



KOBELCO

Investor Meeting

First Half of FY2016



October 31, 2016
KOBE STEEL, LTD.



EcoWay

Financial Results for First Half of FY2016

(Billions of yen)

	FY2015	FY2016		Change	
	1H ①	Forecast (July) ②	Actual ③	③-①	③-②
Net sales	928.6	850.0	815.1	△113.4	△34.9
Operating income	47.0	20.0	30.9	△16.0	+10.9
Ordinary income	33.0	△5.0	12.3	△20.7	+7.3
(excluding inventory valuation)	(40.5)	(15.5)	(23.8)	(△16.7)	(+8.3)
Extraordinary income	△9.4	0.0	0.0	+9.4	±0.0
Net income attributable to owners of the parent	13.4	0.0	4.1	△9.3	+4.1



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Segment Sales

(Billions of yen)

Net sales	FY2015	FY2016		Change	
	1H ①	Forecast (July) ②	Actual ③	③-①	③-②
Iron & Steel	338.5	300.0	290.3	△48.2	△9.7
Welding	46.6	41.0	42.2	△4.4	+1.2
Aluminum & Copper	178.3	165.0	162.9	△15.4	△2.1
Machinery	81.2	77.0	72.0	△9.2	△5.0
Engineering	57.4	52.0	49.5	△7.8	△2.5
Construction Machinery	181.2	160.0	156.1	△25.1	△3.9
Electric Power	38.8	36.0	35.5	△3.3	△0.5
Other Businesses	35.7	33.0	31.2	△4.4	△1.8
Adjustment	△29.4	△14.0	△25.0	+4.4	△11.0
Total	928.6	850.0	815.1	△113.4	△34.9

Ordinary income by Segment

(Billions of yen)

Ordinary income	FY2015	FY2016		Change	
	1H ①	Forecast (July) ②	Actual ③	③-①	③-②
Iron & Steel	△1.2	△11.0	△9.8	△8.6	+1.2
Welding	4.3	3.5	3.8	△0.4	+0.3
Aluminum & Copper	9.4	4.0	6.5	△2.8	+2.5
Machinery	2.8	2.5	3.7	+0.9	+1.2
Engineering	2.6	△1.0	0.0	△2.6	+1.0
Construction Machinery	1.9	△3.0	△0.5	△2.5	+2.5
Electric Power	8.1	8.0	8.3	+0.2	+0.3
Other Businesses	3.3	1.5	2.0	△1.3	+0.5
Adjustment	1.6	0.5	△1.8	△3.4	△2.3
Total	33.0	△5.0	12.3	△20.7	+7.3



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Forecast for FY2016

(Billions of yen)

	FY2015	FY2016 (Previous)			FY2016			Change	
	①	1H	2H	Full year ②	1H	2H	Full year ③	③-①	③-②
Net sales	1,822.8	850.0	880.0	1,730.0	815.1	874.9	1,690.0	△132.8	△40.0
Operating income	68.4	20.0	30.0	50.0	30.9	14.1	45.0	△23.4	△5.0
Ordinary income	28.9	5.0	15.0	20.0	12.3	△2.3	10.0	△18.9	△10.0
(excluding inventory valuation)	(46.9)	(15.5)	(17.0)	(32.5)	(23.8)	(△1.3)	(22.5)	(△24.4)	(△10.0)
Extraordinary income	△39.5	0.0	0.0	0.0	0.0	0.0	0.0	+39.5	±0.0
Net income attributable to owners of the parent	△21.5	0.0	10.0	10.0	4.1	△4.1	0.0	+21.5	△10.0



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Segment Sales

(Billions of yen)

Net sales	FY2015 ①	FY2016 (Previous)			FY2016			Change	
		1H	2H	Full year ②	1H	2H	Full year ③	③-①	③-②
Iron & Steel	665.8	300.0	315.0	615.0	290.3	319.7	610.0	△55.8	△5.0
Welding	92.2	41.0	42.0	83.0	42.2	38.8	81.0	△11.2	△2.0
Aluminum & Copper	345.4	165.0	165.0	330.0	162.9	157.1	320.0	△25.4	△10.0
Machinery	159.0	77.0	83.0	160.0	72.0	85.0	157.0	△2.0	△3.0
Engineering	131.7	52.0	75.0	127.0	49.5	75.5	125.0	△6.7	△2.0
Construction Machinery	336.2	160.0	155.0	315.0	156.1	148.9	305.0	△31.2	△10.0
Electric Power	76.7	36.0	34.0	70.0	35.5	34.5	70.0	△6.7	±0.0
Other Businesses	74.5	33.0	44.0	77.0	31.2	44.8	76.0	+1.5	△1.0
Adjustment	△58.9	△14.0	△33.0	△47.0	△25.0	△29.0	△54.0	+4.9	△7.0
Total	1,822.8	850.0	880.0	1,730.0	815.1	874.9	1,690.0	△132.8	△40.0



