELCO VISION “G+” (pronounced “G plus”) that will establish a solid business enterprise. The new plan aims to further strengthen the three core business areas of the materials businesses, machinery businesses, and the electric power business.

Kobe Steel plans to focus its management resources in growing fields anticipated to expand over the medium to long term such as weight savings in transportation as well as energy and infrastructure. Kobe Steel Group plans to increase the original added value of the Kobe Steel Group. By achieving a strong competitive edge, Kobe Steel Group aims to expand and grow its businesses and contribute to society.

<b>Fiscal 2016-2020 Group Medium-Term Management Plan</b>		<b>Basic Policies</b>
1. Growth strategy for the three core business areas	Materials Businesses	Initiatives for weight savings in transportation Improving profitability in the steel business
	Machinery Businesses	Initiatives in the energy and infrastructure fields Strengthening profitability in the construction machinery business
	Electric Power Business	Initiatives for stable profits
	2. Strengthening the Business Base	
2. Strengthening the Business Base	(1) Strengthening corporate governance	
	(2) Securing and developing human resources	
	(3) Strengthening technology development capabilities and manufacturing capabilities	
3. Financial Strategy	Maintaining financial discipline and undertaking cash generation measures	
<b>Numerical Targets for Fiscal 2020</b>		
<ul style="list-style-type: none"> <li>● ROA: 5% or more</li> <li>● D/E Ratio: 1 time or less</li> </ul>		

### **1) Growth Strategy for the Three Core Business Areas**

#### **Materials Businesses**

##### **Initiatives for Weight Savings in Transportation**

With fuel consumption and CO<sub>2</sub> regulations becoming stricter in the automotive field, the need for lighter automobiles is anticipated to grow in the future, while enhanced safety requirements are increasing. Light-weight materials include high-strength steel sheet, aluminum, CFRP (carbon fiber reinforced plastics) and other materials. Kobe Steel will promote the strengthening of its competitiveness in high-strength steel sheet and aluminum products (sheet, extrusions and forgings), noted for their outstanding balance of weight savings and cost. In addition to that, Kobe Steel plans to expand its share of the global market and firmly secure growth in the automotive field, leveraged by its original solution technologies (the joining technology of dissimilar metals, etc.) for realizing multi-materials.

In the aerospace field, the number of aircraft in service is expected to grow, Kobe Steel plans to strengthen the upstream operations (melting, casting and forging) of its titanium, aluminum, magnesium and other material businesses. Kobe Steel will also promote research and development and aims to entry and expansion into downstream operations (machining, surface treatment and painting).

At present, the global supply chain for some aircraft components is very complex. In the Asian region, the supply chain for large aircraft components is insufficient. Based on this environment, by establishing an integrated system for upstream and downstream operations, Kobe Steel will be able to build a simple supply chain to meet high user needs, and by doing so aims to become a supplier with a presence in Asia, a region that is especially anticipated to grow.

### **Improving Profitability in the Steel Business**

Kobe Steel plans to complete the consolidation of upstream operations to Kakogawa Works in fiscal 2017. In addition to that, Kobe Steel plans cost reductions through improvements in the operating rate and a cutback in fixed costs to achieve benefits (+15.0 billion yen per year). Kobe Steel also plans to implement additional profit improvement measures (+30.0 billion yen per year), including capital investments and on-site cost reductions. Together with growth in the transportation field, these initiatives are expected to increase profits.

### **Machinery Businesses**

#### **Initiatives in the Energy and Infrastructure Fields**

To expand the compressor business, Kobe Steel plans to open one of the world's largest test facilities for nonstandard compressors in April 2017. Kobe Steel plans to enter the market for large-sized centrifugal compressors and meet high user's needs. These compressors, for which there is no supply source in the Asian region, are used in steelworks and other types of factories. In addition, Kobe Steel plans to expand its standard compressor business through global development, strengthened product competitiveness and strengthened manufacturing infrastructure (improvement of production efficiency and reducing lead time through consolidation of production sites), aiming to establish a position as the top group in Asia.

In the hydrogen-related business, Kobe Steel aims to strengthen its competitiveness in the domestic and overseas markets and expand sales of units for hydrogen stations by constructing a comprehensive test center for hydrogen stations and carrying out demonstration tests on hydrogen stations using renewable energy to establish differentiated technologies.

