



KOBELCO

Investor Meeting FY2016 First Quarter



**July 29, 2016
KOBE STEEL, LTD.**

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1. Financial Results for First Quarter of Fiscal 2016

Financial Results for First Quarter of FY2016

(Billions of yen)

	FY2015	FY2016	Change
	1Q	1Q	FY15→16
Net sales	460.0	404.4	△55.6
Operating income	25.2	12.7	△12.5
Ordinary income	21.8	4.5	△17.2
(excluding inventory valuation)	(22.3)	(11.0)	(△11.3)
Extraordinary income	△3.9	0.0	+3.9
Net income attributable to owners of the parent	11.8	△2.0	△13.9

Segment Sales/Ordinary income (Loss)

(Billions of yen)

Net sales	FY2015	FY2016	Change	Ordinary income	FY2015	FY2016	Change
	1Q	1Q	FY15→16		1Q	1Q	FY15→16
Iron & Steel	172.3	144.2	△28.0	Iron & Steel	2.6	△2.8	△5.5
Welding	23.2	20.6	△2.6	Welding	2.0	1.9	△0.1
Aluminum & Copper	92.8	85.1	△7.6	Aluminum & Copper	6.2	3.0	△3.1
Machinery	40.5	37.9	△2.5	Machinery	1.6	2.0	+0.4
Engineering	24.8	24.3	△0.4	Engineering	0.0	0.6	+0.6
Construction Machinery	85.8	71.4	△14.4	Construction Machinery	2.3	△4.0	△6.4
Electric Power	16.8	17.2	+0.3	Electric Power	3.0	3.8	+0.7
Other Businesses	18.1	14.8	△3.2	Other Businesses	1.9	0.7	△1.1
Adjustment	△14.5	△11.4	+3.0	Adjustment	1.8	△0.9	△2.7
Total	460.0	404.4	△55.6	Total	21.8	4.5	△17.2



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2. Forecast for Fiscal 2016



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Forecast for FY2016

(Billions of yen)

	FY2015	FY2016 (Previous)			FY2016			Change ② - ①
		1H	2H	Full year ①	1H	2H	Full year ②	
Net sales	1,822.8	860.0	890.0	1,750.0	850.0	880.0	1,730.0	△20.0
Operating income	68.4	25.0	40.0	65.0	20.0	30.0	50.0	△15.0
Ordinary income	28.9	10.0	25.0	35.0	5.0	15.0	20.0	△15.0
(excluding inventory valuation)	(46.9)	(19.0)	(27.0)	(46.0)	(15.5)	(17.0)	(32.5)	(△13.5)
Extraordinary income	△39.5	0.0	0.0	0.0	0.0	0.0	0.0	±0.0
Net income attributable to owners of the parent	△21.5	5.0	15.0	20.0	0.0	10.0	10.0	△10.0



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Segment Sales

(Billions of yen)

Net sales	FY2015	FY2016 (Previous)			FY2016			Change ② - ①
		1H	2H	Full year ①	1H	2H	Full year ②	
Iron & Steel	665.8	300.0	310.0	610.0	300.0	315.0	615.0	+5.0
Welding	92.2	43.0	43.0	86.0	41.0	42.0	83.0	△3.0
Aluminum & Copper	345.4	165.0	165.0	330.0	165.0	165.0	330.0	±0.0
Machinery	159.0	76.0	85.0	161.0	77.0	83.0	160.0	△1.0
Engineering	131.7	51.0	75.0	126.0	52.0	75.0	127.0	+1.0
Construction Machinery	336.2	170.0	165.0	335.0	160.0	155.0	315.0	△20.0
Electric Power	76.7	36.0	36.0	72.0	36.0	34.0	70.0	△2.0
Other Businesses	74.5	32.0	44.0	76.0	33.0	44.0	77.0	+1.0
Adjustment	△58.9	△13.0	△33.0	△46.0	△14.0	△33.0	△47.0	△1.0
Total	1,822.8	860.0	890.0	1,750.0	850.0	880.0	1,730.0	△20.0



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Segment Ordinary Income (Loss)

(Billions of yen)