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Segment Ordinary Income (Loss)

(Billions of yen)

Ordinary income	FY2015	FY2016 (Previous)			FY2016			Change	
	①	1H	2H	Full year ②	1H	2H	Full year ③	③-①	③-②
Iron & Steel	△14.9	△11.0	△9.0	△20.0	△9.8	△20.2	△30.0	△15.1	△10.0
Welding	8.1	3.5	3.5	7.0	3.8	2.7	6.5	△1.6	△0.5
Aluminum & Copper	15.1	4.0	8.0	12.0	6.5	3.5	10.0	△5.1	△2.0
Machinery	6.7	2.5	1.5	4.0	3.7	0.8	4.5	△2.2	+0.5
Engineering	4.6	△1.0	4.0	3.0	0.0	2.5	2.5	△2.1	△0.5
Construction Machinery	△11.9	△3.0	2.0	△1.0	△0.5	△0.5	△1.0	+10.9	±0.0
Electric Power	17.4	8.0	7.0	15.0	8.3	6.7	15.0	△2.4	±0.0
Other Businesses	7.3	1.5	6.0	7.5	2.0	5.0	7.0	△0.3	△0.5
Adjustment	△3.6	0.5	△8.0	△7.5	△1.8	△2.7	△4.5	△0.9	+3.0
Total	28.9	5.0	15.0	20.0	12.3	△2.3	10.0	△18.9	△10.0



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【Iron & Steel】

(Billions of yen)

	FY2016 (Previous)			FY2016			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net sales	300.0	315.0	615.0	290.3	319.7	610.0	△5.0
Ordinary income	△11.0	△9.0	△20.0	△9.8	△20.2	△30.0	△10.0
(inventory valuation)	(△6.5)	(△1.0)	(△7.5)	(△7.5)	(0.0)	(△7.5)	(±0.0)

FY2016

- Due to the impact of higher coking coal prices, ordinary income was revised downward. While keeping a close watch on future trends, Kobe Steel is making efforts to pass this increase on to steel sales prices.
- The production and sales volume forecast is almost at the same level as per the previous forecast.
- Costs incurred in fiscal 2016 for refurbishing the No.3 Blast Furnace at Kakogawa Steel Works and consolidating upstream operations are as per the previous forecast.



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Production & Sales

		FY2015			FY2016	
		1H	2H	Full year	1H	Full year
Domestic crude steel production	(Millions of tons)	52.1	52.1	104.2	52.5	

<Domestic steel inventory trend>

Ordinary steel products	(Millions of tons)	5.8	5.5	--	5.7	end of Aug.
Rolled sheets	(Millions of tons)	4.2	4.1	--	4.1	end of Aug.

<Domestic steel inventory trend>

Finished auto production	(Millions of cars)	4.5	4.7	9.2	3.6	Apr.-Aug.
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<KSL>