#### **Strengthening Profitability in the Construction Machinery Business**

In the Chinese excavator business, Kobe Steel plans to rebuild the business, taking decisive action on structural change to strengthen profitability by reviewing production capacity in response to demand and promoting cross sourcing by reviewing the functions of its two locations in China (serving as supply bases for machines and components to Japan, the United States and Southeast Asia in order to maintain capacity utilization). In addition, in April 2016, the U.S. excavator factory starts up, and plans are underway to expand sales in Europe and the United States, two markets that we reentered, and India, where demand is anticipated to improve. In addition, through the merger of Kobelco Construction Machinery Co., Ltd. and Kobelco Cranes Co., Ltd. on April 1, 2016, Kobe Steel aims to establish a strong business base and a company with a presence in global market.

#### **Electric Power Business**

Kobe Steel plans to continue the stable operation of its ongoing Kobe Power Plant and proceed with two new power generation projects in Moka and Kobe. In fiscal 2022, Kobe Steel will have a total power generation capacity of 3.95 million kW, to establish a stable profit base.

<b>Scale of Power Generation Plants</b>				
Already constructed	Kobe	1,400,000 kW	Supply all the electricity generated to The Kansai Electric Power Company, Inc.	In stable operation
To be constructed	Moka	1,248,000 kW	Supply all the electricity generated to Tokyo Gas Co., Ltd.	Start-up in 2019
	Kobe	1,300,000 kW	Supply all the electricity generated to The Kansai Electric Power Company, Inc	Start-up in 2022
	Total	3,950,000 kW		

## 2) Strengthening the Business Base

### Strengthening Corporate Governance

Kobe Steel plans to transition to a company with an audit and supervisory committee, review the members of the board of directors, nominate a director delegated to serve as the President and CEO of Kobelco Construction Machinery Co., Ltd., newly establish independent outside directors meetings, and take other steps to strengthen corporate governance.

### Human Resource Development

Promoting diversity and implementing changes in working styles, Kobe Steel will focus on creating a safe, employee-friendly working environment. In addition, Kobe Steel aims to secure and cultivate employees who will drive growth in the Kobe Steel Group.

### Strengthening Technology Development Capabilities and Manufacturing Capabilities

Kobe Steel plans to undertake the creation of products and processes that provide customer value through differentiated technologies that strengthen the competitiveness of major products and in the automotive, aerospace, energy and infrastructure fields. In addition, by strengthening product quality, on-site capabilities and data utilization including IoT (the Internet of Things), Kobe Steel plans to strengthen its production infrastructure and raise the level of its *monozukuri-ryoku* (manufacturing capabilities).

### Financial Strategy

The basic policy is to finance strategic investments to grow the materials businesses and machinery businesses under the medium-term management plan and finance regular investments that support the business base by operating cash flows. In the event, cash flows should worsen due to changes in the business environment, Kobe Steel intends to maintain financial discipline while steadily carrying out growth investments. It will adopt cash generation measures, targeting a maximum of 100 billion yen, such as asset sales improvements in working capital, and the careful selection of investments.

The Kobe Steel Group recognizes that it cannot promote and achieve these business plans without thorough safety and compliance and harmoniously coexisting with society. The Kobe Steel Group in concert aims to increase sensitivity to safety and compliance, while participating in forest conservation activities, operating experience-based learning facilities, sponsoring the KOBELCO Forest Fairy Tale Prize, and undertaking a variety of other activities inside and outside the Group. At the same time, Kobe Steel Group will promote initiatives to strengthen its business base through its business growth strategy focused on the three core business areas of materials, machinery and electric power, while strengthening corporate governance. In these ways, Kobe Steel aims to establish a solid business enterprise and achieve its medium- to long-term business vision.

## 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>FY2014</b> Ended Mar. 31, 2015	<b>FY2015</b> Ended Mar. 31, 2016
<b>Current Assets</b>		
Cash and deposits	103,181	155,021
Notes and accounts receivable	355,579	323,849
Lease receivables and investment assets	34,789	26,278
Securities	---	31,000
Merchandise and finished goods	185,077	168,383
Work-in-process	119,436	125,044
Raw materials and supplies	138,161	133,596
Deferred tax assets	30,388	20,573
Other	95,041	67,030
Allowance for doubtful accounts	(8,648)	(3,899)
Total current assets	1,053,006	1,046,879
<b>Tangible fixed assets</b>		
Buildings and structures	288,175	281,105
Machinery and equipment	401,505	390,887
Tools, furniture and fixtures	13,839	14,034
Land	195,837	194,591
Construction in progress	27,636	46,212
Total tangible fixed assets	926,994	926,830
<b>Fixed Assets</b>		
<b>Intangible fixed assets</b>		
Software	13,368	13,583
Other	6,670	5,886
Total intangible fixed assets	20,038	19,470
<b>Investments and other assets</b>		
Investments in securities	207,931	155,913
Long-term loans receivable	7,468	7,087
Deferred tax assets	18,327	28,193
Net defined benefit asset	20,036	16,124
Other	48,667	96,736
Allowance for doubtful accounts	(2,230)	(36,101)
Total investment and other assets	300,201	267,954
Total fixed assets	1,247,234	1,214,255
<b>Total assets</b>	2,300,241	2,261,134