Ordinary income	FY2015	FY2016 (Previous)			FY2016			Change ② - ①
		1H	2H	Full year ①	1H	2H	Full year ②	
Iron & Steel	△14.9	△10.0	△6.0	△16.0	△11.0	△9.0	△20.0	△4.0
Welding	8.1	3.5	3.5	7.0	3.5	3.5	7.0	±0.0
Aluminum & Copper	15.1	6.0	8.0	14.0	4.0	8.0	12.0	△2.0
Machinery	6.7	2.5	1.5	4.0	2.5	1.5	4.0	±0.0
Engineering	4.6	△1.0	4.0	3.0	△1.0	4.0	3.0	±0.0
Construction Machinery	△11.9	4.0	4.0	8.0	△3.0	2.0	△1.0	△9.0
Electric Power	17.4	7.0	7.0	14.0	8.0	7.0	15.0	+1.0
Other Businesses	7.3	1.5	6.0	7.5	1.5	6.0	7.5	±0.0
Adjustment	△3.6	△3.5	△3.0	△6.5	0.5	△8.0	△7.5	△1.0
Total	28.9	10.0	25.0	35.0	5.0	15.0	20.0	△15.0



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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	310.0	610.0	300.0	315.0	615.0	+5.0
Ordinary income	△10.0	△6.0	△16.0	△11.0	△9.0	△20.0	△4.0
(inventory valuation)	(△6.0)	(△1.0)	(△7.0)	(△6.5)	(△1.0)	(△7.5)	(△0.5)

FY2016

- Almost no changes regarding the sales forecast of steel in domestic and overseas market .
- Ordinary income is anticipated to decrease due to the high yen, especially in Titanium Business.



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Production & Sales

	FY2015			FY2016
	1H	2H	Full year	1Q
Domestic crude steel production (millions of tons)	52.1	52.1	104.2	26.2

<Domestic steel inventory trend>

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

<Domestic steel inventory trend>

Finished auto production (millions of cars)	4.5	4.7	9.2	1.3	Apr.-May.
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<KSL>