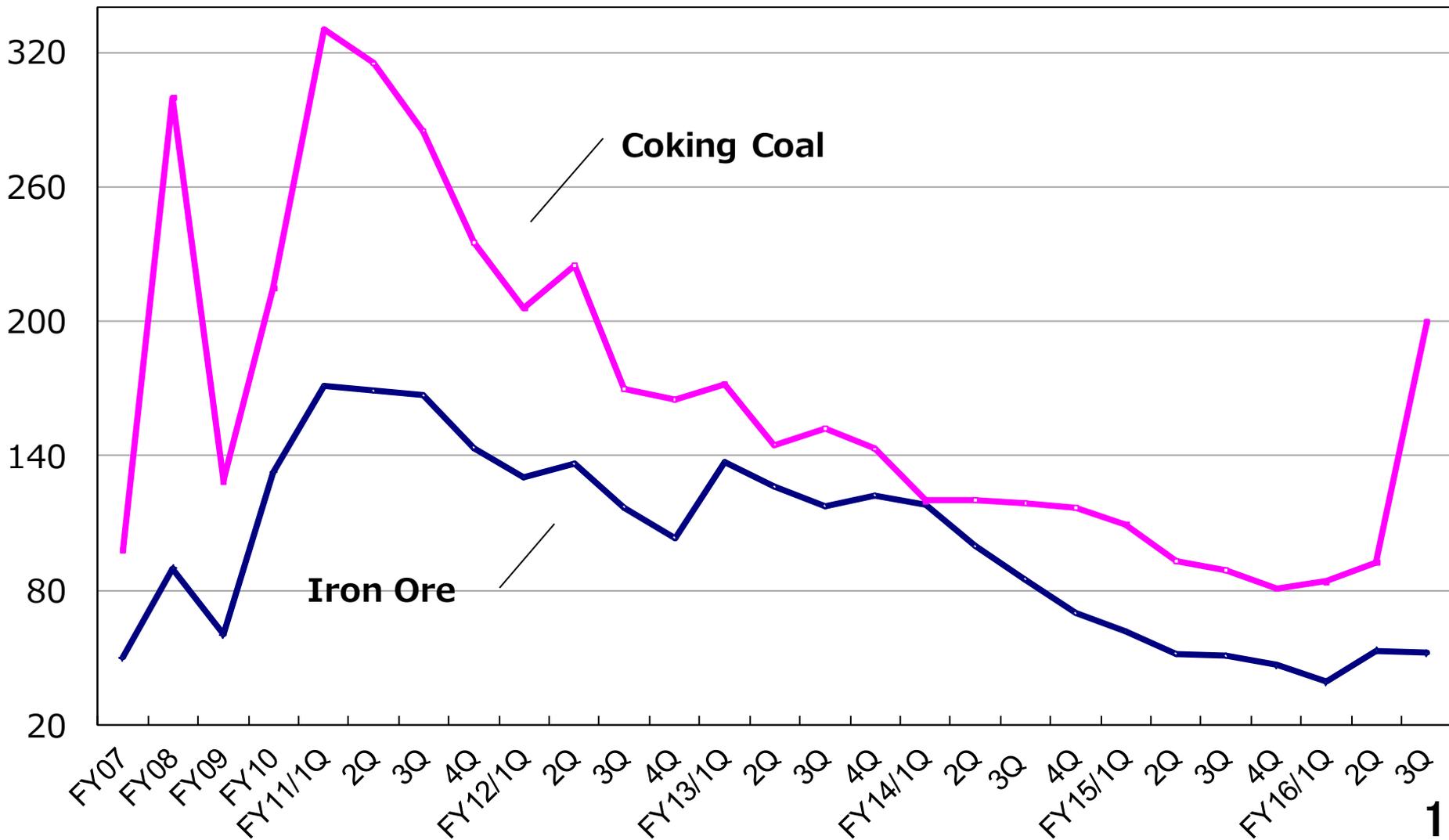
Crude steel production	(Millions of tons)	3.7	3.8	7.5	3.8	about 7.2
Sales volume	(Millions of tons)	3.0	3.0	6.0	2.9	about 6.0
(Domestic)		(2.0)	(2.1)	(4.1)	(2.0)	
(Exports)		(1.0)	(0.9)	(1.9)	(0.9)	
Average steel selling price	(Thousands of yen/ton)	78.7	71.8	75.2	68.0	
Export ratio (value basis)		34.2%	30.0%	32.2%	29.5%	



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Iron Ore & Coking Coal Price Trends

(\$/ton)