**LIABILITIES**

	<b>FY2014</b>	<b>FY2015</b>
	<b>Ended Mar. 31, 2015</b>	<b>Ended Mar. 31, 2016</b>
<b>Current liabilities</b>		
Notes and accounts payable	424,269	360,802
Short-term borrowings	221,371	221,937
Lease obligations	5,433	7,038
Bonds due within one year	20,000	35,000
Accounts payable - other	36,687	43,578
Income and enterprise taxes payable	14,010	5,346
Deferred tax liabilities	609	325
Provision for bonuses	20,719	19,325
Provision for product warranties	11,377	11,316
Provision for loss on construction contracts	6,467	7,217
Provision for loss on guarantees	---	9,901
Other	102,507	91,876
Total current liabilities	<u>863,455</u>	<u>813,665</u>
<b>Long-term liabilities</b>		
Bonds and notes	131,000	176,000
Long-term borrowings	304,974	356,492
Lease obligations	27,077	24,066
Deferred tax liabilities	14,222	6,564
Deferred tax liabilities on land revaluation	3,435	3,251
Net defined benefit liability	59,573	77,165
Provision for environmental measures	1,195	1,061
Provision for structural reform related expenses	4,944	5,321
Provision for dismantlement related expenses	9,556	11,027
Other	29,020	41,023
Total long-term liabilities	<u>585,001</u>	<u>701,975</u>
<b>Total liabilities</b>	<u>1,448,456</u>	<u>1,515,641</u>
<b>NET ASSETS</b>		
<b>Stockholders' equity</b>		
Common stock	250,930	250,930
Capital surplus	100,782	103,557
Retained earnings	392,652	354,719
Treasury stock, at cost	(2,996)	(1,556)
Total stockholders' equity	<u>741,368</u>	<u>707,651</u>
<b>Accumulated other comprehensive income</b>		
Unrealized gains on securities, net of taxes	27,097	8,255
Unrealized losses on hedging derivatives, net of taxes	(2,415)	(7,929)
Land revaluation differences, net of taxes	(3,560)	(3,406)
Foreign currency translation adjustments	22,892	13,900
Remeasurements of defined benefit plans, net of taxes	(8,891)	(26,465)
Total accumulated other comprehensive income	<u>35,122</u>	<u>(15,645)</u>
<b>Non-controlling interests</b>	<u>75,293</u>	<u>53,486</u>
<b>Total net assets</b>	<u>851,785</u>	<u>745,492</u>
<b>Total liabilities and net assets</b>	<u>2,300,241</u>	<u>2,261,134</u>

## Consolidated Statements of Income

(In millions of yen)

	<b>FY2014</b>	<b>FY2015</b>
	Ended Mar. 31, 2015	Ended Mar. 31, 2016
<b>Net sales</b>	1,886,894	1,822,805
<b>Cost of sales</b>	1,581,527	1,548,384
<b>Gross profit</b>	305,366	274,421
<b>Selling, general and administrative expenses</b>		
Haulage expenses	48,869	46,516
Salaries and allowances	38,878	40,957
Research and development expenses	13,067	13,635
Other	85,091	104,866
Total selling, general and administrative expenses	185,906	205,976
<b>Operating income</b>	119,460	68,445
<b>Non-operating income</b>		
Interest income	4,181	4,638
Dividend income	2,726	3,387
Reimbursement of seconded employees' salaries	5,398	4,870
Equity in income of equity method companies	69	---
Currency exchange gain	3,813	---
Other	17,802	13,068
Total non-operating income	33,993	25,964
<b>Non-operating expenses</b>		
Interest expense	15,845	15,176
Seconded employees' salaries	12,865	11,566
Equity in loss of equity method companies	---	7,770
Currency exchange loss	---	4,134
Other	23,054	26,834
Total non-operating expenses	51,765	65,482
<b>Ordinary income</b>	101,688	28,927
<b>Extraordinary income</b>		
Gain on return of assets from retirement benefits trust	15,684	---
Total extraordinary income	15,684	---
<b>Extraordinary loss</b>		
Loss on business of subsidiaries and associates	---	37,363
Loss on write-down of investment securities	2,588	2,183
Dismantlement-related expenses	10,457	---
Total extraordinary loss	13,046	39,547
<b>Income (loss) before income taxes and non-controlling interests</b>	104,325	(10,619)
<b>Income taxes</b>		
Current	24,135	14,677
Deferred	(11,788)	8,385
Total income taxes	12,347	23,062
<b>Income (loss) before non-controlling interests</b>	91,978	(33,682)
<b>Net income (loss) attributable to non-controlling interests</b>	5,428	(12,126)
<b>Net income (loss) attributable to owners of the parent</b>	86,549	(21,556)