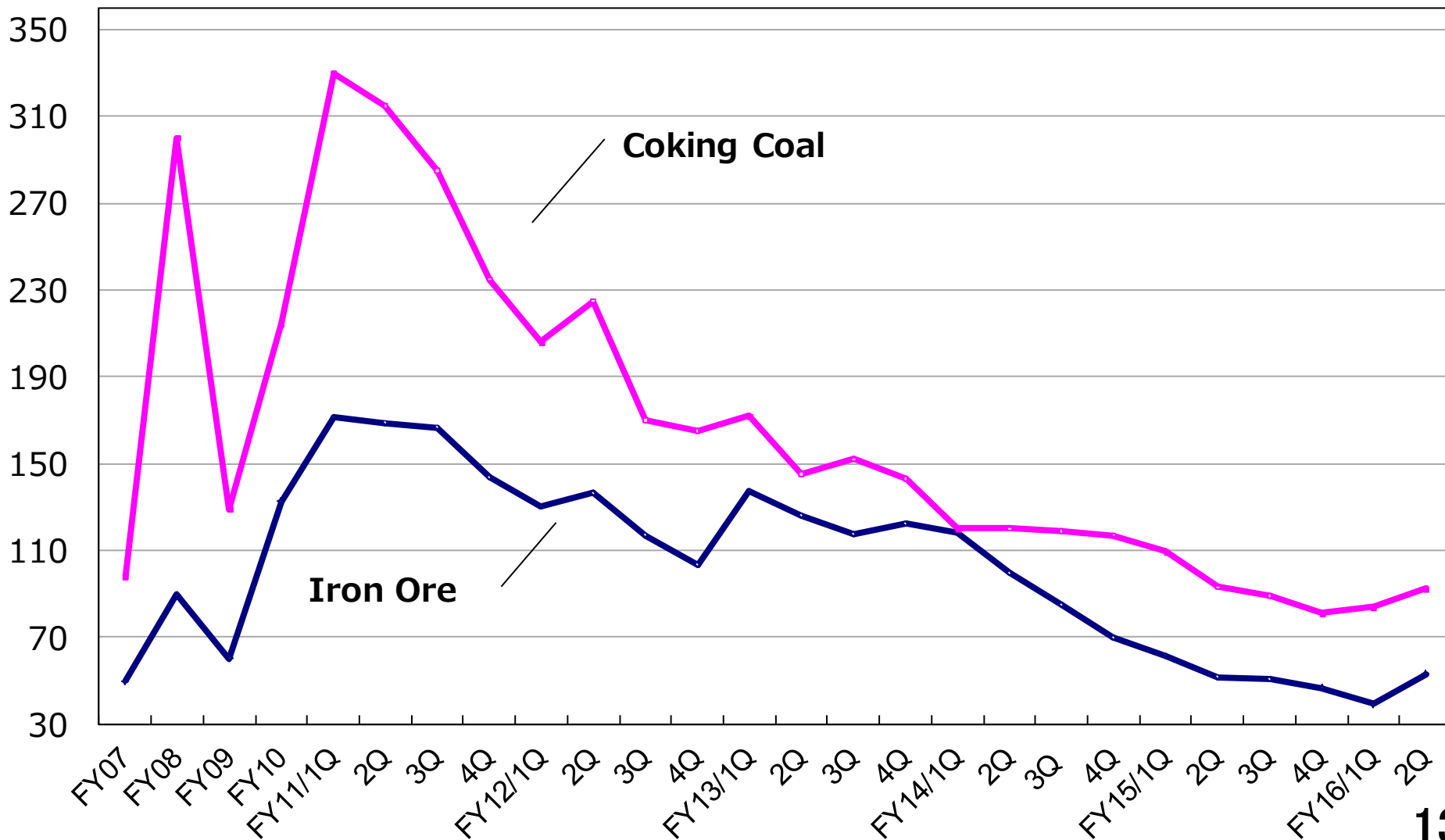
Crude steel production (millions of tons)	3.7	3.8	7.5	1.9
Sales volume (millions of tons)	3.0	3.0	6.0	1.4
(Domestic)	(2.0)	(2.1)	(4.1)	(1.0)
(Exports)	(1.0)	(0.9)	(1.9)	(0.5)
Average steel selling price (thousands of yen/ton)	78.7	71.8	75.2	69.0
Export ratio (value basis)	34.2%	30.0%	32.2%	29.9%



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Iron Ore & Coking Coal Price Trends

(\$/ton)