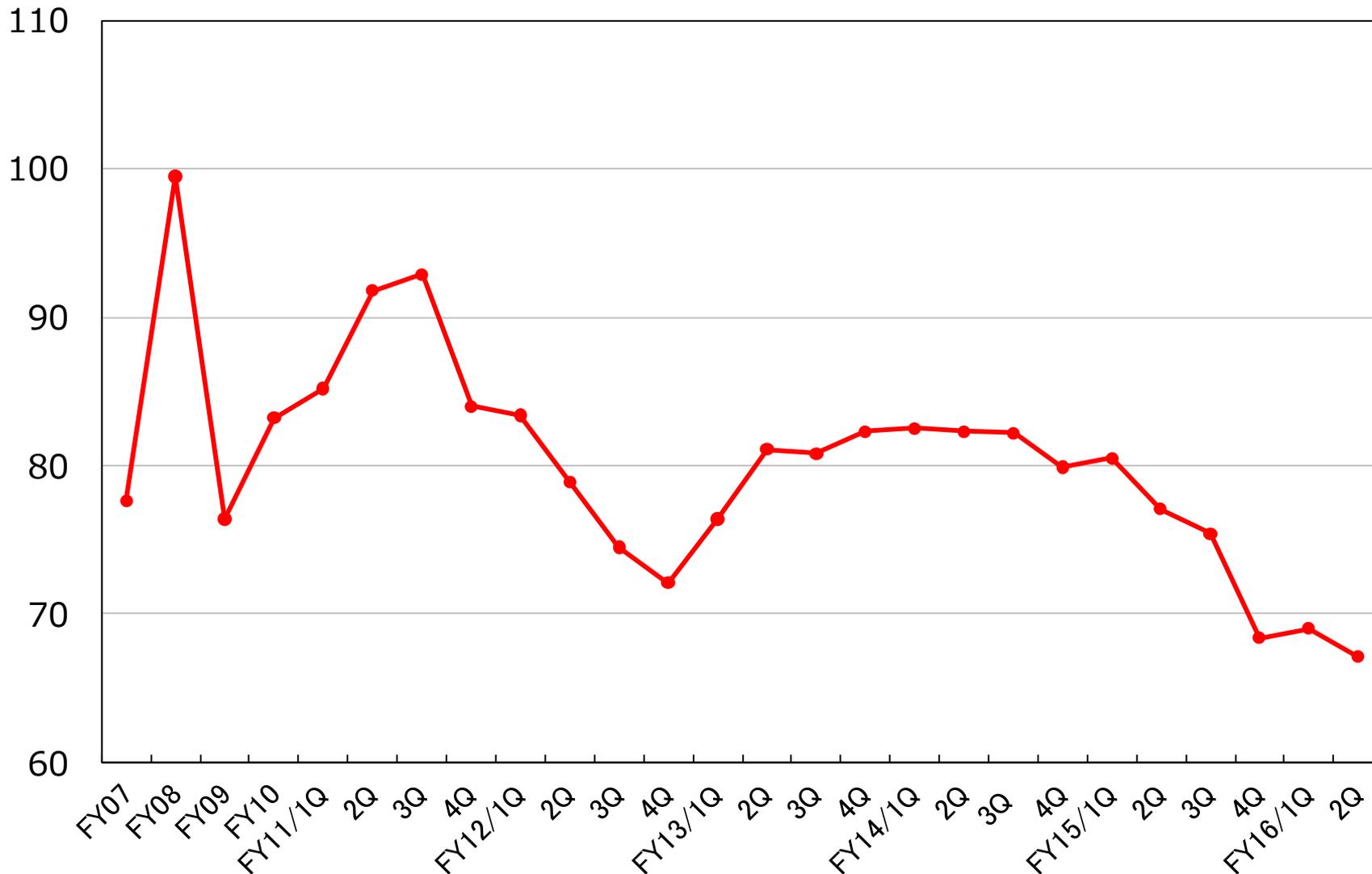




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Steel Product Price Trends at Kobe Steel

(Thousands of yen /ton)





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【Welding】

(Billions of yen)

	FY2015			FY2016			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net sales	41.0	42.0	83.0	42.2	38.8	81.0	△2.0
Ordinary income	3.5	3.5	7.0	3.8	2.7	6.5	△0.5

<Sales volume of KSL Group>

(Thousands of tons)

	FY2015			FY2016
	1H	2H	Full year	1Q
Domestic	66	63	129	62
Overseas	87	87	174	89
Total	153	150	303	151

FY2016

- Due to the sluggish, low demand for welding materials in Japan and overseas, ordinary income was revised downward.



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【Aluminum & Copper】

(Billions of yen)

	FY2016 (Previous)			FY2016			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net sales	165.0	165.0	330.0	162.9	157.1	320.0	△10.0
Ordinary income	4.0	8.0	12.0	6.5	3.5	10.0	△2.0
(Inventory valuation)	(△4.0)	(△1.0)	(△5.0)	(△4.0)	(△1.0)	(△5.0)	(±0.0)

<Sales volume of KSL>

(Thousands of tons)

	FY2015			FY2016
	1H	2H	Full Year	1Q
Aluminum rolled products (Domestic) (Exports)	140 33	137 36	277 69	155 31
Copper Strips	25	24	49	26
Copper Tubes	42	43	85	45

FY2016

- Demand from the automotive sector remains firm.
- Due to the lower sales volume of can stock for beverage cans and aluminum disks for hard disk substrates for computers, etc., ordinary income was revised downward.