## Consolidated Statements of Comprehensive Income

(In millions of yen)

	<b>FY2014</b>	<b>FY2015</b>
	Ended Mar. 31, 2015	Ended Mar. 31, 2016
<b>Income (loss) before non-controlling interests</b>	91,978	(33,682)
<b>Other comprehensive income (loss)</b>		
Unrealized gains or losses on securities, net of taxes	12,875	(18,095)
Unrealized losses on hedging derivatives, net of taxes	(301)	(5,858)
Land revaluation differences, net of taxes	356	175
Foreign currency translation adjustments	23,312	(12,107)
Remeasurements of defined benefit plans, net of taxes	4,348	(17,560)
Share of other comprehensive income related to affiliates	2,817	(1,423)
Total other comprehensive income	43,408	(54,870)
<b>Comprehensive Income (loss)</b>	135,387	(88,552)
Breakdown of total comprehensive income (loss) attributed to:		
Stockholders of the parent interests	124,251	(72,305)
Non-controlling interests	11,135	(16,246)

**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					
Dividends of surplus			(21,832)		(21,832)
Net income attributable to owners of the parent			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 non-controlling interests		40			40
Change of scope of consolidation and equity method			(11)		(11)
Reversal of revaluation reserve for land			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						Non-controlling 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								
Dividends of surplus								(21,832)
Net income attributable to owners of the parent								86,549
Share exchanges								
Purchase of treasury stock								(26)
Disposal of treasury stock								5
Changes in stockholders interest due to transaction with Non-controlling interests								40
Change of scope of consolidation and equity method								(11)
Reversal of revaluation reserve for land								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 Changes in Net Assets** (In millions of yen)  
 FY2015 (April 1, 2015 – March 31, 2016)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance at the beginning of fiscal year	250,930	100,782	392,652	(2,996)	741,368
Cumulative effect amount of changing accounting policies					
Balance at the beginning of fiscal year (adjusted)	250,930	100,782	392,652	(2,996)	741,368
Amount of change					
Dividends of surplus			(14,536)		(14,536)
Net loss attributable to owners of the parent			(21,556)		(21,556)
Share exchanges			(1,855)	3,407	1,552
Purchase of treasury stock				(1,970)	(1,970)
Disposal of treasury stock			(1)	2	1
Changes in stockholders interest due to transaction with non-controlling interests		2,775			2,775
Change of scope of consolidation and equity method			(1)		(1)
Reversal of revaluation reserve for land			18		18
Net changes other than stockholders' equity					
Total changes	---	2,775	(37,932)	1,439	(33,717)
Balance at the end of fiscal year	250,930	103,557	354,719	(1,556)	707,651

	Accumulated other comprehensive income						Non-controlling 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	27,097	(2,415)	(3,560)	22,892	(8,891)	35,122	75,293	851,785
Cumulative effect amount of changing accounting policies								
Balance at the beginning of fiscal year (adjusted)	27,097	(2,415)	(3,560)	22,892	(8,891)	35,122	75,293	851,785
Amount of change								
Dividends of surplus								(14,536)
Net loss attributable to owners of the parent								(21,556)
Share exchanges								1,552
Purchase of treasury stock								(1,970)
Disposal of treasury stock								1
Changes in stockholders interest due to transaction with Non-controlling interests								2,775
Change of scope of consolidation and equity method								(1)
Reversal of revaluation reserve for land								18
Net changes other than stockholders' equity	(18,841)	(5,514)	154	(8,991)	(17,574)	(50,768)	(21,806)	(72,574)
Total changes	(18,841)	(5,514)	154	(8,991)	(17,574)	(50,768)	(21,806)	(106,292)
Balance at the end of fiscal year	8,255	(7,929)	(3,406)	13,900	(26,465)	(15,645)	53,486	745,492

## Consolidated Statements of Cash Flows

(In millions of yen)