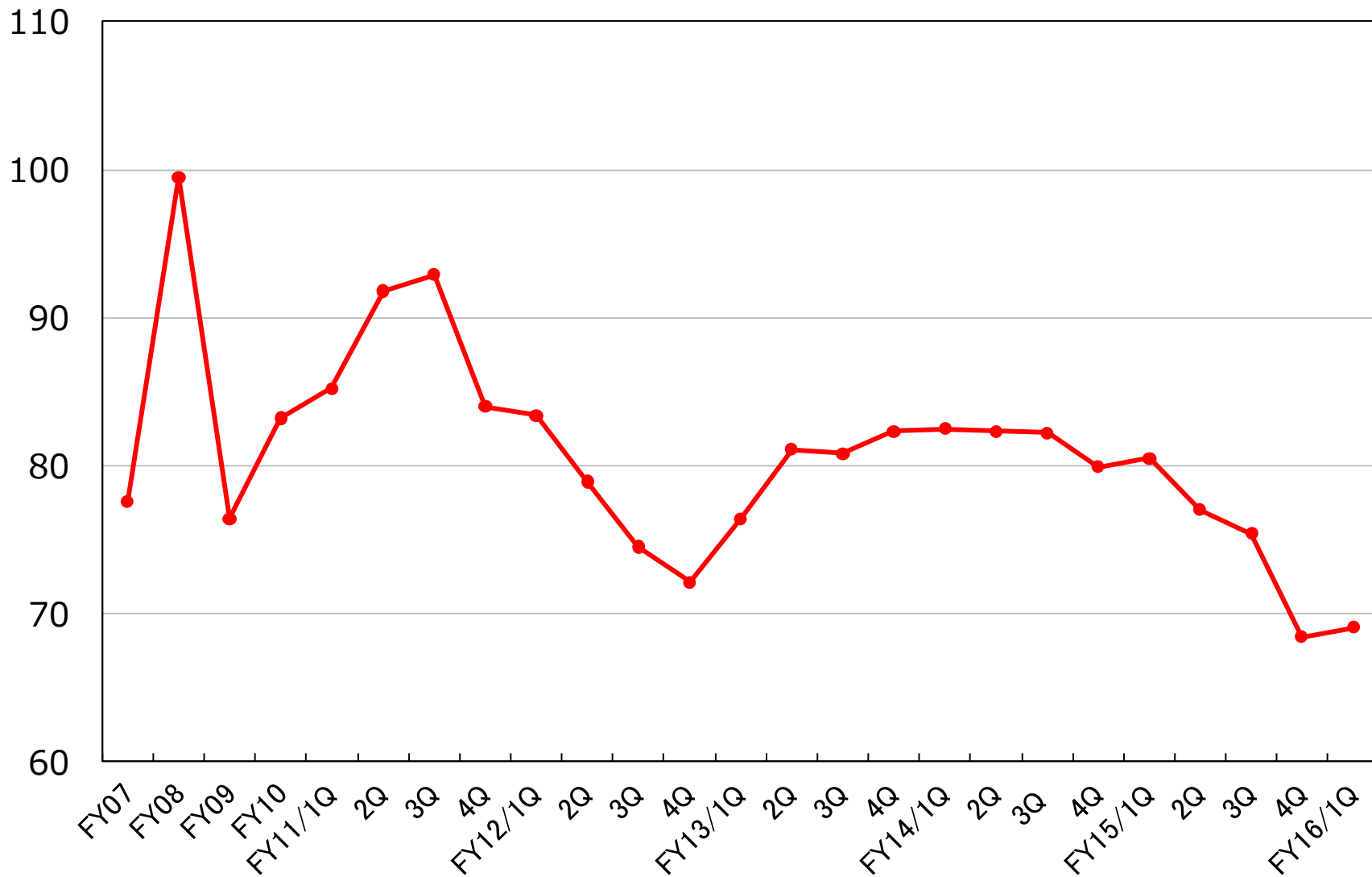




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Steel Product Price Trends at Kobe Steel

(Thousands of yen /ton)





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【Welding】

(Billions of yen)

	FY2015			FY2016			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net sales	43.0	43.0	86.0	41.0	42.0	83.0	△3.0
Ordinary income	3.5	3.5	7.0	3.5	3.5	7.0	±0.0

<Sales volume of KSL Group>

(Thousands of tons)

	FY2015				FY2016
	1Q	1H	2H	Full year	1Q
Domestic	33	66	63	129	30
Overseas	44	87	87	174	45
Total	77	153	150	303	75

FY2016

- Ordinary income is anticipated to be stable.
- Demand in the energy-related sector is weak due to lower oil prices.
- Delay of demand recovery in construction sector causes sales increase of welding system.



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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	165.0	165.0	330.0	±0.0
Ordinary income	6.0	8.0	14.0	4.0	8.0	12.0	△2.0
(Inventory valuation)	(△3.0)	(△1.0)	(△4.0)	(△4.0)	(△1.0)	(△5.0)	(△1.0)

<Sales volume of KSL>

(Thousands of tons)

	FY2015				FY2016
	1Q	1H	2H	Full Year	1Q
Aluminum rolled (Domestic) products (Exports)	73 17	140 33	137 36	277 69	80 17
Copper Strips	13	25	24	49	13
Copper Tubes	22	42	43	85	24

FY2016

- Ordinary income is anticipated to decrease due to the high yen and worsening in inventory valuation caused by the fall in primary raw material prices
- The sales volume of aluminum rolled products, copper strips and copper tubes are firm.



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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	76.0	85.0	161.0	77.0	83.0	160.0	△1.0
Ordinary income	2.5	1.5	4.0	2.5	1.5	4.0	±0.0
Orders	-	-	about 150	-	-	about 140	about △10

FY2016

- The difficult environment is anticipated to continue due to sluggish demand in the energy-related industry affected by low crude oil prices and the high yen.