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【Machinery】

(Billions of yen)

	FY2016 (Previous)			FY2016			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net sales	77.0	83.0	160.0	72.0	85.0	157.0	△3.0
Ordinary income	2.5	1.5	4.0	3.7	0.8	4.5	+0.5
Orders	-	-	about 140	55.8	about 74	about 130	about △10

FY2016

- While we forecast sluggish demand in the energy-related sector and difficult business environment due to the high yen, we expect cost reductions, etc. will improve ordinary income.



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【Engineering】

(Billions of yen)

	FY2016 (Previous)			FY2016			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net sales	52.0	75.0	127.0	49.5	75.5	125.0	△2.0
Ordinary income	△1.0	4.0	3.0	0.0	2.5	2.5	△0.5
Orders	-	-	about 145	80.6	about 54	about 135	about △10

FY2016

- Some orders in the earthquake reconstruction-related field have carried over into the second half. Other than this, orders in the ironmaking plant field overseas and waste treatment facilities in the domestic market were as per the previous forecast.
- Ordinary income was revised downward due to cost increases.



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【Construction Machinery】

(Billions of yen)

	FY2016 (Previous)			FY2016			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net sales	160.0	155.0	315.0	156.1	148.9	305.0	△10.0
Ordinary income	△3.0	2.0	△1.0	△0.5	△0.5	△1.0	±0.0

FY2016

- Though there are signs of demand recovery in the excavator market in China, Kobelco will continue to undertake marketing activities with stricter sales terms.
- Optimization of the production and sales structure to revitalize the excavator business in China is now under consideration.



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【Electric power】

(Billions of yen)

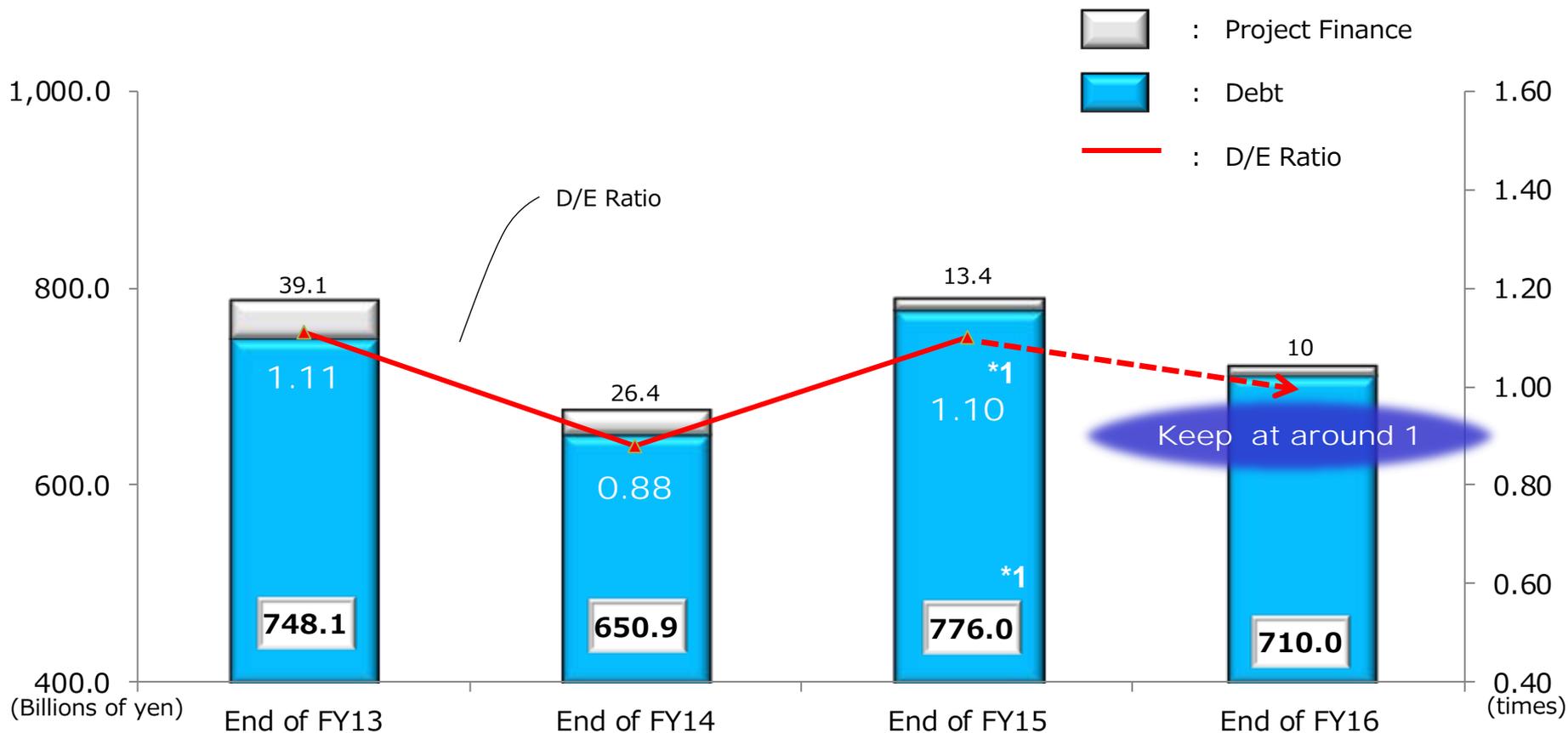
	FY2016 (Previous)			FY2016			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net sales	36.0	34.0	70.0	35.5	34.5	70.0	±0.0
Ordinary income	8.0	7.0	15.0	8.3	6.7	15.0	±0.0