	FY2014 Ended Mar. 31, 2015	FY2015 Ended Mar. 31, 2016
<b>Cash flows from operating activities</b>		
Income loss before income taxes	104,325	(10,619)
Depreciation	89,881	94,812
Increase in allowance for doubtful accounts	2,295	16,857
Interest and dividend income	(6,908)	(8,025)
Interest expense	15,845	15,176
Loss (income) on sale of securities	290	(1,685)
Loss on write-down of investments in securities	2,588	2,183
Equity in loss (income) of equity method companies	(69)	7,770
Loss on sale of plant and equipment	(1,881)	(63)
Loss on disposal of plant and equipment	2,060	1,800
Loss on business of subsidiaries and associates	---	37,363
Gain on return of assets from retirement benefits trust	(15,684)	---
Dismantlement related expenses	10,457	---
Decrease in trade receivables from customers	27,340	10,536
Net decrease (increase) in lease receivables and investment assets	(1,778)	7,076
Decrease (Increase) in inventories	(29,812)	11,348
Decrease in trade payables to customers	(6,253)	(56,431)
Other	(15,696)	2,047
Subtotal	177,001	130,148
Cash received for interest and dividends	8,347	9,667
Cash paid for interest	(16,180)	(15,852)
Cash paid for income taxes	(16,089)	(26,030)
Net cash provided by operating activities	153,078	97,933
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and other assets	(95,353)	(99,171)
Proceeds from sale of property, plant and equipment and other assets	5,013	3,042
Purchase of investments in securities	(391)	(7,124)
Proceeds from sale of investments in securities	23,634	6,581
Payment for investments in capital	(6,285)	(957)
Proceeds from sales of investment in subsidiaries resulting in change in scope of consolidation	790	---
Decrease (Increase) in short-term loans receivable	(346)	(10,467)
Payments for long-term loans receivable	(401)	(277)
Proceeds from collection of long-term loans receivable	468	674
Other	(802)	3,080
Net cash used in investing activities	(73,674)	(104,618)
<b>Cash flows from financing activities</b>		
Increase (Decrease) in short-term borrowings	(50,994)	(18,712)
Proceeds from issuance of long-term borrowings	17,138	163,191
Repayment of long-term borrowings	(59,860)	(86,179)
Proceeds from issuance of bonds	---	80,000
Repayment of bonds	(26,000)	(20,000)
Repayment of finance lease obligations	(14,333)	(6,728)
Payment of dividends	(21,709)	(14,492)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(67)	---
Other	(199)	(3,196)
Net cash provided by (used in) financing activities	(156,027)	93,883
Effect of exchange rate changes on cash and cash equivalents	7,097	(4,583)
Increase (Decrease) in cash and cash equivalents	(69,526)	82,613
Cash and cash equivalents at the beginning of fiscal year	170,926	101,654
Increase (Decrease) in cash and cash equivalents resulting in change in scope of consolidation	253	19
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	---	50
Cash and cash equivalents at the end of fiscal year	101,654	184,336

## Notes

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

None

### (Changes in presentation method)

(Change with application of "Accounting Standards for Business Combinations")

Kobe Steel has applied Article 39 in the "Accounting Standards for Consolidated Financial Statements" (ASBJ Statement No.22, revised on September 13, 2013), the presentation of net income has been changed, and the presentation of minority interests has been changed to non-controlling interests. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

(Consolidated Statements of Income)

In the consolidated previous fiscal year, "Subsidy income" which was independently stated under "Non-operating income" is indicated in "Other" from this fiscal year under review, as it has become insignificant in terms of amount. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Subsequently, in the consolidated statements of income for the previous fiscal year, the amount of 4,665 million yen, which was stated in "Subsidy income" under "Non-operating income", has been reclassified in "Other".

(Consolidated Statements of Cash Flows)

In the consolidated previous fiscal year, "Increase in allowance for doubtful accounts", which was indicated in "Other" under "Cash flows from operating activities", is stated independently from this fiscal year, as it has become significant in terms of amount. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Subsequently, in the consolidated statements of cash flows for the previous fiscal year, the amount of -13,400 million yen, which was recorded in "Other" under "Cash flows from operating activities", has been reclassified as 2,295 million yen in "Increase in allowance for doubtful accounts" and -15,696 million yen in "Other".

## Segment Information

(In millions of yen)