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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	51.0	75.0	126.0	52.0	75.0	127.0	+1.0
Ordinary income	△1.0	4.0	3.0	△1.0	4.0	3.0	±0.0
Orders	-	-	about 140	-	-	about 145	about +5

FY2016

- Orders from the ironmaking plant-related business and the waste treatment-related business are going on as scheduled.



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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	170.0	165.0	335.0	160.0	155.0	315.0	△20.0
Ordinary income	4.0	4.0	8.0	△3.0	2.0	△1.0	△9.0

FY2016

- Ordinary income is anticipated to decrease due to the decrease in the number of machines sold, the high yen and the increase in allowance for doubtful accounts .



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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	36.0	72.0	36.0	34.0	70.0	△2.0
Ordinary income	7.0	7.0	14.0	8.0	7.0	15.0	+1.0

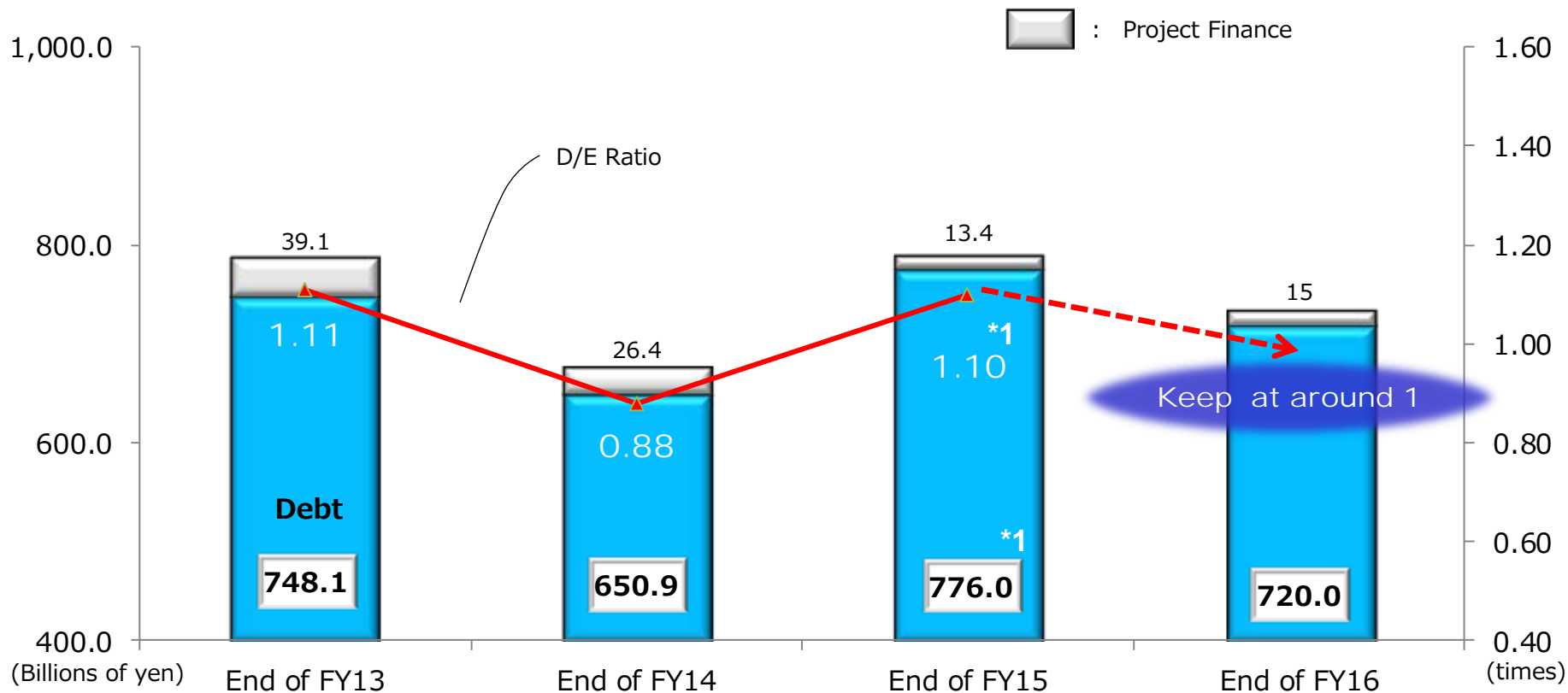
FY2016

- Ordinary income is anticipated to be stable.