FY2016

- The Electric Power segment will continue efforts for the stable wholesale supply of electricity.



Debt and D/E Ratio



***1 : Including early procurement of borrowings for FY2016 (90 billion yen)
D/E Ratio 0.97 times (excluding early procurement of borrowings)**



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Cash Flows

(Billions of yen)

	FY2015	FY2016 (Previous)			FY2016			Change ② - ①
	Full year	1H	2H	Full year ①	1H	2H	Full year ②	
Cash flows from operating activities	85.8	65.0	55.0	120.0	74.1	30.9	105.0	△15.0
Cash flows from investing activities	△103.8	△75.0	△85.0	△160.0	△61.0	△94.0	△155.0	+5.0
Free cash flow (excluding project financing)	△18.0	△10.0	△30.0	△40.0	13.1	△63.1	△50.0	△10.0
Repayment source for project financing	11.3	5.0	0.0	5.0	3.4	6.6	10.0	+5.0
Free cash flow	△6.7	△5.0	△30.0	△35.0	16.5	△56.5	△40.0	△5.0
Cash and deposits (excluding project financing)	168.5	190.0	70.0		213.6	60.0		△10.0



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Initiatives in a Growth field

Field	Project	Country	Description	Schedule
Automotive	Joint venture to make and sell steel wire rods (Kobelco Millcon Steel Co., LTD)	Thailand	First overseas location for wire rod production. Will help growing auto demand in Southeast Asia.	Sept. 2015 Production of ordinary steel wire rod began May 2017 Production of special steel wire rod began
	Joint venture to make and sell CH steel wire (Kobelco CH Wire Mexicana, S.A. de C.V.)	Mexico	Quickly supply products of outstanding quality to local auto parts makers	Oct. 2016 Production began
	Joint venture to make and sell automotive high strength steel sheet (Kobelco Angang Auto Steel Co., Ltd.)	China	Strengthening of environmental responsiveness in China Established global supply network for high strength steel in Japan, U.S., Europe and China	Feb. 2016 Production began
	Production and sale of aluminum sheet for automotive panels (Kobe Automotive Rolled Products (China) Co., Ltd.)	China	First production base in China for a Japanese aluminum maker to make panel material	April 2016 Production began
	Production and sale of automotive aluminum extrusions (Kobelco Aluminum Products & Extrusions Inc.)	USA	Strengthens response to stricter fuel consumption regulations in U.S. Establishes supply network for aluminum extrusions and fabricated products in Japan and U.S.	Aug. 2016 Construction began 2H 2017 Production begins
Aircraft	Began mass production of large titanium forged parts for Airbus planes	—	First in Japan to succeed in research on and mass production of large forgings for landing gears	July 2016 Production began
Ships	Development and approval of steel forged parts for ships	—	Supply of strong, light parts for ships. Contributes to improving fuel consumption of ships	Oct. 2016 Gained approval



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Initiatives in a Growth field