		FY2014	FY2015
		Ended Mar. 31, 2015	Ended Mar. 31, 2016
Sales to outside customers:	Iron & Steel	761,883	713,543
	Welding	93,588	91,435
	Aluminum & Copper	329,803	344,623
	Machinery	150,218	148,252
	Engineering	48,161	47,390
	Kobelco Eco-Solutions	67,031	81,175
	Kobelco Construction Machinery	310,107	271,062
	Kobelco Cranes	64,733	65,100
	Other Businesses	59,073	57,678
	Adjustment	2,292	2,542
	Total	1,886,894	1,820,263
Intersegment sales:	Iron & Steel	35,930	29,005
	Welding	895	817
	Aluminum & Copper	1,034	839
	Machinery	8,917	10,750
	Engineering	901	1,359
	Kobelco Eco-Solutions	1,102	1,829
	Kobelco Construction Machinery	901	712
	Kobelco Cranes	6,386	7,699
	Other Businesses	16,989	16,849
	Adjustment	(73,058)	(69,864)
	Total	---	---
Total sales:	Iron & Steel	797,814	742,549
	Welding	94,483	92,252
	Aluminum & Copper	330,838	345,463
	Machinery	159,136	159,002
	Engineering	49,063	48,750
	Kobelco Eco-Solutions	68,133	83,005
	Kobelco Construction Machinery	311,008	271,775
	Kobelco Cranes	71,120	72,799
	Other Businesses	76,062	74,528
	Adjustment	(70,766)	(67,322)
	Total	1,886,894	1,822,805
Ordinary income (loss):	Iron & Steel	28,797	3,683
	Welding	10,266	8,128
	Aluminum & Copper	15,183	15,121
	Machinery	10,400	6,763
	Engineering	785	1,073
	Kobelco Eco-Solutions	3,004	3,624
	Kobelco Construction Machinery	21,012	(14,495)
	Kobelco Cranes	5,168	2,446
	Other Businesses	7,075	7,356
	Adjustment	(7)	(4,775)
	Total	101,688	28,927

## Supplementary Information for Fiscal 2015

(April 1, 2015 – March 31, 2016)

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

	FY2014	FY2015	% change
Net sales	1,886.8	1,822.8	(3.4%)
Operating income	119.4	68.4	(42.7%)
Ordinary income	101.6	28.9	(71.6%)
Extraordinary income (loss)	2.6	(39.5)	---
Net income (loss) attributable to owners of the parent*	86.5	(21.5)	---

\*Due to a revision of the "Accounting Standard for Business Combinations", "net income (loss)" was changed to "net income (loss) attributable to owners of the parent" from fiscal 2015.

### The items of extraordinary income (loss)

	FY2014	FY2015
Gain on return of assets from retirement benefits trust	15.6	---
Extraordinary income	15.6	---
Loss on business of subsidiaries and associates	---	(37.3)
Loss on write-down of investment securities	(2.5)	(2.1)
Dismantlement related expenses	(10.4)	---
Extraordinary loss	(13.0)	(39.5)
Extraordinary income (loss)	2.6	(39.5)

Year-end Dividend for fiscal 2015: 0 yen (a total of 2 yen for the entire fiscal 2015)

### 2. Forecast for Fiscal 2016 (in billions of yen)

	FY2015	FY2016 Forecast			% change
		1st half	2nd half	Full year	
Net sales	1,822.8	860.0	890.0	1,750.0	(4.0%)
Operating income	68.4	25.0	40.0	65.0	(5.0%)
Ordinary income	28.9	10.0	25.0	35.0	21.0%
Extraordinary loss	(39.5)	---	---	---	---
Net (income) loss attributable to owners of the parent	(21.5)	5.0	15.0	20.0	---

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

		FY2014	FY2015	% change
Iron & Steel	Sales	797.8	742.5	(6.9%)
	Ordinary income	28.7	3.6	(87.2%)
Welding	Sales	94.4	92.2	(2.4%)
	Ordinary income	10.2	8.1	(20.8%)
Aluminum & Copper	Sales	330.8	345.4	4.4%
	Ordinary income	15.1	15.1	(0.4%)
Machinery	Sales	159.1	159.0	(0.1%)
	Ordinary income	10.4	6.7	(35.0%)
Engineering	Sales	49.0	48.7	(0.6%)
	Ordinary income	0.7	1.0	36.7%
Kobelco Eco-Solutions	Sales	68.1	83.0	21.8%
	Ordinary income	3.0	3.6	20.6%
Kobelco Construction Machinery	Sales	311.0	271.7	(12.6%)
	Ordinary income (loss)	21.0	(14.4)	---
Kobelco Cranes	Sales	71.1	72.7	2.4%
	Ordinary income	5.1	2.4	(52.7%)
Other Businesses	Sales	76.0	74.5	(2.0%)
	Ordinary income	7.0	7.3	4.0%
Adjustment	Sales	(70.7)	(67.3)	---
	Ordinary loss	(0.0)	(4.7)	---
Total	Sales	1,886.8	1,822.8	(3.4%)
	Ordinary income	101.6	28.9	(71.6%)

### 4. Production, Sales & Orders

#### (1) Steel Products (Nonconsolidated)

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

	FY2014	FY2015	% change
Crude steel	7.48	7.48	---
Sales volume	6.05	6.00	(0.8%)
Export ratio (value base)	32.1%	32.2%	

##### Sales Prices of Steel Products (In yen per metric ton)

	FY2014	FY2015	% change
Domestic & Export average	81,700	75,200	(8.0%)