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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	75.0	75.0	150.0	65.0	55.0	120.0	△30.0
Cash flows from investing activities	△103.8	△80.0	△85.0	△165.0	△75.0	△85.0	△160.0	+5.0
Free cash flow (excluding project financing)	△18.0	△5.0	△10.0	△15.0	△10.0	△30.0	△40.0	△25.0
Repayment source for project financing	11.3	0.0	5.0	5.0	5.0	0.0	5.0	±0.0
Free cash flow	△6.7	△5.0	△5.0	△10.0	△5.0	△30.0	△35.0	△25.0
Cash and deposits (excluding project financing)	168.5	110.0	80.0		190.0	70.0		△10.0



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4. Reference



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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	190.0	+80.1
Capital investment (payment basis)	95.4	95.3	99.1	170.0	+70.9
Depreciation	82.9	89.8	94.8	100.0	+5.2

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	5.0	15.0	20.0

△ 8.9

Positive Factors			Negative Factors		
Raw material prices	+	13.0	Production and shipments	△	33.0
Inventory valuation in Iron & Steel	+	7.0	Overall cost	△	4.0
Subsidiaries	+	8.0	Inventory valuation in Aluminum & Copper	△	1.5
Exchange rate changes in steel business	+	6.0	Other	△	4.4
合計	+	34.0	合計	△	42.9

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	△11.0	△9.0	△20.0

△ 5.1



Positive Factors			Negative Factors		
Raw material prices	+	13.0	Production and shipments	△	33.5
Overall cost	+	1.0			
Inventory valuation	+	7.0			
Exchange rate changes	+	6.0			
Other	+	1.4			
合計	+	28.4	合計	△	33.5



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Analysis of Consolidated Ordinary Income

【FY2016】

(Billions of yen)

	FY2016 Forecast			FY2016		
	1H	2H	Full year	1H	2H	Full year
Ordinary income	10.0	25.0	35.0	5.0	15.0	20.0

Δ 15.0

Positive Factors		Negative Factors	
Production and shipments	+ 12.0	Raw material prices	Δ 17.5
Exchange rate changes in steel business	+ 5.0	Overall cost	Δ 1.5
		Inventory valuation in Iron & Steel	Δ 0.5
		Inventory valuation in Aluminum & Copper	Δ 1.0
		Subsidiaries (※)	Δ 9.5
		Other(※)	Δ 2.0
合計	+ 17.0	合計	Δ 32.0

(※) Including exchange rate changes in other business

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	△10.0	△6.0	△16.0	△11.0	△9.0	△20.0

△ 4.0



Positive Factors		Negative Factors	
Production and shipments	+ 13.0	Raw material prices	△ 17.5
Exchange rate changes	+ 5.0	Overall cost	△ 1.0
		Inventory valuation	△ 0.5
		Other	△ 3.0
合計	+ 18.0	合計	△ 22.0



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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	5.0	15.0	20.0

+ 10.0

Positive Factors			Negative Factors		
Inventory valuation in Iron & Steel	+	5.5	Production and shipments	△	4.5
Inventory valuation in Aluminum & Copper Subsidiaries	+	3.0	Raw material prices	△	3.0
Exchange rate changes in steel business	±	0.0	Overall cost	△	0.5
			Other	△	7.0
合計	+	25.0	合計	△	15.0



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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	△11.0	△9.0	△20.0

+ 2.0

Positive Factors			Negative Factors		
Inventory valuation	+	5.5	Production and shipments	△	5.0
Other	+	5.5	Raw material prices	△	3.0
Exchange rate changes	±	0.0	Overall cost	△	1.0
合計	+	11.0	合計	△	9.0

THE KOBE STEEL GROUP'S 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.**