Field	Project	Country	Description	Schedule
Compressors	Sales begin for new oil-free standard air compressors	—	World's highest class of energy efficiency; low-noise operation	Oct. 2016 Sales began
	Order for screw compressors for LNG carrier	—	World's first use of screw compressors in marine dual phase engines	Oct. 2016 Order received Aug. 2017 Planned delivery
Construction Machinery	New excavator plant (Kobelco Construction Machinery U.S.A. Inc.)	USA	Strengthen response to meet market needs; reduce manufacturing lead time	March 2016 Production began
	Sales begin of ultra-large crawler cranes in Japan (Lifting capacity of 1,250t)	—	One of Japan's largest crawler cranes	May 2016 Sales began
Engineering	Joint venture for radioactive waste treatment (KOBELCO STUDEVIK Co., Ltd.)	Japan	Radioactive waste treatment technologies and processes from decommissioning of nuclear power plants in Japan	April 2016 Entered into agreement
	New order for MIDREX direct reduced ironmaking plant	Algeria	2.5mtpy capacity: Largest class in the world Contributing to development of industry in Algeria	June 2016 Order received Nov. 2018 Production begins
	Operation of energy-recovery waste treatment plant	Japan	Utilizes fluidized bed gasification and combustion furnace. Next-generation incineration furnace contributes to compact facility, maximizes power generation and reduces environmental burden	June 2016 Order received 2016-2019 Construction of facility 2019-2039 Facility operation

Field	Project	Country	Description	Schedule
Electric Power	Moka power plant (Kobelco Power Moka, Inc.)	Japan	Japan's first full-scale inland power station. Will have one of Japan's highest levels of generation efficiency. Capacity: 1.248 mil. kW (624,000 kW X 2)	June 2016 Construction began 2H 2019 No. 1 Unit starts up
	Kobe Works Thermal Power Plant	Japan	To feature cutting-edge ultra-supercritical generating equipment Capacity: 1.3 mil. kW (650,000 kW x 2)	FY2021 No. 1 unit to start up



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Capital Investment

(Billions of yen)

	FY2013	FY2014	FY2015 ①	FY2015 ②	Change ② - ①
Capital investment (accrual basis)	101.4	103.5	109.9	175.0	+ 65.1
Capital investment (payment basis)	95.4	95.3	99.1	165.0	+ 65.9
Depreciation	82.9	89.8	94.8	100.0	+ 5.2



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Financial Indices

(Billions of yen)

	FY2013	FY2014	FY2015	FY2016 1H
ROS (※1)	4.7%	5.4%	1.6%	1.5%
Net income per share (※2)	226.28yen	238.19yen	△59.34yen	11.31yen
D/E ratio	1.11	0.88	(※3) 1.10	1.19
ROA (※4)	3.8%	4.4%	1.3%	1.1%
ROE (※5)	11.9%	12.0%	△2.9%	1.2%

※1 : ROS = Ordinary Income / Net Sales

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

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

※3 : Including early procurement of borrowings for FY2016 (90 billion yen) □ □

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

※4 : ROA = Ordinary Income / Total Assets (average)

※5 : ROE = Net Income / Equity (average)



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Analysis of Consolidated Ordinary Income

[FY2015 1H ⇒ FY2016 1H]

(Billions of yen)

	FY2015			FY2016		
	1H	2H	Full year	1H	2H	Full year
Ordinary income	33.0	△4.1	28.9	12.3	△2.3	10.0

△ 20.7

Positive Factors			Negative Factors		
Raw material prices	+	17.5	Production and shipments	△	25.5
Overall cost	+	2.0	Inventory valuation in Aluminum & Copper	△	4.0
Inventory valuation in Iron & Steel	±	0.0	Subsidiaries	△	10.0
Exchange rate changes in steel business	+	2.5	Other	△	3.2
Total	+	22.0	Total	△	42.7

Analysis of Ordinary Income in Iron & Steel Segment

[FY2015 1H ⇒ FY2016 1H]

(Billions of yen)

	FY2015			FY2016		
	1H	2H	Full year	1H	2H	Full year
Ordinary income	Δ1.2	Δ13.7	Δ14.9	Δ9.8	Δ20.2	Δ30.0

Δ 8.6



Positive Factors			Negative Factors		
Raw material prices	+	17.5	Production and shipments	Δ	25.0
Overall cost	+	2.5	Other	Δ	6.1
Inventory valuation	±	0.0			
Exchange rate changes	+	2.5			
Total	+	22.5	Total	Δ	31.1



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Analysis of Consolidated Ordinary Income

【FY2016 1H】

(Billions of yen)