#### (2) Aluminum & Copper Rolled Products

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

	FY2014	FY2015	% change
Aluminum rolled products	316	345	9.1%
Copper strip	54	49	(8.1%)
Copper tube*	85	85	(0.6%)

\*Consolidated

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

	FY2014	FY2015
Domestic	45.6	53.2
Overseas	95.7	87.2
Total orders	141.3	140.4

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

	FY2014	FY2015
Domestic	33.3	37.7
Overseas	100.0	96.1
Total backlog	133.3	133.8

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

	FY2014	FY2015
Domestic	18.9	6.3
Overseas	6.3	44.3
Total orders	25.2	50.6

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

	FY2014	FY2015
Domestic	46.5	39.0
Overseas	21.6	37.7
Total backlog	68.2	76.8

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

	FY2014	FY2015
Domestic & Overseas total orders	69.9	78.5

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

	FY2014	FY2015
Domestic & Overseas total backlog	49.0	44.5

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

	FY2014	FY2015	Amount of Decrease
Ordinary income	101.6	28.9	(72.7)

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	83.5	Production & shipments	(68.0)
		Overall cost	(10.5)
		Effect of steel inventory valuation*	(6.5)
		Effect of aluminum & copper inventory valuation*	(5.0)
		Effect of changes in foreign exchange rates on steel business	(11.5)
		Consolidated subsidiaries & equity-valued affiliates	(40.0)
		Other	(14.7)
Total	83.5	Total	(156.2)

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

## 6. Forecast for FY2016 by Segment (Consolidated, in billions of yen)

		FY2015	FY2016 Forecast		
			1st half	2nd half	Full year
Iron & Steel	Sales	665.8	300.0	310.0	610.0
	Ordinary loss	(14.9)	(10.0)	(6.0)	(16.0)
Welding	Sales	92.2	43.0	43.0	86.0
	Ordinary income	8.1	3.5	3.5	7.0
Aluminum & Copper	Sales	345.4	165.0	165.0	330.0
	Ordinary income	15.1	6.0	8.0	14.0
Machinery	Sales	159.0	76.0	85.0	161.0
	Ordinary income	6.7	2.5	1.5	4.0
Engineering	Sales	131.7	51.0	75.0	126.0
	Ordinary income (loss)	4.6	(1.0)	4.0	3.0
Kobelco Construction Machinery	Sales	336.2	170.0	165.0	335.0
	Ordinary income (loss)	(11.9)	4.0	4.0	8.0
Electric Power	Sales	76.7	36.0	36.0	72.0
	Ordinary income	17.4	7.0	7.0	14.0
Other Businesses	Sales	74.5	32.0	44.0	76.0
	Ordinary income	7.3	1.5	6.0	7.5
Adjustment	Sales	(58.9)	(13.0)	(33.0)	(46.0)
	Ordinary loss	(3.6)	(3.5)	(3.0)	(6.5)
Total	Sales	1,822.8	860.0	890.0	1,750.0
	Ordinary income	28.9	10.0	25.0	35.0

\*Income and loss of each new segment for fiscal 2015 are reference information classified from old segment to be compared with forecast for fiscal 2016.

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

	FY2015	FY2016	Amount of increase
Ordinary income	28.9	35.0	6.1

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	30.5	Production & shipments	(46.5)
Effect of steel inventory valuation*	7.5	Overall cost	(2.0)
Effect of changes in foreign exchange rates on steel business	1.0	Effect of aluminum & cooper inventory valuation*	(0.5)
Consolidated subsidiaries & equity-valued affiliates	17.5	Other	(1.4)
Total	56.5	Total	(50.4)

\* 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

	FY2014	FY2015	FY2016 Forecast
Free cash flow	69.6	(18.0)	(15.0)

(Excludes cash flow from IPP project financing)

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

	FY2014	FY2015	FY2016 Forecast
Outside debt *	650.9	776.0	730.0
D/E ratio (times) **	0.88	1.10	1 or less

\* Excludes debt from IPP project financing

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

### (2) Exchange Rate

	FY2014	FY2015	FY2016 Forecast
1 U.S. dollar to yen	110 yen	120 yen	115 yen
1 Chinese yuan to yen	17.7 yen	18.9 yen	17 yen

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

	FY2014	FY2015	FY2016 Forecast
Capital investment (accrual basis)	103.5	109.9	190.0
Depreciation	89.8	94.8	100.0