	FY2016 Forecast			FY2016		
	1H	2H	Full year	1H	2H	Full year
Ordinary income	5.0	15.0	20.0	12.3	△2.3	10.0

+ 7.3

Positive Factors			Negative Factors		
Raw material prices	+	1.0	Production and shipments	△	0.5
Overall cost	+	6.0	Inventory valuation	△	1.0
Inventory valuation	±	0.0	in Iron & Steel		
in Aluminum & Copper			Other	△	2.8
Subsidiaries	+	4.6			
Exchange rate changes in	±	0.0			
steel business					
Total	+	11.6	Total	△	4.3



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Analysis of Ordinary Income in Iron & Steel Segment

【FY2016 1H】

(Billions of yen)

	FY2016 Forecast			FY2016		
	1H	2H	Full year	1H	2H	Full year
Ordinary income	△11.0	△9.0	△20.0	△9.8	△20.2	△30.0

+ 1.2

Positive Factors			Negative Factors		
Production and shipments	±	0.0	Inventory valuation	△	1.0
Raw material prices	+	1.0	Other	△	1.8
Overall cost	+	3.0			
Exchange rate changes	±	0.0			
Total	+	4.0	Total	△	2.8



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Analysis of Consolidated Ordinary Income

【FY2015⇒FY2016】

(Billions of yen)

	FY2015			FY2016		
	1H	2H	Full year	1H	2H	Full year
Ordinary income	33.0	△4.1	28.9	12.3	△2.3	10.0

Δ 18.9

Positive Factors			Negative Factors	
Overall cost	±	0.0	Production and shipments	△ 26.0
Inventory valuation in Iron & Steel Subsidiaries	+	7.0	Raw material prices	△ 2.5
Exchange rate changes in steel business	+	6.0	Inventory valuation in Aluminum & Copper	△ 1.5
			Other	△ 5.4
Total	+	16.5	Total	△ 35.4



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Analysis of Ordinary Income in Iron & Steel Segment

【 FY2015⇒FY2016 】

(Billions of yen)

	FY2015			FY2016		
	1H	2H	Full year	1H	2H	Full year
Ordinary income	△1.2	△13.7	△14.9	△9.8	△20.2	△30.0

Δ 15.1

Positive Factors			Negative Factors	
Overall cost	+	2.5	Production and shipments	△ 24.5
Inventory valuation	+	7.0	Raw material prices	△ 2.5
Exchange rate changes	+	6.0	Other	△ 3.6
Total	+	15.5	Total	△ 30.6



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Analysis of Ordinary Income in Iron & Steel Segment

【 FY2016 】

(Billions of yen)

	FY2016 Forecast			FY2016		
	1H	2H	Full year	1H	2H	Full year
Ordinary income	△11.0	△9.0	△20.0	△9.8	△20.2	△30.0

△ 15.1

Positive Factors			Negative Factors	
Production and shipments	+	9.0	Raw material prices	△ 15.5
Overall cost	+	1.5	Other	△ 5.0
Inventory valuation	±	0.0		
Exchange rate changes	±	0.0		
Total	+	10.5	Total	△ 20.5



ECO WAY

Analysis of Consolidated Ordinary Income

【FY2016 1H⇒2H】

(Billions of yen)

	FY2015			FY2016		
	1H	2H	Full year	1H	2H	Full year
Ordinary income	33.0	△4.1	28.9	12.3	△2.3	10.0

△ 14.6

Positive Factors			Negative Factors	
Production and shipments	+	5.0	Raw material prices	△ 20.5
Inventory valuation in Iron & Steel	+	7.5	Overall cost	△ 5.5
Inventory valuation in Aluminum & Copper	+	3.0	Other	△ 7.6
Subsidiaries	+	3.5	Exchange rate changes in steel business	± 0.0
Total	+	19.0	Total	△ 33.6



ECOWAY

Analysis of Ordinary Income in Iron & Steel Segment

【 FY2016 1H⇒2H 】

(Billions of yen)

	FY2015			FY2016		
	1H	2H	Full year	1H	2H	Full year
Ordinary income	△1.2	△13.7	△14.9	△9.8	△20.2	△30.0

△ 10.4

Positive Factors			Negative Factors	
Production and shipments	+	6.0	Raw material prices	△ 20.5
Inventory valuation	+	7.5	Overall cost	△ 4.5
Exchange rate changes	±	0.0		
Other	+	1.1		
Total	+	14.6	Total	△ 25.0