## FOR REFERENCE

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

		FY2014							FY2015								
		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	186.7	199.8	386.6	200.3	210.7	411.1	797.8	189.1	188.2	377.4	179.3	185.7	365.1	742.5		
	Ordinary income (loss)	3.1	7.2	10.4	9.9	8.4	18.3	28.7	6.0	1.5	7.5	2.2	(6.0)	(3.8)	3.6		
Welding	Sales	22.7	22.9	45.6	24.3	24.4	48.8	94.4	23.2	23.4	46.6	22.2	23.3	45.5	92.2		
	Ordinary income	2.1	2.5	4.6	2.8	2.7	5.6	10.2	2.0	2.2	4.3	1.8	1.9	3.8	8.1		
Aluminum & Copper	Sales	81.8	79.6	161.5	82.9	86.3	169.3	330.8	92.8	85.5	178.3	84.2	82.8	167.0	345.4		
	Ordinary income	3.6	2.4	6.0	4.6	4.4	9.1	15.1	6.2	3.1	9.4	2.4	3.1	5.6	15.1		
Machinery	Sales	36.9	36.0	73.0	37.4	48.6	86.1	159.1	40.5	40.7	81.2	32.2	45.4	77.7	159.0		
	Ordinary income	1.9	1.2	3.2	4.4	2.6	7.1	10.4	1.6	1.1	2.8	2.5	1.4	3.9	6.7		
Engineering	Sales	8.6	10.4	19.0	11.1	18.8	29.9	49.0	10.3	15.2	25.5	7.3	15.8	23.1	48.7		
	Ordinary income (loss)	(0.4)	(0.1)	(0.5)	(0.2)	1.5	1.3	0.7	(0.3)	2.4	2.0	(1.0)	0.0	(0.9)	1.0		
Kobelco Eco-Solutions	Sales	12.0	15.1	27.1	16.3	24.5	40.9	68.1	14.5	17.3	31.8	19.3	31.8	51.1	83.0		
	Ordinary income	0.0	0.3	0.3	0.9	1.7	2.6	3.0	0.3	0.2	0.6	0.6	2.3	2.9	3.6		
Kobelco Construction Machinery	Sales	81.2	88.4	169.7	70.0	71.2	141.2	311.0	70.3	76.6	147.0	61.8	62.9	124.7	271.7		
	Ordinary income (loss)	7.5	8.6	16.1	4.4	0.4	4.8	21.0	1.2	(1.7)	(0.4)	(8.9)	(5.0)	(14.0)	(14.4)		
Kobelco Cranes	Sales	16.9	18.9	35.8	15.8	19.3	35.2	71.1	18.1	20.9	39.0	16.3	17.3	33.7	72.7		
	Ordinary income (loss)	1.7	1.4	3.1	1.3	0.6	1.9	5.1	1.0	1.4	2.4	0.3	(0.3)	(0.0)	2.4		
Other Businesses	Sales	14.3	16.0	30.4	17.2	28.3	45.5	76.0	18.1	17.6	35.7	16.1	22.6	38.8	74.5		
	Ordinary income	0.9	0.9	1.9	1.8	3.2	5.1	7.0	1.9	1.3	3.3	1.2	2.8	4.0	7.3		
Adjustment	Sales	(16.7)	(16.4)	(33.1)	(18.0)	(19.5)	(37.6)	(70.7)	(17.1)	(17.1)	(34.3)	(14.1)	(18.8)	(33.0)	(67.3)		
	Ordinary income (loss)	0.7	(0.2)	0.5	1.3	(1.9)	(0.5)	(0.0)	1.5	(0.4)	1.0	(1.3)	(4.4)	(5.8)	(4.7)		
Total	Sales	444.7	471.2	916.0	457.7	513.1	970.8	1,886.8	460.0	468.5	928.6	424.9	469.2	894.1	1,822.8		
	Ordinary income (loss)	21.5	24.5	46.1	31.5	23.9	55.5	101.6	21.8	11.2	33.0	(0.0)	(4.1)	(4.1)	28.9		
Net income (loss) attributable to owners of the parent*		22.9	19.1	42.1	22.0	22.4	44.4	86.5	11.8	1.5	13.4	(27.2)	(7.7)	(34.9)	(21.5)		

\*Due to a revision of the "Accounting Standard for Business Combinations", "net income (loss)" was changed to "net income (loss) attributable to owners of the parent" from fiscal 2015.

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

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

	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%

	FY2015						
	1st Half			2nd Half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Crude steel	1.84	1.83	3.67	1.89	1.92	3.81	7.48
Sales volume	1.48	1.49	2.97	1.47	1.56	3.03	6.00
Export ratio (value basis)	34.8%	33.6%	34.2%	29.2%	30.8%	30.0%	32.2%

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

	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

	FY2015						
	1st Half			2nd Half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Domestic & Export average	80,500	77,000	78,700	75,400	68,400	71,800	75,200

#### Note:

The portions of this material referring to forecasts are based on currently available information as of today. Actual business results may differ considerably due to various changeable conditions in the future.

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